

**For Immediate Release**

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**ABOVE NORMAL AUSTRALIAN EQUITY RETURNS IN STORE, SAYS LEGG MASON**

**New high income Australian equities fund targets investors seeking yield**

**SYDNEY – 26 May 2010** – Australian equity investors can look forward to “above normal” returns from today’s prices as Australian corporate profits recover, according to Reece Birtles, Chief Investment Officer of Legg Mason Australian Equities.

And while local markets are expected to deliver strong returns, Mr Birtles predicts Australia’s aging population will be a major factor driving the development of new equity strategies designed to deliver greater income and stability through erratic market cycles.

Speaking at the Legg Mason Investment Symposium in Sydney today, Mr Birtles said the current market environment, while turbulent, was substantially different to this time last year with world economies recovering, earnings rising and decreased corporate debt.

Mr Birtles said savvy fund managers were able to look beyond the fear factor of volatile markets to seek out the stock opportunities inherent in a changing market environment.

“Fear creates a short term mindset and heightened risk aversion, which can create real opportunities for established active managers who can more confidently see through short term events,” he said. “We are positive on the local market outlook. The earnings cycle is looking strong, expectations of earnings have risen and we think Australian companies have done a good job reducing debt and operating costs and are well positioned to see strong earnings growth.”

Sectors Legg Mason currently favours are business to business names that include non-mining materials (Ampcor, Boral), media stocks News Corporation and Fairfax and industrial stock Seek.

“We’re also very selective re what we own in terms of mining companies due to the blend of issues impacting the sector. We have used recent volatility to add to positions,” Mr Birtles said.

**Ageing population drives new strategy – launch of Australian Equities yield strategy**

Legg Mason Australian Equities also today announced the launch of a new Australian equities yield strategy designed to deliver a sustainable and growing dividend stream while seeking an element of capital growth.

“We hear from superannuation funds that there is a dearth of products that cater for their members in the retirement phase. We have developed this yield strategy to assist those funds to deliver the most appropriate strategies for their members,” Mr Birtles said.

The yield strategy has evolved out of a customised solution built for a Legg Mason wholesale client, which has provided an initial \$35 million in seed funding. The strategy may be suited to

investors wishing to maintain a reasonable level of income for their lifestyle needs but also have their capital keep pace with inflation over the longer term. The strategy will hold around 50 stocks with absolute stock limits of 5% without consideration of a capital weighted benchmark. It currently offers a grossed up absolute yield of 6.7% (a 1.8% advantage over the S&P/ASX 300) with a positive bias towards sustainable dividends.

In addition to institutional investors such as Australian superannuation funds, Legg Mason believes the yield strategy may appeal to income seekers, SMSFs and retirees. The strategy is currently available to institutional investors via direct mandates. Legg Mason is currently assessing the market appetite for the creation of a unit trust version.

“Australia’s demographic make-up is changing rapidly with the bulge of baby boomers moving into retirement phase... We see broad opportunities for managers to develop new products that have different benchmarks to the standard S&P/ASX 200 – ie a different beta profile with less volatility and greater income potential,” Mr Birtles said.

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### **About Legg Mason Australian Equities**

Legg Mason Australian Equities is an asset management business that relies on fundamental research to provide superior investment outcomes for Australian institutional investors and platform providers. A disciplined investment philosophy is applied to an extensive product range, including Australian core equities, Australian value equities, Australian small companies, Australian property securities, tactical asset allocation and multi-sector strategies. Legg Mason Australian Equities comprises an experienced and stable investment team whose remuneration is aligned to investment performance outcomes. Legg Mason Australian Equities is part of Legg Mason Asset Management Australia, a subsidiary of Legg Mason Inc. More information can be found at [www.leggmason.com.au](http://www.leggmason.com.au)

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