

Legg Mason

Australian Value Equity Trust

Objective

The Trust aims to earn a before fees and taxes return of 3.5% p.a. in excess of its benchmark over rolling three year periods.

Benchmark

S&P/ASX 200 Accumulation Index.

Value

\$42,081,934

Performance (Before fees and taxes)

	Trust %	Benchmark %
1 month	-6.65	-3.48
3 months	-3.33	-2.83
1 year	-9.78	-5.99
2 years p.a.	-5.15	-2.25
3 years p.a.	11.50	7.97

Past performance is no indication of future performance.

Profile

Overweight Positions

Active %

Asx Ltd	+4.9
Seek Limited	+4.9
Henderson Group	+4.4
ANZ Banking Group	+3.7
Iluka Resources	+3.5
National Australia Bank	+3.4
Ins Australia	+2.8
Spotless Group	+2.6
Fairfax Media Limited Holdings	+2.5
Jb Hi-fi	+2.5

Underweight Positions

Active %

Commonwealth Bank Of Australia	-4.1
Westpac Banking Corporation	-4.1
Telstra Corporation Ltd	-4.0
Wesfarmers Ltd	-3.6
Bhp Billiton Ltd	-2.7

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.

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 Value Equity Trust underperformed its benchmark by 3.2% over the month.

The markets myopic focus on the latest European political and debt issues has continued to see volatile markets moving on economic sensitivity rather than stock fundamentals.

The portfolio owns stocks that will do well alongside growth in the Australian economy which in current market parlance means that in a risk off month such as November, the fund underperformed. The nature of these macro risk driven markets means that individual stock contributions have a small impact on relative performance versus macro factors.

For example the contribution of the best 5 stock performers minus the worst 5 stock performers explains only 0.9% of the 3.2% relative performance of the fund for the month.

We owned one stock that had significant negative news in the month (Bluescope) and one stock that had significant positive news (Spotless). The rest of the portfolio performance is explained by the portfolio owning stocks that currently have well below normal valuations given high risk aversion in markets and below normal earnings given the slow recovery from the effects of the GFC and in some cases from restrictive monetary conditions.

As occurred in late 2008, our level of trading has increased. The heightened level of volatility and stocks moving significantly based on macro exposure has again resulted in great opportunities to sell expensive stocks and buy undervalued stocks given our disciplined focus on valuation.

During the month we exited "expensive defensives" (stocks currently loved for their defensive characteristics from offshore earnings) such as Amcor and Computershare and added to undervalued domestic positions such as IAG, Seven Group and Woolworths.

Outlook

The international environment is 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	37
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Sector Allocations	Active %
Consumer Discretionary	+10.7
Consumer Staples	-5.2
Energy	-6.1
Financials	+1.2
Health Care	-2.9
Industrials	+9.7
Information Technology	-0.6
Materials	-2.7
Telecommunication Services	-4.2
Utilities	-1.5