Legg Mason Global Funds

Commentaries for quarter ending December 2006

Western Asset US Money Market Fund

Market Review

The Federal Reserve Board (Fed) left interest rates in the US unchanged at 5.25% over the fourth quarter. Despite repeated attempts by Fed officials to "talk out" the monetary easing that has been priced into the market for 2007, many investors focused on the ongoing weakness in the housing market and maintained a bias towards a hard landing scenario. Leading indicators such as housing starts and building permits continued to fall, suggesting that the housing sector will be a drag on GDP growth for another few quarters.

Looking ahead, however, the Fund's investment manager notes that with the unemployment rate reaching a five-year low at 4.4% and with personal income growth outpacing spending, there is reason to believe the economy is in better shape than a narrow focus on the housing market would indicate. Furthermore, the manager also notes that as the labour market continues to tighten, the risk that rising wage pressures could filter through to consumer prices will keep the Fed vigilant. Indeed, unit labour costs are on the rise, which could put upward pressure on retail prices unless strong profit margins act as insulation and limit the extent to which higher wage costs are passed on.

Fund Review

The Western Asset US Money Market Fund rose by 1.17%[1] in US dollar terms in the fourth quarter, compared to a dollar rise of 1.25% recorded by its benchmark, the Citi 1 Month Treasury Bill Index. Asset allocation changes to the portfolio included an increase in its exposure to credit and discount notes, while its allocation to government notes was lowered. The Fund's allocation to certificates of deposit/commercial paper was also reduced, and while its cash & cash equivalents weighting fluctuated during the quarter, it ended at the same level that it began the period. The average maturity of the portfolio stood at 66 days at the quarter-end, up from 49 days at the end of September.

Outlook

The US economy experienced mixed, but generally positive, results for most of the past year, and the Fund's investment manager expects that is likely to be the case for 2007 as well. The manager believes that in the current absence of any serious threat to growth, there is little reason for the Fed to reintroduce monetary stimulus, especially since policymakers at the central bank still view inflation as a concern and the dollar is relatively weak. The case for either higher or lower interest rates may come together later in 2007, but for now it is more likely that the Fed will be content to see how things develop. The Fund's investment manager also believes that global growth fundamentals remain reasonably healthy, and that US growth is likely to be between 2% and 3% in 2007. The manager notes that core inflation is a little high, but assesses that the long-term prospects for inflation are sanguine, thanks mainly to the Fed's vigilance on interest rates.

Western Asset Management
January 2007

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Legg Mason Global Funds

Western Asset US Money Market Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Citi 1 Month US Treasury Bill Index	4.75%	2.93%	-	-	-	-	8.97%
Western Asset US Money Market Fund	**4.36%**	**2.17%**	**-**	**-**	**-**	**-**	**7.10%**

*Launch 28.02.04

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

Please note that past performance is no guide to future returns and is not an indication of future performance.

The Western Asset US Money Market Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund established as an open-ended investment company with variable capital incorporated with limited liability under the laws of Ireland. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA. Please note that past performance is no guide to future returns and is not an indication of future performance. This document does not constitute an invitation to invest. You should be aware that stock market investments should normally be regarded as longer term investments and that they may not be suitable to everyone. Fluctuations in exchange rates can affect the value of the Fund and the income from it. Individual securities mentioned are intended as examples of portfolio holdings and are not intended as buy or sell recommendations. Unlike a bank or building society account, your money is at risk. This Fund is offered solely to non-US investors under the terms and conditions of the Fund’s current prospectus - please refer to the Simplified Prospectus and Prospectus documentation, which describe the full risk factors associated with this Fund. This information has been prepared from sources believed reliable but is not guaranteed by Legg Mason Investments and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities that may be referred to. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Source for performance figures - PFPC/S&P Micropal, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in US dollars for class A shares.

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Legg Mason Global Funds

Western Asset US Core Bond Fund

Key Points

- The Western Asset US Core Bond Fund rose by 1.25% over Q4[1].
- The Fund performed in line with its benchmark.
- The Fund's investment manager believes that opportunities to add value continue in areas such as mortgage-backed securities and lower quality corporate sectors.

Market Review

The US economy experienced mixed, but generally positive, results for most of the past year, and the Fund's investment manager expects that is likely to be the case for 2007 as well. In the fourth quarter, manufacturing activity and business investment were soft, but the manager thinks it unlikely such indicators will get much worse at a time when corporate profits are at record-high levels relative to GDP. In addition, the manager feels that although real incomes and spending are growing at moderate rates, the double-digit growth of state and federal revenues over the past two years suggests that official statistics could be underestimating the strength of the economy. In the housing market, where weakness was already evident prior to the start of the fourth quarter, the manager acknowledges that it may take much of 2007 before any improvement is seen, but expects the drag from housing will taper off as the year progresses.

Against this background, US interest rates were left unchanged at 5.25% during the fourth quarter, and much investor attention centred on the possibility that the Federal Reserve Board may ease rates some time during 2007. The investment manager believes, however, that in the current absence of any serious threat to growth, there is little reason for the Fed to reintroduce monetary stimulus, especially since policymakers at the central bank still view inflation as a concern and the dollar is relatively week. The manager expects that the case for either higher or lower interest rates may come together later in 2007, but thinks that for now it is more likely that the Fed will be content to see how things develop.

Fund Review

The Western Asset US Core Bond Fund rose by 1.25% over the third quarter, slightly outperforming its benchmark, the Lehman Brothers Aggregate Bond Index, which increased by 1.24%[1]. The Fund consequently ranked in the first quartile against its peer group funds, as measured by the S&P Offshore Fixed Income USA sector.

The Fund benefited from the manager's tactical duration strategy, in which duration was actively adjusted during the quarter. The manager reduced duration as yields fell and increased it as yields rose, a strategy that helped the Fund's performance as yields oscillated.

The Fund's modest overweight to the front-end of the yield curve had a negative impact, however, as this exposure detracted from returns as the curve flattened. An underweight exposure to the credit sector was also detrimental to the portfolio's performance, as corporate bonds outperformed. This impact was partially offset by the manager's emphasis on lower quality securities within the sector, however, as these bonds performed well.

The Fund's overweight exposure to mortgage-backed securities was another positive influence on its relative performance, as volatility remained low and spreads in the sector narrowed. In the high yield market, the manager held a moderate, diversified exposure with an emphasis on BB-rated paper, and autos in particular. This proved beneficial for performance as spreads in the sector also tightened. In addition, the Fund benefited from a modest allocation to emerging markets, which performed strongly. At the start of the quarter, the manager viewed Treasury Inflation Protected Securities (TIPS) as attractive as an inflation hedge, while recognising that they were vulnerable to unexpected rate tightening by the Fed and lower energy prices. The Fund therefore held a modest exposure to TIPS, but this detracted from its performance as TIPS returns were depressed by a negative inflation adjustment for the period.

Outlook

Looking ahead, the investment manager believes that global growth fundamentals remain reasonably healthy, and that US growth is likely to be between 2% and 3% in 2007. The manager notes that core inflation is a little high, but assesses that the long-term prospects for inflation are sanguine, thanks mainly to the Fed's vigilance on interest rates. The manager expects that the Fed will leave rates unchanged

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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for the time being. Across bond markets, it believes that pockets of opportunity still exist to add value in areas such as mortgage-backed securities, Treasury Inflation Protected Securities (TIPS), and lower-quality debt.

Believing that interest rates and yields are likely to continue to meander in a relatively flat trend, the manager will continue to adopt a tactical duration strategy, increasing duration as rates rise and reducing it as rates fall. In deference to the downside risks still lurking in the housing market, and because the manager still thinks stable short-term interest rates are likely to allow a more normal term premium to re-establish itself with time, the manager is holding a modest overweight exposure to the front-end of the yield curve. Its primary overweight is to mortgage-backed securities, since they should continue to benefit from a relatively stable interest rate environment and low volatility. In the credit market, with spreads generally low the manager is targeting an underweight exposure to the sector overall, with an overweight to lower quality credits where spreads still appear somewhat attractive. In the event that inflation fails to decline as expected, the manager is continuing to hold a moderate exposure to TIPS as an inflation hedge. Elsewhere, it believes that non-dollar bond markets offer competitive yields and diversification benefits, and that retaining some currency exposure is a good hedge against the increased inflation pressures that would likely result if the dollar weakens further.

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Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Lehman Aggregate	4.33%	2.43%	4.34%	4.10%	-	-	19.48%
US Core Bond Fund	**3.49%**	**0.99%**	**4.42%**	**3.74%**	**-**	**-**	**15.96%**

*Launch 03.09.02.

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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Legg Mason Global Funds

Western Asset Euro Core Bond Fund

Key Points

- Rising interest rates in Q4 led to marginally negative performance in European bond markets.
- The investment manager believes that with a slowdown in growth likely in 2007, further Eurozone rate rises may be limited.
- With inflation well contained and five-year yields at levels not seen for over five years, the manager therefore considers the European market to be attractive.

Market Review

Strong economic data and continued interest rate tightening by the European Central Bank pushed yields higher in Eurozone bond markets in the fourth quarter. As expected by the market, the ECB raised rates twice during the period, each time by 25 basis points, to bring them up to 3.50%. The region's bond markets reacted particularly negatively to stronger economic data that was released in December. This included a slight improvement in the US housing market, as well as surprisingly strong business sentiment in Germany as indicated by that month's Ifo Institute survey.

The result was to increase the market's confidence in a resilient Eurozone economy. Indeed, investors' expectations rose that the outlook for global growth was healthy and that central banks were focused on inflation risks. Markets pared back their expectations of an easing of US monetary policy, while the ECB, the Bank of England (BofE) and the Bank of Japan were expected to remain on the path of tightening rates. The BofE increased rates from 4.75% to 5.00% in November and the market priced in a further 0.5% rise by the end of 2007.

With rising interest rates in the fourth quarter, the performance of European fixed income markets was slightly negative over the period, especially in short maturities. Positive returns were generated from BBB-rated corporate bonds, however, which mitigated negative results in other sectors. Also on the positive side, global emerging market and Eastern European bonds extended their rally, supported by positive growth and continued benign monetary policy backdrop.

Fund Review

The Western Asset Euro Core Bond Fund fell by 0.66% in the fourth quarter, compared to a fall of 0.28% recorded by its benchmark, the Citi Euro BIG Index[1]. The Fund's peer group sector, the S&P Offshore Fixed Income Euro, fell by 0.41%.

The investment manager's duration strategy was the main factor behind this relative underperformance, with the Fund's overweight duration positioning having a negative impact as yields rose towards the end of the period due to the strong data releases. Coming into the fourth quarter, the manager had thought that it was unlikely that the ECB would increase rates much beyond 3.50%-3.75%, as at the time there was evidence for some moderation in global growth, which raised the manager's appetite for duration risk. The manager's yield curve positioning, meanwhile, produced mixed results. Having adopted a curve flattening position, the manager was able to take profits at the beginning of the quarter as the curve flattened. It subsequently introduced a curve steepening position, however, which offset the gains.

