

LEGG MASON
INVESTMENT
COUNSEL

FORM ADV – PART 2

LEGG MASON INVESTMENT COUNSEL, LLC
100 International Drive, 5th Floor,
Baltimore, MD 21202
(410) 454-2171 / (888) 770-5642

WWW.LMINVESTMENTCOUNSEL.COM

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This Brochure provides information about the qualifications and business practices of Legg Mason Investment Counsel, LLC. If you have any questions about the contents of this Brochure, please contact us at (410) 454-3150. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Legg Mason Investment Counsel, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. Additional information about Legg Mason Investment Counsel, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

ITEM 2. MATERIAL CHANGES

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC Rules. This Brochure, dated June 30, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this Document is materially different in structure and requires certain new information that our previous brochure did not require.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

We will further provide you with a new Brochure, as needed, based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting LMIC Compliance at (410) 454-3150 or Compliance@LMInvestmentCounsel.com.

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ITEM 4. ADVISORY BUSINESS***Overview of the Firm***

Legg Mason Investment Counsel, LLC ("LMIC", "the firm", or "we") provides investment management services to individuals and institutions. We provide both active equity and active fixed income investment strategies. We are registered with the Securities and Exchange Commission ("SEC") as an investment adviser.

We are a wholly owned subsidiary of Legg Mason Investment Counsel & Trust Company, N.A. ("LMIC&T"). LMIC&T is a National Banking Association regulated by the Office of the Comptroller of the Currency. LMIC & T was established in 2004 with the merger of Legg Mason Trust and offices of Scudder Private Investment Counsel. LMIC&T is a wholly owned subsidiary of Legg Mason, Inc., which was founded in 1899.

LMIC's Advisory Business

Legg Mason Investment Counsel, LLC ("LMIC") offers discretionary investment management services to individuals, corporations and other entities through the LMIC High Net Worth Department and five specialty departments: Institutional, Socially Responsive Investing, Global Equity, LMIC Small- and Mid-Cap Investing (Amy LaGuardia), Arthur Karafin Investment Advisors and the LMIC Wrap Department.

LMIC may provide investment management services itself, or it may engage an affiliated or unaffiliated investment manager. The factors that are considered when selecting the appropriate party to manage a client's assets include: the client's expressed preferences; the appropriateness of a particular manager's investment style considering client's investment objectives; and any existing relationship that the client may have with a particular investment manager.

LMIC High-Net-Worth Department of Legg Mason Investment Counsel

The High-Net-Worth department of LMIC is the major department within the firm that oversees the management of all individual, family, and trust accounts. This department manages equity, fixed income, and balanced portfolios for High-Net-Worth Clients, and seeks to maximize performance while managing risk. Managers work directly with clients to develop Investment Policy Statements and tailor portfolios accordingly to meet individual client considerations including time horizon, risk tolerance, restrictions on investing in specific securities or types of securities, income needs and tax situation. High-Net-Worth portfolio managers primarily focus on very liquid, mid- to large-cap stock and investment grade fixed income securities and supplement with strategies that complement these core assets.

The High-Net-Worth department offers clients a mutual fund investment program pursuant to which LMIC may direct the investment of client assets in mutual funds. When LMIC purchases

affiliated mutual funds for ERISA accounts, it follows the Department of Labor's guidance in Prohibited Transaction Exemption 77-4.

LMIC Institutional Asset Management Department of Legg Mason Investment Counsel

The Institutional Department of LMIC is a separate and distinct department within the firm that oversees the management of all institutional investment management accounts except for those institutional accounts managed by the Socially Responsive Investment, Arthur Karafin Investment Advisors, and Wrap departments.

The Socially Responsive Investing Department of Legg Mason Investment Counsel

The Socially Responsive Investing Department ("SRID") is a separate and distinct department of LMIC that oversees the management of all socially responsive investment management accounts within LMIC. SRID employs specialized research and custom-tailored screening to reflect a client's ethical investing goals. Financial goals are aligned with moral and ethical concerns. The SRID specializes in constructing social investing policies and screens, supported by both proprietary and social research analysis, to eliminate companies that do not meet a client's specific requirements and selects ONLY investments that do. With over 30 years of experience, the SRID has developed deep relationships with a broad network in the corporate social responsibility community.

The Global Equity Department of Legg Mason Investment Counsel

The Global Equity Department of Legg Mason Investment Counsel ("GED") is a separate and distinct department of LMIC that oversees the management of global equity accounts invested in securities within LMIC.

LMIC Small- and Mid-Cap Equity Department of Legg Mason Investment Counsel

Although other LMIC Investment Departments and LMIC Small- and Mid-Cap Equity ("SMID") Department share research resources, SMID's product is a focused on small- to mid-cap equities and, LMIC's other equity products primarily focus on mid- to large-cap equities. Therefore, some overlap may exist but the portfolios are different.

The Arthur Karafin Investment Advisors Department of Legg Mason Investment Counsel

Arthur Karafin Investment Advisors ("AKIA") is a separate and distinct department of LMIC that also provides discretionary investment management services to individuals, corporations and other entities located in the Philadelphia area.

LEGG MASON INVESTMENT COUNSEL

The Wrap Department of Legg Mason Investment Counsel

LMIC may enter into arrangements with investment advisory firms ("sponsors") under which LMIC provides discretionary investment advisory services to clients through a wrap fee program. Under these arrangements, the sponsors offer clients wrap fee services, which generally include brokerage, custody, money management, and other services. LMICWD provides investment management services to program clients based upon the information and guidelines provided by the sponsor. The Wrap Department ("WD" or "LMICWD") is a separate and distinct department of LMIC that oversees the management of all wrap account arrangements within LMIC. Managing Director, Ronald Bates, of our Cincinnati office, is responsible for the WD. The Department provides three investment portfolios: International Equity ADR; Large Cap Value Equity and Quality Growth Equity.

Quality Growth Equity is an LMIC proprietary model overseen by Michael Coombe, of our Cincinnati office and Lori Laub of our New York office. International ADR Equity is managed using a model from our sister affiliate, Global Currents Investment Management, LLC. Large Cap Value Equity is managed using a model from our sister affiliate, Brandywine Global Investment Management LLC.

LMIC's Consulting Services

LMIC may also enter into arrangements with unaffiliated third parties to provide various consulting services. These services may include research support and/or portfolio consultation, but do not include the management of client assets. The third parties pay a consulting fee to LMIC for these services.

Assets Under Management

As of March 31, 2010, we had \$7,171,924,682 in assets under management. Of that total \$6,734,450,339 (or approximately 94%) represents assets managed on a discretionary basis and \$437,474,343 (or approximately 6%) represents assets managed on a non-discretionary basis.

