

Legg Mason Western Asset 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

\$44,824,541

Performance (before fees and taxes)

| | Trust % | Benchmark % |
|--------------|---------|-------------|
| 1 month | 0.47 | 0.39 |
| 3 months | 1.28 | 1.21 |
| 1 year | 5.39 | 4.89 |
| 3 years p.a. | 6.92 | 4.34 |
| 5 years p.a. | 5.61 | 5.46 |

Past performance is no indication of future performance.

Profile

| Sector Allocations | Trust % |
|-------------------------------|---------|
| Semi-Government/supranational | 0.5 |
| Corporate investment grade | 35.3 |
| High yield | 0.0 |
| Mortgage and asset backed | 39.2 |
| Banking government guaranteed | 18.8 |
| Cash and cash equivalents | 6.1 |

Market Review

Markets rebounded in October from September's depressed levels, but the cautious optimism about European leaders' ability to provide a palatable and sustainable solution to Europe's fiscal and sovereign problems eventually gave way to disappointment. October's gains on risk assets were largely eroded by the end of the quarter.

The Reserve Bank of Australia (RBA) was sufficiently concerned about the downstream effect on Australia's economy that it decided to lower the cash rate by 25 basis points (bps) for first time since April 2009 and followed up with a further 25 bps cut at its December meeting. The cash rate finished 2011 at 4.25% as the central bank indicated that areas outside Europe, particularly Asia, were beginning to feel the economic effects of the European problems. The rate cuts were delivered as the RBA noted that declining inflationary pressures in food, commodities and wages afforded the central bank room to move from a slightly restrictive monetary policy to a marginally accommodative stance.

The broad Australian fixed-income market returned 1.94% for 4Q11, according to the UBS Composite Bond Index, as yields declined across the yield curve and the yield curve flattened in the three- to 10-year range. The 10-year government bond yield hit its lowest level in over 50 years in the last days of December, finishing at 3.67%, well below the cash rate

Domestic credit spreads moved wider over the quarter, and European supranational issuers were scrutinised as much as corporate issuers. Equities managed to hold onto a positive return for the quarter, with the S&P/ASX 200 returning 1.2%, having gained as much as 7.2% through the end of October.

The Australian dollar outperformed all major currencies in the December quarter, but remained volatile and traded in a 12-cent range relative to the US dollar, dipping below parity on three occasions as bouts of negative sentiment caused flights to the safety of the US dollar and Japanese yen. The Australian dollar gained 5.7% on the US dollar, and its trade-weighted index gained 4.3% over the quarter.

Performance

The Legg Mason Western Asset Cash Plus Trust slightly outperformed its benchmark over the quarter.

Relative performance was driven by two contrasting factors: stock selection generated solid outperformance, but was partly offset by interest rate positioning.

Portfolio duration positioning remained short relative to the benchmark and detracted as bond yields continued to push deep below cash amid foreign investors' continued search for higher yielding safe-haven assets. Positioning for a flatter yield curve brought marginal benefit, as the yield curve flattened approximately 6 bps over the quarter. Although credit spreads edged wider, the drag created by the duration bet was overcome by the running yield provided by both the asset-backed and corporate allocations. The best examples of this came from local bank holdings CBA, NAB and Suncorp..

Outlook

We forecast domestic GDP to grow at around trend level (3.0%–3.5%) in 2012 and 2013. We recognise that the challenges faced in Europe have resulted in slowing economic conditions there and, in turn, pose challenges to broader global growth. However, we are constructive on the US economic recovery (albeit at a slow pace), and recent data have been supportive of this position. We also believe that Chinese authorities have the will and the means to navigate external challenges to China's economy to ensure that growth there remains solid. Such factors are supportive of our domestic growth outlook. Unemployment is currently hovering at 5.2%–5.3%, but we expect it to drift higher and peak at around 5.5% before edging lower as a large uptick of employment begins to take hold in Western Australia and Queensland due to new projects coming on line. An improvement in sentiment for the rest of the economy should further aid the decline in the unemployment rate through 2012.

Inflation is continuing to drift lower at both the headline and core levels. It no longer poses the risk that it did six months ago, thanks to a slowdown in the non-mining sectors and the restoration of agricultural crops damaged in weather catastrophes in early 2011. The RBA has signalled that it is comfortable with current levels of inflation, which give the central bank the scope to further respond to global challenges, particularly those posed by Europe, should the need arise.

Technical issues have continued to push bond yields deep below the current cash rate and at a level that we consider very expensive, considering fundamentals. Duration positioning will therefore be tactical, with a short duration bias relative to the benchmark. Volatility is likely to remain high while markets consider the fragile state of developed-nation economies and continue to test the eurozone's resolve to stand by its member countries and their financial systems.

We maintain a defensive strategy via government-guaranteed bank issues, which offer the assurance of the Commonwealth Government with greater yield benefit

We maintain an allocation in corporate bonds, with an emphasis on large financials, as market valuations and increased regulation continue to appeal. We are also selectively buying primary corporate deals in industries that will benefit from an economy that is returning to trend growth, as well as industries that have deleveraged, namely property trusts and infrastructure.

We continue to hold asset backed securities focusing on high quality RMBS with strong collateral which continue to offer attractive pricing.

As a defensive strategy, we will also maintain an allocation to government-guaranteed bank issues which offer the assurance of the Commonwealth Government with greater yield benefit.

Further Information

| Credit Allocation | Trust % |
|-------------------|---------|
| AAA | 52.3 |
| AA | 16.0 |
| A | 24.1 |
| BBB | 7.5 |
| Below BBB | 0.0 |
| Duration (years) | -0.27 |