On the positive side, the Fund's corporate bond exposure benefited its relative performance, with its holdings in the financials sector and asset-backed securities (ABS) being particularly helpful. The Fund's exposure to mortgage-backed securities was also a positive influence. The Fund remained underweight in agencies, supranational bonds, and Pfandbriefe, while in peripheral markets it held small positions in Poland, South Africa and Norway. In currencies, the investment manager reduced the Fund's long sterling versus short euro position in December and it enters the New Year with very limited currency exposure.

Outlook

Despite the strong growth indicators that prompted the sell-off in December, the investment manager remains constructive on the outlook for European bonds. The market is fully priced for the ECB to hike interest rates to 4% over the first and second quarters of 2007 and to keep them stable at that level for an extended period of time. While the manager does not rule out such a possibility, it continues to see a good chance that the ECB will not raise rates by that much, particularly as they are still at 3.50% and economic developments may convince the bank to conclude the tightening process earlier. Even if rates did reach 4% or higher, the manager does not expect that the ECB would

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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maintain them at such levels for long, as the economy is already likely to weaken in 2007 in response to a combination of slower global growth, the lagged effects of recent monetary tightening, and higher taxes in Germany. The manager believes the Eurozone economy may not withstand these adverse influences unscathed. With inflation well contained and five-year yields at levels not seen for over five years, the manager therefore considers the market to be attractive.

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January 2007

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Citi Euro BIG EUR (in euros)	-0.19%	4.96%	7.43%	-	-	-	12.23%
Euro Core Bond Fund (in euros)	-0.98%	4.35%	8.03%	**-**	**-**	**-**	**11.24%**

*Launch 01.10.03

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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Western Asset Diversified Strategic Income Bond Fund

Key Points

- The Diversified Strategic Bond Fund increased by 2.55% over Q4[1].
- The Fund outperformed its benchmark by 1.30%.
- The Fund is well positioned for a moderate growth/low inflation environment and will look to take advantage of selective local market opportunities.

Market Review

Core market bond yields rose slightly during the fourth quarter as global economic news turned out to be better than markets were expecting. In the US, the Federal Reserve Board (Fed) kept policy rates unchanged, citing concerns that core inflation remains a bit too high. The Fund's investment manager notes, however, that a moderating economy and falling energy prices should result in falling inflation going forward, and indeed markets continued to expect that the Fed will cut rates in 2007 by between 25 and 75 basis points. The European Central Bank (ECB) raised rates twice during the quarter, by 0.25% each time, and remained hawkish. The moves brought eurozone interest rates up to 3.50%. The Bank of England also raised rates by 0.25%, bringing UK rates up to 5.00%. In currency markets, the US dollar weakened against the euro on concerns that the ECB would be more aggressive in raising rates and that the US might slow down more in 2007. The Japanese yen weakened slightly as the Bank of Japan looked less likely to raise rates as aggressively as previously anticipated by the market.

Mortgages/TIPS

Mortgage-backed security returns were up 1.6% over the fourth quarter, outperforming equivalent duration Treasuries, which returned 0.6%. Mortgage spreads tightened by 15 basis points, finishing 110 basis points over 10 year Treasuries. Volatility remained relatively low, and Treasury yields were range-bound. US Treasury Inflation Protected Securities (TIPS) actually had negative returns of -1.2% during the quarter, underperforming due to negative inflation accrual as a result of falling energy prices and seasonal effects. Breakeven spreads for 5 year TIPS also fell to below 2% before recovering to end the period broadly unchanged.

Investment grade

Investment grade corporate returns were up 1.4% during the fourth quarter. Spreads versus government bonds tightened by 7 basis points to 90 basis points. Corporate earnings continued to be positive, resulting in lower leverage, while equity markets continued to rally and implied equity volatility continued to fall. With so much cash raised by private equity funds - estimated in excess of $250 billion - leveraged buyouts (LBOs) continue to be a concern.

High yield

Both the US and European high yield markets posted strong positive returns in the fourth quarter, capping off a very strong year as a whole. The US high yield market increased by 4% in the final quarter, with autos and lower quality paper outperforming. The European market increased by 3% over the period. Fundamentals continue to remain positive for most high yield companies, with low default rates and low levels of distressed bonds, decent corporate results, positive equity markets and a favourable economic backdrop. The soft landing that the Fund's investment manager expects for the global economy during 2007 is supportive for high yield in terms of maintaining improving credit metrics for existing borrowers. At the margin, however, the manager expects to see a high proportion of highly levered deals come via the new issue market. The LBO theme of 2006 is expected to continue in 2007 and for that reason the manager currently has a bias towards B and CCC credit rated companies that are less likely to be subject to LBOs than higher quality BB companies.

Government bonds

Ten year US Treasury yields increased by 10 basis points over the period to around 4.7%, while yields in Europe increased by nearly 30 basis points to approaching 4%. Peripheral government bond markets were very strong during the quarter. South African yields dropped sharply as the currency, which had been under pressure throughout the year, rallied by 10% as a vigilant central bank and falling oil prices improved prospects for the current account, and for inflation to peak, in 2007. In Hungary, bond yields also fell sharply, as confidence grew that fiscal reforms look set to progress and the Prime Minister weathered calls for his resignation.

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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Western Asset Diversified Strategic Income Bond Fund

Fund Review

The Western Asset Diversified Strategic Income Fund increased by 2.55%[1] over the fourth quarter, outperforming cash as measured by the Citi 1 Month Treasury Bill index, which returned 1.25%. Most asset classes outperformed cash during the quarter, with the Fund's exposure to peripheral markets and high yield bonds being particularly beneficial to its relative performance. On the negative side, the Fund's allocation to TIPS detracted from its performance.

Portfolio activity

The manager maintained the Fund's mortgage exposure at 39% over the quarter, but increased its allocation to TIPS by 2% to around 7% to take advantage of the then lower breakeven spreads and higher real yields. The Fund's investment grade exposure was maintained at 8%, while its global high yield exposure was slightly increased to just over 25%. The manager sold the Fund's government bond holding in Hungary during the rally as it felt yields offered insufficient protection for political uncertainty that could resurface in the spring of 2007. The manager purchased Australian government bonds after the country's central bank raised rates in November, a move that the manager believes may be near to the end of the bank's tightening cycle. In currencies, the manager bought small euro and Australian dollar positions and slightly reduced the Fund's South African rand exposure. As at the end of the quarter, the Fund's exposure to non US dollar currencies was 7%. The duration of the portfolio increased by about 0.5 years to 2.4 years. The manager added duration at the front end of the UK curve given the sharp rise in future rates discounted by the market, and also added to intermediate Europe as yields moved higher.

Outlook

Mortgage backed securities/TIPS

The manager is maintaining an overweight exposure to mortgage-backed securities as it still sees value in spreads at around 110 basis points as volatility remains low. The Fund's exposure will be maintained in the 35%-40% range. With real yields around 2.5% and breakeven inflation rates of close to 2%, the manager continues to maintain an allocation to TIPS as a hedge against inflation or if the US economy slows sharply.

Investment grade

The Fund continues to hold a relatively low exposure to corporate bonds, based on valuations and ongoing concerns about the high level of LBOs. In addition, should the US economy slow sharply, the manager feels that current spreads do not offer sufficient compensation. It will therefore remain selective on credits and include an allocation to financials

High yield

A slight overweight to the high yield sector is being maintained. Fundamentals in terms of credit metrics remain strong and the default rate is still very low. However, the manager feels defaults could start to trend up going forward as the credit cycle matures. The LBO theme of 2006 looks like continuing into 2007, hence supply will be concentrated in a few larger deals. The manager aims to have a Fund weighting of around 25% with a focus on B and CCC issues that are less susceptible to LBO events than BB issues.

Foreign government bonds

The manager has increased European duration as rates have backed up the most there and the market is now discounting eurozone rates to rise to over 4% and remain there throughout 2007. The manager continues to like some of the higher yielding peripheral government bond markets such as South Africa but it will also be tactical as valuations change. The addition of the Australia and the UK are examples of such moves.

Summary

In the US, the economy has enjoyed mixed, but generally positive results, for most of the past year, and the Fund's investment manager believes that is likely to be the case for 2007 as well. In view of the absence of any serious threats to growth, the manager believes there is currently little reason for the Fed to reintroduce monetary stimulus, especially since it still views inflation as a concern and the dollar is relatively weak. In bond markets, with tight spreads in general and flat-to-inverted major yield curves, the opportunity for large excess performance is limited. However, the manager believes that the Fund is well positioned for the moderate growth, low inflation environment and has the capacity to take advantage of opportunities should local market volatility, credit spreads or interest rates increase. Duration will rise or fall depending on changes in valuations, but likely remain range-bound around 2.5 years. The manager would look to increase duration if yields increase and likewise will reduce duration if the bond markets price in too much more of a global slowdown.

Western Asset Management
January 2007

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
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Western Asset Diversified Strategic Income Bond Fund

Important Information

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S&P Offshore FI Global USD	5.05%	-3.46%	-	-	-	-	8.22%
Diversified Strategic Income Bond Fund	**5.33%**	**2.45%**	**-**	**-**	**-**	**-**	**11.96%**

*Launch 24.02.04

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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Western Asset Global Multi Strategy Fund

Key Points

- The Global Multi Strategy Fund increased by 3.22% over Q4[1].
- The Fund outperformed its benchmark by 0.13%.
- The Fund is well positioned for a moderate growth/low inflation environment and will look to take advantage of selective local market opportunities.

Market Review

Core market bond yields rose slightly during the fourth quarter as global economic news turned out to be better than markets were expecting. In the US, the Federal Reserve Board (Fed) kept policy rates unchanged, citing concerns that core inflation remained high. The Fund's investment manager notes, however, that a moderating economy and falling energy prices should result in falling inflation going forward, and indeed markets continued to expect that the Fed would cut rates in 2007 by between 25 and 75 basis points. The European Central Bank (ECB), meanwhile, raised rates twice during the quarter, by 0.25% each time, and remained hawkish. The moves brought eurozone interest rates up to 3.50%. The Bank of England also raised rates by 0.25%, bringing UK rates up to 5.00%. In currency markets, the US dollar weakened against the euro on concerns that the ECB would be more aggressive in raising rates and that the US might slow down more in 2007. The Japanese yen weakened slightly as the Bank of Japan looked less likely to raise rates as aggressively as previously anticipated by the market.

Emerging market bonds

External emerging market bonds (debt issued by emerging markets in non-domestic currency, usually US dollars) were again strong during the fourth quarter, producing a return of just under 4%. The spreads on external emerging markets tightened by 40 basis points over the quarter to end at their tightest levels around 170 basis points over US Treasuries. In local markets, returns were also positive as a generally favourable macro backdrop led to improved investor sentiment towards riskier assets. Turkey returned in excess of 10% during the quarter as the currency recovered from the weakness earlier in the year and bond yields stabilised at high rates. Indonesia returned over 10% as yields fell as the country's Central Bank lowered rates, while Mexico also performed well as local bond yields fell due strong local demand. A stable Brazilian currency and lower interest rates in the country due to falling inflation also led to positive returns. Overall, local markets generally outperformed external emerging market debt during the fourth quarter, regaining some of their relative underperformance in the second and third quarters.

