

Legg Mason US Smaller Companies Fund

This Final Short Report covers the year to 28 February 2014

Fund Facts

Fund Inception Date: 29 March 2004
Total Net Assets: £263.5m
Income Payments: 30 April
Dates:
OCF Class 'A' Acc: 1.76%
OCF Class 'A' Acc: 1.86%
hedged:
OCF Class 'B' Acc: 1.26%
OCF Class 'X' Acc: 1.01%
OCF Class 'X' Acc: 1.11%
hedged:
XD Dates: 28 February (final)
31 August

Investment Manager

Royce & Associates have used, for over 30 years, a value approach to managing small and micro-cap stocks in the US.

Through careful analysis of each company, Royce ensures that the price it pays for a security is significantly below their appraisal of its current worth.

Summary Investment Objective and Policy

The objective of this Fund is to achieve capital growth principally through investment in securities of smaller US companies. The Fund seeks to achieve its objective by investing principally in the securities of US smaller companies that possess excellent business strengths and/or prospects, high internal rates of return and low leverage, and whose securities are trading significantly below the investment adviser's estimate of their current worth. The Fund may also invest in other investments to the extent permitted by the Financial Conduct Authority Rules as applicable from time to time and as explained in the Prospectus.

Legg Mason US Smaller Companies Fund Review

The Legg Mason US Smaller Companies Fund rose 13.04% in sterling terms over the period under review while its benchmark, the Russell 2000 Index, rose in sterling terms by 19.17%. Both stock selection and sector allocation had a detrimental impact on relative returns over the period. Selection in information technology (IT) weighed most on performance, notably Rofin-Sinar Technologies and Silicon Graphics International. Stock picking within materials and industrials also hurt. Conversely, investments in the energy sector, such as Helmerich & Payne and Unit Corp, added value over the period. In terms of sector allocation, an underweight to healthcare, the best performing over the period, proved negative, although an underweight to struggling financials bolstered relative returns.

The manager continues to be increasingly optimistic about the outlook for the Fund. Recent US Federal Reserve tapering has seen a rotation in the market away from bond proxies, such as real investment trusts and utilities where the Fund has historically been underweight, and from highly leveraged, lower-quality companies that have been significant beneficiaries of quantitative easing in terms of their ability to refinance debt. This has been reflected in the Fund's improved performance recently.

From a quality standpoint, looking at return on invested capital (ROIC), one of the manager's key measure, the aggregate ROIC for companies in the Fund is higher than that for the Russell 2000 Index, yet in valuation terms, the forward price/earnings ratio (PE) for the Fund is lower than that of the index. This is exactly what the manager is striving for: a portfolio of higher-quality companies trading at a discount to the Russell 2000. As such, the manager is happy with the existing portfolio of stocks within the Fund.

Major Holdings

Top 5 largest investments as at 28.02.14

Unit	3.44%
Helmerich & Payne	3.33%
Jacobs Engineering	2.81%
Federated Investors	2.71%
MKS Instruments	2.12%

Top 5 largest investments as at 28.02.13

Reliance Steel & Aluminum	2.86%
Helmerich & Payne	2.79%
Federated Investors	2.60%
Oil States International	2.53%
Jacobs Engineering	2.45%

Fund Performance

Share Class	Pence per share 28.02.14	Pence per share 28.02.13	Net Asset value % Change
Class 'A' (acc)	250.44	221.42	13.11
Class 'A' (acc) hedged	129.57	104.17	24.38
Class 'B' (acc)	263.15	231.52	13.66
Class 'X' (acc)	128.39	112.72	13.90
Class 'X' (acc) hedged ⁵	121.03	—	—

⁵ Launched 21 June 2013.

