



WALT DISNEY CONCERT HALL, LOS ANGELES

## LEGG MASON PRODUCT DISCLOSURE STATEMENT

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Legg Mason Australian Bond Trust

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Legg Mason Australian Credit Trust

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Legg Mason Cash Plus Trust

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Legg Mason Diversified Fixed Income Trust

23 JANUARY 2009

## **FRONT COVER**

The Walt Disney Concert Hall is located situated on historic Bunker Hill in Los Angeles, California.

Designed by architect Frank Gehry, design of the Walt Disney Concert Hall began in 1987, construction began in 1999 and the inauguration took place in 2003. From the stainless steel curves of its striking exterior to the state-of-the-art acoustics of the hardwood-panelled main auditorium, the 3.6-acre complex embodies the unique energy and creative spirit of the city of Los Angeles and its orchestra.

Western Asset Australia, sub-advisor of the Legg Mason Australian Bond Trust, Legg Mason Australian Credit Trust, Legg Mason Cash Plus Trust and the Legg Mason Diversified Fixed Income Trust, is a related company of Western Asset Management Company, headquartered in Pasadena, California.

*Source Text: arcspace online*

*Photography: Christopher Chan, 2008*

## IMPORTANT INFORMATION

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Legg Mason Asset Management Australia Limited (ABN 76 004 835 849, AFSL 240827) (“Legg Mason Australia”), the Responsible Entity for the Legg Mason Australian Bond Trust (ARSN 088 670 286), the Legg Mason Australian Credit Trust (ARSN 088 669 970), the Legg Mason Cash Plus Trust (088 670 197) and the Legg Mason Diversified Fixed Income Trust (ARSN 088 667 994) (“Trusts” and individually, a “Trust”) has prepared this Product Disclosure Statement (“PDS”).

This PDS is not a recommendation to invest in the Trusts and does not take into account your financial objectives, situation or needs. Investments are subject to risks, some of which are outlined in this PDS. Neither Legg Mason Australia nor Western Asset Management Company Pty Ltd (“Western Asset Australia”) guarantees any profit or recovery of capital from an investment in the Trusts. It is important that you understand and accept the risks before you invest and you should seek professional financial advice prior to making an investment decision.

Legg Mason Australia issues units in the Trusts on the terms and conditions described in this PDS, the Constitution of each Trust and the Corporations Act. Unitholders are bound by the PDS and the Constitution of each Trust. Units in the Trusts are only available to investors that receive this PDS (electronically or otherwise) in Australia. Investors should not rely on information about the Trusts that is not contained in this PDS or the Constitution of each Trust.

In this PDS, all fees and costs are expressed in Australian dollars inclusive of GST less any reduced input tax credits. A reference to a “Business Day” refers to a day on which banks are open for business in Melbourne, Australia. References to “you” or “your” refers to you as the reader of the PDS and “we” and “our” refers to Legg Mason Australia.

Western Asset Australia has not prepared, authorised or caused the issue of this PDS. Western Asset Australia has consented only to the inclusion in the PDS of the statements about them in the form and context in which they are included and this consent has not been withdrawn.

**Information in this PDS was correct at the date of printing and is subject to change, including changes to the Trusts’ investment guidelines, processes, fees, expenses and other material matters. For updated information, please refer to [www.leggmason.com.au](http://www.leggmason.com.au) or contact us. A paper copy of updated information will be provided to unitholders on request. For material changes, a new or supplementary PDS may be issued and unitholders notified as required by the Corporations Act. Updates should be read in conjunction with the latest PDS. A copy of the Constitution for each Trust is also available on request.**

## ABOUT US

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### Legg Mason, Inc.

Legg Mason, Inc. is a pre-eminent global asset management firm that is listed on the New York Stock Exchange. Through its asset management affiliates, Legg Mason, Inc. managed assets totalling US\$842 billion as at 30 September 2008. Legg Mason, Inc.'s asset management affiliates include Batterymarch Financial Management, Brandywine Global Investment Management, Global Currents Investment Management, Legg Mason Capital Management, Legg Mason Australian Equities, Legg Mason International Equities, The Permal Group and Western Asset Management Company.

### Legg Mason Australia

Legg Mason Australia is the Australian asset management business of Legg Mason, Inc. Legg Mason Australia holds an Australian Financial Services Licence.

Legg Mason Australia offers a range of investment strategies managed by its asset management affiliates. The strategies are applied across Australian and global equities, property, fixed income, cash, balanced and alternative investments.

### Western Asset Australia

Legg Mason Australia has delegated management of the assets of the Trusts to Western Asset Australia, an affiliate based in Melbourne. Western Asset Australia has extensive experience in Australian fixed income investment management and employs a disciplined investment approach. Western Asset Australia is a related company of Western Asset Management Company, headquartered in Pasadena, USA.

Western Asset Management Company has an extensive global presence and is one of the world's premier fixed income investment managers, offering institutional clients a full range of fixed income and cash investment management services. The firm's focused approach has generated superior fixed income investment outcomes in products with a variety of risk disciplines.

Western Asset Australia is committed to excellence in Australian fixed income and cash investment management and in conjunction with its global affiliates, managed in excess of US\$586 billion at 30 September 2008.

### How to contact Legg Mason Australia

Please contact Legg Mason Australia if you require further information or if you have any questions regarding this PDS.



