

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

\$60,261,453

Performance (Before fees and taxes)

	Trust %	Benchmark %
1 month	-6.33	-0.21
3 months	-5.46	0.33
1 year	-10.18	2.98
3 years p.a.	12.88	7.27

Past performance is no indication of future performance.

Asset Allocations

At 30 November 2011, the assets of the Legg Mason Tactical Allocation Trust were invested as follows:

	Trust %	Benchmark %
Australian equities	+150%	50%
Australian bonds	-50%	50%

Market Review

In November, equity markets were once again weak, on the back of concerns around a potential European financial meltdown. Increasing yields on Italian Government bonds contributed to increase solvency concerns of the larger European economies. Equities plummeted through the month before rallying near month-end on renewed speculation that the European Central Bank was preparing a new plan to solve the sovereign debt issue.

In Australia, the AGM season continued and most of the companies indicated that the operating environment is still challenging. Defensive names outperformed more cyclical names. REITs, Information Technology and Utilities sectors outperformed, while Financial, Resources and Consumer Discretionary were the laggards. The Australian equity market finished the month down 3.48%, as measured by the S&P/ASX 200 Accumulation Index.

In the Australian bond market, the yield on the Australian 10-year government bonds finished at 3.94%, down from 4.51% at the start of the period.

Australian economic data released during the month were mixed. The Reserve Bank of Australia announced a 25 basis points rate cut on November 1, in line with market expectations. The market has priced in a few more potential rate cuts by June 2012.

The Australian dollar continued to reflect the increase in risk aversion and lost ground against the U.S. dollar. After reaching a low of US0.969 cents during the period, it ended the month at US0.998 cents, down US5.5 cents.

Activity

The Legg Mason Tactical Allocation Trust started the month overweight Australian equities (+137.2%) and underweight Australian bonds (-37.2%).

The Australian equity market lost ground in November and the 10-year bond yields fell throughout the month. We decided to increase our exposure to equities at the end of the period to 150% (bonds -50%).

At month end, the portfolio remained overweight Australian equities and underweight Australian bonds in order to benefit from an expected return to more normal relative equity and bond market valuations.

In the portfolio's bond allocation, portfolio duration began the quarter 0.21 years shorter than benchmark duration. The portfolio's duration position was actively managed with portfolio duration always shorter than duration of the benchmark in response to changes in the 10-year bond yield. The portfolio's bond allocation ended the month 0.69 years shorter than the benchmark.

Performance

The Legg Mason Tactical Allocation Trust underperformed its benchmark by 6.1% over the month.

Performance this month was negatively influenced by the portfolio's overweight allocation to equities and underweight allocation to bonds, as the equity market underperformed the bond market.

Security selection in the portfolio's Australian equity allocation detracted value this month. Meanwhile, duration management within the portfolio's bond allocation helped the portfolio's performance slightly.