

Is Legg Mason a tenant in your property securities portfolio?



Australian Property Securities (A-REIT) Outlook

Ashton Reid, Portfolio Manager

We continue to see sizeable medium term investment opportunities for A-REIT investors. However, this is in the context of the wider equity market also looking attractively priced. With the outlook for lower interest rates, the stable dividend yield on offer from the A-REITs also looks increasingly attractive.

At the overall market level, A-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. We continue to see direct property transactions that reaffirm the relatively attractive pricing on offer in the A-REITs. The recent move by A-REITs to initiate stock buybacks should help close this pricing gap.

At the stock level, the investment opportunity for selected A-REITs continues to be attractive. The valuation spread between the most attractive and least attractive securities in the investment universe remains at around two times historical averages. It is pleasing to see these opportunities flow through to outperformance by the Trust over the past year.

Our relatively favourable medium term outlook is supported by increased risk aversion in the wider market and the reduced risk profiles of A-REITs. Having increased focus on traditional property rental streams and reduced gearing continues to see the A-REITs well placed in this environment. The coming results season should re-affirm this point.

Did you know?

- More than 70% of Australians live within a 30 minute drive of a Westfield shopping centre.
- A-REITs have been shaping Australia's property landscape for over a century, with listed player PEET & Co founded in 1890 and Stockland first listed in 1957.
- Australia is at the cutting edge when it comes to real estate and the environment – GPT's latest Sydney office building "Workplace 6" recycles its own waste water, generating a surplus that is used to water the surrounding parks and gardens.

Legg Mason Property Securities Trust

Fund size

\$A150 million

Performance to 29 February 2012 (% before fees p.a.)

	1 yr	2 yr	3 yr	5 yr	10 yr
Fund	4.65	5.96	20.87	-14.68	1.58
Benchmark	0.28	3.57	14.67	-13.92	1.63

Product inception date December 1994.

Putting the GFC years into perspective

A-REIT financial-year returns ending 30 June



Implied asset yield comparison

- 8.6%** Legg Mason Property Securities Trust
- 7.7%** S&P/ASX 200 A-REIT Index
- 5.8%** Global REITs
- 5.4%** Australian 10-year Bond yield

Past performance is not a reliable indicator of future performance.

STOCK STORIES



Charter Hall Retail owns supermarket based retail shopping centres, located predominately in Australia and New Zealand (80% of portfolio and moving higher). Reflecting the defensive nature of its portfolio Woolworths and Wesfarmers (Coles Supermarkets) represent 35% of rental flows.

Why we like Charter Hall Retail

Charter Hall Retail offers an attractive and sustainable dividend yield combined with a:

- long lease expiry profile
- significant discount to realistically struck asset book value, and
- robust growth outlook given the non-discretionary element to its tenant sales.



Lend Lease is a fully integrated property services business operating in Australia, Asia, the UK, Europe, the Middle East and the US. It's main lines of business include: Project Management and Construction, Property and Infrastructure Development, Funds Management and Group Services.

Why we like Lend Lease

- Lend Lease' Valemus acquisition increases exposure to infrastructure, Government and resources spend
- Progress on a large scale development pipeline funded by a switch away from mature low yield rental assets
- Third party capital support produces a cohesive model, bringing capital and developed rental streams together.

* This information is provided for illustrative purposes only and does not constitute a recommendation of any particular securities. Our views are subject to change without notice.

Why allocate to Australian Property Securities?

A-REIT managers have proven skill over their global REIT peers

We believe there's a greater opportunity for A-REITs to outperform their benchmark when compared to global REITs. The median A-REIT manager has achieved a higher excess return than global counterparts over three years.

Local knowledge and home bias can comfort investors

We believe it is advantageous having local knowledge of the property market, while Australian investors derive significant comfort from knowing the buildings and shopping centres in which they invest.

Higher yields and local inflation protection

Higher yields are available in A-REITs (see chart page 1) compared to global REITs, and are more likely to suit the cash flow needs of Australian investors. Rents from A-REITs typically rise in line with inflation, providing a level of protection to local spending power that is generally not available from nominal bonds.

Why active over passive management?

Median A-REIT manager has outperformed the index over long periods

The median A-REIT manager has outperformed the S&P/ASX 200 A-REIT Index over ten years (2.0% versus 1.3% p.a. as at 31 January 2012, pre-fees). We believe this stems from the Australian market being less efficient than the global market, which provides greater opportunities to outperform the benchmark.

Would you lease your own property to poor quality tenants?

A passive A-REIT strategy means forgoing the potential upside of stock selection. With a passive approach, there is no screening out of poorly performing property securities — passive investors get the full mix.

Why Legg Mason for A-REITs?

Long track record of performance, experience and consistent process

The Legg Mason Property Securities Trust has a 15-year track record of outperformance since inception (see page 1). The property team has over 10 years average experience and forms part of the 12-person Legg Mason Australian Equities investment team.

Further information

Please visit www.leggmason.com.au or contact your Business Development Manager.

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