**Free call** 1800 679 541



**Facsimile** (03) 9017 8690



**Mail** GPO Box 507  
Melbourne Vic 3001

Level 47, 120 Collins Street  
Melbourne Vic 3000

[www.leggmason.com.au](http://www.leggmason.com.au)

## KEY FEATURES

Feature	Summary
<b>Investment objectives</b>	<b>THE LEGG MASON AUSTRALIAN BOND TRUST</b> aims to earn a before fees and taxes return of 0.75% p.a. in excess of the benchmark over rolling three year periods.
	<b>THE LEGG MASON AUSTRALIAN CREDIT TRUST</b> aims to earn a before fees and taxes return of 0.90% p.a. in excess of the benchmark over rolling three year periods.
	<b>THE LEGG MASON CASH PLUS TRUST</b> aims to earn a before fees and taxes return of 0.60% p.a. in excess of the benchmark over rolling one year periods.
	<b>THE LEGG MASON DIVERSIFIED FIXED INCOME TRUST</b> aims to earn a before fees and taxes return of 1.00% p.a. in excess of the benchmark over rolling three year periods.
<b>Benchmarks</b>	Legg Mason Australian Bond Trust and Legg Mason Australian Credit Trust: UBS Australian Composite Bond Index.  Legg Mason Cash Plus Trust: UBS Australian Bank Bill Index.  Legg Mason Diversified Fixed Income Trust: 50% the UBS Australian Composite Bond Index and 50% the Barclays Capital Global Aggregate Index (hedged into Australian dollars).
<b>Investment approach</b> Refer to page 5 for more information	The Trusts aim to achieve their respective investment objective by holding actively managed diversified portfolios of fixed income and cash securities that adhere to strict risk controls.
<b>Risks</b> Refer to page 9 for more information	The returns on your investment may be below your expectations and you risk losing your capital.
<b>Minimum initial investment and holding</b>	\$500,000. We have the discretion to accept lower amounts.

## KEY FEATURES

Feature	Summary
<b>Fees and other costs</b> Refer to page 10 for more information	<b><u>LEGG MASON AUSTRALIAN BOND TRUST</u></b> <b>BUY/SELL SPREAD</b> ±0.04% relative to the net asset value ("NAV"), equating to \$200 for an application or redemption of \$500,000. <b>INDIRECT COST RATIO</b> 0.367% for the year to 30 June 2008, equating to \$1,835 p.a. for an investment of \$500,000.
	<b><u>LEGG MASON AUSTRALIAN CREDIT TRUST</u></b> <b>BUY/SELL SPREAD</b> ±0.05% relative to the NAV, equating to \$250 for an application or redemption of \$500,000. <b>INDIRECT COST RATIO</b> 0.491% for the year to 30 June 2008, equating to \$2,455 p.a. for an investment of \$500,000.
	<b><u>LEGG MASON CASH PLUS TRUST</u></b> <b>BUY/SELL SPREAD</b> ±0.03% relative to the NAV, equating to \$150 for an application or redemption of \$500,000. <b>INDIRECT COST RATIO</b> 0.333% for the year to 30 June 2008, equating to \$1,665 p.a. for an investment of \$500,000.
	<b><u>LEGG MASON DIVERSIFIED FIXED INCOME TRUST</u></b> <b>BUY/SELL SPREAD</b> ±0.06% relative to the NAV, equating to \$300 for an application or redemption of \$500,000. <b>INDIRECT COST RATIO</b> 0.583% for the year to 30 June 2008, equating to \$2,915 p.a. for an investment of \$500,000.
<b>Unit prices</b> Refer to page 14 for more information	An Entry Price and an Exit Price for each of the Trusts will generally be determined for each Business Day.
<b>Distributions</b> Refer to page 15 for more information	The Trusts may distribute income at 31 December and will distribute any income at 30 June each year.
<b>Eligible Investors</b>	Any person who is a "wholesale client" under the Corporations Act, as described in the "Standing Application for Units" form.

# INVESTMENT INFORMATION

## Legg Mason Australian Bond Trust

The Legg Mason Australian Bond Trust offers Eligible Investors exposure to an actively managed portfolio of Australian bonds, as well as diversification benefits that would be difficult to achieve through direct investment.

### Investment process

The investment process is an active management approach that aims to capture returns from a variety of sources, including active duration management (duration being a measure of the sensitivity of the price of a fixed income security to a change in interest rates, expressed as a number of years), sector and security selection. The process seeks to exploit incorrect market estimations of the economic cycle, in particular in the estimation of inflation, and market pricing that varies from fundamental relative values as determined by proprietary research. The key risk control is the diversification of investment positions.

### Investment guidelines

The Trust generally aims to invest within the following guidelines at the time of initiating investment decisions.

	Minimum	Maximum
Commonwealth Government & Semi-Government Bonds	30%	100%
Supranational & Sovereign Bonds	0%	80%
Corporate Bonds	0%	60%
Mortgage & Asset Backed Securities	0%	20%
Inflation Linked	0%	10%
Cash	Balance	

Interest rate duration will generally be positioned within  $\pm 1.0$  year of the Trust's benchmark.

The intention is not to hold more than 5% of the Trust's market value in a single non-government issuer or related group of non-government issuers.

The intention is not to hold more than 10% of the Trust's market value in an individual unit trust.

## INVESTMENT INFORMATION - CONTINUED

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### **Legg Mason Australian Credit Trust**

The Legg Mason Australian Credit Trust offers Eligible Investors exposure to an actively managed portfolio of Australian credit, as well as diversification benefits that would be difficult to achieve through direct investment.

