LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Brandywine Global Fixed Income Trust

Objective

The Trust aims to earn a before fees and taxes return of 2% p.a. in excess of the benchmark over a complete market cycle of three to five years.

Benchmark

Citigroup World Government Bond Index, hedged into Australian dollars.

Value

$85,897,229.

Performance (after fees, before taxes)

	Trust %	Benchmark %
3 months	-0.42	-1.09
1 year	4.05	2.16
2 years	14.17	5.87

Past performance is no indication of future performance.

Profile

Portfolio Characteristics	
Average modified duration (years)	7.6
Average credit quality (Standard & Poor's)	AA-

Sector Allocations	%
Government sovereign	56.1
Government regional agencies	9.0
Municipal bonds	2.8
Corporate bonds	13.6
Mortgage backed securities	6.1
Cash and currency	12.4

Market Review

Developed Global Bond Markets

Global bonds performed poorly during the December quarter of 2010 as fears of a double-dip recession in the U.S. abated and global economic activity surprised to the upside.

Also pressuring yields higher was renewed contagion in peripheral European Monetary Union bond markets – particularly in Italy, Ireland and Spain. Thanks to this contagion, the European bond market was the worst performed region.

In the United States, stronger growth and rising risk appetite limited bond flows as investors sought out higher yielding assets.

Although Japanese bonds declined, they performed relatively well due to still slow growth and outright deflation, which attracted investors to the market despite their very low nominal yields.

Currencies

The Australian dollar was strong during the quarter. The only major currency to appreciate relative to the Australian dollar was the New Zealand dollar (up 0.4%).

Although the Swiss franc (down 0.7%) declined, it performed relatively well and it appears that money is flowing out of various parts of European Monetary Union (priced in euros) and into Swiss banks (after being converted to franc), thus pressuring the franc higher, particularly against the euro.

Problems plaguing the eurozone weighed on other European currencies along with the euro (down 7.2%). The Norwegian krone (down 4.6%), Swedish krona (down 5.1%), British pound (down 6.1%) and Danish krone (down 7.2%) all depreciated.

The U.S. dollar (down 5.5%) weakened during the quarter as the U.S. Federal Reserve maintained an extremely accommodative monetary stance.

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Corporate and Mortgage Backed Securities

U.S. investment-grade corporate bond spreads narrowed.

Corporate yields, however, followed sovereign debt yields higher, which detracted from portfolio performance.

However, yield compression, combined with healthy principal pay-downs and coupon payments on the portfolio's non-agency mortgage securities, contributed positively to performance.

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