LEGG MASON INVESTMENT FUNDS LTD
US Smaller Companies (OEIC)

OBSR Fund Rating
AA / Silver

obsr FUND RATINGS

Key Information		
Launch Date	29 March 2004	
Fund Size	£168.3m	
Type of Shares Available	Accumulation	
Distribution Date	30 April	
Yield	n/a	
ISA	Yes	
ISA Transfer	Yes	
Standard Fund Management Charges	**Initial**	4.25%
	Annual	1.50%

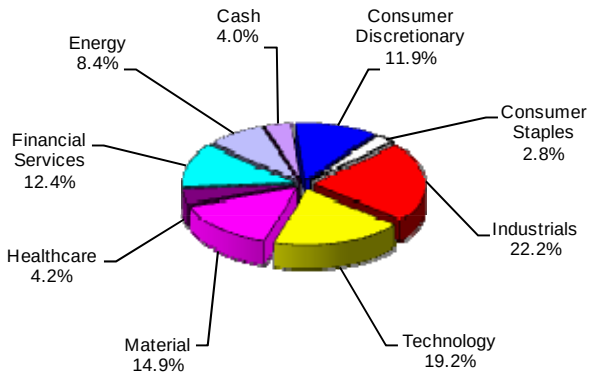
Classification	
Sector	North American Smaller Companies
Market Cap / Style	Small Cap / Value Bias
Benchmark/Index	Russell 2000

Management/Investment Style	
Fund Managers	Lauren Romeo (June 2011) Whitney George (March 2004)

The fund is offered as a bottom-up, valuation-conscious US small-cap portfolio, managed by a very experienced small-cap team, who structure the portfolio to provide exposure to higher quality US smaller companies and also seek where possible to preserve capital.

Asset Distribution - Sector

Source: Legg Mason Investment Funds Ltd



Top Ten Holdings

	%
Reliance Steel & Aluminium	2.3
The Warnaco Group	2.2
Ashmore Group	1.8
Rofin-Sinar Technologies	1.8
Pan America Silver Corporation	1.7
Allied Nevada Gold	1.7
Trican Well Service	1.7
Jacobs Engineering Group	1.6
Robert Half International	1.5
Valmont Industries	1.5
Concentration (Top 10)	17.7
Total Number of Holdings	94

Source: Legg Mason Investment Funds Ltd

Investment Objective & Methodology

The investment objective of the fund is to achieve capital growth, principally through investment in securities of smaller US companies.

The fund is managed on behalf of Legg Mason by Royce & Associates LLC, a wholly owned subsidiary of Legg Mason. Royce has been running dedicated small and micro-cap US equities since the company was founded in 1972 by Chairman and CEO, Chuck Royce. The fund is managed by Lauren Romeo who has been involved in its management since inception. Whitney George is the assistant portfolio manager; he has been a portfolio manager at Royce & Associates since 1991and has managed the fund since March 2004.

Royce's investment philosophy is to seek out companies that are under-priced relative to their view of the current worth and their discipline in this leads them to be contrarian in their approach to stock picking. The manager also sees himself as a risk manager and aims to reduce risk when others are ignoring it and pursue opportunities at times when other are becoming more risk averse. Their longer-term time horizon (3-5 years) compared to the shorter-term focus of many market participants supports them in this effort. This fund is dedicated to investing in those companies which the manager considers to be of higher quality in a market cap range typically of more than $500m and up to around $5bn in the case of companies that continue to be attractive as they grow into bigger organisations. In assessing potential investment opportunities, they take into account a company's current financial situation as well as its future growth prospects. In doing this, balance sheet strength is their primary consideration and they seek to avoid overly levered situations – they measure leverage in terms of the ratio of assets to stockholders' equity which helps them to identify changes in long- and short-term debt. It is also important for them to consider how sustainable a company's returns are and how much of the asset base is derived from retained earnings. Other important characteristics are a history of earnings, higher internal rates of return and the ability to generate free cash flow. Meetings with company management are an important part of the process and they look to capitalise on their long-term investment approach to foster good relationships. They also spend time talking to competitors, customers and employees (both existing and former) to generate a picture of the culture and integrity of its operations. From a valuation perspective, they have a greater focus on a company's absolute valuation rather than its relative valuation and they particularly look at earnings yield and 'cap rates' (the ratio between the cash flow yielded by an asset and that asset's purchase price) as a guide to determining buy and sell levels for stocks.

The manager is long-term and contrarian in his approach and he is prepared to accept that some of the stocks in the portfolio may be out of favour for periods of time. The fund may have limited exposure to micro-cap stocks and the manager may also hold on to companies that have grown in size but continue to be very attractive, however, the majority of stocks are selected from the small cap universe. Risk is controlled through their assessment of business risk, valuation risk and market risk but the manager is also conscious of downside risks. Position sizes are a function of their conviction combined with valuation.

www.obsrfundratings.co.uk

Data as at 31 December 2011
Last Updated January 2012

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