Mortgages/TIPS

Mortgage-backed security returns were up 1.6% over the fourth quarter, outperforming equivalent duration Treasuries, which returned 0.6%. Mortgage spreads tightened by 15 basis points, finishing 110 basis points over 10 year Treasuries. Volatility remained relatively low, and Treasury yields were range-bound. US Treasury Inflation Protected Securities (TIPS) actually had negative returns of -1.2% during the quarter, underperforming due to falling energy prices and seasonal effects. Breakeven spreads for 5 year TIPS also fell to below 2% before recovering to end the period broadly unchanged.

Investment grade

Investment grade corporate returns were up 1.4% during the fourth quarter. Spreads versus government bonds tightened by 7 basis points to 90 basis points. Corporate earnings continued to be positive, resulting in lower leverage, while equity markets continued to rally and implied equity volatility continued to fall. With so much cash raised by private equity funds - estimated in excess of $250 billion - leveraged buyouts (LBOs) continue to be a concern.

High yield

Both the US and European high yield markets posted strong positive returns in the fourth quarter, capping off a very strong year as a whole. The US high yield market increased by 4% in the final quarter, with autos and lower quality paper outperforming. The European market increased by 3% over the period. Fundamentals continue to remain positive for most high yield companies, with low default rates and low levels of distressed bonds, decent corporate results, positive equity markets and a favourable economic backdrop. The soft landing that the Fund's investment manager expects for the global economy during 2007 is supportive for high yield in terms of maintaining improving credit metrics for existing borrowers. At the margin, however, the manager expects to see a high proportion of highly levered deals come via the new issue market. The LBO theme of 2006 is expected to continue in 2007 and for that reason the manager currently has a bias towards B and CCC credit rated companies that are less likely to be subject to LBOs than higher quality BB companies.

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Government bonds

Ten year US Treasury yields increased by 10 basis points over the period to around 4.7%, while yields in Europe increased by nearly 30 basis points to approaching 4%. Peripheral government bond markets were very strong during the quarter. South African yields dropped sharply as the currency, which had been under pressure throughout the year, rallied by 10% as a vigilant central bank and falling oil prices improved prospects for the current account, and for inflation to peak, in 2007. In Hungary, bond yields also fell sharply, as confidence grew that fiscal reforms look set to progress and the Prime Minister weathered calls for his resignation.

Fund Review

The Global Multi Strategy Fund increased by 3.22% over the fourth quarter, outperforming its composite benchmark, which rose by 3.09%[1]. The composite benchmark comprises the Lehman Global Aggregate Index (50%), the Lehman High Yield 2% Issuer Capped Index (25%), and the JP Morgan Emerging Markets Bond+ Index (25%). During the quarter, overweight exposures to high yield, local emerging market bonds, and peripheral markets, were beneficial to the Fund's relative performance, although this was partially offset by an underweight exposure to external emerging market bonds. The Fund's overweight to US spread sectors, such as mortgage-backed securities, and its overweight US duration versus Europe and Japan, helped performance. (Duration measures a portfolio's sensitivity to interest rate changes). Among the Fund's currency positions, however, an overweight to the yen and an underweight to the euro detracted from performance.

Portfolio activity

The manager slightly reduced the Fund's external emerging markets exposure by 1% as spreads approached record tight levels, taking the weighting to 11%. It added to its local emerging markets position, however, via Egyptian T-Bills, but took profits in Indonesia given the strong returns in 2006. The Fund's local emerging exposure currently stands at 13%, diversified across Brazil, Mexico, Turkey, Russia and Egypt. The manager increased the Fund's mortgage exposure by 2% to 20%, while it also increased its TIPS allocation by 1% to around 7%, taking advantage of the then lower breakeven spreads and higher real yields. In investment grade bonds, the manager increased the Fund's overall exposure selectively, raising the weighting by 1% to 6% as it added to holdings in the financials sector. The manager considers that companies in this sector are less likely to be subject to LBOs. In the global high yield market, meanwhile, the Fund's exposure remained unchanged at just over 28%. Government bond activity included the sale of the Fund's holding in Hungary during the rally in that market, as the manager felt that yields offered insufficient protection for political uncertainty that could resurface in 2007. The manager purchased Australian government bonds after the country's central bank raised rates in November, a move that the manager believes may be near to the end of the bank's tightening cycle. In currencies, the manager bought a small euro position and reduced the Fund's exposure to the Japanese yen. The duration of the portfolio increased by about 0.1 year to 4.5 years. The manager reduced US duration but added duration at the front end of the UK curve given the sharp rise in future rates discounted by the market.

Outlook

Emerging market bonds

The environment for emerging market bonds remains constructive, given moderate global growth, a Fed that is on pause, and commodity prices that are still buoyant. External US dollar-denominated debt is, however, expensive, with spreads at all-time tight levels. The manager will therefore maintain its strategy of having only modest exposure to external emerging debt in favour of selective local markets such as Mexico, Brazil and Turkey, Egypt and Russia. A tactical approach remains necessary given the impact of swings in risk appetite on local market currencies. The manager will maintain the emerging markets exposure at around 20%-30%, including around 10%-15% in local currency assets.

Mortgages/TIPS

The Fund maintains an overweight exposure to mortgage-backed securities as the manager still sees value in spreads at around 110 basis points as volatility remains low. The Fund's weighting will be maintained at around 20%, via a combination of US and Danish mortgages. With real yields around 2.5% and breakeven inflation rates of close to 2%, the manager continues to maintain an allocation to US TIPS as a hedge against inflation, or if the US economy slows sharply.

Investment grade

The Fund continues to hold a relatively low exposure to corporate bonds, based on valuations and ongoing concerns about the high level of LBOs. In addition, should the US economy slow sharply, the manager feels that current spreads do not offer sufficient compensation. It will therefore remain selective on credits and include an allocation to financials.

[1] Performance Figure Source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
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Western Asset Global Multi Strategy Fund

High yield

A slight overweight to the high yield sector is being maintained. Fundamentals in terms of credit metrics remain strong and the default rate is still very low. However, the manager feels defaults could start to trend up going forward as the credit cycle matures. The LBO theme of 2006 looks like continuing into 2007, hence supply will be concentrated in a few larger deals. The manager aims to have a Fund weighting of around 25% with a focus on B and CCC issues that are less susceptible to LBO events than BB issues.

Government bonds

The manager remains underweight in core markets, especially Japan. It has increased its European duration at the expense of the US as rates have backed up the most there and the market is now discounting Eurozone rates to rise over 4% and remain there throughout 2007. The manager continues to like some of the higher yielding peripheral markets such as South Africa and Israel, but will also be tactical as valuations change. The addition of the Australian holding and sale of Hungary are examples of such moves.

Summary

In the US, the economy has enjoyed mixed, but generally positive results, for most of the past year, and the Fund's investment manager believes that is likely to be the case for 2007 as well. In view of the absence of any serious threats to growth, the manager believes there is currently little reason for the Fed to reintroduce monetary stimulus, especially since it still views inflation as a concern and the dollar is relatively weak. In bond markets, with tight spreads in general and flat-to-inverted major yield curves, the opportunity for large excess performance is limited. However, the manager believes that the Fund is well positioned for the moderate growth, low inflation environment and has the capacity to take advantage of opportunities should local market volatility, credit spreads or interest rates increase. Duration will rise or fall depending on changes in valuations, but likely remain range-bound around 4.5 years. The manager would look to increase duration if yields increase and likewise will reduce duration if bond markets price in too much more of a global slowdown.

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Western Asset Global Multi Strategy Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
50% Leh Glb Agg; 25% Leh HY; 25% JPM EMBI+	8.66%	1.41%	10.36%	20.66%	-	-	56.12%
Western Asset Global Multi Strategy Fund	**6.21%**	**2.28%**	**12.00%**	**21.52%**	**-**	**-**	**58.80%**

*Launch 03.09.02

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

Please note that past performance is no guide to future returns and is not an indication of future performance.

The Western Asset Global Multi Strategy Bond Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund established as an open-ended investment company with variable capital incorporated with limited liability under the laws of Ireland. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA. Please note that past performance is no guide to future returns and is not an indication of future performance. This document does not constitute an invitation to invest. You should be aware that stock market investments should normally be regarded as longer term investments and that they may not be suitable to everyone. Fluctuations in exchange rates can affect the value of the Fund and the income from it. Individual securities mentioned are intended as examples of portfolio holdings and are not intended as buy or sell recommendations. Unlike a bank or building society account, your money is at risk. This Fund may invest in 'non-investment grade' bonds, which carry a higher degree of default risk than 'investment grade' bonds. This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus - please refer to the Simplified Prospectus and Prospectus documentation, which describe the full risk factors associated with this Fund. This information has been prepared from sources believed reliable but is not guaranteed by Legg Mason Investments and is not a complete summary or statement of all available data, nor is it considered an offer to buy or sell any securities that may be referred to. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Source for performance figures - PFPC/S&P Micropal, NAV to NAV with net income reinvested without initial charges but reflecting annual management fees, based in US dollars for class A shares.

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Legg Mason Global Funds

Western Asset US High Yield Bond Fund

Key Points

- The Western Asset US High Yield Bond Fund increased by 4.36% during Q4[1].
- The Fund outperformed its benchmark by 0.25%[1].
- The Fund's investment manager believes that fundamentals continue to remain positive for most high yield companies.

Market Review

The Federal Reserve Board (Fed) left interest rates unchanged during the fourth quarter, citing concerns that core inflation was still a bit too high, but noting that a generally weak economy and lower energy prices would likely result in declining inflation pressures going forward. High yield spreads were tighter, bolstered by strong profits, low default rates, and a generally favourable economic backdrop. As a result, the US high yield market posted strong positive returns in the fourth quarter, as did its counterpart in Europe, capping off a strong year for the asset class. In the US market, autos and lower quality paper outperformed. As a whole, the high yield sector outperformed most other fixed income asset classes, including mortgages, investment grade credit and Treasuries.

As was the case throughout 2006, lower rated issuers fared better than higher rated paper during the fourth quarter. Specifically, CCC rated issuers outperformed Bs and BBs, with the latter producing the lowest returns. The best performing industries included media cable and wireless. Charter Communications continued to perform strongly in the media cable sector, as the company for the most part completed its system upgrades and may realise revenue increases with the roll-out of new products. In the wireless sector, meanwhile, Rogers Wireless continued to be a leading performer, as the company expressed its goal of attaining investment grade status.

New issue supply was significant during the fourth quarter. A total of $56.4 billion of high yield debt was priced during the period, which was the largest quarterly total in two years. Leveraged buyout (LBO) financing, particularly for HCA and Freescale, was the main driver of supply.

