

Legg Mason Income Optimiser Fund

This Final Short Report covers the year to 28 February 2014

Fund Facts

Fund Inception Date:	19 December 2011
Total Net Assets:	£81.3m
Income Payment Dates:	31 January, 30 April, 31 July & 31 October
OCF Class 'A' Inc:	1.48%
OCF Class 'B' Inc:	1.03%
OCF Class 'X' Inc:	0.86%
XD Dates:	28 February (final), 31 May, 31 August, 30 November

Investment Manager

The Fund's investment manager is Brandywine Global Investment Management, LLC which is authorised by the SEC. The principal business activity of Brandywine Global Investment Management, LLC is investment management.

Summary Investment Objective and Policy

The objective of this Fund is to maximise income yield in all market conditions over a rolling 3-5 year period with a secondary objective of capital preservation. The Fund seeks to achieve its objective by investing at least 70% of its net asset value in (i) government and corporate debt securities, convertible securities, mortgage backed securities, asset backed securities, common stock and preferred shares that are listed or traded on regulated markets; (ii) units or shares of collective investment schemes; and (iii) financial derivative instruments, such minimum percentage consisting solely of the assets set out at (i) above, or a combination of (i) and (ii), of (i) and (iii), or of (i), (ii) and (iii). The Fund will invest in a combination of investment grade and below investment grade bonds (as measured by Standard & Poor's, Moody's or an equivalent

external rating agency), preferred shares, convertible bonds, common stock, spot and forward foreign exchange contracts, credit default swaps, equity options and other financial derivative instruments. A minimum of 70% of the Fund's net asset value will be invested in securities or derivatives that are either denominated in Sterling or, if denominated in other currencies, are hedged to Sterling. No more than 10% of the Fund's net asset value may be invested in units or shares of collective investment schemes. The Fund may also invest in other transferable securities, money market instruments and deposits. When deemed appropriate by the Fund's investment manager, the Fund may hold synthetic short positions, on individual securities, indices, currencies and/or interest rates. The Fund seeks to achieve a target gross income yield of 8% per annum over a rolling 3-5 year period. Although the Fund seeks to maximise income yield in all market conditions with a secondary objective of capital preservation, neither of these objectives is guaranteed; the objectives may not be achieved; the Fund may experience negative returns and investors may not get back the amount originally invested.

Legg Mason Income Optimiser Fund Review

The Legg Mason Income Optimiser Fund increased by 2.48% in sterling terms over the period under review, while the IMA Sterling Strategic Bond sector recorded a gain in sterling terms of 4.76%. Over the period, the Fund's term structure was the key source of underperformance, although currency positioning also had a detrimental impact. Nonetheless, the Fund's yield curve and duration positioning were beneficial as was its quality biases.

At the end of the period, the Fund's distribution yield was 6.4%. The Fund's total duration was 3.41 years. The blended average rating of the Fund remains unchanged at BB-. The manager continues to hold a higher US dollar weight in the Fund at 5.9%; however, this has declined from a high of 18% in August 2013. Sterling exposure was 92.8% at the end of the period. The two largest currency shorts continue to be the yen (-2.9%) and euro (-3.3%). The Fund also held short positions in the New Zealand dollar and Canadian dollar of -2.0% and -1.7% respectively.

The manager continues to see attractive income opportunities in equity-like segments of the fixed income universe, such as single B or higher credits across Europe and the US. Inflation across the globe remains contained, which should provide a constructive backdrop for corporate credits. It has also noted opportunities in high real-yielding sovereigns and US non-agency mortgages, while continuing to make tactical adjustments to the Fund's hedges in duration, currencies and credit. The manager continues to take advantage of pricing anomalies in emerging market (EM) currencies such as the Philippine peso and Indonesian rupiah. Monetary conditions remain accommodative, and the manager anticipates a continued acceleration in growth from the UK and the US, while the longer-term normalisation of monetary actions should support sterling and the dollar. Looking further afield, the manager believes that real global growth should benefit from structurally declining commodity prices, given the emerging world's declining dependence on commodity-intensive growth strategies.