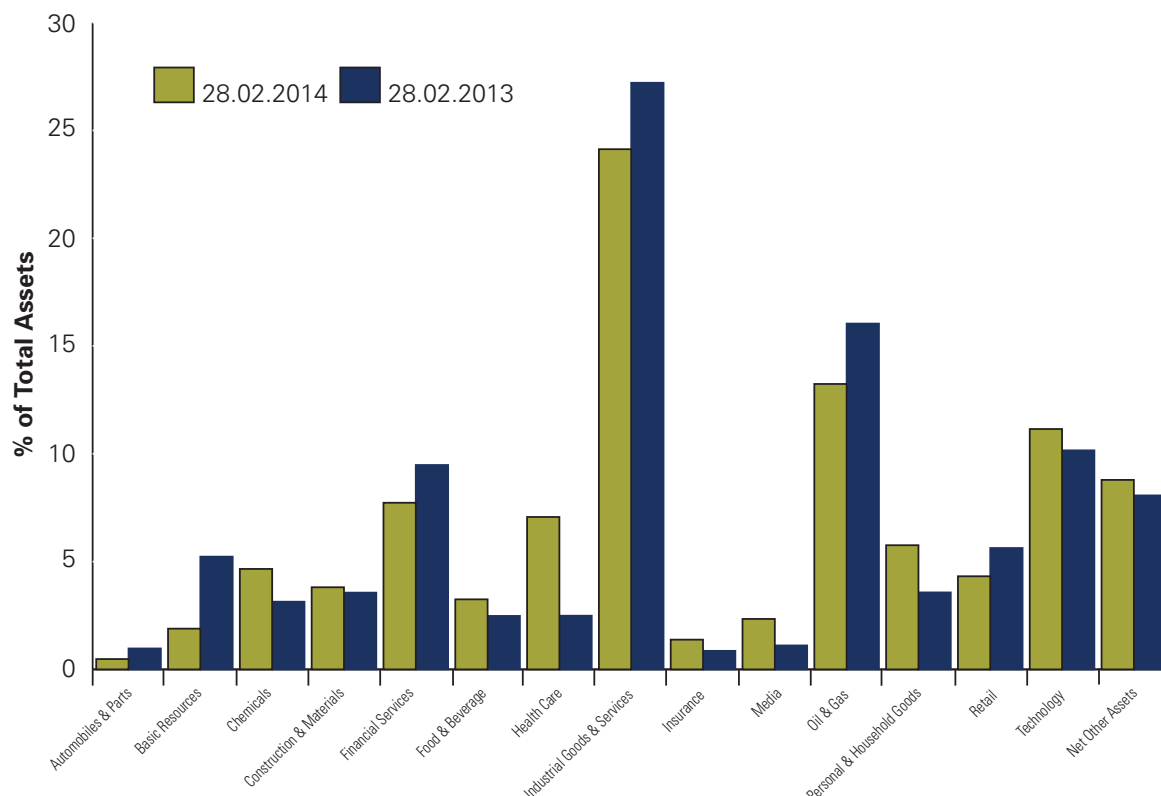
Performance History

	2014-2013	2013-2012	2012-2011	2011-2010	2010-2009	5 years	Since Launch
Class 'A' (acc)	13.04	5.82	1.55	24.35	47.73	123.15	150.60

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 US Smaller Companies Fund (continued)



Share Price Range and Net Income Distribution

Calendar Year	Net Income per share (pence)	Highest share price (pence)	Lowest share price (pence)
2009			
Class 'A' (acc)	0.0000	161.90	103.40
Class 'B' (acc)	0.0000	166.70	105.90
2010			
Class 'A' (acc)	0.0000	204.80	151.40
Class 'B' (acc)	0.0000	211.80	155.90
2011			
Class 'A' (acc)	0.0000	216.60	160.60
Class 'B' (acc)	0.0000	224.70	166.70
2012			
Class 'A' (acc)	0.0000	212.10	180.50
Class 'A' (acc) hedged ³	0.0000	103.50	87.17
Class 'B' (acc)	0.0000	220.70	188.10
Class 'X' (acc) ⁴	0.0000	102.80	99.92
2013			
Class 'A' (acc)	0.0000	249.80	200.80
Class 'A' (acc) hedged	0.0000	127.50	100.20
Class 'B' (acc)	0.1178	262.30	209.70
Class 'X' (acc)	0.2913	127.90	102.10
Class 'X' (acc) hedged ⁵	0.0000	118.50	96.68
2014			
Class 'A' (acc)	0.0000 ¹	253.50 ²	237.20 ²
Class 'A' (acc) hedged	0.0000 ¹	129.70 ²	120.20 ²
Class 'B' (acc)	0.0000 ¹	266.30 ²	249.20 ²
Class 'X' (acc)	0.0000 ¹	129.90 ²	121.50 ²
Class 'X' (acc) hedged	0.1774 ¹	121.10 ²	112.20 ²

¹ To 30 April 2014.

² To 28 February 2014.

³ Launched 27 January 2012.

⁴ Launched 6 December 2012.

⁵ Launched 21 June 2013.

Legg Mason US Smaller Companies 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 shares of companies from various sectors which have historically been subject to large fluctuations in value. These fluctuations are also due to the fact the Fund primarily invests in small cap companies.

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

Investment in company shares: The Fund invests in shares of companies, and the value of these shares can be negatively affected by changes in the company, its industry or the economy in which it operates.

Geographical location: This Fund invests primarily in the United States, which means that it is more sensitive to local economic, market, political or regulatory events in the United States, and will be more affected by these events than other Funds that invest in a broader range of regions.

Investment in smaller company shares: The Fund buys shares in smaller companies. It may be difficult to sell these shares, in which case the Fund may not be able to minimise a loss on such shares.

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.

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.

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.

Authorised Corporate Director:

Legg Mason Investment Funds Limited
201 Bishopsgate
London
EC2M 3AB

Investment Manager:

Royce & Associates, LLC
745 5th Avenue
Suite 2400
New York NY10151
USA

Depository:

State Street Trustees Limited
525 Ferry Road
Edinburgh
EH5 2AW

Auditors:

PricewaterhouseCoopers
7 More London Riverside
London
SE1 2RT