#### **Investment process**

The investment process focuses on identifying relative value opportunities at the sector, industry and security levels through the analysis of credit quality and credit spreads. The assessment of the credit quality of each issuer is based on bottom-up research, which focuses on the ability of the issuer to pay interest and repay principal in a timely manner. Relative value assessments compare the risk-return relationship of each security with the risk-return relationships inherent in other securities available in the market.

#### **Investment guidelines**

The Trust aims for its holdings to have an average credit rating in the "A" category and may hold up to 5% of its market value in securities rated below investment grade (both as rated by Standard & Poor's or Moody's Investor Services or as rated by Western Asset Australia where a security is not rated by either of these credit rating agencies).

Interest rate duration will generally match the Trust's benchmark duration.

The Trust may hold up to 5% of its market value in securities rated below investment grade (as rated by Standard & Poor's or Moody's Investor Services or as rated by Western Asset Australia where a security is not rated by either of these credit rating agencies).

The aggregate value of the Trust's investments in trusts is not intended to exceed 20% of the Trust's market value.

The Trust may hold no more than 5% of the Trust's market value with a single non-government issuer, group of non-government issuers or individual trust.

## Legg Mason Cash Plus Trust

The Legg Mason Cash Plus Trust offers Eligible Investors exposure to a relatively low risk portfolio of Australian cash and bonds, as well as diversification benefits that would be difficult to achieve through direct investment.

### Investment process

The investment process focuses on identifying relative value opportunities. These opportunities are centred on duration management and yield enhancement. Duration management focuses on anticipating movement in interest rates and is based on expectations for monetary policy. Yield enhancement focuses on identifying securities that offer attractive yield characteristics. The aim is to ensure that securities held are highly liquid and produce consistent investment returns.

### Investment guidelines

The Trust generally aims to invest within the following guidelines at the time of initiating investment decisions:

#### MATURITY PROFILE

The average maturity (being the weighted average length of time until the principal of the assets must be repaid) is not intended to be greater than three years.

#### CREDIT LIMITS

Rating	Maximum Portfolio Limit	Maximum Single Issuer Limit
<b>Short-Term Ratings</b>		
A-1+	100%	10%
A-1	50%	5%
A-2	20%	3%
<b>Long-Term Rating</b>		
AAA	80%	10%
AA	60%	5%
A	40%	5%
BBB	20%	3%

#### SECTOR LIMITS

Sector	Minimum	Range
Cash and Short-Term Instruments	A-2	20 to 100%
Mortgage and Asset Backed Securities	AAA	0 to 50%
Corporate Bonds	BBB-	0 to 40%
Mortgage and Asset Backed Securities	BBB-	0 to 20%

Interest rate duration will generally be positioned within  $\pm 0.5$  years of the Trust's Benchmark.

The rating categories are based on ratings provided by Standard & Poor's. Moody's Investor Services ratings are used in the absence of ratings from Standard & Poor's. Western Asset Australia credit ratings are used in the absence of ratings from either Standard & Poor's or Moody's Investor Services.

## INVESTMENT INFORMATION - CONTINUED

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### Legg Mason Diversified Fixed Income Trust

The Legg Mason Diversified Fixed Income Trust offers Eligible Investors exposure to an actively managed portfolio of Australian bonds and global bonds, as well as diversification benefits that would be difficult to achieve through direct investment.

#### Investment process

The investment process is an active management approach that aims to capture returns from a variety of sources. These sources include country, sector and security allocations, which can include exposures to high yield and emerging market debt, and active duration management. The global allocation includes limited currency allocation decisions. In this context, high yield debt is defined as non government debt rated below BBB- (by Standard & Poor's) or below Baa3 (by Moody's Investors Service) and emerging market debt is defined as government debt rated below BBB- (by Standard & Poor's) or below Baa3 (by Moody's Investors Service).

#### Investment guidelines

The Legg Mason Diversified Fixed Income Trust invests primarily in Legg Mason Australia wholesale unit trusts. Currently these are the Legg Mason Australian Bond Trust and the Legg Mason Core Plus Global Bond Trust. The Trust generally aims to invest within the following guidelines at the time of purchasing securities.

	Minimum	Neutral Position	Maximum
Australian Bonds	35%	50%	65%
Total Australian Assets		50%	
Global Bonds	35%	50%	65%
Total Global Assets		50%	

## FURTHER INVESTMENT INFORMATION

### Other considerations

The Trusts do not intend to borrow. However, derivatives may be used to implement investment decisions. Please refer to the Derivatives section of this PDS for more information.

The Trusts do not take into account labour standards or environmental, social or ethical considerations in the selection, retention or realisation of investments. Decisions to invest in, retain or realise investments are based on the stated investment processes and investment guidelines.

### Investment performance

Investment performance of the Trusts is published on our internet site at [www.leggmason.com.au/en/product\\_performance/australia.aspx](http://www.leggmason.com.au/en/product_performance/australia.aspx)

Legg Mason Australia claims compliance with the Global Investment Performance Standards (GIPS ©), as developed by the CFA Institute.

### Risks

All investments involve risks. Different asset classes have different inherent risk characteristics. As each of the Trusts have different investment objectives and guidelines, their risk profiles are also different. Investors should consider the risk profiles of the Trusts independently of each other, with the assistance of a professional advisor, as required.