The trailing 12-month US speculative grade issuer weighted default rate declined during the final quarter of 2006. The December reading fell to 1.82% versus September's reading of 2.08%. The average default rate between 1980 and 2006 was 4.52%. Credit fundamentals remained strong for the quarter in large part due to greater than 23% year-over-year corporate earnings growth for the third quarter of 2006.

Fund Review

The Western Asset US High Yield Bond Fund increased by 4.36%[1] in US dollar terms over the fourth quarter, outperforming its benchmark, the Lehman US High Yield 2% Issuer Capped Index, which rose by 4.11%. The Fund was also ahead of its benchmark for 2006 as a whole, producing a yearly increase of 11.54% compared to the benchmark increase of 10.76%.

The Fund's relative performance over the fourth quarter was helped by an overweight allocation to CCC rated issues, which outperformed, and an underweighting to BB rated issues, which underperformed. Among individual issues, the Fund's holding in Ford in the autos sector was also beneficial, as was its holding in Vanguard Health. The Fund's sector allocations produced mixed results. For example, the benefit from an overweight in consumer cyclicals and an underweight in utilities was offset by the negative impact of an overweight in capital goods and an underweight in consumer non-cyclicals.

[1]Performance figure source: S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Western Asset US High Yield Bond Fund

Outlook

The Fund's investment manager believes that fundamentals continue to remain positive for most high yield companies, with low default rates and low levels of distressed bonds, decent corporate results, positive equity markets and a favourable economic backdrop. The soft landing that the manager expects for the global economy during 2007 is supportive for high yield in terms of maintaining improving credit metrics for existing borrowers. At the margin, however, the manager expects to see a high proportion of highly leveraged deals come via the new issue market. The LBO theme of 2006 is expected to continue in 2007 and for that reason the manager currently has a bias towards lower B and CCC credit rated companies that are less likely to be subject to LBOs than higher quality BB companies. In general, the manager believes that outperformance in 2007 will be largely driven by individual security and industry selection as opposed to thematic trades.

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Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Lehman High Yield 2% Issuer Capped Index	10.76%	2.74%	-	-	-	-	24.65%
US High Yield Bond Fund	**11.54%**	**1.91%**	**-**	**-**	**-**	**-**	**23.83%**

*Launch 27.02.04

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

Please note that past performance is no guide to future returns and is not an indication of future performance.

Legg Mason Global Funds

Western Asset Emerging Markets Bond Fund

Key Points

- Emerging market bonds rallied in the fourth quarter
- The Western Asset Emerging Markets Bond Fund underperformed its benchmark
- The outlook for emerging market bonds remains constructive

Market Review

Emerging market bonds benefited strongly from ongoing investor risk appetite and from the perception that default rates would remain low. Indeed, emerging market bonds as measured by the JP Morgan EMBI Plus Index rose by 4.11% in the period. The spreads on external emerging market bonds tightened by 40 basis points over the quarter to end at their tightest levels around 170 basis points over US Treasuries. In local markets, returns were also positive as a generally favourable macro economic backdrop led to improved investor sentiment towards riskier assets.

Argentina was the best performer, returning an impressive 18.98% over the quarter, helped by third quarter GDP figures showing a 10.8% quarter-on-quarter growth rate. More importantly, while consumer spending remained the primary driver behind the strong growth, investment picked up, indicating the current trend may be more sustainable than previously thought. Turkey returned in excess of 10% during the quarter as the currency recovered from weakness earlier in the year and bond yields stabilised at high rates. Indonesia returned over 10% as yields fell as the country's central bank lowered rates, while Mexico also performed well as local bond yields fell due to strong local demand. A stable Brazilian currency and lower interest rates in the country due to falling inflation also led to positive returns. Ecuador was the worst performer in the quarter, falling by 17.63%. The newly elected president threatened to default on external debt, pushing spreads wider by over 310 basis points. Overall, local markets generally outperformed external emerging market debt during the fourth quarter, regaining some of their relative underperformance in the second and third quarters.

Fund Review

Against this backdrop, the Western Asset Emerging Markets Bond Fund rose by 3.57% in the quarter, compared with the 4.11% return for its benchmark, the JP Morgan EMBI Plus Index. Security selection and currency exposure were key positives for the Fund while curve positioning and country selection were negative. Country selection was most negative in the Philippines and Russia. The Fund's primary overweight allocations included Russia, Egypt, Venezuela, Brazil, and Mexico. The Fund also held a modestly overweight position to Argentina, which positively impacted on returns while a modestly underweight position to Ecuador was also positive for performance.

Outlook

The environment for emerging market bonds remains constructive, given moderate global growth, a Federal Reserve which has put interest rates on hold, and commodity prices that are still buoyant. External US dollar-denominated debt is, however, expensive, with spreads at all-time tight levels.

Western Asset Management
January 2007

Performance figure source: PFPC / S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Western Asset Emerging Markets Bond Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
JP Morgan EMBI+ Index	10.49%	11.86%	-	-	-	-	37.59%
Emerging Markets Bond Fund	**7.76%**	**9.61%**	**-**	**-**	**-**	**-**	**31.03%**

*Launch 24.02.04

Performance figure source: PFPC/S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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Legg Mason Global Funds

Brandywine Global Opportunities Bond Fund

Key Points

- North American and Asian bond markets outperformed.
- Core European bond markets underperformed.
- The Fund underperformed principally due to the weakening of the Canadian dollar and the strengthening of the euro.

Market Review

The fourth quarter saw mixed flows across a number of global sovereign debt markets. In general, noteworthy inflows occurred in the North American and Asian bond markets creating out-performance in local currency terms. In contrast, core European bond markets registered outflows with attendant negative impact to performance. The range of returns between the best and worst performing bond markets was fairly narrow. The only exception was Poland, which was by far the best performing bond market during the quarter. Poland's market continues to be influenced by investors searching for yield in a still relatively low yield environment. It appears that sentiment in the bond markets was biased towards the belief that the European economies would grow at a faster pace relative to expectations than either their North American or Asian counterparts.

Currency returns dwarfed local bond markets in the fourth quarter. This dominant influence of currencies on the overall total return was the theme for 2006 and we expect a continuation in 2007. Since we are still in a relatively low interest rate environment, it will be difficult to capture outsized returns in the local debt markets relative to currency returns. The non-core currencies outperformed the G-3 currencies (US dollar, euro and yen) during the quarter. The US dollar and Japanese yen were among the worst performing currencies but it was a different story for the euro. It set new records versus the yen and broke higher out of a six month consolidation versus the dollar due to the market's growth expectation for the region. The Canadian dollar, on the other hand, underperformed both the US dollar and Japanese yen. It was hurt by the pressure being placed on the energy complex during much of the quarter, particularly in natural gas. The FX markets are priced for continued solid growth across much of Europe but history instructs us that markets often have a tendency to surprise the majority view.

Fund Review

The Brandywine Global Opportunities Fund rose by 0.61% in the quarter compared to the 1.80% return of its benchmark the Citi WGBI.

The Fund's significant exposure to the US and Canadian dollars, and its underweight to the euro, detracted from performance. The strength of the European economies in 2006 caught many investors off guard. Consequently the euro strengthened against the dollar rising 4.1% in the fourth quarter alone. The Canadian dollar, meanwhile, weakened significantly during the fourth quarter due to declining commodity prices. In addition, a change in the Canadian government's tax laws made foreign investments into Canada less attractive. Furthermore, the continued economic slowdown in the United States, Canada's largest trading partner, weighed on the currency.

Among the positives for the Fund were its positions in the Swedish krona and Polish zloty. The Swedish krona strengthened by 7.1% against the US dollar and 2.8% against the euro as Sweden's economy continued to expand robustly in the fourth quarter. In addition, recently implemented economic reforms in Sweden are expected to enhance the country's competitiveness in the future. The Polish zloty strengthened by 7.9% against the US dollar during the fourth quarter thanks to broad-based dollar weakness combined with enthusiasm for Central European assets, especially those offering an attractive yield.

Country allocation was positive for performance. In particular, the Fund's exposure to emerging market securities (Brazil, Mexico and Indonesia) benefited from ongoing investor risk appetite and from the perception that default rates would remain low in 2007. Poland and South Africa also benefited from the increased demand for yield in global bonds. Spreads between Polish and German bond yields further tightened in the fourth quarter as Poland moved closer to joining the euro currency regime. South Africa benefited from signs of moderating inflation both globally and domestically.

Strategy

The investment manager has not made any major shifts to the portfolio coming into early 2007. The Fund is being managed with a duration that is somewhat comparable with the duration of most indexes. However, the Fund's duration composition is clearly different. The manager has something of a barbell approach in that it is long duration in the US, Australia, New Zealand and Poland. At the same time there is a

Source: S&P Micropal. NAV to NAV, gross income reinvested, and net of Annual Management Charge.

short duration bias in Canada, across Europe (neutral in the UK), Japan, Malaysia and Singapore. The manager is mostly content with this duration exposure but might begin to reduce some duration in the US and add it to Germany. The core European bond markets have experienced a sharp sell off due to priced- in expectation for continued robust growth (just as the euro has). The manager disagrees with this viewpoint and therefore might extend out the curve in Germany. Italian bonds were explored, but the 20bps spread on the 10-year versus bunds is not seen to be sufficient compensation for the additional credit risk. On the currency front, the manager's primary theme of expecting Asian currencies (ex Japan) to outperform remains intact. The manager believes that there is enough momentum behind these currencies to carry the theme well into 2007. However, the exposure to the Thai currency and bond markets has been reduced and is expected to continue to be reduced. This decision is motivated by the recent actions of the Thai government, which clearly indicates their desire for a weaker currency. Despite this reduction, the manager is still overweight Asian currencies in the portfolio relative to European currency exposure. The Fund goes into 2007 with a significant overweight in North American currencies, biased toward a larger overweight in the Canadian dollar, but also with a modest overweight in the US dollar, which was increased during the fourth quarter of last year. It is a story about valuation and sentiment. In many ways, early 2007 is like early 2005 when the US dollar reversed sharply catching the FX markets short. A strong dollar versus the euro could be the theme for much of 2007 and the FX markets are certainly not positioned for it. Iceland is beginning to look very attractive in terms of its real yields, improving current account deficit, undervalued currency and, additionally, it is rated AA+. It's a very small market, with a population of just 300 thousand people so it would be a rather small allocation, about 1% to 2% of the portfolio. The yen continues to hinder the Fund's ability to generate stronger absolute returns. The carry is still very negative and even if the Bank of Japan raises rates this quarter, it won't be enough to attract new money to the currency.

