

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

\$39,464,632.

Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	-5.36	-4.81
1 year	5.46	5.22
3 years p.a.	-14.15	-11.47
5 years p.a.	-3.82	-2.16

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %	Benchmark %
Europe (ex U.K.)	21.2	20.7
U.K.	9.3	10.0
Japan	12.0	11.0
Asia ex-Japan	1.1	1.0
North America	56.0	57.3
Cash	0.4	-

Market Review

Returns were generally positive for global equities in the first half of April on increases in manufacturing, services and retail sales. However, markets lost ground over the remainder of the period as investors became skittish about sovereign debt in a number of European countries, the slow global recovery, mixed employment news and housing weakness in the U.K. and the U.S. Analysts moderated their one-year expectations across a number of markets.

Within the U.S., most sectors were down. Some of the more defensive sectors, such as Utilities and Telecommunication Services, made moderate gains. The laggards were Banks, Materials and Energy. During the quarter, the U.S. dollar rose significantly against the euro as well as the Canadian and Australian dollars and U.S. treasury sales increased as the U.S. began to be seen as a safe haven; however the U.S. dollar continued to decline against the Japanese yen.

The U.K. was led down by BP plc, one of the U.K.'s largest index constituents, in the wake of the oil spill in the Gulf of Mexico. Defensive stocks outperformed in this market as well - Utilities, Health Care and Telecommunication Services were in positive territory. Amid debt and deficit problems in the country, a new coalition government pledged to cut spending and increase capital gains taxes.

Continental Europe lost ground over the quarter. Banks led the region down on their exposure to sovereign debt in Greece and other troubled European countries and concerns over European Union bank stress tests. Utilities also had steep declines amid proposals for increased regulation. The Consumer Staples and Consumer Discretionary sectors held up best, eking out modest gains as the weak euro helped exporters such as BMW and Daimler.

After struggling relative to other equity markets in the latter part of 2009, Japan was the top-performed major region for quarter. While the market benefited from improved fundamentals and renewed global growth, recent strong outperformance has diminished its relative attractiveness. In addition, recent political developments may lead to a tumultuous period as elections take place. Over the quarter, defensive sectors outperformed, led by Utilities, Telecommunication Services, Health Care and Consumer Staples, while Financials ex-Banks lagged.

Performance

The Legg Mason Global Equity Trust underperformed its benchmark over the quarter. However, portfolio performance over the past year was 0.24% ahead of benchmark.

Stock selection decisions detracted value over the quarter, due to choices in Canada, the U.K. and the U.S. Choices added value in Japan and were neutral in Asia ex-Japan and continental Europe. Across region/sectors, selections were strongest in the Information Technology sector in Japan and weakest in the Information Technology sector in the U.S.

The impact of region/sector allocations saw the portfolio's underweight position in Asia ex-Japan and overweight position in Europe's Energy sector detract a little value.

At quarter end, the portfolio was most overweight Japan and most underweight Canada. Across sectors, the largest overweight was to Information Technology and the largest underweight was to Consumer Staples.

Outlook

The portfolio has a slightly cyclical tilt as it is positioned for global recovery over the next 12 months. There is a slight overweight in the U.K., an underweight in continental Europe and neutral weights in the other regions. Portfolio exposures to the benchmark remain moderate.

It is apparent that recovery will be tempered by sovereign debt problems in Europe, slow jobs improvement and efforts by China to prevent overheating in its economy. However, the Chinese government's recent decision to allow its currency to rise against the U.S. dollar is expected to aid global equities as increased currency strength in China and the rest of Asia should bolster consumption in those markets.

With the prospect of slower growth, we believe investors will reward fundamentally sound companies that are better equipped to succeed in low growth environments. The portfolio is well positioned to take advantage of this trend.