Investments in the Trusts are subject to the following specific risks:

- market risks, including changes in interest rates and asset prices, issuer default, unfavourable economic conditions, changes in government regulation, inflation and lack of liquidity (in this context, “lack of liquidity” means investments may not be readily disposed of);
- credit risks, including adverse market or issuer developments, and downgrades to security ratings;
- manager risks, including human error, system failures, poor procedures, lack of management controls, termination of the Trust, counterparty risk, changes in fees, replacement of the Responsible Entity and replacement of Western Asset Australia;
- counterparty risks, including a situation where a counterparty either cannot or will not meet its obligations;
- investment risks, including benchmark performance that is below unitholder expectation and/or the Trust not meeting its investment objective; and
- the risks of implementing investment decisions using derivatives, including market risks, manager risks, counterparty risks, the risks of a derivative position unexpectedly not corresponding with the intended exposure, and the risks of a derivative position inadvertently not being backed by cash, cash equivalents or securities. A derivative position that is not appropriately backed will cause the Trusts to be inadvertently leveraged.

In addition, an investment in the Legg Mason Diversified Fixed Income Trust is also subject to the following specific risk:

- country risks, including adverse political, economic and social developments, different levels of regulatory oversight and adverse currency movements.

Techniques used to manage risks include:

- extensive research;
- active portfolio management;
- monitoring economic factors;
- maintaining disciplined management controls;
- auditing operational procedures; and
- managing derivatives in accordance with Legg Mason Australia’s Derivative Risk Statement, as discussed in the “Derivatives” section of this PDS, including backing derivatives with cash, cash equivalents or securities.

## FEES AND OTHER COSTS

### Consumer advisory warning

#### DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

#### TO FIND OUT MORE

If you would like to find out more, or see the impact of fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.

### Fees and other costs table

This table shows fees and other costs that you may be charged. These fees and other costs may be deducted from your money, from the returns on your investment or from the Trusts assets as a whole. Investors investing through an investor directed portfolio scheme ("IDPS") or a master trust should note that the fees outlined in the following table do not include any other fees imposed by the IDPS or master trust operator.

Type of fee or cost	Amount	How and when paid
<b>Fees when unitholder money moves in or out of the Trust <sup>(1)</sup></b>		
<b>Establishment fee</b> The fee to open your investment	Nil.	Not applicable.
<b>Contribution fee</b> The fee on each amount contributed to the unitholder's investment	Nil.	Not applicable. However, under the Constitution of each Trust we may charge a Contribution Fee of up to 2%.
<b>Withdrawal fee</b> The fee on each amount the unitholder takes out of their investment	Nil.	Not applicable. However, under the Constitution of each Trust we may charge a Contribution Fee of up to 2%.
<b>Termination fee</b> The fee to close the unitholders investment	Nil.	Not applicable.
<b>Management costs <sup>(2)</sup> The fees and costs for managing the unitholder's investment</b>		
<b>Investment costs</b>		
LEGG MASON AUSTRALIAN BOND TRUST	0.329% p.a. of the NAV, equating to \$1,645 p.a. for a constant investment of \$500,000.	Please see "Investment costs" under the heading "Additional explanation of fees and costs".
LEGG MASON AUSTRALIAN CREDIT TRUST	0.431% p.a. of the NAV, equating to \$2,155 p.a. for a constant investment of \$500,000.	
LEGG MASON CASH PLUS TRUST	0.277% p.a. of the NAV, equating to \$1,385 p.a. for a constant investment of \$500,000.	
LEGG MASON DIVERSIFIED FIXED INCOME TRUST	0.482% p.a. of the NAV, equating to \$2,410 p.a. for a constant investment of \$500,000.	
<b>Other Trust costs (estimated)</b>		
LEGG MASON AUSTRALIAN BOND TRUST	0.038% p.a. of the NAV, equating to \$190 p.a. for a constant investment of \$500,000.	Where such costs can be reliably estimated they are accrued throughout the financial year, reflected in unit prices and deducted from the respective Trusts at time of payment. Otherwise they are reflected in unit prices upon invoice and deducted from the respective Trust at time of payment.
LEGG MASON AUSTRALIAN CREDIT TRUST	0.060% p.a. of the NAV, equating to \$300 p.a. for a constant investment of \$500,000.	
LEGG MASON CASH PLUS TRUST	0.056% p.a. of the NAV, equating to \$280 p.a. for a constant investment of \$500,000.	
LEGG MASON DIVERSIFIED FIXED INCOME TRUST	0.101% p.a. of the NAV, equating to \$505 p.a. for a constant investment of \$500,000.	
<b>Service fees</b>		
<b>Investment switching fee</b> The fee for changing investment options	Nil.	Not applicable.

(1) Please see "Buy/Sell Spread" and "Duty" under the heading "Additional explanation of fees and costs".

(2) Please see "Negotiated fees" under the heading "Additional explanation of fees and costs".

## ADDITIONAL EXPLANATION OF FEES AND COSTS

### Investment costs

The Investment costs identified in the “Fees and other costs” table comprise a Management Fee and a Responsible Entity Fee, as identified in the following.

Please refer to the following “Classes of units” section for information on how the Management Fee is calculated and charged. The Responsible Entity Fee is reflected in unit prices and deducted from the Trusts quarterly in arrears.

Trust	Management Fee	Maximum Management Fee chargeable <sup>(1)</sup>	Responsible Entity Fee	Maximum Responsible Entity Fee chargeable <sup>(1)</sup>
Legg Mason Australian Bond Trust	0.308% p.a.	0.410% p.a.	0.021% p.a.	0.082% p.a.
Legg Mason Australian Credit Trust	0.410% p.a.	0.410% p.a.	0.021% p.a.	0.031% p.a.
Legg Mason Cash Plus Trust	0.256% p.a.	0.256% p.a.	0.021% p.a.	0.123% p.a.
Legg Mason Diversified Fixed Income Trust	0.461% p.a.	1.025% p.a.	0.021% p.a.	0.123% p.a.

