

# Legg Mason Cash Plus Trust

## Objective

The Trust aims to earn a before fees and taxes return of 0.60% p.a. in excess of the benchmark over rolling one-year periods.

## Benchmark

UBS Australian Bank Bill Index.

## Value

\$44,307,839.

## Performance (before fees and taxes)

	Trust %	Benchmark %
3 months	1.58	1.12
1 year	8.83	3.89
3 years p.a.	5.09	5.56
5 years p.a.	5.66	5.77

Past performance is no indication of future performance.

## Profile

Sector Allocations	Trust %
Government/supranational	0.0
Corporate investment grade	34.2
High yield	0.3
Mortgage and asset backed	40.5
Cash and cash equivalents	25.0

## Market Review

The June quarter brought about a sudden halt to the recent pattern of global economic consolidation. Although there were periods of relative stability in terms of broad indices and market data, there were also times where markets were battered by eurozone uncertainty and the threat of a global double dip recession. Only the announcement of European Central Bank and International Monetary Fund backing of the euro currency and member states returned relative normalcy to global markets.

Australian data broadly reflected the global dichotomy, with higher than expected inflation and declining unemployment figures contradicted by softer March quarter gross domestic product growth, building approvals and confidence surveys. The Reserve Bank of Australia began the period continuing its tightening philosophy as it reduced the target cash rate by 0.25% to 4.50%. However, by June it was clear that there was a need to pause. The most recent meeting minutes even implied a loosening of monetary policy due to the reversal of conditions. Bank bill yields increased in line with Reserve Bank targeting and subsequent commentary.

Government bond yields moved 0.7% to 0.8% lower at the 3 and 10 year points of the curve, which caused a slight steepening. Credit markets followed the global lead, with spread contraction early in the quarter more than offset by sharp widening as the eurozone crisis hit its peak. By the end of the quarter, credit spreads had rallied and stabilised.

Various indicators clearly showed the market aversion to risk assets, with both the ASX200 and the U.S. S&P500 index significantly down over the quarter. The Australian dollar was also caught up in the global flight to safety, down around 6% in trade weighted terms and around 9% against the U.S. dollar.

## Performance

The Legg Mason Cash Plus Trust outperformed its benchmark by 0.5% over the quarter. Portfolio performance over the past year was 4.9% ahead of benchmark.

The portfolio retained an overweight exposure to corporate debt, with an emphasis on the Financials sub sector. Although spread sector assets produced mixed returns over the quarter, the portfolio's exposure to corporate debt outperformed, largely as a result of performance generated during April. Elsewhere, the portfolio's allocation to asset backed securities added value given the higher running yield.

Portfolio interest rate strategies detracted value over the quarter, as a short relative duration position magnified the effects of sharply lower bond yields brought about by global uncertainty.

## Outlook

Domestic gross domestic product growth is expected to move towards trend in 2010/11. As government stimulus begins to wind down, a self sustaining growth phase is expected to ensue.

Inflation is forecast to remain in the upper band of the Reserve Bank's target range and may push above the band over the short-term due to one-off items. High inflation is expected to continue to pressure the Reserve Bank as strength in the mining sector may lead to wage and cost pressures, as witnessed in 2007/08.

With Australia's labour market in very good shape and broader economic growth strengthening, cash rates are expected to continue to move higher throughout 2010, with an expectation that rates could reach around 5% by the end of the year.

Portfolio duration is expected to be tactically managed as volatility is likely to remain high while markets debate the speed of the global recovery, the possible return of inflation and sovereign risk issues.

The portfolio maintains an overweight position in corporate bonds, with emphasis on Financials, as market valuations and increased regulation provide significant appeal despite spreads tightening over the past year. We are also selectively buying primary corporate deals in industries that will benefit from an economy that has returned to growth and in those that have de-leveraged, namely property trusts and infrastructure.

The portfolio continues to maintain an overweight exposure to asset backed securities, with a focus on high quality residential mortgage backed securities with strong collateral, as they continue to be a attractively priced.

## Further Information

Credit Allocation	Trust %
AAA	49.8
AA	15.0
A	23.8
BBB	11.1
Below BBB	0.3
Duration (years)	-0.1