

## Legg Mason Japan Equity Fund

This Final Short Report covers the year to 28 February 2014

### Fund Facts

Fund Inception Date:	22 October 1996
Total Net Assets:	£247.5m
Income Payments Dates:	30 April
OCF Class 'A' Acc:	1.94%
OCF Class 'B' Acc:	1.24%
OCF Class 'X' Acc:	1.19%
OCF Class 'X' Acc:	1.28%
JPY hedged:	
XD Dates:	28 February (final) 31 August

### Investment Manager

Shiozumi Investments provides highly specialised expertise in the management of Japanese equities, seeking to exploit structural changes in Japan.

The focus of the investment process is to identify high growth companies by looking at companies with annual earnings growth in excess of 20% but which are attractively valued in the opinion of the investment manager.

### Summary Investment Objective and Policy

The objective of the Fund is to achieve capital growth through investment in securities of Japanese companies. The Fund seeks to achieve its objective by investing principally in the securities of Japanese companies, which have above average growth prospects relative to the shares of Japanese companies as a whole. 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 Japan Equity Fund Review

**The Legg Mason Japan Equity Fund increased by 29.53% in sterling terms during the period under review, while its benchmark, the Japan TSE First Section (Topix) Index, rose in sterling terms by 3.65%.** In terms of its investment strategy, the manager's focus during the period continued to be on smaller companies that should benefit from what it considers to be three very relevant investment themes in Japan: its advanced elderly society; changes in consumer lifestyles; and a broadening Internet-orientated economy. Consequently, the portfolio remained heavily weighted in the services sector, retail companies, and information- and communications-related stocks. The manager expects domestic-orientated growth companies of smaller size in these sectors to be less affected by currency movements and the prevailing global economic conditions.

Consequently, the manager continues to view the correct positioning for the portfolio as investing in companies within the new growth sectors or the main beneficiaries of what it calls the "New Japan" rather than those export-led manufacturing companies of the "Old Economy". The latter, the manager believes, face difficult business environments in view of the eurozone debt crisis, global economic slowdown and strengthening of the yen.

The manager believes that Japan is in the second year of its long-term bull market, which should last at least for a total of four years or until the "third arrow" of Abenomics comes to fruition. Since the start of this year, the Japanese stock market has been discounting an economic slowdown in the April-June quarter but has paid little attention to a strong recovery expected during the second half of the year. Investors usually turn bearish whenever the market enters a correction phase. In the manager's opinion, the current correction offers excellent buy opportunities for Japanese shares in the medium and long term. Investor confidence is expected to return when Prime Minister Abe unveils his new strategies for growth in June.

### Major Holdings

#### Top 5 largest investments as at 28.02.14

Nihon M&A Center	7.79%
M3	6.42%
F@N Communications	5.57%
Don Quijote	4.71%
MonotaRO	4.17%

#### Top 5 largest investments as at 28.02.13

MonotaRO	8.46%
Nihon M&A Center	6.98%
Don Quijote	5.18%
Ship Healthcare	4.88%
Kakaku.com	4.82%

### Fund Performance

Share Class	Pence per share 28.02.14	Pence per share 28.02.13	Net Asset value % Change
Class 'A' (acc)	245.50	189.53	29.53
Class 'B' (acc)	261.33	200.36	30.43
Class 'X' (acc)	157.57	120.77	30.47
Class 'X' (acc) JPY hedged <sup>4</sup>	149.43	—	—