<sup>(1)</sup> This is the maximum fee which may be charged under the Constitution.

### Negotiated fees

Legg Mason Australia may negotiate differential fee arrangements. Please contact Legg Mason Australia to determine eligibility. There is no particular manner in which fees may be negotiated.

### Other Trusts costs (estimated)

The Other Trusts costs identified in the “Fees and other costs” table are based on the estimated expenses that may be incurred for a financial year. Under the Constitution of each Trust, Legg Mason Australia is entitled to recover from the Trusts all expenses which are incurred in the proper performance and exercise of its powers and duties. Consequently, the expenses that are actually recovered may be higher than the estimated Other Trusts costs.

Other Trusts costs include the fees, costs and expenses of the Trusts (including those of the Responsible Entity, the Custodian and the Administrator). Other Trusts Costs may also include financial institution fees, costs of unitholders’ meetings, costs of amending the Constitution of each Trust, costs of engaging auditors and/or other advisers, costs of promoting the Trusts, costs of compliance, costs of New South Wales duty and administrative costs generally.

### Transactional and operational costs

In addition to the Other Trusts costs, the Trusts may incur transactional and operational costs such as brokerage, settlement and clearing costs. Transactional and operational costs incurred as a result of unitholders coming into and going out of the Trusts may be accounted for in the Buy/Sell Spread. Other transactional and operational costs are additional costs to unitholders that are deducted from the assets of the Trusts. Such costs are recovered as they are incurred and reflected in the unit price.

It is not possible to come up with a meaningful estimate of transactional and operational costs because the turnover in the underlying assets may change substantially as investment and market conditions change, which may affect the level of transactional and operational costs not covered in the Buy/Sell Spread. Further, due to the highly variable drivers upon which such transactional and operational costs are dependent, any estimate provided may not be indicative of future transactional and operational costs not covered in the Buy/Sell Spread.

## ADDITIONAL EXPLANATION OF FEES AND COSTS - CONTINUED

### Buy/Sell Spread

The Buy/Sell Spread represents an allowance for the estimated costs of trading securities as a consequence of unitholders transacting. The Buy/Sell Spread seeks to ensure that the interests of existing unitholders are not diluted by transacting unitholders. Legg Mason Australia does not benefit from the Buy/Sell Spread.

The following table identifies the Buy/Sell Spreads of the Trusts.

Trust	Buy Spread	Sell Spread
Legg Mason Australian Bond Trust	+0.04% relative to NAV	-0.04% relative to NAV
Legg Mason Australian Credit Trust	+0.05% relative to NAV	-0.05% relative to NAV
Legg Mason Cash Plus Trust	+0.03% relative to NAV	-0.03% relative to NAV
Legg Mason Diversified Fixed Income Trust	+0.06% relative to NAV	-0.06% relative to NAV

### Changes to the fees and expenses

All fees and expenses can change, without the consent of unitholders, subject to any maximum amount specified in the Constitution of each Trust.

### Rebates and related payments

Legg Mason Australia complies with the Guide on Rebates and Related Payments in the Wealth Management Industry and the Code of Practice on Alternative forms of Remuneration issued by the Investment and Financial Services Association/Financial Planning Association. Legg Mason Australia may make product access payments and fund manager payments to IDPS and master trust operators. Legg Mason Australia may also pay other alternative forms of remuneration. Alternative remuneration is at Legg Mason Australia's expense. Information regarding alternative forms of remuneration is maintained on a register maintained by Legg Mason Australia that is available for inspection.

## Indirect Cost Ratio

The Indirect Cost Ratio is the ratio of the Trusts' management costs that are not deducted directly from a unitholder's account, against the Trusts' total average net assets. The Indirect Cost ratio is the sum of the Management costs that are described in the "Fees and other costs" table. The Indirect Cost Ratio of each of the Trusts is calculated each year at 30 June.

The following table identifies the Indirect Cost Ratios of the Trust for the year to 30 June 2008

Trust	Indirect Cost Ratio for the year to 30 June 2008
Legg Mason Australian Bond Trust	0.367%, equating to \$1,835 p.a. for an investment of \$500,000
Legg Mason Australian Credit Trust	0.491%, equating to \$2,455 p.a. for an investment of \$500,000
Legg Mason Cash Plus Trust	0.333%, equating to \$1,665 p.a. for an investment of \$500,000
Legg Mason Diversified Fixed Income Trust	0.583%, equating to \$2,915 p.a. for an investment of \$500,000

## Example of annual fees and costs

This table provides an example of how fees and costs for the Legg Mason Australian Bond Trust can affect your investment over a one year period. You should use this table to compare the Legg Mason Australian Bond Trust with other managed investment products.

Example – Legg Mason Australian Bond Trust	Balance of \$500,000 with total contributions of \$5,000 during year	
Contribution fees <sup>(1)</sup>	Nil.	For every \$5,000 you put in, you will be charged nil.
Plus management costs	0.367%	And for every \$500,000 you have in the Legg Mason Australian Bond Trust you will be charged \$1,835 each year.
Equals cost of fund		If you put in \$5,000 during a year and your balance was \$500,000, then for that year you will be charged fees of \$1,835 <sup>(1)</sup> .
		<b>What it costs you will depend on the Trust you choose and the fees that you negotiate.</b>

(1) The Buy/Sell Spread also applies.

