LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Western Asset Cash Trust

Objective

The Trust aims to earn a before fees and taxes in excess of the return of the benchmark.

Benchmark

UBS Australian Bank Bill Index.

Value

$65,278,415.

Investment Process Summary

The Trust actively manages investments to ensure that:

- deposits are readily accessible;
- investments are highly liquid and low risk; and
- returns have limited volatility.

Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	1.22	1.24
1 year	4.59	4.66
3 years p.a.	5.36	5.23
5 years p.a.	5.77	5.69

Past performance is no indication of future performance.

Profile

Sector Allocation	Trust %
Bank obligations	71.4
Corporate	0.0
Asset backed	12.2
Cash	16.4

Market Review

The release of September quarter gross domestic product, inflation and housing starts all surprised to the downside. This caused some to question the likelihood of further near term interest rate rises. However, consistently strong monthly employment growth and positive balance of trade data provided substantial counterbalance. The Reserve Bank of Australia, in raising the target cash rate by 0.25% at its November meeting, noted the economic conditions were finely balanced but considered it prudent to move at that time. Despite the 0.25% increase in the targe cash rate, 90 day bank bill yields rose only 0.03% over the quarter.

The U.S. Federal Reserve began a second phase of its quantitative easing program, dubbed QE2, in an attempt to keep yields low and ward off deflationary pressures. Initially, anticipation of the new round of quantitative easing caused a rally in U.S. treasuries, which helped two year yields to record lows. Ironically, as the Federal Reserve engaged in its purchasing program, U.S. treasuries were sold off largely due to the release of a string of positive economic statistics, which prompted the market to reassess its outlook for the U.S. economy and inflation. 10 year U.S. treasury notes finished the quarter 0.78% higher. The sell-off in the Australian bond market was less pronounced as 10 year bond yields 0.58% while 3 year bond yields rose 0.52%. This resulted in a slightly steeper Australian curve.

Concerns with Europe's peripheral economies persisted. Attention focused on Ireland's need to support its troubled banking industry. Ireland was forced to seek a bailout package from the European Union, which spruiked new regulations related to the Europe's banking and financial entities. Spreads on subordinated debt of European Financials widened as a result.

Broad risk sentiment improved over the quarter, with equity and commodity markets posting sound returns. Spread markets enjoyed the improved risk sentiment, with corporate spreads generally tightening modestly. The Australian dollar appreciated on a trade weighted basis, having recorded its highest post float levels against the U.S. dollar, euro and pound sterling in the final days of 2010. Investors continued to seek higher yielding currencies as the interest rate differential between Australia and developed western economies widened with the Reserve Bank's November rate rise, and further widening is expected through the coming year.

Performance

The Legg Mason Western Asset Cash Trust performed marginally underperformed its benchmark over the quarter. Longer term portfolio performance is ahead of benchmark.

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Outlook

Domestic gross domestic product growth is likely to remain around trend throughout 2011 as government stimulus continues to wind down and an expected self-sustained growth phase ensues. Strong terms of trade and commencement of major projects in the resource sector are expected to help domestic economic growth.

Inflation is forecast to return to the upper band of the Reserve Banks target however the relatively strong Australian dollar should assist its containment.

With Australia's labour market in very good shape and broader economic growth strengthening, we expect the cash rate to move higher through the second half of 2011, with a target of 5.50% to 5.75% by year end.

Further Information

Credit Quality	Trust %	Maximum %
"AAA" or "A-1+" securities	100.0	100
"A-1" securities and cash	0.0	25

Maturity Structure	Trust %
1 to 7 days	14.8
8 to 30 days	35.1
31 to 90 days	39.6
91 to 180 days	10.5
181 to 365 days	0.0

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