

Legg Mason Tactical Allocation Trust

Objective

The Legg Mason Tactical Allocation Trust aims to achieve a rate of return in excess of its benchmark over rolling three year periods by making active asset allocation decisions between Australian equities, bonds and cash.

Legg Mason continually assesses the relative values of Australian equities, bonds and cash. The portfolio is tilted toward the relatively undervalued asset class in the expectation that the undervalued asset class will outperform as it returns to its assessed fair value.

Benchmark

50% the S&P/ASX 200 Accumulation Index and 50% the UBS Australian Treasury Index.

Value

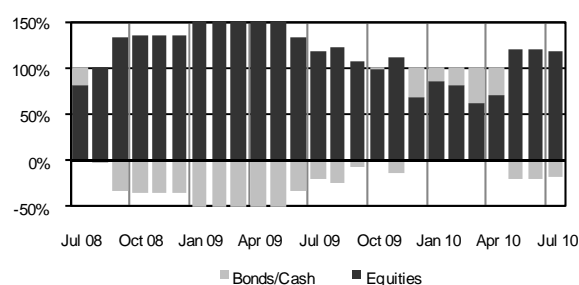
\$79,566,275.

Performance (before fees and taxes)

	Trust %	Benchmark %
1 month	7.06	2.23
3 months	-2.88	-1.12
1 year	19.24	9.00
3 years p.a.	-0.74	1.14

Past performance is no indication of future performance.

Asset Allocations



Market Review

Equity markets around the world recovered ground during July as improved sentiment for risk assets reflected diminished concerns over the sovereign debt issues in Europe and the extent of the slowdown in China. The Australian equity market gained 4.5% over the month, as measured by the S&P/ASX 200 Accumulation Index.

Consistent with a more risk tolerant environment, Australian equity investors rewarded the more cyclical sectors, particularly those that had borne the brunt of the recent sell-down. The Banks, Industrials and Materials sectors all outperformed, while investors reduced their exposures to some of the more defensive names, particularly in the Telecommunication Services, Consumer Staples and Property Trust sectors. Smaller capitalised securities generally outperformed the large cap Australian equity market.

In a further sign of optimism, merger and acquisition activity continued this month, with bids made for Intoll Group (+41.4%), Centennial Coal Company (+34.7%) and Healthscope (+15.6%).

On the economic front, employment growth remained strong while consumer price inflation came in a little weaker than the market had expected. The Reserve Bank of Australia left the target cash rate on hold at 4.50%, while the Australian dollar gained US4.63 cents against the U.S. dollar to end the month at US89.86 cents.

In the Australian bond market, the yield on Australian 10-year government bonds rose 0.12% over the month to 5.21%.

Activity

The Legg Mason Tactical Allocation Trust started the month overweight Australian equities (+120.0%) and underweight Australian bonds (-20.0%).

The Australian equity market lost a little ground early in the month and 10-year bond yields initially declined. This increased the attractiveness of equities relative to bonds so the portfolio initially increased its allocation to equities (to 131.4%) and decreased its allocation to bonds (-31.4%). Over the remainder of the month, the equity market gained ground and the yield on 10-year bonds rose. This in turn decreased the attractiveness of equities relative to bonds so the portfolio reduced its allocation to equities and increased its allocation to bonds.

At the end of the month the portfolio remained significantly overweight Australian equities (+118.3%) and underweight Australian bonds (-18.3%).

In the portfolio's bond allocation, portfolio duration began the month longer than benchmark duration. As the yield on 10-year bonds initially declined, portfolio duration was moved marginally short relative to benchmark duration. However, as the yield on 10-year bond then increased, portfolio duration was again increased. The portfolio's bond allocation ended the month 0.16 years longer than the benchmark.

Performance

The Legg Mason Tactical Allocation Trust outperformed its benchmark by 4.8% over the month. Trust performance over the past year was 10.2% ahead of benchmark.

Performance this month was aided by the portfolio's significant overweight allocation to equities and underweight allocation to bonds as the equity market outperformed the bond market.

Meanwhile, underlying security selection in Australian equities also aided portfolio performance.

Elsewhere, duration management within the portfolio's bond allocation had a negligible impact on portfolio performance over the month.

At 31 July 2010, the assets of the Legg Mason Tactical Allocation Trust were invested as follows:

	Trust %	Benchmark %
Australian equities	+118.3	+50
Australian bonds	-18.3	+50