

# Legg Mason

## Australian Small Companies Trust

### Objective

The Trust aims to earn a before fees and taxes return of 5% p.a. in excess of its benchmark over rolling three year periods.

### Benchmark

S&P/ASX Small Ordinaries Accumulation Index.

### Value

\$18,130,163

### Performance (Before fees and taxes)

	Trust %	Benchmark %
1 month	-5.32	-3.71
3 months	-5.09	-7.15
1 year	-4.72	-12.09
3 years p.a.	22.18	15.03

Past performance is no indication of future performance.

### 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 small companies sector finished the month down 3.7% as measured by the S&P/ASX Small Ordinaries 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 Small Companies Trust underperformed its benchmark over the month. Performance over the past year was 7.4% ahead of benchmark.

The biggest contributor to performance was from Qube Logistics which rallied 6.8%, a strong return against a backdrop of generally weak market conditions. Qube is a solid business building an integrated network of transport and logistic solutions which is beginning to be recognised by the broader investor community, having now reached a market capitalisation of over A\$1bn.

Spotless Group also helped returns as corporate interest re emerged. Pacific Equity Partners approached Spotless with a conditional proposal to acquire the company at a premium to the current price. This is the second attempt to gain control and again the board of Spotless have stated it's belief that the price undervalues the company in the context of a change of control, however this time we expect further activity with some engagement between the parties.

RCR Tomlinson is a Western Australian based contractor exposed to the wave of investment in mining and infrastructure projects being implemented around Australia. In November the company announced a \$600m contract awarded by Fortescue Metals Group for engineering, procurement, construction and pre-commissioning at the Solomon Mine in Western Australia.

On the negative side our holding of Collins Foods was the most significant under performer. Collins Foods announced a shock profit downgrade after being listed only in August of this year. While never good news, negative surprises in such quick time, after being sold out of private equity are always taken poorly by the market and Collins was no different.

Other negative contributors were holdings in financial stocks IOOF and Henderson which were marked back with weakness of investment markets and predicted slow investment inflows

## Outlook

While markets continue to be dominated by events in Europe we would expect volatility to remain a feature. Australian Small companies have also been hit from a sentiment perspective and there has been evidence of slower business activity as companies seem to be taking a more cautious approach and waiting for the dust to settle. The consumer has also been relatively quiet and on the resources front lower commodity prices have suppressed returns in those sectors.

On a positive note however, successive rate cuts will have an impact on activity at some point and share prices have become a lot more attractive from a pure valuation perspective. Corporate balance sheets are in good shape and the wave of project spending is still very much intact and so we expect there will still be a range of opportunities to enhance portfolio returns over the medium term.

## Further Information

### Top Ten Holdings

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Flexigroup Limited

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Transpacific Industries

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Bradken Limited

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Qube Logistics

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Kathmandu Holdings Limited

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Flight Centre Ltd

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loof Holdings Ltd

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Premier Investment

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Adelaide Brighton

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Emeco Hold Limited

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