LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Global Equity Trust

Objective

The Trust aims to earn a before fees and taxes return of 2.5% p.a. in excess of its benchmark over rolling three year periods.

Benchmark

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

Value

$42,263,072.

Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	3.67	2.88
1 year	-0.56	-2.04
3 years p.a.	-11.21	-9.82
5 years p.a.	-5.66	-4.45

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %	Benchmark %
Europe (ex U.K.)	22.2	20.2
U.K.	10.9	10.2
Japan	9.1	10.6
Asia ex-Japan	1.6	2.3
North America	55.1	56.7
Cash	1.1	-

Market Review

While global equity markets rose during the December quarter, investor sentiment was not uniformly optimistic. However, during the last weeks of the year, markets responded positively to continued government intervention, both in Europe, where the European Union hammered out a bailout for Ireland, and in the U.S., where the U.S. Federal Reserve extended its quantitative easing policy and Congress approved both a continuation of tax cuts and an extension of unemployment benefits. While housing markets remain fragile and employment gains have been disappointing, global merger and acquisition activity is increasing.

The U.S. outperformed on evidence of corporate stability and confidence. While Energy and Materials enjoyed strong returns amid global growth, the Banks sector benefited from the Federal Reserve action and made strong gains after underperforming for much of the year. For the quarter, Health Care and Utilities had the weakest results, as U.S. domestic focused stocks tended to fare less well than those with exposure to foreign sales.

The U.K. market eked out a gain for the quarter but underperformed the index. The Materials sector, which contains global commodity giants such a BHP Billiton and Rio Tinto, was the best performed sector by far. While economic data has been disappointing and the deficit remains high, financial markets are recovering in the U.K.; the Banks sector, with significant exposure to Ireland's debt, was the weakest for the quarter.

Continental Europe managed a positive return for the quarter despite poor performance in its largest sector, Banks, which is also exposed to Irish debt. Sectors in positive territory included Materials, Industrials, Energy and Consumer Discretionary, as the region's multinationals benefited from a weak euro and strong corporate profits. In addition, in a number of the region's markets the employment picture is improving.

Japan had the best regional performance during the December quarter, with strong corporate earnings as exporters benefited from surging emerging markets demand. The equity market should also benefit from the political landscape; after surviving a challenge to his leadership from his own party, the Prime Minister returned with a pro-business agenda, including significant corporate tax cuts.

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Performance

The Legg Mason Global Equity Trust outperformed its benchmark by 0.8% over the quarter. Performance over the past year was 1.5% ahead of benchmark.

During the quarter, stock selection decisions benefited the portfolio in continental Europe, Canada, the U.K., Japan and Asia ex-Japan. These results were partly offset by choices in the U.S., notably in the Materials, Energy and Financials ex-Banks sectors.

The impact of region/sector allocations detracted from performance. This was largely due to an underweight in the Materials sector in Canada.

At quarter end, the portfolio was broadly diversified across regions and sectors. The portfolio was most overweight the U.K. and most underweight in Japan; across sectors, the largest overweight was Materials and the largest underweight was Banks.

Outlook

Government intervention late in the year staved off worries about the potential for a double-dip recession, at least in the short term. In addition, labour markets have shown gradual, if bumpy, improvement, industrial production is up in many markets and both business and consumer confidence has improved. Despite these positive economic indicators, the key unknown remains whether global economies will be robust enough to stay afloat as stimulus plans end. In addition, sovereign debt issues will periodically continue to beleaguer Europe over the next several years, and commodity demand, particularly in emerging markets, makes inflation a concern.

Notwithstanding the recent rally, we are seeing that risk levels have moderated, valuations for many stocks remain compelling and the investment environment continues to be more conducive to bottom-up stock selection. Our stock selection model continues to be positioned for a modest, slow global recovery, with a tilt toward historic growth. Portfolio exposures to the benchmark remain moderate.

Further Information

Sector Allocations	Trust %
Energy	10.9
Materials	8.2
Industrials	11.1
Consumer Discretionary	10.2
Consumer Staples	8.8
Health Care	9.7
Financials	17.1
Information Technology	13.0
Telecommunication Services	5.7
Utilities	4.3
Cash	1.0

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