ITEM 5. FEES AND COMPENSATION***How are we compensated for our advisory services?***

Generally, LMIC's compensation is based on a percentage of the assets we manage for you. Under certain circumstances, you may negotiate a fixed fee rather than pay a fee that is calculated according to the standard fee schedules reflected below:

Standard Annual Fee Schedule for High-Net-Worth ClientsEquity/Balanced Accounts

1.00% on first \$3 million under management
0.70% on next \$7 million under management
0.50% on next \$30 million under management
0.40% on the balance

Generally, there is a minimum account size requirement of \$2 million and a minimum annual fee of \$20,000.

Fixed Income Accounts

0.50% on the first \$3 million under management
0.35% on the next \$7 million under management
0.25% on the next \$30 million under management
0.20% on the balance

Generally, there is a minimum account size requirement of \$2 million and a minimum annual fee of \$10,000.

LMIC's standard annual fee schedule for mutual fund accounts is 0.75% of the assets under management. Generally, there is a minimum account size requirement of \$500,000, and a minimum annual fee of \$3,750.

In general, funds invested in equity and fixed income investment vehicles (mutual funds, limited partnerships, limited liability companies, etc.) will be charged the underlying fee of the fund (or manager) PLUS the lower of (a) 50 basis points, or (b) the lowest marginal rate actually being charged under the LMIC fee schedule applicable to the client. When LMIC manages the account and hires a sub-advisor, the sub-advisory fee will be paid out of the LMIC fee.

Standard Annual Fee Schedule for Institutional AccountsEquity/Balanced Institutional Accounts

0.75% on the first \$10 million under management
0.60% on the next \$15 million under management
0.50% on the next \$25 million under management
0.40% on the balance

Fixed Income Accounts

0.30% on the first \$10 million under management
0.20% on the next \$15 million under management
0.15% on the next \$25 million under management
0.10% on the balance

Generally, there is a minimum annual fee of \$37,500 for Equity/Balanced and a \$10,000 minimum fee for the Fixed Income Accounts

In general, funds invested in equity and fixed income investment vehicles (mutual funds, limited partnerships, limited liability companies, etc.) will be charged the underlying fee of the fund (or manager) PLUS the lower of (a) 50 basis points, or (b) the lowest marginal rate actually being charged under the LMIC fee schedule applicable to the client. When LMIC manages the account and hires a sub-advisor, the sub-advisory fee will be paid out of the LMIC fee.

Standard Annual Fee Schedule for Cash Management Accounts

0.15% on the first \$10 million under management
0.10% on the next \$15 million under management
0.075% on the balance

Generally, there is a minimum annual fee of \$10,000.

Investment Company Clients

When LMIC provides investment advice to investment companies, LMIC negotiates fees directly with the manager of the particular investment company. LMIC's fees are payable in accordance with the terms of the particular investment advisory contract entered into by and between LMIC and the manager of the investment company. The contracts contain provisions dealing with termination of the advisory relationship.

**Standard Annual Fee Schedule
for Portfolios Managed by the Socially Responsive Investing
and Global Equity Departments**

The Socially Responsive Investing and Global Equity Departments follow LMIC's standard fee schedule for High-Net-Worth and Institutional clients, listed above.

**Standard Annual Fee Schedule for Portfolios Managed by the
LMIC Small and Mid-Cap Investing Department**

For all investments managed by Amy LaGuardia's investment team, annual fees are based on the market value of the account under supervision:

1.00% on the first \$10 million under management
0.85% on the next \$15 million under management
0.75% on the balance.

**Standard Annual Fee Schedule
for Portfolios Managed by
Arthur Karafin Investment Advisers ("AKIA")**

For all investments managed by AKIA, normally the standard annual fee schedule is 100 basis points, but can vary depending on circumstances. AKIA requests that each client designate the brokerage firm through which account transactions will be effected, the commission rate, and effects a majority of account transactions through two particular registered representatives at Morgan Stanley Smith Barney. AKIA does not negotiate commission rates as part of the services provided by AKIA. Please refer to Item 12 for additional information regarding the brokerage activities of AKIA.

**Standard Annual Fee Schedule
for Portfolios Managed by the Wrap Department
of Legg Mason Investment Counsel**

Generally, in a Wrap program, you will pay a single all-inclusive fee to the Wrap Sponsor that covers investment management fees, costs of brokerage transactions and custody fees services, but is exclusive of extraordinary exchange fees, transfer taxes and other fees mandated by law. Fee schedules for this department are determined by the Wrap Sponsor. LMIC generally receives fees based on the total client assets under LMIC's management for each sponsor.

Fee Billing Policy for Mutual Funds Held in Client Accounts

When LMIC uses fixed income or equity mutual funds, unit investment trusts, or alternative investments in the management of an account, you will be charged an asset allocation fee on these assets. This fee will be lesser of the marginal rate based on your fee schedule or 0.50%. You will also

bear a proportionate share of the fees and expenses of any mutual funds or unit investment trusts in which your assets are invested, including advisory fees or management fees paid to the investment advisers or sponsors of such products, which may in some circumstances be affiliates of LMIC.

Are LMIC fees negotiable?

Yes, in certain or exceptional circumstances, LMIC fee schedules are negotiable. The factors involved in such negotiation may include, but are not limited to, the size of the client's account; anticipated levels of transaction activity; and other investment account relationships between the client and LMIC or its affiliates. Because LMIC fees are negotiable, fees may vary among clients.

LMIC does not negotiate the fees paid by wrap account clients to their wrap program sponsor. Wrap account clients should review all materials available from the sponsor concerning the program sponsor and the wrap program's terms, conditions and fees.

Do we bill clients, deduct fees directly from clients' accounts or both?

There are two options you may select to pay for our services:

Direct debiting (preferred): At the inception of the relationship and each quarter thereafter, we will notify your custodian of the amount of the management fee due and payable to us through our fee schedule and contract. If you choose this method you must provide written authorization to the custodian permitting our management fee to be paid directly from your account held by an independent custodian. The custodian does not validate or check our fee or its calculation on the assets on which the fee is based. They will deduct the fee from your ACCOUNT(s) or, if you have more than one account, from the account you have designated to pay our advisory fees. Each month, you will receive a statement directly from your custodian showing all transactions, positions and credits/debits into or from your account; the statements after the quarter end will reflect these transactions, including the advisory fee paid by you to us.

Pay-by-check: At the inception of the relationship and each quarter thereafter, we will issue you an invoice for our services and you will pay us by check or wire transfer upon receipt of the invoice date.

How often do we assess our fees (or bills clients)?

Fees may be payable in advance or arrears depending on LMIC's agreement with the client. Generally, fees are payable quarterly and are charged at the beginning of each quarter based on the market value of the client account as of the end of the prior quarter. Fees charged for Arthur Karafin's services are payable quarterly and are charged at the beginning of each quarter based on the market value of the client account as of the close of business year end.