Major Holdings

Top 5 largest investments as at 28.02.14

Digicel Group 8.25% Private Placement 30/09/2020	2.92%
NGG Finance 5.625% Euro Non-Dollar 18/06/2073	2.55%
Mexican Bonos 8.5% Domestic 18/11/2038	2.55%
Italy Buoni Poliennali Del Tesoro 5%	
Euro-Zone 01/09/2040	2.26%
eircom Finance 9.25% Euro MTN 15/05/2020	2.08%

Top 5 largest investments as at 28.02.13

Turkey Government Bond 10% Domestic 10/04/2013	3.15%
Portugal Obrigacoes do Tesouro 4.95% Euro-Zone 25/10/2023	2.87%
EC Finance 9.75% Euro Non-Dollar 01/08/2017	2.47%
Mexican Bonos 7% Domestic 19/06/2014	2.44%
Arcos Dorados 10.25% Private Placement 13/07/2016	2.35%

Fund Performance

Share Class	Pence per share 28.02.14	Pence per share 28.02.13	Net Asset value % Change
Class 'A' (inc)	109.16	111.79	-2.35
Class 'B' (inc)	110.16	112.59	-2.16
Class 'X' (inc)	110.53	112.92	-2.12

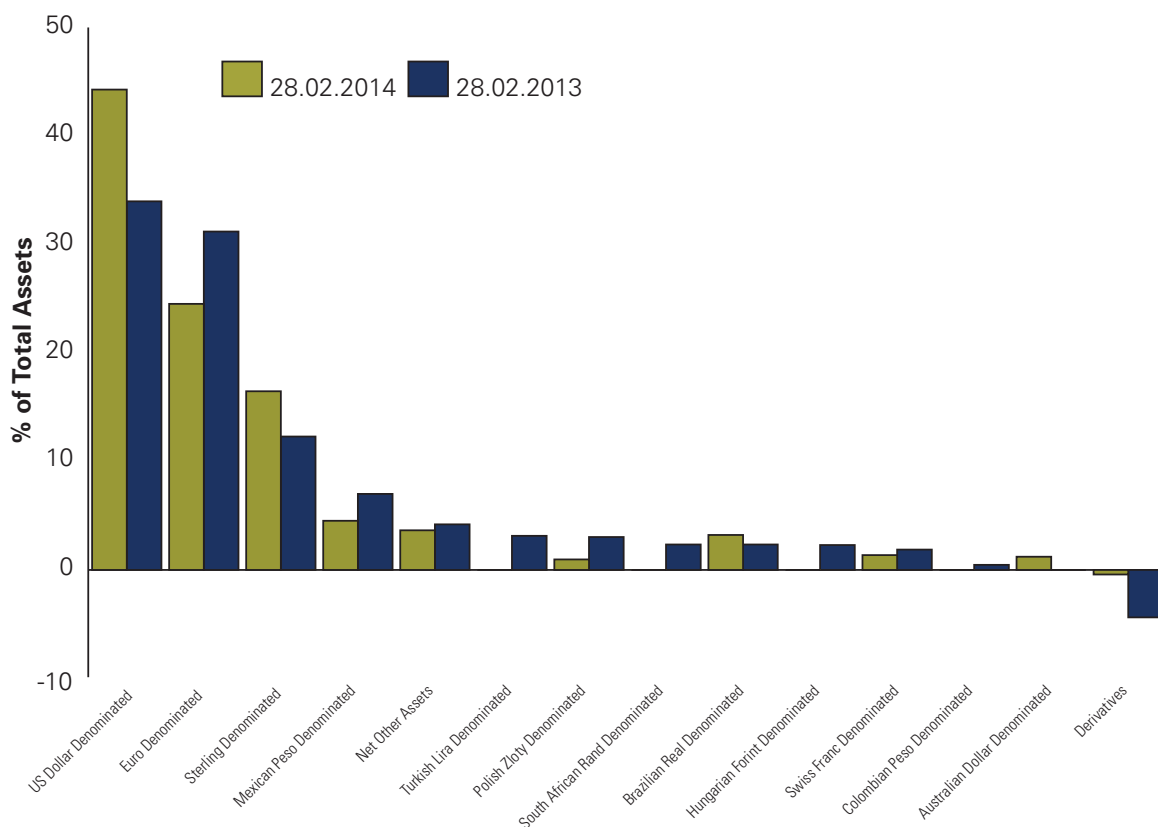
Performance History

	2014-2013	2013-2012	2012-2011	2011-2010	2010-2009	5 years	Since Launch
Class 'A' (inc)	2.48	11.46	–	–	–	–	22.68

Source for performance figures: Legg Mason. Performance is calculated on a NAV to NAV basis. The performance reflects all fees and charges payable by the fund but does not reflect any entry or exit charge that might be payable. For performance purposes only, any distributed income (with the deduction of UK income tax) has been reinvested.

