

# 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

\$71,070,394.

## Performance (before fees and taxes)

|          | Trust % | Benchmark % |
|----------|---------|-------------|
| 1 month  | 0.27    | 0.73        |
| 3 months | -4.39   | -2.80       |
| 1 year   | -2.75   | 0.53        |

Past performance is no indication of future performance.

## Profile

| Regional Allocations | Trust % |
|----------------------|---------|
| Europe (ex U.K.)     | 17.6    |
| U.K.                 | 9.2     |
| Japan                | 15.6    |
| Asia ex-Japan        | 2.3     |
| North America        | 53.9    |
| Other                | 1.4     |

## Market Review

Investors enjoyed strong performances in global equity markets in July. Overall, stocks seemed to move in lockstep with one another — and fortunately for investors — the direction for prices was up. Markets have been range bound this year, with rallies stalling and setbacks levelling off as positive corporate earnings counterbalanced weak economic data.

Overall, high levels of uncertainty in the global economic outlook remained a concern for investors in July, despite the strong move upward in stock prices. At the close of the month, U.S economic growth estimates reflected that the recession was worse than previously thought and recent data indicated a slowdown in growth.

Despite downbeat economic reports, many companies reported record profits on sales that were only slightly up year over year. Overall consumer spending remained sluggish and many consumers are skittish about the economy's prospects and their own futures. The inventory effect, where businesses have helped boost economic growth by restocking inventories, is waning and leaving more of a burden on consumers to bolster spending and growth.

## Performance

The Legg Mason Global Value Equity Trust underperformed its benchmark over the month.

The MSCI World Index was up 5.7% in local currency terms, 8.1% in U.S. dollar terms but only 0.7% in Australian dollar terms as the Australian dollar appreciated over the month.

Markets were generally positive as major indices in Europe reported in local terms: Spain +14.7%; Austria +11.0%; Italy +8.9% and the United Kingdom +7.1%. In Asia, major country indices reported gains as reflected by: Hong Kong +5.5%; Singapore +5.1% and Japan (+1.4%).

On a relative basis, the U.S. market underperformed global markets as the S&P 500 index returned 7.0% versus 8.1% for the MSCI World Index in U.S. dollar terms.

Meanwhile, performance in emerging markets rose, with the MSCI Emerging Markets Index returning +6.2% in local terms.

From a global perspective, all sectors reflected significant positive performance over the quarter — as measured by the MSCI indices.

## Outlook

Concerns about the pace of recovery weighed on the market in the second quarter, but July was a different story and markets roared ahead. Interest rates remained low and hopes of some form of quantitative easing on the part of the U.S., and China easing the slowdown on housing, drove positive sentiment. However, with junk bonds back near par and earnings prospects shaky, we are treading carefully in a market that jumps from 'risk on' to 'risk off' with great frequency. We anticipate that earnings growth will be challenged in an environment where economic growth is muted. The month of July rewarded high beta, leveraged cyclical stocks and conversely high quality, lower volatility companies underperformed. Going forward, we believe that the new leadership will be comprised of high quality companies that deliver high return on equity, top tier sales growth, high free cash flow and low volatility and we are positioned accordingly.

Our view is that we are entering a phase of moderation in economic activity with low probability of a threat of a 'double dip' or new recession. Recovery is pronounced in Europe with governments navigating deficit reduction and austerity measures and exports reflect an improvement in business sentiment. The European stress test was the equivalent of an open book exam, but nevertheless did provide welcome relief to market participants. Interestingly, we are watching Chinese cyclicals closely, not only from an opportunistic vantage, but as an indicator of global economic sentiment.

In the U.S., the purchasing managers' index was down and many leading economic indicators declined. Clearly, despite the fiscal expansion and low interest rates – the global economy is not firing on all cylinders. We believe we may be seeing a global move to a lower growth rate coupled with a healing over time of global imbalances. In short, our concerns are about the sustainability of growth not being strong enough to meet record high earnings expectations. We anticipate periods of volatile investor sentiment driven by fear that will result in a market environment that is likely to be range bound for quite some time. Stock multiples are directly tied to interest rates and accordingly, we are monitoring deflationary indicators.

There are many analysts and investors who hope for the return of a Goldilocks market environment. We believe we can add value by finding companies that can transcend the challenges of the present. Given the volatility of capital markets, resilience is a main theme characterising our portfolio positioning and we are applying this in the form of a balanced approach across sectors. We favour opportunities to invest in companies that are highly competitive in a moderate growth economy that exhibit stable free cash flows, consistent dividends and robust growth. The portfolio is prepared for global growth and recovery but also takes into account the potential for challenges and setbacks. Today's equity markets reflect opportunities to add to positions at lower levels and pursue attractive, high-quality companies at very low valuations. We will continue to employ a bottom up, stock picking approach that leverages our quantitative, qualitative and fundamental analysis. We have learned that by adhering to our time-tested investment discipline, we can purchase high-quality franchises that have the potential to grow significantly over time.

## Further Information

| Sector Allocations         | Trust % |
|----------------------------|---------|
| Energy                     | 9.6     |
| Materials                  | 7.2     |
| Industrials                | 12.5    |
| Consumer Discretionary     | 9.1     |
| Consumer Staples           | 9.7     |
| Health Care                | 13.8    |
| Financials                 | 21.5    |
| Information Technology     | 10.3    |
| Telecommunication Services | 2.4     |
| Utilities                  | 0.7     |
| Cash                       | 3.2     |

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