Will you pay any other fees in connection with the management of your account?

Yes. Our investment management fees payable to us do not include all the fees you will pay when we purchase or sell securities for your account(s). Custody fees will vary depending on the custodian. All brokerage charges and related transactions costs are charged to the account as they occur. All fees paid to us for portfolio management services are separate from the fees and expenses borne by any mutual funds or limited partnerships, in which client assets may be invested, including funds or partnerships advised by an affiliate of ours. Although clients would not bear any sales load for any affiliated funds, they may be charged a sales load for any unaffiliated funds.

Provided below is a comprehensive list of fees or expenses you may pay directly to third parties for any securities purchased, sold, or held in your account(s) under our management. They are charged by the broker/custodian. We do not receive, directly or indirectly, any of these fees charged to you. They are paid to your broker, custodian or the mutual fund or other investment you hold. These fees may include, but are not limited to:

- Brokerage commissions;
- Transaction fees;
- Exchange fees;
- Regulatory fees;
- Advisory fees and administrative fees charged by mutual funds, exchange traded funds, private funds or private equity vehicles;
- Custodial fees;
- Deferred sales charges on mutual funds or annuities;
- Odd-lot differentials;
- Transfer taxes;
- Wire transfer and electronic fund processing fees;
- Legal fees; and
- Commissions or mark-ups/mark-downs on security transactions.

Please refer to Item 12 of this brochure which discusses our brokerage practices in greater detail.

Other Fees Related to Wrap Programs

For most Wrap Clients the client pays a single all-inclusive fee to the Wrap Program Sponsor that covers investment management fees, costs of brokerage transactions and custody fees services, but is exclusive of extraordinary exchange fees, transfer taxes and other fees mandated by law. In most cases the Sponsor is affiliated with, or dually registered as, a broker-dealer who provides the clients with brokerage execution services.

Depending on the type of program, you may either enter into an investment advisory agreement with the Sponsor (in this case the Sponsor would enter into a investment management agreement with

LMIC); or, you enter into an advisory agreement directly with LMIC, and be required by the Sponsor to direct brokerage back to the SPONSOR or its affiliate to the extent practicable.

If your advisory agreement is with the Sponsor, LMIC will be compensated directly from the sponsor. If your advisory agreement is with LMIC, LMIC will provide an invoice for its investment management services and brokerage fees and expenses would be charged separately from the LMIC investment management fee.

Refunds for Terminated Accounts

This termination policy is applicable to all investment departments within Legg Mason Investment Counsel. Advisory services may be terminated at the written request of either the client or LMIC. If services are terminated during the quarter, fees will either: (1) be charged based on the number of days in the quarter the account was managed prior to termination or (2) be refunded, prorated for the number of days left in the quarter, if fees are billed in advance. You may terminate LMIC's services without penalty within five (5) days after entering into the arrangement and at any time thereafter upon ten (10) days written notice.

Compensation for the Sale of Securities or Other Investment Products

We do not have or employ any "employee" that receives, either directly or indirectly, any compensation from the sale of securities or other investment products that are purchased or sold for your account. This includes asset-based sales charges or service fees from the sale of mutual funds. As a result, we are a "fee-only" investment adviser. We do not have any potential conflicts of interest that relate to any additional (and undisclosed) compensation from you or your assets that we manage other than those listed in this document.

ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Does LMIC charge performance-based fees or have a supervised person who manages an account that pays such fees?

LMIC does not charge performance-based fees or have a supervised person who manages an account that pays such fees.

ITEM 7. TYPES OF CLIENTS

Describe the types of advisory clients.

LMIC provides investment management services to the following types of accounts: high-net-worth individuals and families, endowments, foundations, other charitable organizations, public/government-related clients, pension and profit sharing plans, investment companies, corporations, individual retirement plans, trusts, estates, and other taxable individual plans.

State the firm's requirements for opening or maintaining an account, such as minimum account size.

LMIC imposes a minimum dollar value of assets as a condition for retaining its services. The minimum account size requirement for High-Net-Worth Clients for our equity and balanced investment management services is \$2,000,000. The minimum for our fixed income investment management services is \$5,000,000. However, these minimums may be waived by LMIC depending on referral relationships, anticipated levels of transaction activity, other investment account relationships between the client and LMIC and its affiliates, the client's relationship with LMIC, and other factors.

In addition, LMIC reserves the right to not accept business which it deems inappropriate or a poor fit in relationship to our resources, our business model, or business philosophy.

ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

LMIC's Methods of Analysis and Investment Strategies

High-Net-Worth Core Equity

LMIC's core capabilities are the construction of large-to-mid capitalization primarily domestic equity portfolios and investment grade primarily domestic fixed income portfolios utilizing individual securities. The equity portion of a client's portfolio would typically contain 30-60 individual stock holdings. Our Core Equity Philosophy is described below:

- We are active managers who focus on high quality stocks, employing a bottom-up approach.
- We employ independent proprietary research to discover unrecognized sources of value.
- We focus on companies with a demonstrable competitive advantage to enhance long-term opportunities and maximize returns.

- We emphasize high-quality securities to reduce fundamental risk and avoid significant loss.
- We identify promising sectors that may offer above-average opportunities and diversification benefits.

Core Equity Selection Process

Step 1

Narrowing the field from thousands of possibilities to a portfolio of stocks representing superior investment potential requires intensive research and a disciplined process. LMIC draws from a broad universe of approximately 1,500 companies with equity market capitalizations greater than \$1.0 billion including non-US domiciled global companies (ADR's).

Step 2

With the goal of establishing the dynamic LMIC Investment Universe comprised of approximately 200-250 high quality companies exhibiting a durable competitive advantage, LMIC Research employs a number of quantitative and qualitative protocols. Each analyst has sector responsibility for a universe of 150-200 companies and develops industry-specific quantitative fundamental screens to help identify the 25-50 companies with the highest financial quality and demonstrable competitive advantage.

Qualitative factors such as identifying beneficiaries of a durable niche or global theme, and networking with industry contacts and trusted sources are also employed to determine the best candidates for the LMIC Investment Universe.

Step 3

Intensive fundamental and valuation work is performed by the analysts on their companies in the LMIC Investment Universe to identify candidates for the Recommended List which consists of 60-80 high conviction timely investments. As noted above, the analysts focus on identifying companies with a long-term positive trend in profitability, and where positive, near-term, fundamental developments are likely. Risk/reward valuation disciplines are employed by analysts to identify and rank companies with the highest probability of out-performance potential relative to risk and market expectations.

Step 4

Portfolio managers construct customized portfolios with approximately 30-60 stocks from the Recommended List and Universe based on client investment policy considerations. In the case of institutional, tax-exempt accounts, a committee of portfolio managers responsible for these types of accounts meets frequently to determine coordinated portfolio actions.

