LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Permal Global Absolute Trust

Objective

The Trust aims to earn a gross return of 8 to 10% p.a. over a full market cycle (three to five year periods).

Value

$4,873,619.27

Performance (before fees and taxes)

	Trust %
3 months	5.87
1 year	2.80

Past performance is no indication of future performance.

Key points

- The Fund's best performance contributors during the first quarter were its allocations to US equities;
- This included targeted exposures to the information technology and financials sectors, as well as broad market exposure;
- The largest detractors from the Fund's Q1 performance included a position in a currency fund, as well being long the Mexican peso versus the US dollar and being short the Australian dollar versus the US dollar.

Market Review

The investment manager notes that encouraging employment and manufacturing data in the US, as well as an improving outlook for the economy from the Federal Reserve (Fed) that acted to diminish expectations for additional monetary easing, continued to support the notion of a sufficient, self-sustaining US recovery as the first quarter drew to a close.

In Europe, the manager adds that the region continued to grind along, with the Long Term Refinancing Operation (LTRO) providing necessary liquidity to banks, but the ongoing issue of economic growth versus austerity remaining unresolved. China was also a focal point towards the end of the first quarter. The government ratcheted down its growth expectations and economic data continued to weaken, increasing investors' fears of a hard landing. Performance was mixed in March, with more cyclical assets like commodities and emerging market equities (notably China) declining, while developed markets continued their strong run and ended the quarter on a positive note.

Fund Review

The Legg Mason Permal Global Absolute Trust returned 5.87% over the first quarter (in Australian Dollars terms).

The best performance contributors were its allocations to US equities, including targeted exposures to the information technology and financials sectors, as well as broad market exposure. The largest detractors from the Fund's performance included a position in a currency fund, as well being long the Mexican peso versus the US dollar and being short the Australian dollar versus the US dollar.

Looking at the Fund's overall allocation at the end of the first quarter, its equity exposure consisted of cyclical sectors such as US technology, US financial, and gold mining companies. In the US, the manager still prefers short-term, cyclical exposure over defensive sectors as long as there is positive economic momentum, but notes that this needs to be monitored closely for any inflection points in the path of global growth. It also retained emerging markets exposure in countries such as China and South Korea, as well as an allocation to Japan.

Within its fixed income strategies, the Fund's credit exposure at the end of the quarter consisted of investment grade bonds and non-agency RMBS (residential mortgage-backed securities). Despite credit spreads having tightened, the manager prefers select pockets of the credit market over US government bonds. The manager also believes that certain RMBS remain attractive as do high yield bonds in the US.

Elsewhere, the Fund's real asset strategies consisted of an allocation to gold bullion, platinum, and agricultural commodities, while the manager also held a short position in copper. Its alternative strategies remained focused on two systematic macro strategies and one discretionary macro strategy, while the Fund also had a position in an event driven strategy. The manager notes these alternative strategies continue to provide a diversified return stream to the broader portfolio. Its currency positions consisted of being short the euro, Australian dollar and Brazilian real versus the US dollar, and being long the Mexican peso versus the US dollar.

Outlook

The investment manager notes that US economic data continues to improve as the business cycle is going through a period of cyclical strength. There are increased signs of an improvement in employment and US housing appears to be forming a bottom. Additionally, there are positive signs of a manufacturing renaissance in the US driven by the 10-year low in natural gas prices and the high cost of transportation fuels and higher wages in Asia, which is making the US attractive once more from a manufacturing perspective. The manager adds that US data has improved so much that the Fed may be reconsidering a third round of quantitative easing - gold's continued weakness throughout the first quarter was a good example of the market's recognition of this.

In Europe, the potential for the region to be a focal point of stress remains with investors focusing on Spain, where the government wrestles with the difficult trade-off between austerity and economic growth/recovery. The manager also notes that headwinds exist in the emerging markets. China has lowered its own growth expectations and is actively looking to shift its growth model from exports to domestic consumption, while other emerging market economies are battling inflation.

Looking at currency markets, the manager continues to believe that opportunities should continue in 2012. It believes that the US dollar may actually appreciate relative to a global currency basket in 2012 on the back of a sustained economic momentum. Additionally, currencies tied to US economic prospects may outperform commodity currencies tied to China.

The manager recognises that risks remain, noting that specifically the geopolitical risk is once again a focus as tensions between Iran and Israel remain high. In the US, as summer approaches, investors will begin to focus on the upcoming US election and what the possible outcomes may be and perhaps, more importantly, the fiscal tightening that may occur at year-end with the expiration of the Bush tax cuts. Simply put, the manager notes that there are not many "bullets" left for policy makers to address additional shocks to the economy. As a result, the manager believes that volatility is likely to remain elevated and maintaining flexibility with regards to portfolio positioning is important.

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