LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason
Property Securities Trust

2 Objective

The Trust aims to earn a before fees and taxes return of 1.5% p.a. in excess of its benchmark over rolling three year periods.

Benchmark

S&P/ASX 200 A-REIT Accumulation Index.

Value

$173,641,178.

Performance (before fees & taxes)

	Trust %	Benchmark %
3 months	-0.85	-1.31
1 year	-0.33	-0.41
3 years p.a.	-22.87	-20.92
5 years p.a.	-10.80	-9.50

Past performance is no indication of future performance.

Profile

Overweight Positions	Active %
EDT Retail	+6.6
Charter Hall Office REIT	+5.5
Charter Hall Retail REIT	+4.6
Lend Lease	+2.6
Stockland	+2.4

Underweight Positions	Active %
Goodman Group	-6.2
CFS Retail Property Trust	-6.2
Westfield Group	-4.7
Mirvac Group	-3.4
ING Office	-2.4

Market Review

Investment markets gained ground over the December quarter as investors were generally positive on the economic outlook heading into 2011. This reflected positive momentum in macro data, particularly further quantitative easing in the U.S.

Concerns around European sovereign debt contagion and increased interest rates in China tempered the gains of a number of equity markets. The Australian real estate investment trust ("REIT") market returned -1.3% over the quarter, as measured by the S&P/ASX 200 Accumulation Index.

The Australian REIT sector underperformed the broader Australian equity market by 5.7% over the quarter as Materials and Energy stocks outperformed during the quarter, in line with higher commodity prices and an increased tolerance for risk.

Westfield Group (-0.2%) was broadly flat as it implemented the demerger of Westfield Retail Trust, which then underperformed its initial offer price. Westfield Retail is a passive, externally managed A-REIT with around $12 billion of assets, which represents around half of Westfield's Australian and New Zealand assets.

Also in corporate activity this quarter, Stockland's (-3.2%) revised offer for retirement operator Aevum was unanimously recommended by the Aevum Board and Goodman Group (+3.1%) finalised its offer to acquire ING Industrial (+8.8%).

Elsewhere in the sector, Charter Hall Office REIT (+20.6%), Lend Lease (+13.4%) and Charter Hall Retail REIT (+6.6%) all gained ground while Valad Property Group (-32.2%) and Commonwealth Property Office Fund (-6.6%) traded lower.

Australian economic releases this quarter saw credit growth, retail sales and house prices all trend lower. However, employment growth remained robust. In October the Reserve Bank of Australia increased the target cash rate by 0.25% to 4.75%, which was quickly followed by a further 0.15% to 0.20% increase to mortgage rates by the major banks.

Meanwhile, the Australian dollar appreciated US4.96 cents against the U.S. dollar to finish the quarter at US$1.02. The Australian dollar has gained US11.94 cents over the past year.

Performance

The Legg Mason Property Securities Trust outperformed its benchmark by 0.5% over the quarter.

The portfolio's overweight exposure to Charter Hall Office (+20.6%), Lend Lease (+13.4%) and Charter Hall Retail REIT (+6.6%) added value. Also aiding portfolio performance this quarter was an underweight exposure to Commonwealth Office Property Fund (-6.6%) and not holding CFS Retail Property Trust (-3.8%).

In the cases of Charter Hall Office and Charter Hall Retail, the market was focused following a move to increased stake in the entities from manager Charter Hall Group (+9.4%) and the stocks outperformed.

Charter Hall Office was also the beneficiary of management's continued focus on re-financing, leasing progress and the potential sale of part of its U.S. portfolio. We are supportive of this strategy as we see significant value in Charter Hall Office's portfolio of domestic commercial properties. The firm also improved its debt position over the quarter.

Consistent with its strategy, Charter Hall Retail announced the sale of its interest in the Desco Regency joint venture, selling its interest back to Regency, as well as the sale of seven U.S. properties. We continue to see significant value in the Charter Hall Retail's high quality portfolio of domestic retail properties.

Meanwhile, Lend Lease gained ground as it announced that it had acquired Valemus Australia for $960 million. Lend Lease is now Australia's second largest contractor in engineering construction and the largest in non residential construction. Lend Lease was also a confirmed bidder to Centro's retail assets, which have now come onto the "for sale" market. The Valemus acquisition arrests the declining work in hand for Lend Lease's construction arm and we like the increased exposure to government spend and the new exposure to civil contracting, where pipeline spend remains robust.

The portfolio's underweight exposure to Commonwealth Office Property Fund and not holding CFS Retail Property Trust also aided performance this quarter as each lost ground. Commonwealth Office was weaker following its Melbourne office acquisitions using expensive equity and CFS Retail underperformed on poor news in the retail space.

Outlook

Our view is that there are significant medium term investment opportunities for Australian REIT investors as the sector remains attractively valued at both the overall market level as well as underlying security level.

At the overall market level, Australian REITs are attractively valued based on implied value relative to unlisted property, global REITs, the broader Australian equity market as well as Australian and global bonds. This is reflected in Goodman Group's recent bid for ING Industrial using unlisted capital sources and augers well for the medium term outlook for the sector.

At the underlying security level, the investment opportunity for selected Australian REITs is compelling as the valuation spread between the most attractive and least attractive securities in the investment universe remains at around three times historical average levels.

Our relatively favourable medium term outlook is supported by the underlying strength of the Australian economy as well as the reduced risk profiles of Australian REITs and their increased focus on traditional property rental streams.

Further Information

Regional Allocations	Trust %	Benchmark %
New South Wales	36.7	38.5
Victoria	10.3	13.9
Queensland	10.1	11.8
Australian Capital Territory	2.6	2.5
Western Australia	5.2	4.9
Other domestic	2.7	3.1
Offshore	32.4	25.3

Sector Allocations	Trust %	Benchmark %
Commercial	24.9	20.7
Retail	62.0	63.0
Industrial	7.8	14.3
Hotels	0.3	0.3
Car park	0.3	0.2
Residential	0.6	0.8
Other	4.1	0.7

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