LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Global Value Equity Trust

Objective

The Trust aims to earn a before fees and taxes return of at least 3% p.a. in excess of its benchmark over rolling three to five year periods.

Benchmark

MSCI World (ex Australia) Index, expressed in Australian dollars.

Value

$60,385,496.

Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	4.12	2.88
1 year	-3.37	-2.04

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %
Europe (ex U.K.)	22.1
U.K.	7.8
Japan	12.1
Asia ex-Japan	1.4
North America	52.8
Other	3.8

Market Review

Despite a year of significant volatility, global equities delivered solid returns during the December quarter, bolstered by continued optimism about economic recovery across the world. Notably, stocks were positioned to begin the New Year with something rare – momentum. Some observers are concerned about investor sentiment, which has been uncomfortably optimistic as 2010 drew to a close and is only matched by the opinions of many strategists, who are also anticipating strong returns.

The bullish sentiment has been built on strength in the industrial economy, surging emerging markets, companies flush with cash and profits poised to rise, and the underlying foundation of central banks that have provided ample support in terms of liquidity.

The U.S. equity market has performed well, logging its second straight year of gains following a significant drawdown in 2008. As the year ended, investors were able to embrace both central bank support and rising stock prices.

Optimism notwithstanding, a wall of worry hung over the markets and included issues such as Europe's sovereign debt woes, unemployment concerns in the U.S. and inflation in China and other emerging markets.

Despite these concerns, global stock markets dodged myriad worries to rack up solid returns across varied asset classes and geographies. The hope for 2011 is for an improving economy characterized by low interest rates, strong corporate balance sheets and low equity valuations.

Performance

The Legg Mason Global Value Equity Trust outperformed its benchmark by 1.3% over the quarter.

Underlying stock selection generated positive performance during the quarter, which benefited the portfolio. In particular, the portfolio was rewarded by its exposure to undervalued stocks with low expectations, particularly in the U.S.

Our discipline of buying and holding attractively valued assets and waiting for the market to revalue the assets has been handsomely rewarded over the past few months. This was particularly son the Health Care and Materials sectors.

Despite solid returns for stocks, given relatively high valuations and expectations for earnings, we would anticipate modest returns in the equity markets in early 2011. We believe that progress has been made in acknowledging the sovereign debt problem as well as many of the remaining issues left from the global financial crisis, but by shifting debt from the private sector to the public sector, the underlying problem remains: too much leverage and not enough capital.

Issued and approved by Legg Mason Asset Management Australia Limited, ABN 76 004 835 849, AFSL No. 240827. Level 47, 120 Collins Street, Melbourne VIC 3000.

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Outlook

Earnings continue to be strong for many companies, with a key factor being the control of costs, which is not sustainable from our perspective, as signs that the corporate sector has exhausted the exploitation of operating leverage versus labour cost become evident. We remain concerned about forward earnings estimates, which appear to us to be very aggressive based on our bottom up assessments and the dubious sustainability of higher earnings assumptions. We are also concerned about excess capacity in many industries as well as operating rates that are relatively low. Our view is that despite current media hype, the underlying global economy is still fragile and lacks the dynamism that would signal sustained growth in 2011.

Current adjusted price-to-earnings ratios imply modest long-term returns going forward and in combination with record high earnings expectations, represent some downside risk. Accordingly, in times of volatility, both on the upside and the downside, prudent active management can be very beneficial in navigating global equity markets. Our analysts are focused on the fundamentals – margins, valuations, and earnings – leveraging our contrarian investment discipline with a bias toward high quality, defensive companies at this point in the market cycle. Resilience continues to be a main theme that characterises the portfolio. We believe we have extracted significant returns from cyclical stocks and stocks with mis-priced growth characteristics in late 2010. As we position the portfolio for the future, we are inclined to expand our investment in large capitalisation, high quality, non-cyclical companies that meet our investment criteria. For individual stocks in our investment universe, we believe that the market has ignored fundamental factors. This opportunity allows our investment team to carefully evaluate specific securities from the investment universe that reflect the most favourable valuations and earnings prospects – with a focus on seeking to deliver outperformance for our clients' portfolios.

Further Information

Sector Allocations	Trust %
Energy	13.0
Materials	8.8
Industrials	12.8
Consumer Discretionary	9.1
Consumer Staples	7.0
Health Care	16.4
Financials	18.6
Information Technology	8.6
Telecommunication Services	3.7
Utilities	0.0
Cash	2.0
Not classified by GICS	

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