Equity Sell Discipline

Stocks can become sale candidates based on a combination of factors.

Fundamental Factors include:

- Competitive position deteriorates
- Profitability is threatened by unfavorable developments in the company or industry, permanently affecting the company's ability to earn high returns and generate cash flow
- Concerns develop regarding the quality and stability of management

Quantitative Factors include:

- Valuation measures become unattractive as a stock becomes expensive relative to corporate growth rate
- Prospective corporate profitability and cash generation no longer justify the present valuation

Other Factors Include:

- Overweighting in portfolio – Risk Management
- A clearly superior investment alternative exists

High-Net-Worth Fixed Income

We seek to maximize total return and minimize risk through:

- An investment strategy customized to goals, needs and risk preferences
- A conservatively managed risk profile
- Tax sensitive management

We review and tailor portfolios based on client guidelines, objectives and preferences for the following (if applicable):

- Tax Status
- Income Needs
- Time Horizon
- Liquidity Needs
- Quality Constraints
- Special Considerations

Based on these inputs an investment strategy is constructed addressing:

- Portfolio Maturity
- Option Adjusted Duration
- Term Structure
- Sector and Industry Weighting

High-Net-Worth Balanced

We believe that the foundation of any balanced investment plan begins and ends with the synchronization of the client's objectives and preferences with the overall asset allocation. Each client's time horizon, risk tolerance, asset base, investment objectives and tax position are unique to them. The structure of their portfolios should reflect that and should consist of asset classes with

returns that are relatively uncorrelated to each other. Asset allocation is a dynamic process that must adapt as client circumstances and market conditions change.

Guidelines and a framework for strategic and tactical asset allocation ranges are created for the following strategies:

- All Equity
- Balanced Growth
- Balanced Growth & Income
- Balanced Income
- All Fixed Income

Institutional Core Equity

LMIC's core capabilities are the construction of large-to-mid capitalization domestic equity portfolios and investment grade domestic fixed income portfolios utilizing individual securities. The equity portion of a client's portfolio would typically contain 30-60 individual stock holdings. Our Core Equity Philosophy is described below:

- We are active managers who focus on high quality stocks, employing a bottom-up approach.
- We employ independent proprietary research to discover unrecognized sources of value.
- We focus on companies with a demonstrable competitive advantage to enhance long-term opportunities and maximize returns.
- We emphasize high-quality securities to reduce fundamental risk and avoid significant loss.
- We identify promising sectors that may offer above-average opportunities and diversification benefits.

Core Equity Selection Process

Step 1

Narrowing the field from thousands of possibilities to a portfolio of stocks representing superior investment potential requires intensive research and a disciplined process. LMIC draws from a broad universe of approximately 1,500 companies with equity market capitalizations greater than \$1.0 billion including non-US domiciled global companies (ADR's).

Step 2

With the goal of establishing the dynamic LMIC Investment Universe comprised of approximately 200-250 high quality companies exhibiting a durable competitive advantage, LMIC Research employs a number of quantitative and qualitative protocols. Each analyst has sector responsibility for a universe of 150-200 companies and develops industry-specific quantitative fundamental screens to help identify the 25-50 companies with the highest financial quality and demonstrable competitive advantage.

Qualitative factors such as identifying beneficiaries of a durable niche or global theme, and networking with industry contacts and trusted sources are also employed to determine the best candidates for the LMIC Investment Universe.

Step 3

Intensive fundamental and valuation work is performed by the analysts on their companies in the LMIC Investment Universe to identify candidates for the Recommended List which consists of 60-80 high conviction timely investments. As noted above, the analysts focus on identifying companies where positive, near-term, fundamental developments are likely within a long-term positive trend in profitability. Risk/reward valuation disciplines are employed by analysts to identify and rank companies with the highest probability of out-performance potential relative to risk and market expectations.

Step 4

Portfolio managers construct customized portfolios with approximately 30-60 stocks from the Recommended List and Universe based on client investment policy considerations. In the case of institutional, tax-exempt accounts, a committee of portfolio managers responsible for these types of accounts meets frequently to determine coordinated portfolio actions.

Equity Sell Discipline

Stocks can become sale candidates based on a combination of factors.

Fundamental Factors include:

- Competitive position deteriorates
- Profitability is threatened by unfavorable developments in the company or industry, permanently affecting the company's ability to earn high returns and generate cash flow
- Concerns develop regarding the quality and stability of management

Quantitative Factors include:

- Valuation measures become unattractive as a stock becomes expensive relative to corporate growth rate
- Prospective corporate profitability and cash generation no longer justify the present valuation

Other Factors Include:

- Overweighting in portfolio – Risk Management
- A clearly superior investment alternative exists

Institutional Core Fixed Income

We employ a total rate of return, disciplined, relative value approach. Our objective is to provide long-term, consistent, superior returns through active portfolio management while achieving attractive risk/reward ratios.

Utilizing fundamental analysis and an assessment of relative value within the context of current market conditions, future movements in interest rates, changes in the shape of the yield curve, and changes in sector spreads are forecasted to derive portfolio strategy. Strategy implementation employs a disciplined investment approach, constantly assessing market conditions in order to take advantage of market anomalies.

Our results derive from an emphasis on security selection, sector allocation, and yield curve management rather than from interest rate forecasts. Through the use of rigorous, fundamental and quantitative research and analysis, we continually assess the market for opportunities that provide the most attractive risk/reward ratios. We believe the long-term key to successful security selection is sound, fundamental credit and security structure analysis. Our duration and term structure decisions are top-down while our sector weighting decision is bottom-up.

Institutional Balanced

We believe that the foundation of any balanced investment plan begins and ends with the synchronization of the client's objectives and preferences with the overall asset allocation. Each client's time horizon, risk tolerance, asset base, and investment objectives are unique to them. The structure of their portfolios should reflect that and should consist of asset classes with returns that are relatively uncorrelated to each other. Asset allocation is a dynamic process that must adapt as client circumstances and market conditions change.

Guidelines and a framework for strategic and tactical asset allocation ranges are created for the following strategies:

- All Equity
- Balanced Growth
- Balanced Growth & Income
- Balanced Income
- All Fixed Income

SRI Core Equity

LMIC's core capabilities are the construction of large-to-mid capitalization domestic equity portfolios and investment grade domestic fixed income portfolios utilizing individual securities. The equity portion of a client's portfolio would typically contain 30-60 individual stock holdings. Our Core Equity Philosophy is described below:

- We are active managers who focus on high quality stocks, employing a bottom-up approach.
- We employ independent proprietary research to discover unrecognized sources of value.
- We focus on companies with a demonstrable competitive advantage to enhance long-term opportunities and maximize returns.
- We emphasize high-quality securities to reduce fundamental risk and avoid significant loss.
- We identify promising sectors that may offer above-average opportunities and diversification benefits.
- Socially responsive investing strategies seek competitive risk-adjusted returns, while reflecting the unique social goals of each client. Our dedicated team of social research analysts conducts proprietary social research on domestic and international companies and issues. Each security considered for purchase is evaluated using a comprehensive social

analysis method. The social research team applies customized screens to help Legg Mason Investment Counsel's portfolio managers eliminate companies that do not meet the client's specific social requirements and select investments that do.