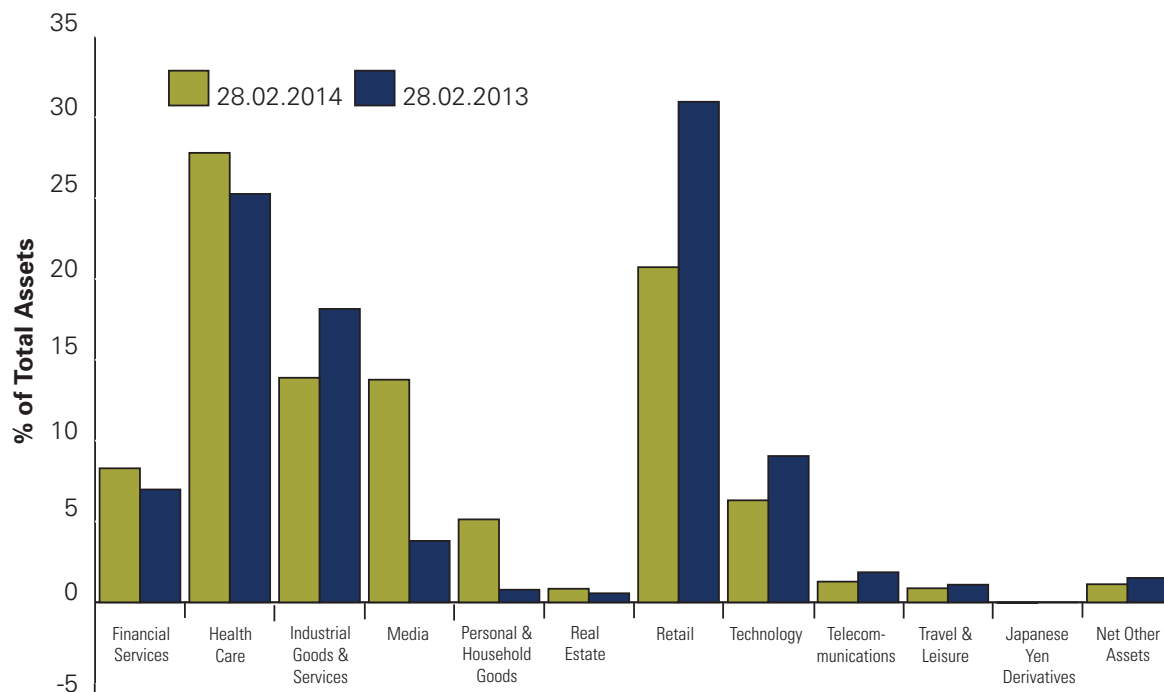
### Performance History

	2014-2013	2013-2012	2012-2011	2011-2010	2010-2009	5 years	Since Launch
Class 'A' (acc)	29.53	50.08	3.52	21.21	15.88	182.65	147.65

**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 Japan Equity Fund (continued)



### Share Price Range and Net Income Distribution

Calendar Year	Net Income per share (pence)	Highest share price (pence)	Lowest share price (pence)
<b>2009</b>			
Class 'A' (acc)	0.0000	108.20	79.82
Class 'B' (acc)	0.0000	111.70	82.15
<b>2010</b>			
Class 'A' (acc)	0.0000	111.50	88.93
Class 'B' (acc)	0.0000	116.10	92.53
<b>2011</b>			
Class 'A' (acc)	0.0000	149.90	91.77
Class 'B' (acc)	0.0050	157.00	95.72
<b>2012</b>			
Class 'A' (acc)	0.0000	161.50	121.10
Class 'B' (acc)	0.0000	170.40	127.20
Class 'X' (acc) <sup>3</sup>	0.0000	99.85	97.40
<b>2013</b>			
Class 'A' (acc)	0.0000	287.10	150.70
Class 'B' (acc)	0.2907	303.90	159.10
Class 'X' (acc)	0.0000	183.10	95.88
Class 'X' (acc) JPY hedged <sup>4</sup>	0.0000	160.20	100.00
<b>2014</b>			
Class 'A' (acc)	0.0000 <sup>1</sup>	269.20 <sup>2</sup>	238.70 <sup>2</sup>
Class 'B' (acc)	0.0000 <sup>1</sup>	286.30 <sup>2</sup>	254.00 <sup>2</sup>
Class 'X' (acc)	0.0000 <sup>1</sup>	172.60 <sup>2</sup>	153.10 <sup>2</sup>
Class 'X' (acc) JPY hedged	0.0000 <sup>1</sup>	166.60 <sup>2</sup>	141.40 <sup>2</sup>

<sup>1</sup> To 30 April 2014.

<sup>2</sup> To 28 February 2014.

<sup>3</sup> Launched 19 December 2012.

<sup>4</sup> Launched 3 March 2013.

## Legg Mason Japan Equity 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 that the Fund holds fewer investments than many other Funds. 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:

**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.

**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 Japan, which means that it is more sensitive to local economic, market, political or regulatory events in Japan, 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.

**Concentrated Fund:** The Fund invests in fewer companies than other Funds which invest in shares usually do. This means that the Fund does not spread its risk as widely as other Funds and will therefore be affected more if an individual company has significant losses.

**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:

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