LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Growth Trust

Objective

The Trust aims to earn a before fees and taxes return (over rolling three year periods) in excess of a benchmark constructed in accordance with the neutral asset allocation of the Trust.

Benchmark

The performance of the Trust is measured against a benchmark comprising the following sectors:

Sector	Index
41% Australian equities	S&P/ASX 200 Accumulation Index
10% Property securities	S&P/ASX 200 A-REIT Accumulation Index
27% Global equities	MSCI All Country (ex-Australia) World Index, net dividends reinvested, expressed in AUD
8.5% Australian bonds	UBS Australian Composite Bond Index
7.5% Global bonds	Barclays Capital Global Aggregate Index, hedged into AUD
3% Cash	UBS Australian Bank Bill Index
3% Alternative investments	UBS Australian Bank Bill Index

Value

$47,276,119.

Performance (before fees and taxes)

	Trust* %	Benchmark %	Trust** %
3 months	-6.26	-5.20	-6.10
1 year	14.67	11.54	14.27
3 years p.a.	-8.26	-6.62	-8.45
5 years p.a.	1.40	2.62	0.86

* Before fees and taxes.
** After fees and taxes.
Past performance is no indication of future performance.

Market Review

Equity markets around the world lost ground during the June quarter as investors became concerned by European sovereign debt levels and moderating growth expectations in China and the U.S. Domestically, wrangling over the Resource Super Profits Tax generated headlines, though Materials companies were not uniformly lower.

The Australian equity market closed down 11.1% over the quarter, as measured by the S&P/ASX 200 Accumulation Index. Over the past year, Australian equities gained 13.2% despite the recent declines.

Australian equity corporate activity continued to gain steam. Newcrest Mining made an offer for Lihir Gold, Healthscope announced that various private equity groups were interested in buying the business and Foster's Group announced that the company would split its wine and beer operations into separate companies. Meanwhile, Telstra and the Federal Government announced that they had signed a non-binding Heads of Agreement with respect to Telstra's copper network and associated infrastructure to be sold to the National Broadband Network.

The Australian real estate investment trusts ("A-REITs") sector closed down 1.3% over the quarter, as measured by the S&P/ASX 200 A-REIT Accumulation Index. This was 9.8% ahead of the broader Australian equity market as the relatively defensive nature of A-REITs came to the fore. Over the past year, A-REITs gained 20.4% despite the recent declines.

After a brief rally in early June, global equity markets fell following weak economic data from the U.S., continued concerns over the sovereign debt situation in peripheral Europe and strains within the European banking system. Meanwhile macroeconomic indicators within emerging markets continued to show strong growth across the board.

In the Australian bond market, the yield on Australian 10-year government bonds declined 0.68% over the quarter to 5.09%. Credit markets followed the global lead, with spread contraction early in the quarter more than offset by sharp widening as the Eurozone crisis hit its peak in May. By quarters end, spreads had rallied and stabilised.

On the economic front, the Federal Budget saw the announcement of a reduced company tax rate, increases to the Superannuation Guarantee levy and a forecast return to surplus by 2012/13. The Reserve Bank of Australia raised the target cash rate by 0.25% to 4.25% in April, while the Australian dollar reaffirmed itself as a "risk" currency; it lost US6.36 cents against the greenback to end the period at US85.23 cents. March quarter gross domestic product recorded a 0.5% gain, in line with market expectations.

Issued and approved by Legg Mason Asset Management Australia Limited, ABN 76 004 835 849, AFSL No. 240827. Level 47, 120 Collins Street, Melbourne VIC 3000.

Performance

The Legg Mason Growth Trust underperformed its benchmark over the quarter. However, portfolio performance over the past year was 3.2% ahead of benchmark. This quarter, portfolio exposure to Australian equities, property securities, global equities and Australian bonds detracted from performance. Asset allocation decisions between Australian equities and bonds also detracted value.

In Australian equities, there was scant stock news that impacted portfolio performance this quarter; the underperformance was largely attributable to allocations at the sector level. In particular, performance over the quarter saw value detracted from the portfolio's net exposure to cyclical securities.

In A-REITs, portfolio performance this quarter was negatively impacted by the portfolio's exposure to some of the smaller capitalised A-REITs and those with exposure to offshore assets.

Exposure to developed market global equities detracted value as a global market correction that ramped up in mid-April gained momentum in the final days of June and caused many stocks to decline significantly during the quarter. In emerging market equities, the bulk of the value detracted was from stock selection, where holdings in Brazil, Korea and Taiwan underperformed.

In Australian bonds, tactical interest rate strategies generally detracted value throughout the quarter, particularly in May as a short relative duration position magnified the effects of sharply lower bond yields brought about by global uncertainty.

At the asset allocation level, the portfolio was overweight Australian equities and underweight bonds. This position detracted value over the month as domestic equities underperformed domestic bonds. The portfolio remained overweight Australian equities and underweight bonds at month end to benefit from an expected return to more normal relative equity and bond market valuations.

Outlook

Our view is that the recent market weakness is significantly overdone and that it may partially be explained by memories of 2008, when investors that were slow to factor in the impact of the global financial crisis were hit hard.

We maintain that there remains significant value on offer in selected underlying Australian equity and A-REIT securities and that these sectors should be able to move higher on a medium term time horizon. This view is supported by evidence that Australian firms have reduced their risk profiles over the past year. As such, a number of firms are poised to produce strong margin expansion once revenue growth returns.

Stock specific developments are likely to be a critical driver of Australian equities over the remainder of 2010, as the valuation spread between the most attractive and least attractive names in the investment universe remains significantly higher than their historical averages. As such, we have positioned the portfolio to benefit from stock specific opportunities and we continue to expect to produce above normal portfolio returns over the medium term.

In developed market global equities, we believe the slowdown in the global recovery is the result of a material loss of momentum but not the beginning of a double-dip recession. In emerging market equities, earnings expansion should be well supported by strong domestic demand growth across most regions, while inflation is far from calling for drastic action by emerging market central banks.

In Australian bonds, portfolio duration is expected to be tactically managed as volatility is likely to remain high while markets debate the speed of the global recovery, the possible return of inflation and sovereign risk issues. The portfolio maintains an overweight position in corporate bonds, with emphasis on Financials, as market valuations and increased regulation provide significant appeal despite spreads tightening over the past year.