

The Fund Manager of the Decade Finalists

Fund Spy | 11-19-09 | by Karen Dolan

Remember the Prince song: “We’re gonna party like it’s 1999”? Well, securities markets did back then, and 10 years later we’re still suffering from the hangover.

Bond funds were a bright spot over the past 10 years, but it was a brutal time for equity investors. Not one, but two severe bear markets lasting roughly two years each decimated investment accounts. As we near the decade’s end, broad equity market indexes show flat to negative returns for the entire 10-year stretch.

Stringing together a good record in that environment was a challenge as markets flip-flopped between rewarding and punishing excessive risk-taking. Of all domestic-equity funds, for example, barely a third have positive 10-year returns. The rest haven’t been around that long or lost money. The managers listed below, however, excelled in this difficult environment by relying on their own blend of original research, making capital preservation a priority and sticking with their approaches in good times and bad.

The Award

The Manager of the Decade award is not just about returns. We consider the risks assumed to achieve those results and take into account the strength of the manager, strategy, and firm’s stewardship. We also think it’s a greater feat to make a lot of money for a lot of people than to earn sky-high returns on a tiny pool of assets, so asset size factors in. Our team of fund analysts is spending much of November and December researching the nominees and debating the merits of each for this award.

We’ve narrowed the field to five nominees for each award: domestic, foreign, and fixed income. We should point out, however, this is not a list of names for the next decade. Though we wouldn’t be surprised to see these managers continue to shine, this award is specifically focused on 2000-09.

Though we previously indicated we would announce the winners in early December, we’re going to wait until the decade comes to a close before making a final decision. We’ll announce the winners on Morningstar.com in mid-January soon after we release the winners of the Fund Managers of Year for 2009.

Manager	Name	Assets (\$ Bil)	Annualized Return 1/1/00 - 11/16/09	Morningstar Rating
Domestic:				
Bruce Berkowitz	Fairholme (FAIRX)	10.0	13.02	5
Charlie Dreifus	Royce Special Equity Invmt (RYSEX)	1.0	11.98	5
Don Yacktman	Yacktman (YACKX)	1.1	11.97	5
Joel Tillinghast	Fidelity Low-Priced Stock (FLPSX)	25.5	11.05	4
Steve Romick	FPA Crescent (FPACX)	2.3	10.75	5
Wilshire 5000 Total Mkt		-0.39		
Foreign:				
Jean-Marie Eveillard	First Eagle Global A (SGENX)	19.1	12.50	4
David Herro	Oakmark Intl Small Cap I (OAKEX)	0.8	10.49	3
	Oakmark International I (OAKIX)	4.2	8.34	5
Dennis Stattman	BlackRock Global Allocation (MDLOX)	33.1	8.75	4
The Team	Manning & Napier World Opp (EXWAX)	4.2	8.61	5
The Team	American Funds EuroPacific Gr (AEPGX)	93.7	3.96	4
MSCI EAFE		-0.88		
Fixed Income:				
Dan Fuss	Loomis Sayles Bond Retail (LSBRX)	18.4	8.63	3
Jeffrey Gundlach	TCW Total Return Bond I (TGLMX)	11.2	7.97	5
Bill Gross	PIMCO Total Return (PTTRX)	192.6	7.79	5
The Team	Dodge & Cox Income (DODIX)	18.5	6.85	4
Christine Thompson	Fidelity Municipal Income (FHIGX)	5.5	5.68	5
	Fidelity Advisor Municipal Inc (FAMUX)	1.1	5.44	3
BarCap US Aggregate Bond		6.52		

Domestic

Charlie Dreifus runs a strategy inspired by the Ben Graham school of value investing, and isn’t afraid to park money in cash when good values are scarce. Dreifus, who hunts for small-cap companies, got ahead this decade by avoiding big losses with his laserlike focus on balance sheets and valuations. Dreifus is prone to dry spells relative to his peers, but patience with his strategy has paid off.

Karen Dolan is director of fund analysis with Morningstar.