## Classes of units

Legg Mason Australia currently offers two classes of units – Class A units and Class X units. Legg Mason Australia may offer or withdraw classes of units. Eligible investors should nominate which class of units they are applying for. In the absence of a nomination, new investors will be issued with class A units. The rights of a unitholder differ depending upon the class of units that the unitholder holds, as follows:

Class A units reflect the deduction of the Management Fee from the unit price; and

Class X units do not reflect the deduction of the Management Fee in the unit price. The Management Fee is agreed by negotiation and charged separately.

## Unit price calculation

Entry and Exit Prices are based on the NAV of each Trust, the number of units on issue and the Buy/Sell Spread. In normal circumstances, Entry and Exit Prices will be determined for each Business Day. Legg Mason Australia may declare Entry and/or Exit Prices more or less frequently or may delay calculation in certain circumstances.

Legg Mason Australia has a policy in relation to exercising discretion in calculating unit prices which is available upon request.

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## Application for and redemption of units

Application requests received before 11.00 am on a Business Day will generally receive the Entry Price for that Business Day. Application requests received after 11.00 am on a Business Day will generally receive the Entry Price for the next Business Day. Legg Mason Australia reserves the right not to accept an application request.

Redemption requests received before 11.00 am on a Business Day will generally receive the Exit Price for that Business Day. Redemption requests received after 11.00 am on a Business Day will generally receive the Exit Price for the next Business Day.

Your units may be compulsorily redeemed or a redemption request refused where you hold less, or a redemption would cause you to hold less, than the minimum holding amount (unless the redemption request relates to the balance of your holding). Legg Mason Australia may compulsorily redeem your units if you cease to be, or cannot prove that you are, an Eligible Investor.

## Payment of redemptions

Redemption proceeds are typically paid within five Business Days, although the Constitution of each Trust allows us up to 30 Business Days or longer in certain circumstances. Legg Mason Australia may deduct money owed by you from a redemption. Proceeds from redemption will be paid in accordance with the unitholders' instructions or as agreed with Legg Mason Australia.

Redemption requests of more than 5% of the units on issue in any of the Trusts may be treated as five separate requests, each for 1/5 of the original request received on five successive Business Days. Redemption requests of more than 10% of the number of units on issue in any of the Trusts over five consecutive Business Days may have the excess paid within 45 Business Days of the original request.

The Constitution of the Legg Mason Australian Credit Trust allows us to deduct from the proceeds of any redemption request or withdrawal offer, the shortfall between the redemption proceeds for any asset and the valuation amount.

## Distributions

The Trusts may distribute income at 31 December and will distribute any income at 30 June each year.

A unitholder's entitlement to distributions of income is determined based on the number of units held on the distribution date. Unitholders who redeem units during a distribution period will not receive a distribution of income in respect of those units for that distribution period. The amount of the income distributed to the unitholder will also depend on the class of units held, to reflect the different management fee arrangements for the different classes.

You may use the "Standing Application for Units" form to reinvest distributions. Reinvested distributions will be taken to be issued on the next day after the distribution calculation date.

## Derivatives

Derivatives may be used to implement investment decisions. In this context, "derivatives" are financial products whose return is linked or derived from changes in the value of an underlying asset. Derivatives are generally more timely and cost effective to buy and sell than the underlying asset. Derivatives are not used for speculation where speculation is defined as derivatives activity that would result in the net exposure being outside of the Investment Guidelines. Derivative positions are fully backed by cash, cash equivalents or securities, or other financial instruments in certain cases, and are governed by Legg Mason Australia's Derivative Risk Statement, available at [www.leggmason.com.au/en/fiduciary\\_standards/index.aspx](http://www.leggmason.com.au/en/fiduciary_standards/index.aspx)

## Custodian and Administrator

State Street Australia Limited is the Custodian of the Trusts. State Street Australia Limited also provides administration services for the Trusts pursuant to an Administrative Services Agreement. State Street Australia Limited does not oversee Legg Mason Australia's management of the Trusts and is not responsible for protecting the rights and interests of unitholders. Legg Mason Australia can terminate State Street Australia Limited's appointment as Custodian and/or Administrator in the circumstances specified under respective agreements governing these relationships.

As the register for the Trusts is located in New South Wales, certain transactions (including transferring units to another person) may be subject to stamp duty. Please speak to your professional financial advisor for information about how duty may apply to a particular transaction.

## OTHER RIGHTS & OBLIGATIONS

### The Responsible Entity and the Constitution of each Trust

The Constitution of each Trust, the Corporations Act and general legal principles govern Legg Mason Australia's responsibilities as the Responsible Entity of the Trusts. Legg Mason Australia's duties include acting honestly and in the best interest of unitholders; to treat unitholders of the same class equally and unitholders of different classes fairly; and to exercise care and diligence. The terms and conditions of the Constitution of each Trust are binding on Legg Mason Australia and on unitholders. Some of the key terms and conditions of the Constitution of each Trust and/or the Corporations Act include:

- the nature and entitlements of units in the Trusts;
- amendments to the Constitution of each Trust and how meetings of unitholders can be called and operated;
- termination of the Trusts and the retirement of Legg Mason Australia as Responsible Entity;
- the powers of Legg Mason Australia to make investments on behalf of the Trusts;
- the considerations and powers of Legg Mason Australia in accepting applications and paying redemptions;
- the processes and procedures when one or more of the Trusts is not liquid;
- the indemnity which Legg Mason Australia is owed by the Trusts; and
- details of the Compliance Committee and the Compliance Plan.

