

Legg Mason Property Securities Trust

Objective

The Trust aims to earn a before fees and taxes return of 1.5% p.a. in excess of its benchmark over rolling three year periods.

Benchmark

S&P/ASX 200 A-REIT Accumulation Index.

Value

\$188,875,012.

Performance (before fees & taxes)

	Trust %	Benchmark %
1 month	-1.24	-0.84
3 months	-2.18	-1.34
1 year	18.94	20.41
3 years p.a.	-26.70	-23.80

Past performance is no indication of future performance.

Profile

Overweight Positions

Active %

EDT Retail	+5.6
Charter Hall Retail REIT	+4.0
Valad Property Group	+3.9
Charter Hall Office REIT	+3.8
Dexus Property Group	+3.6

Underweight Positions

Active %

Goodman Group	-6.3
CFS Retail Property Trust	-5.6
Westfield Group	-5.0
Mirvac Group	-4.3
ING Office	-2.6

Market Review

Equity markets around the world lost ground during June due largely to investors continued concerns over European sovereign debt levels and moderate relative growth expectations in China and the U.S.

The Australian real estate investment trust ("A-REIT") sector closed down 0.8% over the month, as measured by the S&P/ASX 200 A-REIT Accumulation Index. This was 1.8% ahead of the broader Australian equity market as the relatively defensive nature of A-REITs came to the fore. Over the past year, A-REITs gained 20.4% despite the recent declines.

Goodman Group (+3.8%) gained ground as it established a \$1.3 new co-investment vehicles in the U.K and Europe.

An even stronger performer during June was Charter Hall Retail REIT (+7.0%) as investors showed a preference for the firm's strategy to refocus on domestic retail.

Meanwhile, sector heavyweight Westfield Group (-4.4%) lost ground late in the period on concerns over the pace of recovery of its U.S. portfolio of assets.

On the economic front, the Reserve Bank of Australia left the target cash rate at 4.50%, while the Australian dollar gained some ground against the U.S. dollar, gaining US0.33 cents to finish the month at US85.23 cents. March quarter gross domestic product recorded a 0.5% gain, in line with market expectations.

Performance

The Legg Mason Property Securities Trust slightly underperformed its benchmark over the month.

Portfolio performance this month was negatively impacted by the portfolio's exposure to some of the smaller capitalised A-REITs and those with exposure to offshore assets. The underperformance from these factors was largely on a thematic basis rather than any significant negative stock specific news.

In particular, the portfolio's overweight exposure to Valad Property Group (-14.3%) detracted from performance as it lost ground this month over macro concerns regarding developments in Europe. We note that Valad has enjoyed positive developments from its European business over recent months and believe that investors have underestimated the value and growth potential of Valad's European business.

Further portfolio exposures that detracted value this month included an overweight exposure to EDT Retail (-5.5%) and underweight exposure to Goodman Group (+3.8%).

Though EDT Retail underperformed this month, our view is that EDT has raised equity capital and we are now invested alongside private equity investors at the same price. Importantly, portfolio fundamentals look encouraging.

Goodman gained ground on the aforementioned establishment of a \$1.3 billion relationship with CBRE Realty Trust through new co-investment vehicles in the U.K and Europe.

Our view is that Goodman's business model requires a lot of capital recycling and while the CBRE deal is a positive, Goodman has yet to prove its cash generating capabilities.

Adding back some value this month were an overweight exposure to Charter Hall Retail REIT (+7.0%) and an underweight exposure to Westfield Group (-4.4%).

We see significant value in the Charter Hall Retail's portfolio of domestic retail properties, while we share market concerns about the timing and strength of the recovery in Westfield's U.S. portfolio of assets. Further, Westfield is relatively expensive at present.

Outlook

Our view is that the recent market weakness is overdone and that it may partially be explained by memories of 2008.

We maintain that there remains significant value on offer in selected underlying A-REIT securities and that the sector should be able to move higher on a medium term time horizon. This view is supported by evidence that A-REITs have reduced their risk profiles over the past year and they have returned to focus on traditional property rental streams.

Stock specific developments are likely to be a critical driver of A-REITs over the remainder of 2010, as the valuation spread between the most attractive and least attractive names in the investment universe remains at four times historical averages. As such, we have positioned the portfolio to benefit from stock specific opportunities and we continue to expect to produce above normal portfolio returns over the medium term.

Further Information

Regional Allocations	Trust %	Benchmark %
New South Wales	36.2	37.3
Victoria	10.8	13.2
Queensland	9.9	10.8
Australian Capital Territory	2.4	1.9
Western Australia	4.8	4.6
Other domestic	2.3	2.5
Offshore	33.6	29.7

Sector Allocations	Trust %	Benchmark %
Commercial	25.5	20.9
Retail	60.6	63.7
Industrial	9.5	13.3
Hotels	0.2	0.4
Car park	0.0	0.1
Residential	0.5	0.3
Other	3.7	1.3