LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Emerging Market Trust

Objective

To earn a before fees and taxes return of 3% p.a. in excess of its benchmark over a complete market cycle of three to five years.

Benchmark

MSCI Emerging Markets Index, expressed in Australian dollars.

Value

$107,646,805

Performance (before fees and taxes)

	Trust %	Benchmark %
1 month	-4.99	-3.61
3 months	-7.64	-5.88
1 year	-23.07	-17.41
3 years p.a.	4.66	6.19
5 years p.a.	-3.47	-1.75

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %	Benchmark %
Europe / Middle East / Africa	21.1	18.9
Asia	52.0	57.9
Latin America	24.1	23.2
Cash	2.8	0.0

Sector Allocations	Trust %	Benchmark %
Consumer Discretionary	6.5	8.1
Consumer Staples	5.4	7.8
Energy	16.6	14.6
Financials	26.8	23.3
Health Care	1.5	1.0
Industrials	4.9	6.5
Information Technology	14.7	12.8
Materials	13.4	13.7
Telecommunications	7.0	8.5
Utilities	0.4	3.6
Cash	2.8	0.0

Market Review

Volatile market conditions continued unabated in November. After the strong rebound in October, markets suffered again during the month with MSCI Emerging Markets Equities (EME) losing 6.7% (in US dollar, net), thus under-performing MSCI World (down only 2.4%). Markets again responded to developments in Europe, with renewed fears that Eurozone policy-makers would fail to stem the crisis engulfing the region. At the end of the month, a rally driven by a coordinated liquidity response from the World's main Central Banks helped to reduce some of the monthly losses.

Europe/Middle East/Africa

Russia was flat in November on stable oil prices and still moderately encouraging economic data. The fiscal accounts returned to a surplus on a 12-month trailing basis, the first in almost two years, due to a combination of gradually rising revenues and lower expenditures. The current account is also improving as imports growth are slowing sharply and rapidly following the currency depreciation.

South Africa was a top performer in November, despite some currency weakness and a below expectation 3Q11 GDP report as mining and manufacturing productions contracted. The Central Bank kept interest rates unchanged at 5.5% and expects a small but prolonged breach of the upper band of its inflation target (3 to 6%).

Asia

In China, the authorities remained firm to their gradual and moderate policy easing views with the People's Bank of China lowering its Reserve Requirements by 50 basis points (bps) to 21% for large financial institutions; this decision took place the same day the World's major Central Banks announced their coordinated actions and also represented the first loosening of Reserve Requirements since 2008.

India was the worst-performing market over the period, driven by poor economic data and unstable policy directions. The 3Q11 GDP numbers were reported below 7% year-on-year, a poor performance due to stagnant investment and weak private consumption growth. Most of the growth was explained by rapid export growth which is likely to be revised downwards in coming months.

In Korea, the economy continued showing signs of cooling off. Despite the deceleration in economic activity, Bank of Korea has maintained the reference rate on hold, while the depreciation of the Won has loosened somewhat the financial conditions in the export sector, which is the one most at risk from the global demand slowdown.

Thailand has proven surprisingly resilient and once again it outperformed the broader benchmark in November, despite the massive disruptions to industrial activity brought about by the floods over the last couple of months. The underpinnings of domestic demand in Thailand appear to be well anchored despite the potential negative impact on the country's large export sector from the ongoing slowdown in global demand.

The Malaysian market showed once again defensive characteristics and outperformed the falling benchmark. The Malaysian economy itself has been performing strongly on the back of strong domestic demand and a relatively supportive domestic policy environment.

In Indonesia, the Central Bank surprisingly cut rates by 50 bps to 6%. After spiking early in 2011 above 7%, inflation in Indonesia has decelerated significantly and nowadays stands at 4.2%; thus giving the Bank of Indonesia some room to ease the policy rate whilst keeping it still in positive territory. The policy move was surprising nevertheless, as Indonesia's domestic-demand driven growth engine appears to be running smoothly and its exposure to demand from the Developed World and Europe in particular, is insignificant.

Latin America

In Brazil, the process of gradual decline in interest rates continued with another 50bps cut, the third this year, to 11%. The Central Bank is reacting to the global challenges as well as the slowing domestic economy, especially on the supply side. Separately, the Central Bank also reduced the capital requirements for some auto and payroll loans.

Mexico performed relatively well in November (-2%), despite a significant peso depreciation, partially reversed at the end of the month as the Exchange Commission decided that the Central Bank could re-introduce its rules to sell US$ to the market in instances of excessive volatility.

Performance

The Legg Mason Emerging Market Trust underperformed its benchmark by 1.4% over the month. Our overweight positioning in India and China detracted circa 105bps of alpha, by far the largest bulk of the underperformance during the month. Unsurprisingly we saw our key bets in the more cyclical oriented / beta driven sectors (consumer / financials / materials) across these two markets among our top underperforming names for the month. Given the nature of our portfolio positioning, underperformance was fairly broad across sectors; however we managed to add alpha from our strong stock selection within Materials and IT. We remain confident that as markets revert, our portfolio positioning will ensure we recoup the alpha.

We continue to remain cyclically positioned and see tremendous value in some of the stocks that have been significant underperformers this year. Unfortunately as investor confidence remains low, we continue to see a sell-off of so called 'risky' assets with less near term earnings visibility.

Outlook

Markets remain at the mercy of policy-makers' decisions, often a recipe for volatile conditions. We note the constructive role taken by Central Banks in providing liquidity to their financial systems, thus limiting the negative impact on the real economy of the current credit crunch. Europeans appear to be slowly moving towards a fiscal arrangement within the Eurozone that might give enough political cover for the European Central Bank to step in and stabilize the Sovereign Debt markets; however, markets will react to actions, not hopes.

In China, we expect to see further decline in inflation, giving room for policy-makers to ease if required. In India, we expect to see some decline in inflation readings, but it is too early for the Bank of India to cut, despite poor economic numbers. The political situation is pitiful.

In Korea, we expect the Central Bank to ease policy if the global outlook deteriorates further and starts affecting domestic demand. 2012 will see both Legislative and Presidential elections and thus policymakers are likely to be particularly responsive to any significant threats to the growth outlook.

In Brazil, we expect to see further signs of slowing inflation and economy, allowing the Central Bank to continue cutting interest rates in 2012.

In Russia, we expect the government to start formulating an answer to the shocking Parliamentary elections' results.

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