SRI Core Equity Selection Process

Step 1

Narrowing the field from thousands of possibilities to a portfolio of stocks representing superior investment potential requires intensive research and a disciplined process. LMIC draws from a broad universe of approximately 1,500 companies with equity market capitalizations greater than \$1.0 billion including non-US domiciled global companies (ADR's).

Step 2

With the goal of establishing the dynamic LMIC Investment Universe comprised of approximately 200-250 high quality companies exhibiting a durable competitive advantage, LMIC Research employs a number of quantitative and qualitative protocols. Each analyst has sector responsibility for a universe of 150-200 companies and develops industry-specific quantitative fundamental screens to help identify the 25-50 companies with the highest financial quality and demonstrable competitive advantage.

Qualitative factors such as identifying beneficiaries of a durable niche or global theme, and networking with industry contacts and trusted sources are also employed to determine the best candidates for the LMIC Investment Universe.

Step 3

Intensive fundamental and valuation work is performed by the analysts on their companies in the LMIC Investment Universe to identify candidates for the Recommended List which consists of 60-80 high conviction timely investments. As noted above, the analysts focus on identifying companies with a long-term positive trend in profitability, and where positive, near-term, fundamental developments are likely. Risk/reward valuation disciplines are employed by analysts to identify and rank companies with the highest probability of out-performance potential relative to risk and market expectations.

Our dedicated team of social research analysts conducts proprietary social research on domestic and international companies and issues. Each security considered for purchase is evaluated using a comprehensive social analysis method. The social research team applies customized screens to help Legg Mason Investment Counsel's portfolio managers eliminate companies that do not meet the client's specific social requirements and select investments that do.

Step 4

Portfolio managers construct customized portfolios with approximately 30-60 stocks from the Recommended List and Universe based on client investment and social policy considerations. In the case of institutional, tax-exempt accounts, a committee of portfolio managers responsible for these types of accounts meets frequently to determine coordinated portfolio actions.

Equity Sell Discipline

Stocks can become sale candidates based on a combination of factors.

Fundamental Factors include:

- Competitive position deteriorates
- permanently affecting the company's ability to earn high returns and generate cash flow

- Profitability is threatened by unfavorable developments in the company or industry, permanently affecting the company's ability to earn high returns and generate cash flow
- Concerns develop regarding the quality and stability of management

Quantitative Factors include:

- Valuation measures become unattractive as a stock becomes expensive relative to corporate growth rate
- Prospective corporate profitability and cash generation no longer justify the present valuation

Other Factors Include:

- Overweighting in portfolio – Risk Management
- A clearly superior investment alternative exists

LMIC SRI Large Cap Value Equity

Socially Responsive Investing Large Cap Value Equity seeks to outpace the long-term returns of the Russell 1000 Value Index, while adhering to a value-based investment philosophy. The Value Equity portfolio, utilizing investment strategy and ideas generated by Brandywine Global Investment Management, is carefully structured with regard to diversification, balance and general economic sensitivity with a focus on strong companies and industry leaders.

Companies are identified with consistent value characteristics such as low P/E, low P/B and low P/C from which to build a portfolio. Initial screens highlight stocks that are cheap. Current and historical valuations are compared, along with other measures of value, to find stocks priced significantly below normal valuation. Fundamental analysis identifies stocks with the ability to return to normal value.

Socially responsive investing strategies seek competitive risk-adjusted returns, while reflecting the unique social goals of each client. Our dedicated team of social research analysts conducts proprietary social research on domestic and international companies and issues. Each security considered for purchase is evaluated using a comprehensive social analysis method. The social research team applies customized screens to help LMIC's portfolio managers eliminate companies that do not meet the client's specific social requirements and select investments that do.

SRI Core Fixed Income

We employ a total rate of return, disciplined, relative value approach. Our objective is to provide long-term, consistent, superior returns through active portfolio management while achieving attractive risk/reward ratios.

Utilizing fundamental analysis and an assessment of relative value within the context of current market conditions, future movements in interest rates, changes in the shape of the yield curve, and changes in sector spreads are forecasted to derive portfolio strategy. Strategy implementation employs a disciplined investment approach, constantly assessing market conditions in order to take advantage of market anomalies.

Our results derive from an emphasis on security selection, sector allocation, and yield curve management rather than from interest rate forecasts. Through the use of rigorous, fundamental and quantitative research and analysis, we continually assess the market for opportunities that provide the most attractive risk/reward ratios. We believe the long-term key to successful security selection is sound, fundamental credit and security structure analysis. Our duration and term structure decisions are top-down while our sector weighting decision is bottom-up.

Socially responsive investing strategies seek competitive risk-adjusted returns, while reflecting the unique social goals of each client. Our dedicated team of social research analysts conducts proprietary social research on domestic and international companies and issues. Each security considered for purchase is evaluated using a comprehensive social analysis method. The social research team applies customized screens to help Legg Mason Investment Counsel's portfolio managers eliminate companies that do not meet the client's specific social requirements and select investments that do.

SRI Balanced

We believe that the foundation of any balanced investment plan begins and ends with the synchronization of the client's objectives and preferences with the overall asset allocation. Each client's time horizon, risk tolerance, asset base, and investment objectives are unique to them. The structure of their portfolios should reflect that and should consist of asset classes with returns that are relatively uncorrelated to each other. Asset allocation is a dynamic process that must adapt as client circumstances and market conditions change.

Guidelines and a framework for strategic and tactical asset allocation ranges are created for the following strategies:

- All Equity
- Balanced Growth
- Balanced Growth & Income
- Balanced Income
- All Fixed Income

Global Total Return Equity

Legg Mason Investment Counsel Global Total Return (GTR) is a concentrated strategy focused on investment in companies serving rapidly expanding markets and capitalizing on themes that are currently visible. We seek to add value through our judgment and discipline rather than replicating a global index. Global Total Return has both a growth and income goal; the ability to show sustainable dividend growth is a key criterion for equity selection.

Through rigorous, fundamental analysis, we seek to invest in companies that:

- Are well-established with experienced managements and quality corporate governance practices
- Have leading, long-lasting competitive positions in their industry

- Generate substantial and stable cash flows
- Demonstrate the potential for sustained dividend growth
- May be of any market capitalization, although investment in companies with market caps below \$500 million will be limited.

