

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

\$71,744,675.

Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	-6.02	-4.81
1 year	2.58	5.22

Past performance is no indication of future performance.

Profile

Regional Allocations	Trust %
Europe (ex U.K.)	16.9
U.K.	8.8
Japan	16.0
Asia ex-Japan	2.4
North America	54.2
Other	1.7

Market Review

A global market correction that ramped up in mid-April and gained momentum in the final days of June caused many stocks to decline significantly during the quarter. Investors caught in the line of fire juggled multiple fears caused by troubling news from around the world. Both U.S. and global equity markets moved downward during the quarter and emerging markets declined as well.

Fear ruled the day as investors worried about a range of concerns including a global economic slowdown, slumping consumer confidence, China's growth prospects and the solvency of European banks. What had previously been seen as a heightened interest in risk assets reversed with many investors seeking out safe investments as the quarter drew to a close. Volatility appeared to be on the rise as the Chicago Board Options Exchange Volatility Index - widely known as the 'fear gauge' - soared during April and May, fell back during June and then spiked as the quarter ended. Global fears also impacted commodity prices, with copper, for example, off double digits for the year. Overall, most economists and strategists believe that a double-dip recession is unlikely. However, the combination of poor consumer confidence, weak job creation and fiscal spending hurdles suggest that the global economy could stumble in the second half of the year and deliver lower growth as compared to the first half of 2010.

Moreover, in the U.S. where interest rates are at historic lows, the Federal Reserve lacks the ability to cut rates to stimulate a faltering economy. The economic travails have caused many investors to stay on the sidelines and the uncertainty in the marketplace has caused many business executives to bunker down rather than pursue growth and expansion. On the positive side, incomes have been rising, corporate cash flows are strong and the industrial recovery has been solid in an economic environment that has reflected low interest rates and tempered inflation.

Performance

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

The MSCI World index returned -4.8% in Australian dollar terms and -12.7% in U.S. dollar terms. Markets were generally negative with major indices in Europe reporting in local terms: Austria -14.3%; Italy -13.4%; the United Kingdom -12.7% and Spain -12.5%.

In Asia, major country indices reported generally negative performance as reflected by Japan -14.8%, Hong Kong -5.6% and Singapore -0.1%.

On a relative basis, the U.S. market outperformed global markets as the S&P 500 index returned -11.4%.

Performances in emerging markets also declined, however the falls were less than developed markets as the MSCI Emerging Markets Index returned 0.4% in Australian dollar terms.

From a global perspective, all sectors reflected significant negative performance over the quarter, as measured by the MSCI indexes.

Outlook

Our assessment of the markets in June is that value factors underperformed, especially in Australia and Europe, while quality factors outperformed, especially in Japan and the U.S. We anticipate that earnings growth will be challenged if the pace of economic growth moderates during the balance of 2010. We believe that sustainability of earnings will be a key issue in the second half of this year and into next year. With 2011 and 2012 earnings estimates vulnerable, the prospects for the current market leadership - low quality cyclicals and commodities - appears to be waning. 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. Many of these firms are located in the major developed markets, generate significant product demand and are trading at unusually low relative valuations.

Although we do not attempt to predict the future, 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. The recovery to date has been somewhat muted and not as robust as many economists would have anticipated. Recent disappointments in job growth and income indicators, the 2011 tax increases and year-over-year declines in stimulus spending will be a drag on economic growth going forward. On the positive front, we believe that the austerity measures and financial support taking place in Europe appears constructive. Evidence continues to build that emerging markets, especially in Asia, reflect rising consumer incomes and a move from export driven to internal, demand driven economies. This is an area of opportunity that we will continue to pursue.

Given the volatility of capital markets, resilience is a main theme characterising our current portfolio positions. Our investment strategy invests capital across defensive stocks, special situation opportunities and select cyclicals. We have built a balanced strategy that prepares the portfolio for global growth and recovery but also takes into account the potential for challenges and setbacks. Generally, the cyclical stocks in the portfolio have declined in value recently, however the defensive and special opportunity stocks that we hold tend to have higher quality and have risen in value. Overall, we would anticipate this trend continuing and we expect to add to higher quality opportunities going forward. The market correction has created near-term opportunities to build meaningful long-term positions in quality companies at low valuations. Our investment approach is centred on a bottom up stock picking that uses a combination of quantitative, qualitative and fundamental analysis. Looking ahead to the second half of 2010, we believe that by adhering to our time-tested investment discipline, investors will be well positioned to leverage the potential for outperformance of the high-quality value stocks that we purchase for the long term.

Further Information

Sector Allocations	Trust %
Energy	9.2
Materials	7.0
Industrials	12.5
Consumer Discretionary	9.3
Consumer Staples	9.9
Health Care	14.9
Financials	21.5
Information Technology	10.5
Telecommunication Services	2.2
Utilities	0.6
Cash	2.4