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Legg Mason
Australian Core Equity Trust

Objective

The Trust aims to earn a before fees and taxes return of 3% p.a. in excess of its benchmark over rolling three year periods.

Benchmark

S&P/ASX 200 Accumulation Index.

Value

$79,323,310

Performance (Before fees and taxes)

	Trust %	Benchmark %
1 month	-4.93	-3.48
3 months	-3.21	-2.83
1 year	-4.70	-5.99
3 years p.a.	9.66	7.97

Past performance is no indication of future performance.

Profile

Overweight Positions	Active %
National Australia Bank	+2.6
Asx Ltd	+2.4
Fairfax Media Limited Holdings	+2.4
ANZ Banking Group	+2.4
Henderson Group	+2.3
Santos Limited	+2.3
Iluka Resources	+2.3
Seek Limited	+2.0
News Corporation	+1.8
Bhp Billiton Ltd	+1.7

Underweight Positions	Active %
Wesfarmers Ltd	-2.2
Westpac Bkg Corp	-2.0
Woodside Petroleum	-1.9
Newcrest Mining Ltd	-1.8
Westfield Group	-1.8

Market Review

In November, equity markets were once again weak, on the back of concerns around a potential European financial meltdown. Increasing yields on Italian Government bonds contributed to increase solvency concerns of the larger European economies. Equities plummeted through the month before rallying near month-end on renewed speculation that the European Central Bank was preparing a new plan to solve the sovereign debt issue.

In Australia, the AGM season continued and most of the companies indicated that the operating environment is still challenging. Defensive names outperformed more cyclical names. REITs, Information Technology and Utilities sectors outperformed, while Financial, Resources and Consumer Discretionary were the laggards. The Australian equity market finished the month down 3.48%, as measured by the S&P/ASX 200 Accumulation Index.

In the Australian bond market, the yield on the Australian 10-year government bonds finished at 3.94%, down from 4.51% at the start of the period.

Australian economic data released during the month were mixed. The Reserve Bank of Australia announced a 25 basis points rate cut on November 1, in line with market expectations. The market has priced in a few more potential rate cuts by June 2012.

The Australian dollar continued to reflect the increase in risk aversion and lost ground against the U.S. dollar. After reaching a low of US0.969 cents during the period, it ended the month at US0.998 cents, down US5.5 cents.

Performance

The Legg Mason Australian Core Equity Trust underperformed its benchmark by 1.4% over the month. Stock selection and sector allocation both detracted value last month.

Most underperformance came from the underweight to defensive sectors like Healthcare, Property, Telecommunications and Gold and from the overweight to Banks.

In terms of stocks, the small overweight position to BlueScope Steel (-47.2%) detracted from performance. The company announced a fully underwritten A$600m equity raising making it clear that immediate financial support was necessary for survival in this environment.

Another negative contributor was the overweight position to Fairfax Media (-11.3%). The company also held its AGM and provided a trading update. Shares fell after the divestment of Marinya Media's 9.7% stake early in the month after a price run up into the TradeMe float (New Zealand's dominant online auction and classified website).

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Meanwhile, the overweight position to Santos (+0.9%) contributed positively to portfolio's performance over the month. The company held an investor seminar and it provided an update on operations and on the outlook. During the month it also announced the acquisition of Eastern Star Gas.

In Materials, shares of James Hardie (+7.5%) outperformed. The company reported strong earnings and a growth in profits. The company benefitted from the strong Australian Dollar but also from a solid performance of its European and US operations.

Another position that added value last month was the overweight to Amcor (+3.4%). Shares were up despite little company specific news as investors preferred defensive names last month on the back of rising risk aversion in the market.

Outlook

Europe and its flow-on effects are clearly the focus of investment markets at the current time. Volatile markets always expose excellent long term investment opportunities and now should not be any different. Given current valuations, we believe the portfolio is well positioned to participate in the eventual recovery.

Abundant cash levels in corporate Australia should lead to higher dividends, merger and acquisition activity, capital expenditure and strong employment levels. This further underpins the case for Australian equities at this time.

In respect of stock specific investment opportunities, we continue to observe a valuation spread between the most attractive and least attractive stocks in the investment universe that is well above historical averages. This signals to us that opportunities for stock selection are abundant and that active management should be handsomely rewarded.

Further Information

Portfolio Characteristics

Number of securities at period end	50

Sector Allocations	Active %
Consumer Discretionary	+3.5
Consumer Staples	-1.1
Energy	-0.2
Financials	+1.1
Health Care	-3.2
Industrials	-2.5
Information Technology	-0.6
Materials	+1.9
Telecommunication Services	-1.0
Utilities	+0.5