Outlook

The market is still at a cross roads regarding how global growth will fare in 2007. One camp is of the opinion that growth will continue to slow with the US being the epicentre of the slowdown. This slowdown will then result in the Fed shaving at least 100bps off the Fed Funds rate. Another camp expects growth to remain intact and possibly even accelerate given the recent decline in energy prices, which could necessitate additional rate hikes. The investment manager is in a different camp: the one that believes the Fed will stay on the sidelines for longer than most anticipate because of the emerging battle between the still very robust labour market and the continued deterioration of the housing market in the US. The manager agrees that lower energy prices will be a source of stimulus for the global economy, however; the decline in crude should be deflationary as well, which may reinforce the "goldilocks economy" view (solid, non inflationary economic growth). For this reason, the manger believes that global bond yields should remain in tight ranges for the first part of 2007. There is really no reason for them to move sharply in either direction. Higher bond yields puts further pressure on an already weak housing market and a leveraged economy and yet lower bond yields add fuel to a global economy growing at a trend like place and with a strong labour market. Currently, the bond market is pricing in the narrow range scenario as bond option implied volatilities continue to trade near historically low levels. The non-core global bond markets should continue to attract investment flows as long as the financial markets do not enter a risk aversion phase. The manager does not believe this is likely unless ten-year yields in the US get above 5%. That was a catalyst for last year's shakeout in more risky assets. If this analysis is correct, lower rated bond markets should outperform for the first half of 2007. Growth in Europe appears to be more insulated from what takes place in the US than in the past, thanks to the increasing influence that developing economies have in terms of their growing trade relationships with Europe. What, if anything, is the sell off in the commodities market telling us? Well, at this point we say that two major factors are influencing it. One, all the portfolios that diverted funds to commodity pools in search of additional diversification are now realizing that money can be lost in commodities. In addition, hedge funds are never ones to stick with losing positions so they are exacerbating the selling. Secondly, an increase in supply is unfolding as consecutive years of increased capex by commodity producing firms is beginning to bear fruit by way of more production and, therefore, supply of raw commodities. Microeconomics: supply curve shifts to the right but the demand curve remains stagnant, which equals a lower equilibrium price. On the currency front, we know that the FX market is entering the New Year with the view that the carry trade will still be the dominant trade. We don't disagree, but historically markets often shift focus when it is the least expected. The dollar is coming into the year under owned relative to other currencies in the global and international bond markets.

Brandywine Global Investment Management
January 2007

Brandywine Global Opportunities Bond Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Citi WGBI USD	6.12%	-6.88%	10.35%	-	-	-	14.73%
Global Opportunities Bond Fund	**4.00%**	**-3.93%**	**11.06%**	**-**	**-**	**-**	**16.24%**

* Launch 01.10.03

Commentary and sources for figures supplied by: Brandywine Global Investment Management
Performance figure source: S&P Micropal. NAV to NAV, gross income reinvested, and net of Annual Management Charge.

Please note that past performance is no guide to future returns and should not be seen as an indication of future performance.

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Legg Mason Global Funds

Legg Mason Value Fund

Market Review

The S&P 500 Index reached its yearly high on December 15 at 1427.09, then took a breather for the holiday season, closing the year at 1418.30, 0.6% off its peak but still up a highly satisfactory 15.8% for the year as a whole.

TOTAL RETURNS[1] (US dollars)

	Dec	Q4	2006	5 May - 29 December
S&P 500 Index	+1.40%	+6.70%	+15.80%	+8.37%
Dow Industrials	+2.11%	+7.39%	+19.04%	+9.38%
Nasdaq Composite Index	-0.62%	+7.15%	+10.39%	+3.60%
S&P Mid-Cap 400 Index	-0.49%	+6.98%	+10.32%	-0.68%
Russell 2000 Index	+0.33%	+8.90%	+18.37%	+1.59%
Dow Jones Wilshire 5000 Index	+1.17%	+7.21%	+15.78%	+7.17%
S&P 100 Index	+1.80%	+7.12%	+18.47%	+11.15%
Russell 1000 Growth Index	+0.34%	+5.93%	+9.07%	+4.83%
Russell 1000 Value Index	+2.24%	+8.00%	+22.25%	+11.11%

[1] Source: Bloomberg, Wilshire, Russell

Performance for the month of December was mixed, as large and mega cap stocks outperformed small- and mid caps. For the quarter and year, returns were strong across the board. Notably, in our view, the two best performing indices for the year (excluding the style-based indices) were the mega-cap dominated Dow Industrials (+19.04%) and S&P 100 (+18.47%). Next best was the Russell 2000 Index, but this was principally due to its strong showing early in the year.

Through to 5 May, the Russell 2000 was up 16.51%, but it advanced only 1.59% further through to year-end, as shown in the memo item above. Note, too, that the S&P Mid-Cap 400 Index was actually down from the May market peak through to year-end. In sharp contrast, the Dow Industrials, S&P 100 and S&P 500 indices were up 9.38%, 11.15% and 8.37%, respectively, from 5 May through to year-end.

We regard the shift in leadership from small- and mid-cap stocks to large and mega caps as the most significant development in the equity market in 2006. We believe the performance differential between these market cap sectors since May is solid evidence that the shift has occurred. How long it will last we do not know, but if our assessment is correct, we expect it to be a period measured in years, rather than months.

The reemergence of mega-cap stocks as market leaders has been a mixed blessing for many investment managers. One might even say that "never have so many had so little fun in a generally rising market." The reason is that a market dominated by mega-cap stocks is a tough market for most equity managers to beat. The late 1990s - while a bonanza for equity investors as a whole - were a nightmare for portfolio managers in terms of relative performance, as few were able to keep up with the S&P 500 Index, which was being driven by the relentless advance of 25 or 30 mega caps such as Dell, Microsoft, Intel, Cisco and the like. The year just ended witnessed a similar struggle as just 19% of all actively managed US diversified equity funds were ahead of the S&P 500 through to 27 December. This is the worst yearly aggregate relative performance showing since 1998.

Another significant development in the equity market in 2006, in our judgement, was the continuing surge in the number and size of private equity transactions. Some are calling this a bubble. We disagree. Taken to an extreme, it could become a bubble, but it's not one yet, in our view. Up to now, we believe the surge in private equity transactions is being driven by the simple fact that stocks are meaningfully undervalued relative to bonds, and huge quantities of debt-financing are available at upper-middle single-digit rates to buy companies whose returns on equity are in the mid to high teens and returns on total capital are in the low double-digits, or higher. With such an attractive spread available, deals don't have to be leveraged to the moon to make sense. According to a recent Wall Street Journal interview (3/1/07) with KKR partners Henry Kravis and George Roberts, the average private equity deal today is 33% equity and 67% debt, in contrast to 1987, when the average deal was only 7% equity and 93% debt. Another big change in the private equity business is that it has gone global. "Fifty percent of the money raised comes from outside the US. In the 1980s, everything was domestic," says Mr. Kravis. "In 2006, eight of 12 deals we did were foreign."

Another force spurring private equity transactions is what our colleague Michael Mauboussin calls "time arbitrage." Many analysts and investors have become so focused on short-term earnings trends as an indicator of attractiveness that they fail to recognise a true investment opportunity when it presents itself.

The pressure that company executives feel not to disappoint "the Street" plays right into private equity investors' hands, according to Mr. Roberts. "Managements want to take the long-term view, but they know they get clobbered in the short term. A lot of companies want to start new projects but they can't because they are afraid of the hit to quarterly earnings, even though it may be right in three to five years. When we say our average hold [before selling the company or taking it public] is seven years, they sit up." Adds Mr. Kravis: "There is constant churn in the share ownership of public companies. Activist shareholders beat up the company because the stock isn't going up. Our size and indifference to quarterly results may make chief executive officers and boards take us more seriously."

The advent of the New Year is the traditional time for strategists, economists and market commentators such as us to trot out forecasts of the outlook for the coming year. We will share ours presently, but for now suffice it to say that we are bullish on the US equity market for 2007. Obviously, not everyone agrees with us. We would be quite uncomfortable if they did. Those with a gloomier outlook than us tend to focus on a number of macro issues including the "unsustainable" trade and budget deficits, the impending collapse of the US dollar and the likelihood that the continuing weakness in the housing market will trigger a US recession. We lack the space to fully address all these issues here, except to say that we do not expect a recession in the US in 2007, we think the dollar could actually rally this year versus the euro and the pound (though likely not versus the renminbi), and we believe concerns about the trade and budget deficits - while valid to a degree - are way overblown.

For a well-reasoned analysis and defence of the US trade deficit, we refer clients to Bear Stearns' chief economist David Malpass' recent Wall Street Journal (21/12/06) editorial entitled "Embrace the Deficit." Malpass' principal argument is that "Though widely criticised as an imbalance, the trade deficit and related capital inflows reflect US growth, not weakness - they link the younger, faster-growing US with the aging, slower-growing economies abroad."

For a cogent analysis of why the world is not coming to an end, we recommend reading Anatole Kaletsky's piece in the January/February 2007 issue of The Liberal entitled "The Years of Reckoning." Mr. Kaletsky, an associate editor of The Times and GaveKal Research partner, argues that secular bears fail to fully understand the positive implications of five forces that have powered the expansion of the global economy since the early 1990s. These are: (1) the collapse of communism, (2) the proliferation of free markets and explosion in world trade, (3) the advances in electronic technology that have cut communications costs to nearly zero, (4) the revolution in global finance, and (5) the coordinated effort of developed country central banks to keep economies growing as near as possible to their long-term potential.

Fund Review

The Legg Mason Value Fund posted solid monthly performance in December but trailed the S&P 500 modestly, gaining 1.27% versus a 1.40% gain for the Index. During the fourth quarter the portfolio picked up 290 basis points on the S&P 500 Index, gaining 9.60% versus a 6.70% return for the benchmark, cutting the S&P 500's year-to-date lead over the portfolio from 1314 basis points to 889 basis points. As a point of interest, since the Fed went on hold in August and the "New Game"[1] began, the portfolio is up 17.80% and has picked up 489 basis points on the S&P through to year-end.

TOP CONTRIBUTORS[2] (US dollars)

Company	Return	Weight	Impact
UnitedHealth Group	9.47	4.29	0.41
Qwest Communications International	8.84	3.90	0.35
Citigroup	12.32	2.54	0.31
The DirectTV Group	9.84	3.01	0.30
Expedia	15.47	1.70	0.26
Countrywide Financial Corporation	6.87	3.29	0.23
Time Warner	8.12	2.36	0.19
JP Morgan Chase	4.37	4.24	0.19
Aetna	4.53	3.26	0.15
Home Depot	5.73	2.23	0.13

[1] Please see our last commentary for more information on the "New Game," which began on August 9.
[2] This attribution represents our unconstrained model portfolio. Exact weightings in some client portfolios may differ slightly from the model, and, therefore, precise attribution may also differ slightly.

Legg Mason Value Fund

The Funds' managed care holdings continued their rebounds from mid-year lows. Much of UnitedHealth's 9.5% gain during December reflected the alleviation of investors' anxiety about its options-related investigation. Although the company's non-cash charges to its 1994-2005 earnings could reach $1.5 billion to $1.7 billion, that profit reduction pales when compared to the $4.2 billion net income it is expected to generate in 2006 alone. Fundamentals remain robust at the healthcare giant, evidenced by its solid 2007 outlook featuring top- and bottom-line growth rates of 11% and 15%, respectively. The 4.5% advance in the shares of rival company Aetna, on the other hand, was driven by a combination of favourable industry trends (such as the moderation of medical cost inflation as seen in November's CPI report) and the company's progress in addressing localised pricing pressures in the small group markets in the Northeast, Mid-Atlantic and Florida, which had contributed to its second-quarter earnings miss.

