

# Is Legg Mason a tenant in your property securities portfolio?



## Australian Property Securities (A-REIT) Outlook

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A flat growth outlook and relatively stable earnings environment suggest that A-REITs may lack catalysts for near term appreciation. However, our view is that the medium term outlook for the sector is relatively bright as A-REITs have reduced their risk profiles over the past year and they have returned to traditional property rental streams.

We believe that A-REITs' relatively low debt profiles and recapitalised balance sheets have positioned a number of securities to outperform, particularly against unlisted property as well as some of the more highly leveraged Australian equity securities. As a result, A-REITs should produce returns that are less correlated to the equity market than recently experienced.

The outlook for attractive relative returns continues to be strong, while opportunity measures remain at four times normal levels. With a valuation spread between the portfolio and the benchmark that remains significantly wider than normal, we continue to expect to produce above normal portfolio returns over the medium term.

### 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

\$A204 million

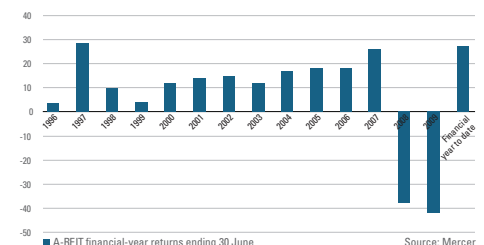
### Performance to 30 April 2010 (% before fees p.a.)

	3 mth	1 yr	3 yr	5 yr	10 yr
Fund	3.9	45.8	-25.2	-7.8	3.8
Benchmark	5.2	37.4	-22.8	-6.3	3.8

Product inception date December 1994.

### Putting the past 2 yrs into perspective

A-REIT financial-year returns ending 30 June



### Implied asset yield comparison

- 8.3%** Legg Mason Property Securities Trust
- 7.1%** S&P/ASX 200 A-REIT Index
- 6.1%** Global REITs, Aust Direct Property
- 5.8%** Australian 5-year Bond yield

Past performance is not a reliable indicator of future performance.

## STOCK STORIES

### DEXUS PROPERTY GROUP

A diversified property group that owns rental assets across office, industrial and retail. With a focus on CBD office properties it is Australia's largest office landlord.

#### Why we like Dexus

- Conservatively managed and balances the needs of property tenants while producing a robust sustainable yield.
- Internalised corporate structure allows for alignment of shareholder interest.
- Dexus trades at a 20% discount to realistic book value.

### VALAD

A property owner and 3rd party fund manager with a focus on multi-let commercial and industrial properties. Valad has an international network of local offices managing A\$12.5 billion of property assets.

#### Why we like Valad

- Despite previous volatility in its share price, the value of Valad's sizeable funds management business and its asset base place the company's value at a substantial premium to its current share price. Valad also has a significant cost reduction program in place.

\* 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 chart opposite shows that 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 300 A-REIT Index over ten years (4.4% versus 3.8% p.a. as at 30 April 2010, 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 with 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](http://www.leggmason.com.au) or contact your Business Development Manager.

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