

# Which asset allocation fund has returned 36%\* each year since the GFC?

## Legg Mason Tactical Asset Allocation Trust

The Legg Mason Tactical Asset Allocation Trust (TAT) is designed to take advantage of the mispricing that occurs between the equity, bond and cash markets. The investment strategy is based on a time-tested model that has delivered over 100 basis points of outperformance each year since 1989 (before fees). As one of the longest running tactical asset allocation funds in Australia, it offers another level of diversification for balanced investors who want to avoid high fees, foreign exchange volatility or complex hedge fund strategies.

### How the Trust works

The TAT investment strategy incorporates an Australian equity/bond decision, stock selection and bond duration. The fund manager Legg Mason Australian Equities (Legg Mason) develops an expected return from both equities and bonds to derive an equity risk premium.

The neutral weighting for TAT is a 50% weighting to both equity and fixed income. Depending on relative valuations, TAT can increase its exposure to either asset class to a maximum of 150%. This corresponds to a short position in the other asset class of 50%. TAT will change these exposures using futures for efficient trading. Futures are fully cash-backed and are not used to gear the overall exposure of the portfolio.

The portfolio is tilted toward the relatively undervalued asset class in the expectation that it will 'mean revert' and outperform the other asset class as it returns to the assessed fair value. If the equity risk premium is considered high, TAT will overweight equities and will conversely underweight equities when the equity risk premium is low.

TAT gains its market exposure principally by investing in two underlying funds: the Legg Mason Australian Core Equity Trust (for equities) and the Legg Mason Cash Plus Trust (for fixed income). Each fund provides a broad level of exposure to the asset class with active management as a potential alpha source. Tactical positioning is normally carried out using equity or bond market futures. The TAT model is constantly primed to act swiftly and can immediately take advantage of market mis-pricings.

### Key details

#### Trust inception

February 1989

#### Trust size

\$81m as at March 2011

#### Performance target

To outperform the custom benchmark (50% S&P/ASX 200 Accum. Index & 50% UBS Australian Treasury Index) before fees over 3 years.

#### Guidelines

The asset allocation for Australian equities and Australian bonds/cash may be within the range of -50% to +150%.

#### Fees (estimated total)

0.71% p.a. No performance fee

#### Platform availability

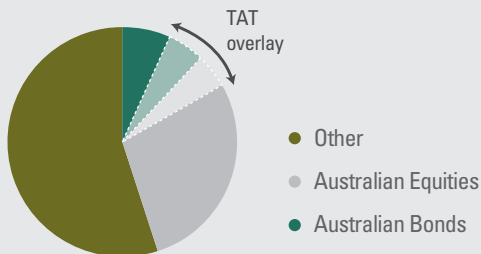
BT Wrap, Tower, IOOF, Navigator, MLC, Netwealth

## How the Trust may be used

The charts below show how TAT can be used in a diversified portfolio. The example used is a traditional portfolio consisting of Australian equities and bonds, as well as 'other' asset classes that may include global equities and bonds, property and alternatives.

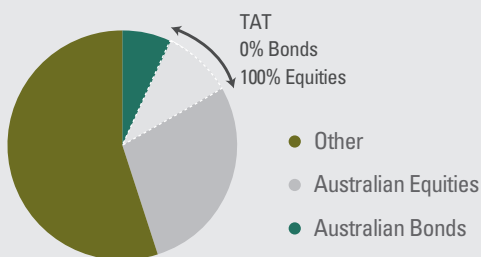
The first chart shows how a 20% allocation to TAT can provide a tactical overlay to the client's Australian equities or bonds component, depending on valuations. If equities become undervalued compared to bonds, TAT will increase its exposure to this asset class, which will reduce the fixed income weighting in both TAT and the client portfolio. If bonds are considered undervalued, the opposite is true.

### Bonds and equities fairly valued



The chart below illustrates the influence of TAT when it is fully invested in equities (zero exposure to bonds). The client portfolio effectively gains an additional 10% allocation to equities. The benefit of the overlay is that the client does not need to change their own investment manager line-up or strategic asset allocation.

### Equities cheap relative to bonds



## Need further information?

Contact your Legg Mason relationship manager today or freecall 1800 679 541.

## Key benefits of TAT

### Long track record – 22 years

TAT is one of the longest running tactical asset allocation funds in Australia, and has performed over many cycles with a 22-year track record. Just as importantly, the investment style of TAT has remained intact and true-to-label. The investment process has been refined over time to better reflect the fundamental insights of the investment team and incorporate their forward-looking views into portfolio construction.

### Australian asset allocation focus

TAT aims to remain true to label by its Australian-only focus. This is based on Legg Mason's belief that the most rewarding investment decisions are available where knowledge is greatest - locally in Australia. This also allows the portfolio manager to tap into the insights of Legg Mason's specialist Australian equities and fixed income professionals (the latter via its affiliate Western Asset).

### Benefits from insights at asset allocation and stock/bond levels

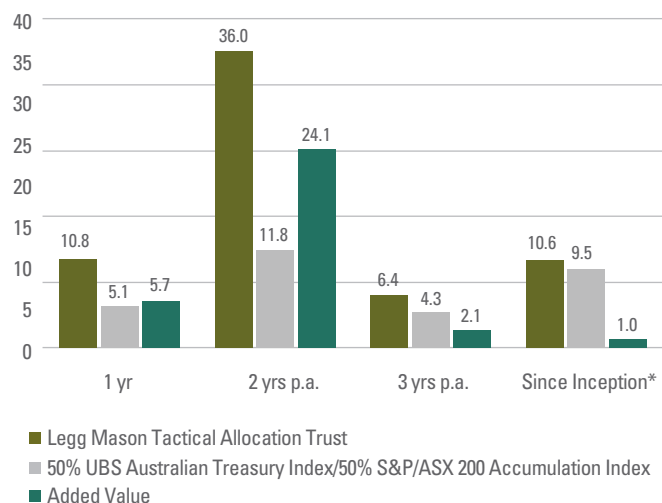
The underlying funds that TAT invests in (Legg Mason Australian Core Equity Trust and Legg Mason Cash Plus Trust) are both actively managed by specialist investment teams that form part of the Legg Mason worldwide group. Both Legg Mason and Western Asset have experienced teams of investment professionals that analyse equity and bond markets respectively, with the objective of outperforming their benchmarks.

### Low management fee and no performance fee

The investment management fee for TAT is 0.71% pa, which is relatively low in comparison to some other asset allocation-based hedge fund strategies. The fee is all encompassing: no additional management fees for any of the underlying investments.

### How has the fund performed?

#### Gross performance as at March 2011



\* Since inception 1989

Past performance is not a reliable indicator of future performance.

\* Returns for the Legg Mason Tactical Asset Allocation Trust, over two years as at 31 March 2011, before fees.

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