

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

\$42,930,607

Performance (before fees and taxes)

	Trust %	Benchmark %
1 month	0.71	0.21
3 months	2.78	2.00
1 year	-4.68	-5.34
3 years p.a.	-4.02	-2.58

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %	Benchmark %
Europe (ex U.K.)	18.0	18.8
U.K.	11.6	10.2
Japan	11.0	9.7
Asia ex-Japan	0.1	2.1
North America	58.3	59.2
Cash	1.0	0.0

Market Review

The MSCI World Standard Index rose 2.0% in AUD terms in the fourth quarter due solely to solid gains in October when fears of a US recession subsided and it appeared that European leaders would hammer out a solution to the debt problems in the peripheral markets. However, throughout the remainder of the year markets again pulled back to a "risk-off" environment, reacting to headlines including slowing global growth, fears of a hard landing in China and, most importantly, European leaders' continued inability to find common ground on the debt crisis. In November, the protracted turmoil in Europe resulted in leadership changes in the key debtor nations of Greece, Italy and Spain. In early December, investors reacted positively to the news that six central banks would coordinate actions to ease strains in the financial system. However, over the month the trendless market continued and leadership was mixed across defensive and cyclical sectors.

The US was the best performer for the quarter on generally good news from corporations. Positive announcements across a number of metrics included gains in manufacturing, factory purchasing and employment rates. Several sectors had strong gains and all outperformed the World ex-Australia Index. Energy led, followed by Industrials, Materials, Consumer Discretionary and Financials ex-Banks. The laggards for the month were Telecommunication Services and Utilities.

The UK also outperformed; Materials, Industrials and Telecommunication Services led the way with solid gains. The laggards were Utilities as well as Banks, as overall lending remains weak. While the UK economy slowed during the fourth quarter, much of that nation's equity market is comprised of large multinationals, which have held up relatively well in the recent environment.

Continental Europe underperformed the index. The region produced positive returns only in Energy, Materials, Health Care and Consumer Staples. The chief detractors were Utilities and Banks, with double-digit declines. Interestingly, the Banks sector outperformed the regional return in December, chiefly due to names in the troubled peripheral countries - Portugal, Spain, Italy and Belgium - those most likely to benefit from the injection of liquidity by central banks. Japan was a significant laggard for the quarter. The economy expanded in the third quarter as supply chains were restored after the disruptions from the March earthquake. However business sentiment declined in December on a strong yen, weakening growth in Europe and the impact of floods in Thailand on manufacturers dependent on Thai component parts. The market was led down by Financials ex-Banks, Utilities and Banks, while the Telecommunication Services and Industrials sectors outperformed. The New Zealand & Canada region was slightly negative. December was a difficult month on weakness in the Materials sector, particularly in gold mining stocks. The price of gold, at a high in August, tumbled 12% in December.

Asia ex-Japan also underperformed the index. In November, both Hong Kong and Singapore saw significant weakness in real estate names in an atmosphere of tightening financing conditions. A number of those names in the Hong Kong index came back in December after China announced an easing of monetary policy, cutting the amount of deposits its banks are required to hold in reserve.

Performance

The Legg Mason Global Equity Trust outperformed its benchmark by 0.8% over the quarter.

Stock selection added value this quarter, most notably in the US and Japan; selection was also modestly positive in the UK and continental Europe. Selection was a slight detractor in New Zealand & Canada and Asia ex-Japan.

The global stock selection model had a positive top-to-bottom quintile spread for the month. The Technical and Cash Flow dimensions had the largest positive spreads. Value and Expectations were also positive, while Earnings Growth was negative. In October, in response to our analysis of macro and risk exposures, we made several adjustments to our stock selection models to balance results from a risk, value and dimensional standpoint. We strongly believe in the value of a broadly diversified, rules-based, risk-managed process regardless of the market environment. This rebalancing produced slightly better performance over the period through December 31, 2011, with reduced volatility.

The effect of region/sector allocations was neutral for the quarter on mixed results. The portfolio benefited from slight underweights in Asia ex-Japan, New Zealand & Canada and Europe, the overweight in Japan detracted.

At year end, the portfolio was broadly diversified across regions and sectors and attractively valued with a lower 12-month forward PE than the benchmark, 9.4x compared with 10.9x. The largest overweight was Japan and the largest underweight was Asia ex-Japan. The largest sector overweight was Telecommunication Services and the largest underweight was Materials.

Outlook

The coordinated central bank action taken in late November to provide liquidity was a positive short-term step in a period of increased credit stress. However, we expect market volatility to continue in 2012 until European policy leaders deal with their sovereign debt woes with more decisiveness. Within developed markets, our long-term view remains unchanged and we expect that the slow pace of growth will continue, though EU markets have slipped into technical recession. We expect that our broadly diversified portfolios of fundamentally attractive stocks will help us weather any forthcoming volatility.

At year end, region and sector exposures to the benchmark remain moderate, which should help to stabilize portfolios from large directional market swings. Based on our stock selection model, current portfolio positioning includes an underweight in European Banks.

Further Information

Sector Allocations	Trust %
Energy	12.3
Materials	4.8
Industrials	10.2
Consumer Discretionary	10.2
Consumer Staples	11.1
Health Care	12.0
Financials	13.6
Information Technology	13.7
Telecommunication Services	6.7
Utilities	4.1
Cash	1.3