Past performance is no guide to future returns and may not be repeated.

Legg Mason Income Optimiser Fund (continued)



Share Price Range and Net Income Distribution

Calendar Year	Net Income per share (pence)	Highest share price (pence)	Lowest share price (pence)
2011			
Class 'A' (inc) ³	0.0000	100.70	99.88
Class 'B' (inc) ³	0.0000	100.70	99.88
Class 'I' (inc) ^{3,4}	0.0000	100.70	99.88
2012			
Class 'A' (inc)	3.9052	112.00	100.70
Class 'B' (inc)	3.9912	112.00	100.70
Class 'X' (inc)	3.9141	112.40	100.70
2013			
Class 'A' (inc)	5.9840	115.10	107.80
Class 'B' (inc)	5.5944	115.90	108.60
Class 'X' (inc)	5.5326	116.10	108.90
2014			
Class 'A' (inc)	2.5904 ¹	110.90 ²	109.20 ²
Class 'B' (inc)	2.6728 ¹	111.90 ²	110.20 ²
Class 'X' (inc)	2.6791 ¹	112.30 ²	110.60 ²

¹ To 30 April 2014.

² To 28 February 2014.

³ Launched 19 December 2011.

⁴ From 1 December 2012 the I share class was redesignated as an X share class.

Legg Mason Income Optimiser Fund (continued)

Risk and Reward Profile



There is no guarantee that the Fund will remain in the indicator category shown above and the categorisation of the Fund may shift over time. Historical data, which is used in calculating the indicator, may not be a reliable indicator of the future risk profile of this Fund.

The lowest category does not mean a risk-free investment.

The Fund does not offer any capital guarantee or protection.

The Fund is in its risk/reward category because it invests in a diversified portfolio of bonds from various sectors and countries which have historically been subject to moderate fluctuations in value.

The Fund is subject to the following risks which are materially relevant but may not be adequately captured by the indicator:

Bonds: There is a risk that issuers of bonds held by the Fund may not be able to repay the bond or pay the interest due on it, leading to losses for the Fund.

Liquidity: In certain circumstances it may be difficult to sell the Fund's investments because there may not be enough demand for them in the markets, in which case the Fund may not be able to minimise a loss on such investments.

Low rated bonds: The Fund may invest in lower rated or unrated bonds of similar quality, which carry a higher degree of risk than higher rated bonds.

Emerging markets investment: The Fund may invest in the markets of countries which are smaller, less developed and regulated, and more volatile than the markets of more developed countries.

Asset-backed securities: The timing and size of the cash-flow from asset-backed securities is not fully assured and could result in loss for the Fund. These types of investments may also be difficult for the Fund to sell quickly.

Fund currency: Changes in exchange rates between the currencies of investments held by the Fund and the Fund's base currency may negatively affect the value of an investment and any income received from it.

Derivatives: Investment in derivatives may cause the Fund to lose as much as or more than the amount invested.

Hedging: The Fund may use derivatives to reduce the risk of movements in exchange rates between the currency of the investments held by the Fund and base currency of the Fund itself (hedging). However, hedging transactions can also expose the Fund to additional risks, such as the risk that the counterparty to the transaction may not be able to make its payments, which may result in loss to the Fund.

Interest rates: Changes in interest rates may negatively affect the value of the Fund.

Fund operations: The Fund is subject to the risk of loss resulting from inadequate or failed internal processes, people or systems or those of third parties such as those responsible for the custody of its assets.

Fund counterparties: The Fund may suffer losses if the parties that it trades with cannot meet their financial obligations.

Annual management charge from capital: The Fund's annual management charge is taken from its capital (rather than income). This may adversely affect the Fund's overall growth.

For further explanation on the risks associated with an investment in the Fund, please refer to the section entitled "Risk Factors" in the Prospectus.

Annual Report and Financial Statements

This report is to inform unitholders on the activities of the Fund during the reporting period, and the results of those activities at the end of the reporting period. For more information please contact the Authorised Corporate Director. Copies of the full Long Form Report and the Key Investor Information Document are available free of charge upon request from the Client Services Team on 0207 070 7444.

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