

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 300 A-REIT Accumulation Index.

Value

\$143,999,500

Performance (Before fees and taxes)

	Trust %	Benchmark %
3 months	5.42	3.81
1 year p.a.	3.71	-1.52
3 years p.a.	7.37	1.91
5 years p.a.	-15.23	-14.91

Past performance is no indication of future performance.

Profile

Overweight Positions

Active %

Westfield Retail	+5.1
Stockland	+4.9
Charter Hall Retail	+4.6
Charter Hall Group	+4.1
Mirvac Group	+3.9

Underweight Positions

Active %

GPT Group	-7.0
CFS Retail	-6.4
Goodman Group	-6.1
Commonwealth Property Office Fund	-3.1
Investa Office	-2.6

Market Review

After a strong performance during the month of October, equity markets came once again under selling pressure, on the back of rising risk aversion. Despite further evidence of the resilience of the US economy, investors continued to be concerned about a potential meltdown of the Eurozone. Volatility reached high levels but global equity markets did manage to end the quarter on a positive note.

The Australian Real Estate Investment Trusts (A-REIT) sector was up 3.81% over the quarter, as measured by the S&P/ASX 300 A-REIT Accumulation Index. A-REITs outperformed the broader Australian equity market by 1.7% during the period. Securities that outperformed included Stockland (+13.7%), Charter Hall Group (+23.5%), Australand Property Group (+8.8%) and Commonwealth Property Office Fund (+9.9%).

Australian economic data released during the quarter continued to highlight softness in the economy. Retail sales remained weak and employment fell further. The Reserve Bank of Australia cut the target cash rate by 50 basis points to 4.25%, reflecting the slowing momentum in the domestic economy. The market continues to price more rate cuts by June 2012.

The Australian dollar rallied against the U.S. dollar at the beginning of the quarter. Despite some volatility, it ended the December quarter at US1.022 cents, up 4.9US cents.

Performance

The Legg Mason Property Securities Trust outperformed its benchmark over the quarter by 1.6%. The Trust is 5.2% ahead of benchmark for the last 12 months.

During the quarter, portfolio's holdings that aided performance included Charter Hall Group (+23.5%), Stockland (+13.7%) and the underweight to GPT Group (-0.9%) and CFS retail property (-0.1%).

Charter Hall Group (+23.5%) outperformed over the quarter. The REIT increased its stake in Charter Hall Retail by exercising its right of first refusal to acquire Macquarie's stake in its satellite REIT. The proposal to delist its other satellite fund Charter Hall Office also continued to progress favourably for Charter Hall Group over the period.

Shares of Stockland (+13.7%) were also positive. The overweight position in the portfolio aided performance. Stockland continued to rationalise its rental portfolio achieving sales that compared favourably to book value and interest rate cuts improved affordability for buyers of its residential properties.

While no material news was announced, GPT Group (-0.9%) lost ground over the quarter. CFS Property (-0.1%) underperformed on the back of the weak retail environment. The portfolio benefited from these underweight positions.

The underweight to Investa Office Fund (-0.1%) also aided performance over the quarter.

Outlook

We continue to see sizeable medium term investment opportunities for A-REIT investors. However, this is in the context of the wider equity market also looking attractively priced. With the outlook for lower interest rates, the stable dividend yield on offer from the A-REITs also looks increasingly attractive.

At the overall market level, A-REITs are attractively valued based on implied value relative to unlisted property, global REITs, the broader Australian equity market as well as Australian and global bonds. We continue to see direct property transactions that reaffirm the relatively attractive pricing on offer in the A-REITs. The move during the quarter for A-REITs to initiate stock buybacks should help close this pricing gap.

At the stock picking level, the investment opportunity for selected A-REITs continues to be attractive. The valuation spread between the most attractive and least attractive securities in the investment universe remains at around two times historical averages. It is pleasing to see these opportunities flow through to outperformance by the Trust over the past year.

Our relatively favourable medium term outlook is supported by increased risk aversion in the wider market and the reduced risk profiles of A-REITs. Having increased focus on traditional property rental streams and reduced gearing continues to see the A-REITs well placed in this environment.

Further Information

Regional Allocations	Trust %	Benchmark %
New South Wales	38.56	38.06
Victoria	10.12	13.72
Queensland	11.72	10.75
Australian Capital Territory	3.24	2.28
Western Australia	5.73	4.71
Other Domestic	2.68	3.21
Offshore	26.10	27.07

Regional Allocations	Trust %	Benchmark %
Commercial	21.7	24.7
Retail	64.4	61.6
Industrial	6.5	12.6
Hotels	0.1	0.3
Car Park	0.2	0.2
Residential	0.0	0.2
Offshore	4.8	0.2