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**Legg Mason affiliate Royce & Associates remains bullish on materials**

**Singapore – 31, May 2011** - Despite the recent large sell off in commodities, Lauren Romeo, lead manager on the Legg Mason Royce Smaller Companies Fund, remains bullish on the long-term prospects for precious metals.

While the price of gold recently surpassed the US\$1500 mark and silver hit a 31-year high, both fell back in the aftermath of a large oil sell off caused by weak economic data out of America and Germany and this volatility is expected to continue.

Romeo, who runs the US\$498.33m\* Dublin-domiciled Legg Mason Royce Smaller Companies Fund, has been a long-term holder of the asset class and maintains the case for holding it.

“It is never surprising to see that after the steep rise that we’ve had in gold and silver prices to see some sort of consolidation of those gains, or a pullback,” she says.

The materials sector is the third largest sector weight in the portfolio at present, representing about 15% of assets under management and of this about 800 basis points is held in precious metals. Romeo says this initial weighting was based on the favourable supply/demand characteristics caused by under investment in the sector earlier this decade, when gold and silver prices were considerably lower than they are today.

“This situation has not changed,” Romeo says. “We are still in the supply deficit while at the same time the developing economies have come to the forefront in driving global growth and they have an unending appetite for natural resources which the precious metals have benefited from.”

Romeo continues: “Since America embarked on its second round of quantitative easing (QE2) we have also seen an increasing rotation into this sector by investors who are concerned about the inflationary, monetary stimulus policies. Investors, not just in America but other countries, are seeking shelter from potential future inflation by buying hard assets such as silver and gold.”

Meanwhile, despite the recent rises in the prices of gold and silver, Romeo says many of the stocks have not rallied nearly as much, in part due to company-specific issues such as political uncertainty in certain countries where the precious metals are being mined.

“Investors have opted to purchase gold ETFs as a pure play on the asset class,” Romeo says. “Also, doing the research on specific precious metals companies is labour intensive. This “neglect” creates the opportunity for us to buy proven precious metal mine operators with visible production growth at prices that are incorporating a much lower gold or silver price.

Romeo also notes that merger and acquisition activity in the sector has been rising, with 2010 among the most active ever in terms of number and dollar value of deals. She says this trend continued into the first sector, with a “bidding war” taking place for a couple of companies.

“That’s not why we own them, but it’s certainly an upside benefit that we are not paying for at this point,” says the manager.

The Legg Mason Royce US Smaller Companies Fund invests in a concentrated portfolio of about 100 high quality stocks that are trading at attractive valuations with market caps ranging from US\$500m to US\$5bn. The fund is predominantly invested in US equities, although it can invest up to 10% of its assets in overseas equities.

Quality is measured by those companies with strong balance sheets and cash flow, and a history of high returns on invested capital.

The Legg Mason Royce US Smaller Companies fund launched in 2004. It has delivered an annualised return of 99.38% since inception\*\*. YTD the fund has returned 9.93% vs its benchmark, the Russell 2000 of 7.94%\*\*\*.

- Ends -

\*As of 30 April 2011

\*\*Inception date: 03.03.2004

\*\*\*As of 31<sup>st</sup> March 2011 – Source for performance figures Legg Mason. NAV to NAV, with gross income reinvested without initial charges but reflecting annual management fees.

**Notes to editors**

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Royce & Associates is a wholly owned affiliate of Legg Mason, Inc. entirely focused on the US Small Cap market. President and Co-Chief Investment Officer, Charles M. Royce, one of the pioneers of small-cap investing, began to run the firm in 1972.

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