**The Fund Manager of the Decade Finalists
As featured in Morningstar 11/19/09**

**Performance of Royce Special Equity Fund Investment Class (RYSEX)
Average Annual Total Returns (%) and Expense Ratios (%) as of 12/31/09**

	4thQ09*	Yr-to-date*	One-Year	Three-Year	Five-Year	Ten-Year	Since Inception	Operating Expenses
RYSEX	4.12	28.38	28.38	2.63	4.06	12.02	8.60	1.15
Russell 2000	3.87	27.17	27.17	-6.07	0.51	3.51	3.55	-

*Not annualized.

All performance information reflects past performance, is presented on a total return basis and reflects the reinvestment of distributions. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, so that shares may be worth more or less than their original cost when redeemed. Shares redeemed within 180 days of purchase may be subject to a 1% redemption fee payable to the Fund. Current performance may be higher or lower than performance quoted. For performance data current to the most recent month end, please see our Web site at www.leggmason.com/individualinvestors. Operating expenses reflect the Fund's total annual operating expenses for the Investment Class as of the date of the Fund's most current prospectus and include management fees and other expenses. All performance and risk information for RYSEX reflects Investment Class results. Shares of RSE's Service and Consultant Classes bear an annual distribution expense that is not borne by the Investment Class.

The Fund invests primarily in small- and micro-cap stocks which may involve considerably more risk than investing in larger-cap stocks (Please see "Primary Risks for Fund Investors" in the prospectus). As of 12/31/09, the Fund held a limited number of stocks, which may involve considerably more risk than a less concentrated portfolio because a decline in the value of any one of these stocks would cause the Fund's overall value to decline to a greater degree.

Investment Class shares of the Fund rated based on risk-adjusted returns among 566 funds in the Small Blend category as of December 31, 2009. The Overall Morningstar Rating for the Fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics.

An investor should consider a fund's investment objectives, risks, charges and expenses carefully before investing. For a free prospectus, which contains this and other information on any Legg Mason fund, visit www.leggmason.com/individualinvestors. An investor should read the prospectus carefully before investing.

The information in the enclosed reprint was compiled and drafted by Morningstar as of 11/19/09. Views expressed are not intended to be a forecast of future events, a guarantee of future results or investment advice. Predictions are inherently limited and should not be relied upon as an indication of actual or future performance. As a result, Legg Mason cannot guarantee the accuracy or completeness of any statements set forth in the enclosed reprint. This material is being used as an advertisement for Royce Special Equity Fund. All information was current at the time of this publication and is subject to change without notice. This reprint should not be deemed as an offer to sell or a solicitation to buy the securities mentioned in this article reprint.

All Fund statistics below are as of 12/31/09 (unless otherwise noted) and are subject to change.

Top ten holdings: National Presto Industries 4.5%, Hubbell Cl. B 2.6%, Bio-Rad Laboratories Cl. A 2.5%, Lancaster Colony 2.5%, Lubrizol Corporation (The) 2.4%, Park Electrochemical 2.3%, Gymboree Corporation 1.9%, Clearwater paper 1.9%, Foster (L.B.) Company Cl. A 1.8%, Thomas & Betts 1.8%. The holdings do not include the Fund's entire investment portfolio and may change at any time. The information provided is intended solely to describe the Fund manager's management style, investment strategies and securities selection process, and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive it. Investors seeking financial advice regarding the appropriateness of investing in any security or investment strategies discussed should consult their financial advisor.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. An investor cannot invest directly in an index.

Morningstar proprietary ratings are as of December 31, 2009 and are subject to change every month. A 4- or 5-star rating does not necessarily imply that a fund achieved positive results for the period. Past performance is no guarantee of future results. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its 3-, 5- and 10-year (if applicable) Morningstar Rating metrics. Investment Class shares of the Fund were rated against 566, 467, and 243 funds over the 3-, 5- and 10-year periods, respectively. With respect to these funds, Investment Class shares of the Fund received Morningstar Ratings of 5, 5, and 5 for the 3-, 5- and 10-year periods, respectively. Ratings are for Investment Class shares only; other classes may have different performance characteristics. Classes have a common portfolio.

Legg Mason Investor Services, LLC, Royce & Associates and Royce Fund Services, Inc. are subsidiaries of Legg Mason, Inc. Materials distributed by Legg Mason Investor Services, LLC; Funds distributed by Royce Fund Services, Inc.

© 2010 Legg Mason Investor Services, LLC and Royce Fund Services, Inc., Member FINRA, SIPC.

ROYX012157 2/10 FN0911956