

# Client Update

## Legg Mason Tactical Allocation Strategy



June 2009

### About the Legg Mason Tactical Asset Allocation strategy

The Legg Mason Tactical Allocation Trust ("the Trust") aids existing multi sector portfolios by making tactical shifts between Australian equities and Australian bonds.

The Trust implements asset allocation decisions between these asset classes to take advantage of differences in relative valuation signals, as identified by Legg Mason's in-house research.

As an example, if equities were considered to be undervalued relative to bonds then the Trust would be overweight equities and underweight bonds. The larger the difference in relative value, the larger the asset allocation spread, subject to the range of +150% to -50% respectively.

The key strength of this approach is that it allows us to respond to market prices in a non emotional fashion. We do not try to anticipate trends, we do not incorporate market timing mechanisms nor do we attempt to predict when or how quickly market movements will occur.

The Trust aims to deliver long term capital appreciation by focusing on underlying relative value.

### Good riddance to 2008

The crisis that engulfed investment markets during 2008 have been well documented. As outlined in our Client Update in November 2008, the global financial crisis saw significant falls in equity markets and a "flight to safety" to government bonds.

Throughout the bear market the Trust was overweight equities and underweight bonds as we assessed that the equity market falls had opened a significant valuation opportunity relative to bonds. This asset allocation decision detracted from Trust performance through much of 2008 as equity markets continued to fall.

### Strong recent performance

The recent Trust performance has been much brighter. The Trust has remained significantly overweight equities and underweight bonds as the equity market has significantly outperformed the bond market.

While economic data has generally remained relatively weak, sentiment towards equity markets has improved significantly recently and merger and acquisition activity has started to make a comeback. As a result, investors had begun to assume more "risk" in their portfolios.

The following chart identifies the recent performance of the Trust:

	March 2009	April 2009	May 2009	1 March 2009 to 31 May 2009
Gross of fees and tax investment performance				
Legg Mason Tactical Asset Allocation Trust	10.7%	9.1%	3.5%	25.0%
Benchmark <sup>1</sup>	4.0%	2.7%	-0.5%	6.3%
Excess Return	6.7%	6.4%	3.9%	18.7%

<sup>1</sup> 50% S&P/ASX 200 Accumulation Index, 50% UBS Australian Treasury Index

Past performance is no indication of future performance.

## What do we expect going forward?

For some time our view has been that more normal relative equity and bond market valuations will ultimately prevail. While we are aware that the magnitude and timing of any recovery remains difficult to forecast, we remain of the view that markets will return to fair value over time.

Based on this expectation, the Trust's maximum overweight allocation to equities (+150%) and underweight to bonds (-50%) remains in place. Indeed, the equity market will need to gain significant further ground relative to the bond market before the Trust's asset allocation position will start to be unwound.

Our view at this stage of the cycle is that investors should be positioned in order to benefit from a continued recovery in equity markets. This is based on our key assumption that the equity market will continue to rally and that this will be associated with higher long bond yields in Australia and the U.S. We feel that if investors were to ignore forward looking relative value opportunities and instead focus on past performance after the long bear market, that the opportunity to take advantage of the most favourable expected return period in the history of the Trust would be lost.

## For further information please contact

We would like to take this opportunity to thank you for your loyalty to the Trust through the difficult times of 2008 and look forward to your continued investment.

### INSTITUTIONAL CLIENTS

Beau Titchkoksy  
(03) 9017 8615

Phillip Hart  
(02) 8267 2920

### PLATFORM CLIENTS

Peter Adaley  
(02) 8267 2953

Lia Gunawan  
(02) 8267 2951

### UNIT TRUST CLIENTS

Joe Youssef  
(03) 9017 8635

Legg Mason Asset Management Australia Limited (ABN 76 004 835 849, AFSL 240827) is the Responsible Entity of the Legg Mason Tactical Allocation Trust (ARSN 088 677 887). Information contained in this update is of a general nature and does not constitute specific investment advice nor recommendations on any securities or strategies. A Product Disclosure Statement is available by contacting us on 1800 679 541. The information represents the current opinion of the Responsible Entity based on prevailing market conditions and which is subject to change without notice. Past performance is not indicative of future performance. Please consult a professional investor and read the Product Disclosure Statement for the Legg Mason Tactical Allocation Trust before making any investment decisions.