

# Legg Mason Cash Trust

## Objective

The Trust aims to earn a before fees and taxes return equivalent to at least the return of the benchmark.

## Benchmark

UBS Australian Bank Bill Index.

## Value

\$ 48,431,613.

## Rating

AAAm (as rated by Standard & Poor's).

## 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 %
1 month	0.33	0.32
3 months	0.95	0.96
1 year	3.64	3.41
3 years p.a.	6.01	5.84

Past performance is no indication of future performance.

## Profile

Sector Allocation	Trust %
Bank obligations	63.5
Corporate	0.0
Asset backed	18.5
Cash	18.0

## Market Review

Economic data released during the month was relatively strong, led by yet another solid employment report as the Australian unemployment rate fell to 5.5%. Elsewhere, retail sales, consumer confidence and building approvals all rose. The December 2009 quarter inflation report was mixed, with the 12 month headline rate somewhat subdued at 2.1% while the Reserve Bank of Australia's preferred underlying rate remained above the target range.

Money market rates were mixed during the only month of the year that the Reserve Bank Board does not meet. However, speculation about increases in the target cash rate driven by stronger economic news saw short term interest rates move slightly higher for 90 and 180 days. Meanwhile, longer term rates moved lower on a more subdued global economic outlook and weaker share markets.

Rallying bond markets globally helped local bond yields move lower over the month, notwithstanding the stronger domestic economic news. In particular, the actions of the Chinese authorities to slow growth as well as investor anxiety over sovereign credit risk highlighted by concerns in Greece saw a "flight to quality" emerge, which benefited U.S. treasuries and Australian Government bonds. These actions saw risk assets sold off quite aggressively. As a result, share and commodity markets were sold down sharply late in the period after rallying earlier in the month.

Local credit markets performed well, initially by following stronger offshore markets and then by managing to hold onto those gains as offshore markets gave up ground towards the end of the month. Supply and demand fundamentals remained supportive and Australian economic news likewise supported the local credit market.

The Australian dollar was mixed as it faced the conflicting forces of stronger local economic fundamentals and weaker share and commodity markets.

## Performance

The Legg Mason Cash Trust performed in-line with its benchmark over the month. The portfolio's longer term track record remains ahead of benchmark.

## Outlook

Gross domestic product growth is expected to improve to around trend in 2010 as government infrastructure spending gains traction and export demand improves.

Inflation will likely remain below average in the short term as wage pressures remain weak and the economy continues to operate below its productive capacity.

With Australia's labour market in reasonable shape and broader economic growth returning, cash rates are expected to continue to move higher throughout 2010.

## Further Information

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

### Maturity Structure

1 to 7 days	26.2
8 to 30 days	24.7
31 to 90 days	36.9
91 to 180 days	12.2
181 to 365 days	0.0

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