Stocks become sale candidates if cash flows deteriorate, the country has deteriorating political or economic situations, if the stock appreciates to more than 10% of the portfolio, if desired valuation is not reached within a reasonable timeframe, or an unanticipated event changes our outlook on the stock.

Small and Mid-Cap Core Equity

This strategy is primarily invested in small and mid-capitalized companies. The strategy will invest in large-cap equities as a defensive measure when market conditions deem it necessary. Current earnings are stressed in selecting the stock portfolio as it is our belief that market performance ultimately follows earnings' performance. Consequently, an investment will not be evaluated unless it has a history of real earnings and the prospect of a positive ongoing earnings' stream. From time to time based on our interpretation of various fundamental factors we will overweight certain market sectors. Correspondingly, the group will generally no longer maintain positions in an investment that falls short of its earnings potential/forecast.

The emphasis on smaller companies in the portfolios is considered more risky than owning larger companies as well as the overweighting of certain industries. The risk is mitigated by keeping each individual stock holding to less than 5% of the total equity portfolio. Also we focus on high quality companies, with earnings streams which also moderates risk.

Any strategy involving frequent trading can affect investment performance.

Select Third Party Managers for Non-Core Asset Classes

To complement our core portfolio(s), we employ third party investment managers who focus on specific asset classes or styles of management and who execute those strategies particularly well. Third party managers are typically used for the following asset classes:

- Small Cap Equity
- Developed International Equity
- Emerging Markets Equity
- Commodities
- Alternative Investments
- Real Estate
- Distressed Debt

The LMIC Investment Policy Committee is responsible for approving all investment managers used by Legg Mason Investment Counsel in the investment of client portfolios.

The Investment Policy Committee reviews and determines appropriateness based on materials presented by the LMIC Third Party Manager Committee, a group of senior LMIC investment professionals who are charged with creating and maintaining our Third Party manager database.

Outside Manager Selection Process

Asset classes and investment styles move in and out of favor with great regularity. The use of multiple investment disciplines and asset classes helps smooth portfolio volatility while enhancing risk adjusted returns. Our manager selection process focuses on philosophy, process and people - the three determinants of the persistent performance we seek for our clients. We uncover managers through our own due diligence and the use of our extensive industry contacts.

Factors considered are both quantitative and qualitative, and the relative importance of the factors will vary depending upon the asset class and style being considered.

LMIC investment analysts screen manager databases such as Morningstar and StyleAdvisor for performance characteristics and risk attributes over multiple timeframes. We look for consistent, above-average returns versus the relevant benchmark(s) and peer group(s) as measured by total return, and risk, risk-adjusted return.

In addition, when chosen for their capabilities within a particular style, investment managers must exhibit consistency of philosophy and process. Managers who exhibit philosophical inconsistencies are eliminated through our screens.

Quantitative data which may be reviewed for various trailing and rolling time periods includes:

1. Compounded rate of return over time
2. Volatility of returns as measured by standard deviation
3. Beta (historical return sensitivity to a benchmark)
4. Alpha (predicted return of an investment relative to a benchmark)
5. R-squared (a measure of systematic and unsystematic risk)
6. Sharpe ratio (a measure of reward for each unit of risk)
7. Upside percentage/Downside percentage (percentage of the market move captured by the investment in both up and down markets)
8. Tracking error (measures consistency of manager excess returns)
9. Fees (generally no 12b-1 fees and fees that are reasonable for the style of assets being managed)

The qualitative analysis of an investment manager incorporates the following factors:

1. Soundness of the investment philosophy
2. Well defined and consistently implemented investment philosophy
3. Tenure, experience, qualifications, reputation, and focus of the investment team
4. A business model that is built for the long haul versus the quick hit
5. An investment style that offers attractive correlation characteristics with the core portfolio and other managers currently being used
6. Adequate systems and technology to support the high level of Legg Mason Investment Counsel client service
7. Strong business and investment acumen

8. Transparency and clarity of the manager's style

Manager investment performance is tracked quarterly using the same criteria as the initial selection process.

Significant and protracted underperformance versus the benchmark and peer groups, changes in investment personnel, changes in corporate ownership, significant style drift or negative regulatory action will trigger a formal review of the manager to determine whether approval should be removed or whether a better manager within the applicable style or asset class is available.

Risk of Loss

All investments in securities include a risk of loss of the principal invested amount and any profits that have not been realized. There is a risk that you could lose all or a portion of your investment in any of the above-mentioned strategies. An investment in a strategy is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Financial markets fluctuate substantially over time. In addition, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. Although we do our best to manage and mitigate the risks, there may be some risks that we cannot control. We will do our very best in the management of your assets; however, we cannot guarantee any level of performance or that you will not experience a loss of your account assets. Provided below is a description of the various different kinds of risks inherent in the strategies we offer.

Equity and General Market Risk

Each equity strategy may invest in common stock. Common stock represents an equity (ownership) interest in a company, and usually possesses voting rights and earns dividends. Dividends on common stock are not fixed but are declared at the discretion of the issuer. Common stock generally represents the riskiest investment in a company. In addition, common stock generally has the greatest appreciation and depreciation potential because increases and decreases in earnings are usually reflected in a company's stock price. The fundamental risk of investing in common and preferred stock is the risk that the value of the stock might decrease. Stock values fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions. Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than preferred stocks, fixed income and money market investments. The market value of all securities, including common and preferred stocks, is based upon the market's perception of value and not necessarily the book value of an issuer or other objective measures of a company's worth. If you invest in an equity strategy, you should be willing to accept the risks of the stock market and should consider an investment in the strategy only as a part of your overall investment portfolio. Other general risks include:

- The market value of securities in which a strategy invests is based upon the market's perception of value and is not necessarily an objective measure of the securities' value.
- The market may not recognize what we believe to be the true value or growth potential of the stocks held by a strategy.

- The earnings of the companies in which a strategy invests will not continue to grow at expected rates, thus causing the price of the underlying stocks to decline.
- The smaller a company's market capitalization, the greater the potential for price fluctuations and volatility of its stock due to lower trading volume for the stock, less publicly available information about the company and less liquidity in the market for the stock.
- The potential for price fluctuations in the stock of a medium capitalization company may be greater than that of a large capitalization company.
- Our judgment as to the growth potential or value of a stock may prove to be wrong.
- A decline in investor demand for the stocks held by a strategy also may adversely affect the value of the securities.

Value Company Risk

Value investing carries the risk that the market will not recognize a security's intrinsic value for a long time or that a stock judged to be undervalued may actually be appropriately priced. The determination that a stock is undervalued is subjective; the market may not agree, and a stock's price may not rise to what we believe is its full value. If the market does not consider the stock to be undervalued then the value of a strategy's holdings may decline, even if stock prices generally are rising. The value of a strategy may also decrease in response to the activities and financial prospects of an individual company.

