LEGG MASON
GLOBAL ASSET MANAGEMENT

# 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

$29,581,149

## Performance (before fees and taxes)

| | Trust % | Benchmark % |
|---|---|---|
| 1 month | -1.44 | 0.21 |
| 3 months | 1.19 | 2.00 |
| 1 year | -11.87 | -5.34 |

Past performance is no indication of future performance.

## Profile

| Regional Allocations | Trust % |
|---|---|
| Europe (ex U.K.) | 26.5 |
| U.K. | 7.5 |
| Japan | 2.2 |
| Asia ex-Japan | 1.2 |
| North America | 53.1 |
| Other | 9.5 |

## Market Review

Global equities reflected significant volatility and unpredictability during the fourth quarter as markets moved up and down and generally finished positive for the final quarter of 2011. As the year drew to a close, most investors had concluded that the continuing woes of the Eurozone were unlikely to be fixed quickly. Policy and macroeconomic moves weighed heavily on equity markets and continued to be the key driver for performance with underlying stock fundamentals taking a back seat.

Economic indicators in the U.S. seemed to reflect continued growth albeit at low levels. Overall, global economic markets have been reliant on consistent efforts from central banks to add liquidity into the financial system to prop up asset prices in an environment where deleveraging is required to deal with a long period of accumulated debt from both consumers and businesses. During the quarter, equity markets in the U.S. performed well but specific areas of Europe, Asia and the emerging markets struggled to deliver positive returns.

## Performance

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

The MSCI World Index rose 2.00% in Australian dollars terms and 7.59% in USD terms. Index markets generally were mixed in Europe with major indices reporting in local terms: Austria -1.93%; Spain 1.05%; Italy 4.11%; and the United Kingdom 9.36%. In Asia, major country indices provided mixed performance as reflected by Japan -4.04%, Singapore -1.51%, and Hong Kong 6.04%, respectively. On a relative basis, the U.S. market outperformed global markets as the S&P 500 index returned 11.82% versus 7.59% for the MSCI World Index in USD terms. Additionally, performance in emerging markets was positive as reflected by the MSCI Emerging Markets Index reporting 4.84% in local terms.

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.

## Outlook

Currently, our view is that the market has discounted the consensus macro expectations of a mild recession in Europe, sluggish but decent growth in the U.S., and a soft landing in China's slowdown. Therefore, from a contrarian standpoint the risks are to the upside in Europe, the downside in the US and about mixed in China. In short, we see a shift in the opportunities surrounding abundance and efficiency versus scarcity. While investors are currently focused on the downside of global rebalancing between consumers and producers, historically this has led to material improvements in total productivity and wealth. China's local consumer goods companies are early in their development stage and the world's producers of everything from health care, movies, aircraft, apparel, electronics, media, and advertising still stand to benefit from rising incomes in the emerging world.

Also, given the record capital spending in the commodity sectors, up ninefold since 2003, global consumers may also benefit from a fall in the cost of goods, further adding fuel to plays on abundance. Given where we are in the global economic cycle, we believe that early cycle investments will do better going forward, such as specific financials, global cyclicals and consumer stocks. Recent economic news has been coming in better than expected, but the monthly data remains highly volatile and statistically suspect due to large seasonal adjustments. The positive surprises have led to a measure of economic sentiment at levels that are consistent with some moderation or reversal.

One sector where the tone of business has improved from very low levels is housing and construction in the U.S. Counterproductive meddling by politicians and central bankers is always possible, but the recent signs of recovery are driven by a gradual moderation of distressed inventory and a rise in apartment demand. We are also evaluating individual companies with resilient cash flows – such as health care, consumer staples, software, commercial services and household product companies. Currently, we believe it is too soon to invest in the late cycle companies that led the market for much of 2011. Looking ahead, our investment team's focus is on building a diversified portfolio of high quality, global industry leaders trading at attractive valuations based upon conservative levels of profits. Our view is that demonstrated safety stocks are no longer cheap while the valuations of more distressed stocks in Europe, UK and China have become more attractive. In emerging markets, generally our view is that valuations have more room to decline relative to the developed world. Despite the wall of worry in equity markets, we continue to seek companies that exhibit low valuations, depressed profitability, and low expectations and believe that there are promising opportunities for individual stocks to deliver solid performance going forward.

## Further Information

| Sector Allocations | Trust % |
|---|---|
| Energy | 11.3 |
| Materials | 7.9 |
| Industrials | 6.7 |
| Consumer Discretionary | 9.9 |
| Consumer Staples | 10.7 |
| Health Care | 18.5 |
| Financials | 20.1 |
| Information Technology | 9.6 |
| Telecommunication Services | 4.0 |
| Utilities | 0.0 |
| Other | 1.2 |