

# 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 %
3 months	-2.18	-1.34
1 year	18.94	20.41
3 years p.a.	-26.70	-23.80
5 years p.a.	-9.82	-8.04

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

Investment markets around the world lost ground during June as investors became concerned by European sovereign debt levels and moderating growth expectations in China and the U.S.

The Australian real estate investment trusts ("A-REITs") sector closed down 1.3% over the quarter, as measured by the S&P/ASX 200 A-REIT Accumulation Index. This was 9.8% 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.

The A-REIT sector saw outperformance from some of the defensive names, including CFS Retail Property Trust (+4.1%) and Commonwealth Property Office Fund (+5.8%), as well as from the relative strength of index heavyweight Westfield Group (+1.0%).

Another strong performer during the quarter was Charter Hall Retail REIT (+2.2%) as investors showed a preference for the firm's strategy to refocus on domestic retail.

Names with offshore exposure and/or relatively more leverage generally underperformed.

On the economic front, the Federal Budget saw the announcement of a reduced company tax rate, increases to the Superannuation Guarantee levy and a return to surplus by 2012/13. The Reserve Bank of Australia raised the target cash rate by 0.25% to 4.25% in April, while the Australian dollar reaffirmed itself as a "risk" currency; it lost US6.36 cents against the greenback to end the period 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 underperformed its benchmark over the quarter.

Portfolio performance this quarter 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 quarter over macro concerns regarding developments in Europe. We note that Valad had a win early in the quarter as its European business was confirmed as the new investment manager of European Commercial Real Estate (formerly Kenmore Europe) and believe that investors have underestimated the value and growth potential of Valad's European business.

Portfolio exposure to Charter Hall Office (-9.8%) also detracted from portfolio performance. The stock fell on concerns about the global growth outlook, however we note that there is very little value attributed to its offshore assets and therefore we believe that these concerns are overdone.

A further portfolio exposure that detracted from performance this quarter was an underweight exposure to CFS Retail (+4.1%). We believe that investors are paying too much for the "safe haven" status of CFS Retail and that more attractive value opportunities lie elsewhere.

Adding back some value this quarter were an overweight exposure to Charter Hall Retail REIT (+2.3%) and an underweight exposure to Mirvac Group (-10.0%).

We see significant value in the Charter Hall Retail's portfolio of domestic retail properties, while we have concerns about Mirvac's ability to generate a sufficient return on residential developments.

## 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