

Legg Mason Western Asset Cash Plus Trust

Objective

The Trust aims to earn a before fees and taxes return of 0.60% p.a. in excess of the benchmark over rolling one-year periods.

Benchmark

UBS Australian Bank Bill Index.

Value

\$46,610,188

Performance (before fees and taxes)

| | Trust % | Benchmark % |
|--------------|---------|-------------|
| 1 month | -0.01 | 0.39 |
| 3 months | 1.12 | 1.20 |
| 1 year | 5.59 | 4.93 |
| 3 years p.a. | 6.58 | 4.36 |
| 5 years p.a. | 5.64 | 5.49 |

Past performance is no indication of future performance.

Profile

| Sector Allocations | Trust % |
|-------------------------------|---------|
| Government/supranational | 0.00 |
| Corporate investment grade | 34.0 |
| High yield | 0.0 |
| Mortgage and asset backed | 38.6 |
| Banking government guaranteed | 22.4 |
| Cash and cash equivalents | 5.0 |

Market Review

The European sovereign crisis re-emerged after October's brief reprieve as the problems faced there claimed more scalps in the form of governments changing hands. Italian 10-year government bond yields surged past the 7% level, widely considered unsustainable for that country and a potential tipping point for Italian solvency. French government bond spreads over Germany widened further, and even Germany failed to clear a bond auction in late November as markets shied away from European debt.

Yields on Australian government bonds saw their largest decline since late 2008. Three-year bonds reached their lowest level since March 2009, having declined an extraordinary 76 basis points (bps), while 10-year bond yields moved to their lowest level since May 2009, which resulted in the curve steepening 18 bps. The yield change was more dramatic on Australian government bonds than for corresponding tenors on foreign government bonds, which reflected the focus on 'safe' sovereigns. Equities fell 4.2% and credit spreads widened, mostly on European banks and supranationals.

Earlier in the month, the Reserve Bank of Australia (RBA) cut interest rates by 25 bps for the first time since April 2009. Changes in Australian inflation forecasts—due mainly to a more benign wage-inflation outlook—provided the RBA scope to remove the slight tightening bias to help tackle the softening in the non-commodity-related sectors and the threat that European troubles could dampen domestic economic conditions. Bank bill yields fell, pricing in further aggressive rate cuts by the RBA in coming months, despite broadly favourable domestic economic data, which included larger-than-expected private capital expenditures as Australians took advantage of the strong terms of trade to upgrade capacity and productive resources. The unemployment rate also dipped from 5.3% to 5.2%, thanks to an uptick in full-time employment.

The Australian dollar suffered, as would be expected during bouts of risk-off trading. At one stage, the currency had lost as much as 8% intra-month. However, the late-month surge in confidence helped retrace much of that decline. The Australian dollar finished 2.4% lower relative to the US dollar and 3% lower on a tradeweighted basis.

Performance

The Legg Mason Western Asset Cash Plus Trust underperformed its benchmark over the month. Performance over the past 12 months is 0.7% ahead of benchmark. In November, the short relative duration position was the main source of underperformance, as bond yields fell to their lowest level since early 2009.

Although corporate and asset-backed exposure within the portfolio detracted as spreads moved wider, the higher running yield on offer offset this to some extent. Financials were again among the worst performing sectors, due to Standard and Poor's downgrade of several issuers at the very end of the month, including Wells Fargo, Lloyds and Bank of America.

Outlook

We continue to forecast domestic GDP growth to be around trend level (3.0%–3.5%) in 2012. We recognise the challenges faced in Europe, which, in turn, pose challenges to broader global growth. However, we are constructive on the US economic recovery (albeit at a slow pace), and we believe that Chinese growth will remain solid—factors that are supportive of our domestic growth outlook. Unemployment is currently hovering at 5.2%–5.3%, but we expect it to drift higher and peak at around 5.5% before edging lower as a large uptick of employment begins to take hold in Western Australia and Queensland due to new projects coming on line. An improvement in sentiment for the rest of the economy should further aid the decline in the unemployment rate through 2012.

Inflation is continuing to drift lower at both the headline and core levels, and no longer poses the risk that it did six months ago due to the slowdown in the non-mining sectors. The RBA has signalled that it is comfortable with current levels of inflation, which gives the central bank the scope to further respond to global challenges, particularly those posed by Europe, should the need arise. Technical issues have held bond yields deep below the current cash rate and at a level that we consider very expensive, considering fundamentals. Duration positioning will therefore be tactical, with a short duration bias relative to the benchmark.

Volatility is likely to remain high while markets consider the fragile state of developed-nation economies and continue to test the eurozone's resolve to stand by its member countries and their financial systems. We will maintain an allocation to corporate bonds, with an emphasis on large financials, as market valuations and increased regulation continue to appeal.

As a defensive strategy, we continue to hold government-guaranteed bank exposure (which offer the assurance of the Commonwealth Government with greater yield benefit). We also maintain our bias towards asset backed securities, focusing on high quality RMBS with strong collateral which continue to offer attractive pricing.

Further Information

| Credit Allocation | Trust % |
|-------------------|---------|
| AAA | 50.0 |
| AA | 15.3 |
| A | 24.2 |
| BBB | 6.3 |
| Below BBB | 4.2 |
| Duration (years) | -0.38 |

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