Qwest Communications extended its strong year-to-date gains, appreciating another 9% in December, which brings its full-year return to an impressive 48%. Investors' enthusiasm was further fanned when management gave upbeat comments regarding revenue growth and free cash flow, which is expected to reach $1.35 billion to $1.5 billion in 2006.

Citigroup enjoyed its largest monthly share price appreciation since May 2003 with a 12.3% gain in December. Investors were emboldened by signs of changes at this banking behemoth that seemed to have been dormant for the past several years. Its recent appointment of Investment Bank head Bob Druskin to the COO position, which had been vacant for 18 months, suggests greater focus on execution and operating efficiency, while its rumoured bid for Prudential PLC's Egg online banking business, which followed recent expansion in China, Turkey and Central America, signals a transition to a more balanced strategy embracing both internal and external growth opportunities.

Also in the financial sector, signs of a bottoming housing market, including higher-than-expected refinance and purchase mortgage applications reported by the Mortgage Bankers Association, buoyed shares of Countrywide Financial. The company's own November operating data also pointed to stronger-than-expected loan production. Meanwhile, JP Morgan Chase built on a 20% gain in the first eleven months of the year and advanced another 4.4% during December, as investors shifted their focus from the sizeable cost reductions that management has achieved to the prospect of accelerating top-line growth in the next few years.

In the media arena, the speculated transfer of News Corp.'s stake in DirecTV to Liberty Media became official when a transaction was announced in December whereby News Corp. would trade its DirecTV holdings, three sports networks and $550 million cash for Liberty Media's 16% stake in News Corp.. This would put DirecTV in the hands of a more focused operator of media assets while opening doors for a potential tie-up with EchoStar. Investors welcomed the transaction by bidding up DirecTV shares by nearly 10%.

Media conglomerate Time Warner gained more than 8% during December as investors warmed up to the coming spin-off of the Time Warner Cable unit, which is expected to unlock shareholder value when it finalises as early as in the first half of 2007. AOL, another major piece of the Time Warner value puzzle, also experienced an improved trend in page views, boding well for its advertising revenue.

Finally, mounting pressures from cash-flow hungry private-equity investors prompted shareholder-friendly capital allocation decisions at Expedia and Home Depot, both of which announced significant share repurchases last month. Expedia's tender offer to buy back up to 30 million shares represented about 9% of its diluted shares outstanding, while Home Depot announced the immediate repurchase of about 75 million shares for $3 billion. Year to date, the company has repurchased more than 173 million shares for approximately $6.7 billion.

DETRACTORS[3] (US dollars)

Company	Return	Weight	Impact
AES Corporation	-5.69	5.64	-0.32
Google	-5.04	4.72	-0.24
eBay	-7.05	2.84	-0.20
Electronic Arts	-9.83	1.80	-0.18
Yahoo Inc.	-5.55	3.20	-0.18
Sprint Nextel	-3.05	5.22	-0.16
Dell	-7.89	1.82	-0.14
Pfizer	-5.73	1.76	-0.10
Amazon.com	-2.18	4.62	-0.10

A rising market and a rebound in performance from many of the portfolio's positions left few significant detractors from performance during the month.

[3] This attribution represents our unconstrained model portfolio. Exact weightings in some client portfolios may differ slightly from the model, and, therefore, precise attribution may also differ slightly.

On the downside, Pfizer was the only major performance detractor that declined on fundamental concerns, as it dropped nearly 6% in December after the company announced the unexpected termination of an important cholesterol drug candidate. After tumbling 10.6% on the day of the announcement, however, its shares have since recovered nearly half of the lost ground, indicating that investors realise that Pfizer's remaining R&D pipeline, cost savings from its comprehensive sales force restructuring, and significant share repurchase potential still leave the pharmaceutical giant with plenty of room to drive EPS growth.

Our significant weighting in AES Corp. magnified the performance drag from its 6% decline in December. The pullback, which followed a strong 48% appreciation in the first eleven months of the year, seemed to be driven more by profit taking than by fundamental changes.

Year-end quirkiness in investment behaviours also impacted our Internet holdings, which were subject to tax-motivated selling pressures as investors tried to lock in unrealised losses. Company-specific developments offered little clue to the cause of their weaknesses. Amazon.com, for example, dropped more than 2% amid little fundamental news.

Google gained market share in the US search advertising market during the seasonally strong November period, according to data provider comScore, yet its shares slipped 5%. Rival Yahoo!'s 5.5% stock decline also came despite positive changes, as the Internet media company shifted from a product-oriented organisational structural to a customer-oriented structure, elevated the profile of its Technology group, and gave its well-respected CFO, Sue Decker, greater authority by promoting her to head the new Advertiser & Publisher group. Project Panama, the company's much-anticipated search advertising platform, has also begun open enrollment among US-based advertisers.

EBay's recent decision to jettison its proprietary brand in China in favour of a joint venture with local operator Tom Online appeared to be a strategic setback. The real economic calculus, however, was more nuanced than implied by its 7% share price decline, considering both what the company lost (exclusive control of its Chinese operations) and what it gained (access to 70 million additional users and greater competitive strengths in the local market).

Other beaten-down technology companies also saw additional downward pressure in December. Electronic Arts dropped nearly 10% while Dell slumped almost 8%, partially retracing their rebounds from summer lows. The same old bear cases cited by analysts – a rocky gaming console platform transition for Electronic Arts and an SEC probe into Dell's accounting – shed more heat than light in a market where both concerns had been known for months.

Finally, Sprint Nextel, another performance laggard in the first eleven months, also dipped 3%. The company generates strong free cash flow and management has been making progress addressing its lacklustre execution. But research reports with titles such as "Still Too Early to Test the Waters" and "FCF Story Not Until 2008" highlighted Wall Street's obsession with the short-term outlook, which should lead to opportunities for long-term investors.

Outlook

We firmly believe that 2007 will be a good year for the US equity market, and it could well be a great year. We will be quite surprised if the S&P 500 Index does not (finally) make a new all-time high this year. If our assessment of prospects proves correct, the S&P 500 will finish 2007 closer to 1600 than 1500.

We believe market returns in 2007 will be driven by a combination of moderate earnings growth, dividend return and some degree of P/E multiple expansion. In our view, how good 2007 turns out to be will be largely determined by how much of a tailwind P/E multiple expansion provides. Two possible scenarios are presented below. The "bullish" case, which is the view of David Nelson, chairman of the investment policy committee, and the "very bullish" case, which is Bill Miller's best current thinking on how the year might evolve.

2007 US Equity Market Outlook

	"Bullish"	"Very Bullish"
Earnings Growth	7%	7%
Dividend Yield	2%	2%
P/E Multiple Expansion	5-6%	10-12%
Potential Total Return	14-15%	19-21%
Implied Year-End S&P 500 Price	1596	1674

Our valuation work suggests that the S&P 500 Index is worth about 17 times earnings at present, or roughly two multiple points higher than it actually trades. One multiple point of P/E expansion is worth about 6% to 7% in market appreciation. Our "bullish" scenario above assumes that the market achieves about one multiple point expansion in 2007, while the "very bullish" scenario assumes it enjoys nearly two.

Obviously, these are not the only two possible scenarios for 2007, but any alternate scenarios must consider the same three factors. People who are bearish on the market for 2007 must either believe that dividends will not be paid (a highly unlikely occurrence), that earnings will fail to grow or even contract, or that the P/E multiple of the market will stay the same or continue to decline.

Let's consider each of these possibilities in turn. The dividend issue is easily dispensed with, in our view. Dividends will be paid. In fact, we think the dividend payout ratio will tend to rise over the next several years, causing dividends to grow faster than earnings for a number of years.

Earnings growth, on the other hand, could moderate. Since we expect economic growth to slow in 2007, our estimate of earnings per share growth for this year is already 2% below the current First Call, bottom-up, capitalisation-weighted consensus forecast of 9%. Profit growth could moderate still further, in our view, but a steep decline in earnings does not look like a very good bet at this point. It would take a full-blown recession for that to happen, and right now, we don't see that as likely. The impact on market returns of any shortfall in earnings growth from our current expectations may well be mitigated by the more aggressive Fed easing that would likely accompany such an occurrence.

The big swing factor in market returns for 2007 will almost certainly be P/E multiples. In our opinion, the most likely occurrence in 2007 is that the S&P 500's P/E multiple will begin to expand after three years of contraction. The Fed went on hold in June 2006. We now believe they will remain on hold through the first half of 2007. In our opinion, the economy is currently neither weak enough to justify rate cuts, nor strong enough to justify rate increases. The mixed pattern of recent evidence on the economic outlook - with some data such as housing suggesting weakness, and other data such as job growth suggesting strength - is consistent with what we regard as the most likely scenario: a mid-cycle slowdown, but no recession. According to data from ISI Group, the past three mid-cycle slowdowns - in 1967, 1985 and 1995 - were accompanied by P/E multiple expansion of between 0.8 (1967) and 5.0 (1985), averaging 2.6.

Historical patterns, too, are strongly supportive of 2007 being a good year for the S&P 500. Pre-presidential election years - such as 2007 - have historically been strong. In fact, 15 of the last 16 pre-presidential election (PPE) years (dating back to 1943) have been up years in the market (1947 was flat), showing an average price gain of 18.1%. A similar gain in 2007 would be entirely consistent with our "very bullish" scenario. Why PPE years have traditionally been so strong is a bit of a mystery. Conventional wisdom has it that the party in power likes to take any necessary economic medicine early in its four-year term so as to try to insure that the economy and stock market are cooking along as the time to run for re-election approaches. Whether valid or not, this theory is consistent with the historical evidence, as the first and second years of presidential terms have been up 3.0% and 4.1%, respectively, since 1929, while the third and fourth years have been up 14.7% and 9.0%, respectively.

The tendency of PPE years to be strong ones in the market even trumps the tendency for years ending in seven to be weak. Since 1917, in all years ending in seven, the Dow has been down an average of 1.4%, but those ending in seven that were PPE years - 1927, 1947, 1967 and 1987 - were up an average of 12.1%, while those that were not PPE years - 1917, 1937, 1957, 1977 and 1997 - were down an average of 12.4%.

To summarise our current thinking, we believe investors have many reasons to be optimistic about the outlook for 2007. The ones related to the calendar and historical patterns are interesting and provide some comfort, but the determinative ones, in our view, are those related to valuation, the probable economic outlook and the most likely Fed response to it.

As constructive as we are on the outlook, we recognise that: (1) we might be wrong, and (2) even if we are not wrong, our bullish resolve is likely to be tested at one or more points during the year. We can promise you only that we will continue "to call them as we see them," evaluating the economic evidence as it evolves in order to make the best judgments about your portfolios as possible.

All of us at Legg Mason Capital Management wish you a prosperous and happy New Year. As always, we thank you for your support and welcome your comments.