Growth Company Risk

An investment in growth stocks may be susceptible to rapid price swings, especially during periods of economic uncertainty. Growth stocks typically have little or no dividend income to cushion the effect of adverse market conditions and may be particularly volatile in the event of earnings disappointments or other financial difficulties experienced by the issuer. Securities of growth companies can be more sensitive to the company's earnings and more volatile than the market in general.

Medium Capitalization Company Risk

Medium Capitalization company stocks may have greater fluctuations in price than the stocks of large companies. Further, stocks of mid-sized companies could be more difficult to liquidate during market downturns compared to larger, more widely traded companies. Medium Capitalization companies may have limited product lines or resources and may be dependent upon a particular market niche.

Smaller Company Risk

If a strategy invests in smaller companies, an investment in that strategy may have the following additional risks:

- Analysts and other investors typically follow these companies less actively and therefore information about these companies is not always readily available;
- Securities of many smaller companies are traded in the over-the-counter markets or on a regional securities exchange potentially making them thinly traded, less liquid and their prices more volatile than the prices of the securities of larger companies;
- Changes in the value of smaller company stocks may not mirror the fluctuation of the general market; and
- More limited product lines, markets and financial resources make these companies more susceptible to economic or market setbacks.

For these and other reasons, the prices of smaller capitalization securities can fluctuate more significantly than the securities of larger companies. The smaller the company, the greater effect these risks may have on that company's operations and performance. As a result, an investment in a strategy that invests in smaller capitalization securities may exhibit a higher degree of volatility than the general domestic securities market.

Foreign Securities/Emerging Market Risk

If a strategy invests in foreign securities and ADRs, an investment in that strategy may have the following additional risks:

- Foreign securities may be subject to greater fluctuations in price than securities of U.S. companies because foreign markets may be smaller and less liquid than U.S. markets;
- Changes in foreign tax laws, exchange controls, investment regulations and policies on nationalization and expropriation as well as political instability may affect the operations of foreign companies and the value of their securities;
- Fluctuations in currency exchange rates and currency transfer restitution may adversely affect the value of the strategy's investments in foreign securities, which are denominated or quoted in currencies other than the U.S. dollar;
- Foreign securities and their issuers are not subject to the same degree of regulation as U.S. issuers regarding information disclosure, insider trading and market manipulation. There may be less publicly available information on foreign companies and foreign companies may not be subject to uniform accounting, auditing, and financial standards as are U.S. companies;
- Foreign securities registration, custody and settlements may be subject to delays or other operational and administrative problems;
- Certain foreign brokerage commissions and custody fees may be higher than those in the United States;
- Dividends payable on the foreign securities contained in the strategy's portfolio may be subject to foreign withholding taxes, thus reducing the income available for distribution to the strategy's shareholders; and
- Prices for stock or ADRs may fall over short or extended periods of time.

If a strategy invests in emerging markets, an investment in that strategy may have the following additional risks:

- Information about the companies in emerging markets is not always readily available;
- Stocks of companies traded in emerging markets may be less liquid and the prices of these stocks may be more volatile than the prices of the stocks in more established markets;
- Greater political and economic uncertainties exist in emerging markets than in developed foreign markets;
- The securities markets and legal systems in emerging markets may not be well developed and may not provide the protections and advantages of the markets and systems available in more developed countries;
- Very high inflation rates may exist in emerging markets and could negatively impact a country's economy and securities markets;
- Emerging markets may impose restrictions on the strategy's ability to repatriate investment income or capital and thus, may adversely affect the operations of the strategy;
- Certain emerging markets impose constraints on currency exchange and some currencies in emerging markets may have been devalued significantly against the U.S. dollar;
- Governments of some emerging markets exercise substantial influence over the private sector and may own or control many companies. As such, governmental actions could have a significant effect on economic conditions in emerging markets, which, in turn, could affect the value of the strategy's investments; and
- Emerging markets may be subject to less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies.

ADR investments may subject a strategy to the same risks as direct investments in foreign companies. For these and other reasons, the prices of securities in emerging markets can fluctuate more significantly than the prices of securities of companies in developed countries. The less developed the country, the greater effect these risks may have on your investment in a strategy that invests in these securities, and as a result, an investment in that strategy may exhibit a higher degree of volatility than either the general domestic securities market or the securities markets of developed foreign countries.

REIT and Real Estate Risk

The value of a strategy's investments in REITs may change in response to changes in the real estate market. A strategy's investments in REITs may subject it to the following additional risks:

- Declines in the value of real estate;
- Changes in interest rates;
- Lack of available mortgage funds or other limits on obtaining capital and financing;
- Overbuilding;
- Extended vacancies of properties;

- Increases in property taxes and operating expenses;
- Changes in zoning laws and regulations;
- Casualty or condemnation losses; and
- Tax consequences of the failure of a REIT to comply with tax law requirements.

A strategy will bear a proportionate share of the REIT's on-going operating fees and expenses, which may include management, operating and administrative expenses.

Convertible Securities Risk

A convertible security is a bond, debenture, note, preferred stock, right, warrant or other security that may be converted into or exchanged for a prescribed amount of common stock or other security of the same or a different issuer or cash within a particular period of time at a specified price or formula. A convertible security generally entitles the holder to receive interest paid or accrued on debt securities or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities generally have characteristics similar to both debt and equity securities. Convertible securities ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities generally rank senior to common stock in a corporation's capital structure but are usually subordinated to comparable nonconvertible proportionate securities. Convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities although the market prices of convertible securities may be affected by any dividend changes or other changes in the underlying securities. A strategy's investments in convertible securities may subject it to the risks that prevailing interest rates, issuer credit quality and any call provisions may affect the value of the strategy's convertible securities. Rights and warrants entitle the holder to buy equity securities at a specific price for a specific period of time. Rights typically have a substantially shorter term than do warrants. Rights and warrants may be considered more speculative and less liquid than certain other types of investments in that they do not entitle a holder to dividends or voting rights with respect to the underlying securities nor do they represent any rights in the assets of the issuing company. Rights and warrants may lack a secondary market. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuations in the market value of the underlying securities. A strategy's investments in equity may subject the strategy to volatility and the following risks:

- Prices for the stock may fall over short or extended periods of time;
- Cyclical movements of the equity market may cause the value of the strategy's securities to fluctuate drastically from day to day; and
- Individual companies may report poor results or be negatively affected by industry and or economic trends and developments.

Derivatives Risk

Derivatives are financial instruments that have a value which depends upon, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indexes or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest; in other words, a small investment in a derivative may have a large impact on a strategy's performance. The successful use of derivatives generally depends on the manager's ability to predict market movements.