Legg Mason Australia will provide investors with a free copy of the Constitution for each Trust upon request.

### Reporting

Legg Mason Australia will confirm transactions to unitholders in the Trusts and provide quarterly reporting that identifies the Trusts' investment performance, provides market commentary, documents the units issued and/or redeemed over the quarter and the balance of units held. Unitholders will be sent the respective audited accounts of the Trusts and other information as required under the Corporations Act at financial year's end.

### Investing via an IDPS or a master trust

Investors accessing the Trusts indirectly through an IDPS or a master trust do not acquire the rights of a unitholder. Rather, the operator acquires the units and the rights of a unitholder, meaning that the right to receive distributions, confirmations, reports, attend meetings and make complaints. The rights of IPDS or master trust investors, including the taxation implications of investing, should be set out in disclosure documents issued by the IPDS or master trust operator.

### Related party dealings

Legg Mason Australia may transact business with related parties on "arms' length" terms, whether the related party acts as agent or principal. Legg Mason Australia may delegate its functions to related parties or other third parties. Legg Mason Australia may invest in other trusts for which we are the Responsible Entity.

### Anti-money laundering

Anti-money laundering laws in Australia may require Legg Mason Australia to obtain additional information to verify the identity of an investor, any underlying beneficial owner of units in the Trusts and the source of any payment. The processing of

applications or redemptions may be delayed or suspended until the requested information is provided in a satisfactory form.

### Complaints

To make a complaint, a unitholder should initially contact Legg Mason Australia. If the complaint is not satisfactorily resolved, the unitholder's complaint should be forwarded in writing. Legg Mason Australia will acknowledge receipt of the written complaint within 14 Business Days. Legg Mason Australia will formally respond to the complainant within 45 days to advise the complainant of the outcome of the investigation, the proposed course of action and any further avenues available.

Legg Mason Australia is a member of the Financial Ombudsman Service Limited, a body set up specifically to resolve complaints from investors. The Financial Ombudsman Service Limited can be contacted on 1300 780 808.

### Privacy

Legg Mason Australia collects personal information from unitholders to process applications, administer investments and provide unitholders with services related to their investments. To do that, Legg Mason Australia may disclose a unitholder's personal information to third party agents, contractors or service providers to whom we outsource services such as mailing functions, registry and accounting. If a unitholder does not provide us with requested information we may not be able to process the application.

Legg Mason Australia's privacy practices are contained in a Privacy Policy. The Privacy Policy is available on Legg Mason Australia's website at [www.leggmason.com.au](http://www.leggmason.com.au)

Legg Mason will provide investors with a free copy of the Privacy Policy upon request.

The information set out below is a broad overview of some of the tax consequences for Australian residents of investing in the Trusts. It does not take into account the specific circumstances of each unitholder that may invest in the Trusts and should not be used as the basis upon which potential unitholders make an investment decision.

This information has been prepared based on Australian tax law and administrative and judicial interpretations of such as at the date of this PDS.

This summary does not take into account the position of unitholders who are assessed on their disposal of units otherwise than under the Australian capital gains tax provisions, such as unitholders who are in the business of trading or dealing in units or securities.

The taxation implications of investing in the Trusts are particular to each unitholder's circumstances. Legg Mason Australia recommends that you seek professional tax advice, particularly if, for Australian tax purposes, you are not a resident of Australia or you are a "temporary resident" of Australia. Nothing contained in this PDS should be construed as the giving of, or be relied upon, as tax advice.

## Taxation of the Trusts

No Australian income tax should be payable by the Trusts on the income of the Trusts provided unitholders of the Trusts become presently entitled to all of the taxable income of the Trusts each financial year. Legg Mason Australia intends to take all reasonable steps to ensure that these requirements are satisfied.

The taxable income of the Trusts which Australian resident unitholders become entitled to during a financial year (including any reinvested income) should form part of their assessable income for that year, even though payment may not occur until some time later.

The Trusts will issue a distribution statement following any distribution at 31 December. The Trusts will also issue a distribution statement and a tax statement following the Trusts' financial year end at 30 June. These statements will detail the distribution paid and any relevant tax information relating to the distribution, including any foreign taxes withheld.

The tax consequences for unitholders of the receipt of distributions depends on the components of the income distributions they are entitled to.

The taxation of managed investment trusts (including the characterisation of gains and losses on the sale of certain assets) is under review by the Australian Taxation Office and the Board of Taxation. Investors should monitor developments.

## Capital gains

The disposal of certain investments by the Trusts may give rise to capital gains for the Trusts. Accordingly, the distributions that a unitholder receives from the Trusts may include a component of taxable capital gains, which should be included in the unitholder's assessable income.

The inclusion of non-assessable amounts in the distributions made by the Trusts may have capital gains tax consequences for unitholders. However, where a component of a distribution is non-assessable as a result of the discount capital gains concession, the unitholder should not be required to adjust the cost base of their unit.

## Foreign income and tax credits

The Trusts may realise assessable foreign sourced income from their investments. Assessable foreign sourced income may be included in the distributions made to unitholders.

Unitholders may be entitled to claim a tax offset in respect of certain foreign taxes withheld from foreign sourced income realised by the Trusts. The tax statement provided should include details of any foreign tax withheld from foreign sourced income realised by the Trusts.