Legg Mason Capital Management Inc.
January 2007

Legg Mason Value Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years*
S&P 500 index	15.23%	5.30%	11.27%	29.05%	-23.37%	35.03%
Value Fund	**4.55%**	**5.34%**	**11.98%**	**43.61%**	**-20.87%**	**40.38%**

*Five year figures are to 30 September 2006

Commentary and sources for figures supplied by: Legg Mason Capital Management Inc.
Performance figure source: Standard & Poor's Micropal and PFPC, current charges, gross income reinvested, and net of annual management charges.

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Ref: 2308

Legg Mason Global Funds

Royce 100 Equity Fund

A Transition to Quality?

The year 2006 was one of transitions, with Republicans giving way to Democrats, the Federal Reserve Board moving to a neutral stance, and accelerating economic growth slowing to a more moderate pace. Dividends are back in vogue. Yet perhaps one of the more subtle transitions of the past several years was the gradually improved relative performance of higher quality stocks in an environment that has otherwise been perceived to be ruled by more speculative equities.

As the economy slowed and inflationary pressures moderated, quality began what the investment manager expects to be a period of sustainable outperformance. The manager believes that this transition to higher quality stocks will be a major theme and may represent the key to outperformance during the next several years. Arguably more importantly, the manager believes this will be the case regardless of market capitalisation.

At this point in the economic and stock-market cycles high quality companies offer investors many advantages especially when compared to their lower quality siblings. Firstly, from a cyclical standpoint, the economy is moderating, corporate profit growth has most likely peaked, and global liquidity is beginning to contract. Traditionally, a more moderate growth environment, coupled with an erosion of excess global liquidity, favours relative performance of high quality stocks as money flows to safer securities and investments. Higher quality companies tend to allocate capital in a disciplined manner that focuses on returns - a distinction that we believe will become increasingly important as corporate earnings begin to grow at a more moderate pace. Finally, high quality equities are defensive by nature, which helps to reduce volatility. The investment manager has always found quality companies in the small-cap world and over the years has cultivated a pronounced preference for high-quality small-cap businesses.

Market Review

US equities of all sizes enjoyed strong fourth-quarter returns with small-caps leading the way. The Russell 2000 was up 8.9% in US dollar terms, followed by the tech-oriented Nasdaq Composite, up 7.0%, and the large-cap S&P 500, up 6.7%. Small-caps also once again led for the full calendar year, with the Russell 2000 returning 18.4% versus gains of 15.8% and 9.5% for the S&P 500 and Nasdaq Composite respectively. In fact, all three major indices posted positive returns in three out of the year's four quarters.

The 2006 return of 15.8% by the S&P 500 was its best calendar year showing since 2003 (+28.7%) and, prior to that, 1999 (+21.0%). While the Russell 2000 reached new highs in each of the last three calendar years, the S&P 500 finally eclipsed its previous peak established in March 2000 on a total return basis during the fourth quarter of 2006. In contrast, at year-end the Nasdaq Composite remained 52.2% below the all-time high, established on March 10, 2000.

Within the small-cap section, both value and growth stocks provided strong fourth-quarter results. For the quarter, the Russell 2000 Value index was up 9.0% versus a gain of 8.8% for the Russell 2000 Growth index. For the full year, value offered a sizeable advantage, with the Russell 2000 Value index up 23.5% versus 13.4% for the small-cap growth index.

Fund Review

The Royce 100 Fund rose by 7.58% in the fourth quarter, compared with 8.9% for the Russell 2000 Index .

Amongst the key positive contributors to the Fund’s performance were audio systems company Dolby Laboratories, HR solutions company Ceridian, and electrical power equipment manufacturer American Power Conversion, rising by 56%, 25%, and 40% respectively. Dolby was buoyed by strong operating margins and cash flow with its technology being adopted as the standard in the entertainment industry. Ceridian, meanwhile, was helped by a strong increase in third quarter earnings. American Power Conversion shares soured due to the announcement of its acquisition by Schneider Electric.

The main negative performers were drilling specialist semiconductor company Diodes, IT company Keane, and software company eResearch, which declined by 18%, 17% and 17% respectively. All three companies were hurt by disappointing results.

In absolute terms, fourth quarter returns were positive across all of the Fund’s nine equity sectors with technology, consumer services, and industrial products leading the way. Within technology, components and systems, and IT services were the largest contributors to performance. Retail stores and other consumer services were the best performing industries within consumer services, whilst within industrial products, it was machinery, metal fabrication and distribution that made the largest positive impact.

Performance Figure Source: S&P Micropal, NAV to NAV, gross income reinvested, and net of annual management charges.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Royce 100 Equity Fund

For the full year, eight of the Fund's sectors were in positive territory. Technology, industrial products, and consumer services were again the leading sectors. Within these strong-performing areas, semiconductors and equipment, and software in technology, machinery, and metal fabrication and distribution in industrial products, and retail stores and restaurants and lodgings in consumer services were the best-performing industries.

Outlook

The strength of the first and fourth quarter rallies was greater than the investment manager had expected, especially for the more speculative issues within small-cap. The spread between small-and large-cap outperformance was narrower in the fourth quarter, but smaller stocks held the edge. While market cycles are always unpredictable, and the timing of any leadership change often looks arbitrary until well after it has actually occurred, it's still a telling sign that the S&P 500 outpaced the Russell 2000 from the May interim peak to the end of 2006 (+8.4% versus +1.6%). The manager sees this as a signal of a change in leadership that has admittedly taken longer to materialise than had first been anticipated.

Some of the analyses that the manager has been examining indicate that the more quality-laden portion of the small-cap universe has lagged a bit. The past few years especially have been characterised by more speculative issues dominating performance, especially among micro-cap companies. That part of the small-cap world looks a bit overheated to the manager these days, while the upper tier of small-cap appears to have more unrecognised quality and opportunity.

The manager does not believe the possibility of either a period of large-cap leadership or a potential small-cap correction would be bad news for investors with a long-term outlook. Indeed, many of the high quality small-caps already in the Fund would potentially thrive beyond the difficulties of a hopefully short-term correction.

Looking ahead, the manager believes that equities will continue their positive momentum into 2007, that large- and small-cap will alternate leadership (although large-cap may provide an edge in calendar 2007), and that quality companies will emerge across all asset classes as market leaders. The manager will continue to search throughout the small-cap world for what it regards as first class businesses trading at attractive stock prices.

Royce & Associates, LLC
January 2007

Performance Figure Source: S&P Micropal, NAV to NAV, gross income reinvested, and net of annual management charges.
Please note that past performance is no guide to future returns and is not an indication of future performance.

Royce 100 Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Russell 2000	18.37%	4.55%	-	-	-	-	45.96%
Royce 100 Equity Fund	**12.96%**	**13.30%**	**-**	**-**	**-**	**-**	**54.38%**

* Launch 24.03.04

Commentary and sources for figures supplied by: Royce & Associates LLC
Performance figure source: S&P Micropal, NAV to NAV, gross income reinvested, and net of annual management charges.

Note that past performance is no guide to future returns and is not an indication of future performance.

Legg Mason Global Funds

Royce US Small Cap Equity Fund

A Transition to Quality?

The year 2006 was one of transitions, with Republicans giving way to Democrats, the Federal Reserve Board moving to a neutral stance, and accelerating economic growth slowing to a more moderate pace. Dividends are back in vogue. Yet perhaps one of the more subtle transitions of the past several years was the gradually improved relative performance of higher quality stocks in an environment that has otherwise been perceived to be ruled by more speculative equities.

As the economy slowed and inflationary pressures moderated, quality began what the investment manager expects to be a period of sustainable outperformance. The manager believes that this transition to higher quality stocks will be a major theme and may represent the key to outperformance during the next several years. Arguably more importantly, the manager believes this will be the case regardless of market capitalisation.

At this point in the economic and stock-market cycles high quality companies offer investors many advantages especially when compared to their lower quality siblings. Firstly, from a cyclical standpoint, the economy is moderating, corporate profit growth has most likely peaked, and global liquidity is beginning to contract. Traditionally, a more moderate growth environment, coupled with an erosion of excess global liquidity, favours relative performance of high quality stocks as money flows to safer securities and investments. Higher quality companies tend to allocate capital in a disciplined manner that focuses on returns - a distinction that we believe will become increasingly important as corporate earnings begin to grow at a more moderate pace. Finally, high quality equities are defensive by nature, which helps to reduce volatility.

Market Review

US equities of all sizes enjoyed strong fourth-quarter returns with small-caps leading the way. The Russell 2000 was up 8.9% in US dollar terms, followed by the tech-oriented Nasdaq Composite, up 7.0%, and the large-cap S&P 500, up 6.7%. Small-caps also once again led for the full calendar year, with the Russell 2000 returning 18.4% versus gains of 15.8% and 9.5% for the S&P 500 and Nasdaq Composite respectively. In fact, all three major indices posted positive returns in three out of the year's four quarters.

The 2006 return of 15.8% by the S&P 500 was its best calendar year showing since 2003 (+28.7%) and, prior to that, 1999 (+21.0%). While the Russell 2000 reached new highs in each of the last three calendar years, the S&P 500 finally eclipsed its previous peak established in March 2000 on a total return basis during the fourth quarter of 2006. In contrast, at year-end the Nasdaq Composite remained 52.2% below the all-time high, established on March 10, 2000.

Within the small-cap section, both value and growth stocks provided strong fourth-quarter results. For the quarter, the Russell 2000 Value index was up 9.0% versus a gain of 8.8% for the Russell 2000 Growth index. For the full year, value offered a sizeable advantage, with the Russell 2000 Value index up 23.5% versus 13.4% for the small-cap growth index.

Fund Review

The Royce US Small Cap Equity Fund rose by 7.86% in the quarter, compared with 8.90% for the Russell 2000 index.

Amongst the key positive contributors to the Fund's performance were fluids management products company Robbins & Myers, alloys specialist Haynes International, and metals company RTI International Metals, which rose 49%, 38%, and 79% respectively. While Robbins & Myers and Haynes reported strong results, RTI International Metals was boosted by strong metals prices and speculation about potential mergers & acquisitions activity within its industry.

The main negative performers included technology company Maxwell Technologies, electronic components company Celestica, and electronic materials company Park Electrochemical, which declined by around 31%, 24%, and 19% respectively. Maxwell Technologies reported negative cash flow for the third quarter and was embroiled in a patent dispute with competitor Nesscap. Celestica reported a widening in losses as it continued its programme of cost cutting and restructuring; and Park Electrochemical fell by 19% amid concerns over its sales figures.

In absolute terms, returns were positive across five of the Fund's nine equity sectors with consumer products, industrial services and natural resources leading the way. Within consumer products, apparel and shoes, and publishing were the largest contributors to performance. Transportation and logistics, and advertising and publishing were the best performing industries within industrial services, whilst within natural resources, it was oil and gas, precious metals, and mining that made the largest positive impact.

For the full year, returns were positive across all nine of the Fund's sectors. Technology, consumer services, and industrial services were the leading sectors. Within these strongly performing areas, aerospace and defence, telecommunications technology, retail stores, leisure and entertainment in consumer services, transportation and logistics, and advertising and publishing in industrial services were the best-performing industries.

Performance Figure Source: S&P Micropal. NAV to NAV, gross income reinvested, and net of annual management charges.
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Royce US Small Cap Equity Fund

Outlook

The strength of the first and fourth quarter rallies was greater than the investment manager had expected, especially for the more speculative issues within small-cap. The spread between small- and large-cap outperformance was narrower in the fourth quarter, but smaller stocks held the edge. While market cycles are always unpredictable, and the timing of any leadership change often looks arbitrary until well after it has actually occurred, it's still a telling sign that the S&P 500 outpaced the Russell 2000 from the May interim peak to the end of 2006 (+8.4% versus +1.6%). The manager sees this as a signal of a change in leadership that has admittedly taken longer to materialise than had first been anticipated.

Looking ahead, the manager believes that equities will continue their positive momentum into 2007; that large- and small-cap will alternate leadership (although large-cap may provide an edge in calendar 2007); and that quality companies will emerge across all asset classes as market leaders. The manager will continue to search throughout the small-cap world for what it regards as first class businesses trading at attractive stock prices.

Royce & Associates, LLC
January 2007

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
Russell 2000	18.37%	4.55%	18.33%	47.25%	-	-	48.58%
Royce US Small Cap Equity Fund	**17.89%**	**3.50%**	**16.82%**	**83.43%**	**-**	**-**	**180.16%**

*Launch 08.11.02

Commentary and sources for figures supplied by: Royce & Associates, LLC
Performance figure source: S&P Micropal. NAV to NAV, gross income reinvested, and net of annual management charges.

Legg Mason Global Funds

Batterymarch European Equity Fund

Market Review

European markets performed strongly in the final quarter of 2006, with the MSCI Europe rising by 7.12% in euro terms. This occurred against a backdrop of robust corporate profitability and stronger economic growth in both Continental Europe and the UK. A stronger economy led the European Central Bank to raise rates twice in the quarter bringing the interest rate to 3.5%. The Bank of England raised rates once in the quarter by 0.25%, taking the base rate to 5%.

In terms of sector returns, industrials, telecommunications services and materials outperformed. Meanwhile, health care was the weakest sector for the quarter, hit by the Democrat election victory in the US, as well as expirations of several notable patents. In the UK, the market was led by telecommunications, utilities, and financials ex-banks, while the health care sector was again the worst performing sector.

A key driver for equity valuations continued to be strong mergers and acquisitions activity. This was underpinned by de-equitisation, the trend of more equity being retired than issued through share buy-backs and cash acquisitions. Also supporting this trend was the continued strong influx of private equity finance.

Fund Review

The Batterymarch European Equity Fund rose by 7.53% in the fourth quarter, slightly outperforming its benchmark, the MSCI Europe, which rose by 7.12% (both in euro terms)[1].

The biggest positive for the Fund in terms of stock selection in the period was in Continental telecoms. In this area, Norwegian telecoms company Telenor rose by 37.8% and Spanish telecoms company Telefonica was up by 20.1%, with both companies reporting a significant increase in earnings. In particular, Telenor received a strong boost from its exposure to fast-growing emerging economies. Elsewhere, stock selection was also positive for the Fund in the materials sector. In materials, metals company Boliden increased by 26.62%, helped by rising metals prices. In the UK, stock selection was also strong in the consumer discretionary sector.

A negative for the Fund's performance relative to its benchmark was stock selection in Continental banks. For example, BNP Paribas declined over the quarter, hurt by the effects of the slowing US economy and worries over its acquisitions strategy. Elsewhere, another negative for the Fund was in Continental consumer staples as defensive stocks underperformed in the quarter.

Key portfolio activity in the period included raising the Fund's weighting in financials ex banks from underweight to overweight, while reducing the Fund's position in industrials. The Fund's position in energy was increased from underweight to overweight.

Outlook

Looking ahead, the investment manager is optimistic about the prospects for Continental European equities in 2007. While the continuing influx of private equity finance, coinciding with strong M&A activity, is providing key support for the market, equities valuations are also being boosted by strong underlying corporate fundamentals. Robust earnings and capital expenditure, with continuing profits and dividend growth, make European equities look attractively valued.

Batterymarch Financial Management, Inc.
January 2007

[1]S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.
Please note, the benchmark changed from the FTSE World Europe ex UK to the MSCI Europe on the 1st November, 2006.
Past performance is no guide to future returns and is not an indication of future performance.

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Batterymarch European Equity Fund

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
FTSE World Europe ex UK (in euros)	21.65%	25.52%	11.69%	18.63%	-	-	89.46%
Batterymarch European Equity Fund (in euros)	**17.36%**	**24.23%**	**17.26%**	**16.32%**	**-**	**-**	**70.35%**

*Launch 24.02.04

Commentary and sources for figures supplied by: Western Asset Management
Performance figure source: S&P Micropal, NAV to NAV, gross income reinvested, and net of Annual Management Charge.

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The Batterymarch European Equity Fund is a sub-fund of Legg Mason Global Funds plc, an umbrella fund established as an open-ended investment company with variable capital incorporated with limited liability under the laws of Ireland. It qualifies, and is authorised in Ireland by the Financial Regulator as an undertaking for collective investment in transferable securities and is a section 264 Scheme as recognised by the FSA. This document does not constitute an invitation to invest. You should be aware that stock market investments should normally be regarded as longer term investments and that they may not be suitable to everyone. Fluctuations in exchange rates can affect the value of the Fund and the income from it. Individual securities mentioned are intended as examples of portfolio holdings and are not intended as buy or sell recommendations. This Fund may acquire shares in companies with relatively small market capitalisations that may involve a higher degree of risk. This Fund is offered solely to non-US investors under the terms and conditions of the Fund's current prospectus - please refer to the Simplified Prospectus and Prospectus documentation, which describe the full risk factors associated with this Fund. This information has been prepared from sources believed reliable but is not guaranteed by Legg Mason Investments and is not a complete summary or statement of all available data. Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Source for performance figures – S&P Micropal, NAV to NAV with gross income reinvested without initial charges but reflecting annual management fees, based in euros for class A shares.

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Legg Mason Global Funds

Batterymarch Pacific Equity Fund

Market Review

Asian equities rallied strongly in the fourth quarter, making up for the sharp decline in the highly volatile second quarter to close the year at record highs. The MSCI AC Asia ex Japan index rose by 15.68% in US dollar terms for the quarter, finishing 2006 with a return of 33.74%.

Flows into the region were strong during the quarter, focused largely on China-related funds. Not surprisingly, China was the best performing Asian market, rising 35.6%. Southeast Asian markets also continued their strong performance, with Malaysia, the Philippines and Indonesia each up approximately 20% and outperforming the broader universe. Thailand was the exception, up only 1.9% for the quarter, as the Bank of Thailand's bungled attempt at capital controls further reduced credibility of the new military government.

China's market rocketed upwards in the quarter, cementing its position as the best performing market for the year, up 82.6%. This strong appetite for Chinese stocks, as evidenced by the huge oversubscriptions for any Chinese IPO coming to the market, reflected the strength of the economy, which continued its double digit growth, as well as the bouts of speculation on the appreciation of the Chinese renminbi. Strong investment flows focused on Chinese consumer spending and on the second phase of China's industrialisation – with a focus on heavy industries. Domestic consumer names, especially the banks, the insurance stocks, capital goods and infrastructure names did particularly well.

In Taiwan, the market underperformed for the year. Political issues, including the conviction of President Chen's son-in-law for insider trading, and Taiwan's ongoing clashes with China over independence, led to a rising market risk premium. At the stock level, technology names disappointed relative to earnings expectations and dragged the market lower, given their 60% weight in the Taiwanese index. Furthermore, credit card losses experienced by the banks in 2005 softened domestic growth as lenders tightened lending standards.

In India, flows have been positive and corporate results have justified the faith placed by investors. Economic growth remains strong and broad based. In contrast to Taiwan, which saw earnings being revised downwards, revisions were upwards in India. This was reflected in the strong market recovery from the spring correction. Stocks in the infrastructure, domestic banking and consumer-related sectors outperformed the market. Real estate related names were particularly strong despite a lack of institutional quality names. IPO activity has also been strong, although some listings have performed poorly.

The Korean market continued to underperform in the quarter, as persistent currency strength and the allure of other markets such as China took their toll on large-cap stocks. Steel giant Posco was one of few large-caps with strong performance in the period, as M&A activity and more favourable pricing boosted steel stocks globally. Foreign investors continued to reduce Korean weightings in the period, while local retail flows, which had supported the market for two years, slowed to a trickle.

In Thailand, on December 18 – not three months after a bloodless military coup ousted Prime Minister Thaksin and suspended the constitution – the Thai central bank announced a programme of capital controls designed to stem speculative investment flows that had contributed to significant currency appreciation. Stocks fell nearly 20% in dollar terms the next day, leading to an immediate reversal of the policy with respect to equity flows. The market rebounded dramatically, though the net effect was a loss of credibility, reduced investor interest in the Thai market and lower stock prices. The portfolio was underweight the Thai market going into the announcement-driven sell-off, and the manager used the one-day rebound to exit the market entirely.

Fund Review

The Batterymarch Pacific Equity Fund rose by 20.24% in the quarter, outperforming the MSCI Asia ex Japan index, which rose by 15.68%.

The Fund benefited from positive stock selection across the region, most notably in China, India, Singapore, Hong Kong and South Korea. Allocation decisions also added value, particularly the overweight in China, the best performing market in the period for the benchmark, up 35.6%, and the underweightd in South Korea and Thailand, among the region's weakest performers. With respect to sectors, the most significant contributors were within the financials and consumer discretionary sectors.

Performance Figure Source: S&P Micropal, NAV to NAV, gross income reinvested, and net of annual management charges.

Batterymarch Pacific Equity Fund

Outlook

The portfolio continues to find investment opportunities that respond to domestic growth drivers. Most of the risks seem to be external and related to consumer strength in the developed economies. The backdrop of undervalued currencies, strong foreign reserve positions, low or declining interest rates and rising domestic consumption provides a benevolent environment for corporate earnings. While concern remains about the ongoing strength of global growth, given monetary policy tightening, manufacturing and services sectors globally continue to shift to low-cost emerging economies, particularly China and India.

Batterymarch Financial Management, Inc.
January 2007

Important Information

Rolling 12 Month Performance to End of Last Quarter	31.12.05 31.12.06	31.12.04 31.12.05	31.12.03 31.12.04	31.12.02 31.12.03	31.12.01 31.12.02	5 Years	Since Launch*
MSCI AC Asia ex Japan	33.74%	23.17%	-	-	-	-	79.83%
Batterymarch Pacific Equity Fund	**33.21%**	**34.56%**	**-**	**-**	**-**	**-**	**77.58%**

*Launch 25.02.04

Commentary and sources for figures supplied by: Batterymarch Financial Management, Inc.
Performance figure source: S&P Micropal, NAV to NAV, gross income reinvested, and net of annual management charges.

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