## Other gains

The Trusts may realise other types of assessable income, for example, gains arising on certain derivatives which may be entered into by the Trusts.

As the Trusts' investments may be denominated in a currency other than Australian dollars, the Trusts may realise foreign currency gains in certain circumstances. Distributions to unitholders may include distributions of foreign currency gains.

## Foreign investment fund regime

Under the foreign investment fund ("FIF") regime, taxpayers may be subject to tax on their investments in certain foreign resident companies and trusts on an accruals basis, i.e. on any gains in the value of the investment from year to year, even where those gains are unrealised. If the Trusts hold interests which are subject to taxation under the FIF regime, then the Trusts may distribute amounts to unitholders on account of any assessable income realised by the Trust as a result of the application of the FIF regime.

It is not anticipated that the Trusts would hold any interests which are subject to taxation under the FIF regime.

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## **Disposal or redemption of units by unitholders**

Under the capital gains tax provisions, unitholders who redeem or otherwise dispose of their units in the Trusts may realise a capital gain or loss on the redemption or disposal. The amount of the capital gain or loss should, broadly, equal the excess of the consideration they receive in respect of the redemption or disposal over the cost base of their unit.

Unitholders may be able to claim the capital gains tax discount to reduce any net capital gain arising on the disposal or redemption of their units if they have held their units for 12 months or more prior to the disposal or redemption and the relevant conditions are satisfied.

## **Tax File Number or Australian Business Number**

Collection of tax file numbers ("TFN") is authorised and the use and disclosure of TFNs are strictly regulated by the tax laws and the Privacy Act. Unitholders may, but are not required to, quote a TFN, a TFN exemption or, if your investment is made in the course or furtherance of an enterprise carried on by you, an ABN.

If a unitholder does not provide a TFN or an ABN, withholding tax may be deducted from distributions made to the unitholder.

## **GST**

Unitholders should not be subject to GST on applications to or redemptions from the Trusts. The Trusts may incur GST in respect of various supplies that it acquires. However, a RITC may be available to the Trusts on certain supplies.

# HOW TO TRANSACT

Complete the "Standing Application for Units" form and send it to:

## Mail

State Street Australia Limited  
Unit Registry  
Level 7 State Street Centre  
338 Pitt Street  
Sydney NSW 2000

## Facsimile

+612 9323 6411; or +612 9323 6420

The "Standing Application for Units" form can be obtained by contacting Legg Mason Australia; it is also available at [www.leggmason.com.au](http://www.leggmason.com.au)

In the case of joint applications, all applicants must sign. Applications lodged by companies must be signed in accordance with their constitution. Applications by trustees must be made in the name of, and signed by, the trustees. If an applicant wishes to specify individuals who have authority to act on their behalf in relation to their investment, they may do so by completing the "Authorised Signatories" section. The same person or persons who sign the "Standing Application for Units" form should sign the "Authorised Signatories" section.

## Sending Instructions by Facsimile

Applicants providing authorised instructions by facsimile are subject to the following terms and conditions:

- Legg Mason Australia will accept applications, redemptions and instructions to change an applicants' details (including authorised signatories details, bank account details and reinvestment requests) by facsimile;

- Legg Mason Australia has absolute discretion in determining whether or not to follow instructions received by facsimile; and
- the applicant will release and indemnify Legg Mason Australia from any and all responsibility for any and all costs, claims, losses or liabilities of any nature (both direct and indirect) resulting from any act or omission of action relating to use of the facsimile facility.

## If application is made by cheque

Forward the cheque to:

Urgent Delivery Prior To 11.00 am

State Street Australia Limited  
Unit Registry  
Level 7 State Street Centre  
338 Pitt Street  
Sydney NSW 2000

For the LEGG MASON AUSTRALIAN BOND TRUST, make cheque payable to "State Street Bank & Trust Company - Unitholder name YM03".

For the LEGG MASON AUSTRALIAN CREDIT TRUST, make cheque payable to "State Street Bank & Trust Company - Unitholder name YM24".

For the LEGG MASON CASH PLUS TRUST, make cheque payable to "State Street Bank & Trust Company - Unitholder name YM41".

For the LEGG MASON DIVERSIFIED FIXED INCOME TRUST, make cheque payable to "State Street Bank & Trust Company - Unitholder name YM61".

## If application is made by Austraclear

Funds should be transferred to Austraclear code SSBS20. The Applicant must ensure they quote their Austraclear code on the "Standing Application for Units" form.

## If application is made by Electronic Funds Transfer (Real Time Gross Settlement)

Applications made by Electronic Funds Transfer must be sent by Real Time Gross Settlement. Applications received through Electronic Funds Transfer are subject to confirmation (to Legg Mason Australia) of receipt of funds (from the Custodian), which is subject to a minimum 24 hour delay. Legg Mason Australia may exercise discretion to issue units prior to receiving confirmation of funds from the Custodian.

## Electronic Funds Transfer details via Real Time Gross Settlement are:

<b>Bank name:</b>	State Street Bank & Trust Company
<b>Acc:</b>	State Street Bank & Trust Co Sydney Branch – Capital Markets
<b>BIC No:</b>	SBOS AU2X
<b>BSB:</b>	913 001
<b>Account No.:</b>	958 2131
<b>Reference:</b>	YM03 (for the Legg Mason Australian Bond Trust)
	YM24 (for the Legg Mason Australian Credit Trust)
	YM41 (for the Legg Mason Cash Plus Trust)
	YM61 (for the Legg Mason Diversified Fixed Income Trust)

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