A strategy may use derivatives in various ways. It may use derivatives as a substitute for taking a position in the reference asset or to gain exposure to certain asset classes; under such circumstances, the derivatives may have economic characteristics similar to those of the reference asset, and the strategy's investment in the derivatives may be applied toward meeting a requirement to invest a certain percentage of its assets in instruments with such characteristics. A strategy may use derivatives to hedge (or reduce) its exposure to a portfolio asset or risk. A strategy may use derivatives for leverage. A strategy may also use derivatives to manage cash.

Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, credit risk and general market risk. A strategy's use of derivatives may entail risks greater than, or possibly different from, such risks and other principal risks to which the strategy is exposed, as described below. Certain of the different risks to which a strategy might be exposed due to its use of derivatives include the following:

- Risk of default by the other party to the derivative transactions;
- Risk that the transactions may result in losses that partially or completely offset gains in positions;
- Risk that the derivative transactions may not be liquid; and
- Risk that derivative instruments may be mispriced or improperly valued and that changes in the value of the derivatives may not correlate perfectly with the underlying asset or security.

Management Risk

Our strategies are actively managed and our performance in these strategies may reflect our ability to make decisions which are suited to achieving a strategy's investment objective. As a result, a strategy may not meet its investment objective based on the success or failure of the portfolio managers to implement investment strategies and could underperform other similar strategies with comparable investment objectives managed by other advisers.

Environmental Policy Risk

Environmental policy risk is the risk that the strategy could underperform compared to similar strategies that do not have such a policy. The strategy may forego opportunities to buy certain securities when it might otherwise be advantageous to do so, or may sell securities for environmental reasons when it might be otherwise disadvantageous for it to do so. The strategy also focuses on particular environmental investment themes, which presents increased risk over a more diversified portfolio by focusing investment choices within specific sectors that may or may not perform as well as other industry sectors.

Portfolio Turnover Risk

High portfolio turnover involves correspondingly greater expenses to a strategy, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestments in other securities.

Debt/Fixed Income Securities Risk

The value of your investment in a fixed income strategy may change in response to changes in interest rates. An increase in interest rates typically causes a fall in the value of the debt securities in which the strategy invests. The longer the duration of a debt security, the more its value typically falls in response to an increase in interest rates. The value of your investment in a fixed income strategy may change in response to the credit ratings of the strategy's portfolio of debt securities. The degree of risk for a particular security may be reflected in its credit rating. Generally, investment risk and price volatility increase as a security's credit rating declines. The financial condition of an issuer of a debt security held by a strategy may cause it to default or become unable to pay interest or principal due on the security. A strategy cannot collect interest and principal payments on a debt security if the issuer defaults.

Prepayment risks may occur when interest rates decline and issuers of debt securities experience acceleration in prepayments. The acceleration can shorten the maturity of the debt security and force the strategy to invest in securities with lower interest rates, reducing the strategy's return. With respect to extension risk, issuers may decrease prepayments of principal when interest rates increase, extending the maturity of the debt security and causing the value of the security to decline. Distressed debt securities involve greater risk of default or downgrade and are more volatile than investment grade securities. Distressed debt securities may also be less liquid than higher quality debt securities.

Non-Investment Grade Securities Risk

Securities rated below investment grade, i.e., BA or BB and lower ("junk bonds"), are subject to greater risks of loss of a client's money than higher rated securities. Compared with issuers of investment grade fixed income securities, junk bonds are more likely to encounter financial difficulties and to be materially affected by these difficulties.

ETF Risk

Investments in ETFs (which may, in turn, invest in equities, bonds, and other financial vehicles) may involve duplication of certain fees and expenses. By investing in an ETF, a strategy becomes a shareholder of that ETF. As a result, investors in a strategy that invests in ETFs are indirectly subject to the fees and expenses of the individual ETFs. These fees and expenses are in addition to the fees and expenses that investors in the strategy directly bear in connection with the strategy's own operations. If the ETF fails to achieve its investment objective, the strategy's investment in the ETF may adversely affect its performance. In addition, because ETFs are listed on national stock exchanges and are traded like stocks listed on an exchange, the following may occur:

- The strategy may acquire ETF shares at a discount or premium to their NAV, and

- The strategy may incur greater expenses since ETFs are subject to brokerage and other trading costs.

Finally, because the value of ETF shares depends on the demand in the market, we may not be able to liquidate the ETF holdings at the most optimal time, adversely affecting the strategy's performance.

Private Placement Risk

The strategy may invest in privately issued securities of domestic common and preferred stock, convertible debt securities, ADRs, REITs and ETFs, including those which may be resold only in accordance with Rule 144A under the 1933 Act. Privately issued securities are restricted securities that are not publicly traded. Accordingly, the market liquidity for specific privately issued securities may vary. Delay or difficulty in selling such securities may result in a loss to the strategy.

Non-Diversification Risk

If a strategy is "non-diversified," its investments are not required to meet certain diversification requirements under Federal law. A "non-diversified" strategy is permitted to invest a greater percentage of its assets in the securities of a single issuer than a diversified strategy. Thus, the strategy may have fewer holdings than other strategies. As a result, a decline in the value of those investments would cause the strategy's overall value to decline to a greater degree than if the strategy held a more diversified portfolio.

Mortgage and Asset-Backed Securities Risk

The strategy may invest in mortgage- and asset-backed securities, which represent "pools" of mortgages or other assets, including consumer loans or receivables held in trust. In a period of rising interest rates, these securities may exhibit additional volatility.

Maryland Bonds and Municipal Securities Risk

If a strategy invests in Maryland fixed income securities, economic or political factors in Maryland may adversely affect issuers of the Maryland municipal securities in which that strategy invests. Adverse economic or political factors will affect a strategy's value more than if that strategy invested in more geographically diverse investments. As a result, the value of a strategy's assets may fluctuate more widely than the value of a strategy investing in securities relating to a number of different states.

In addition to the state's general obligations, a strategy may invest a significant portion of its assets in bonds that are rated according to the issuer's individual creditworthiness, such as bonds of local governments and public authorities. While local governments in Maryland depend principally on their own revenue sources, they could experience budget shortfalls due to cutbacks in state aid. Certain strategy holdings may not rely on any government for money to service their debt. Bonds issued by governmental authorities may depend wholly on revenues generated by the project they financed or on other dedicated revenue streams. The credit quality of these "revenue" bonds may

vary from that of the state's general obligations. There can be no assurance that Maryland general obligation bonds or the securities of any Maryland political subdivision, authority or corporation owned by a strategy will be rated in any category or will not be downgraded by an NRSRO.

Short Selling

Short selling involves selling securities that are not owned by the seller and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows a portfolio to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. However, since the borrowed securities must be replaced by purchases at market prices in order to close out the short position, any appreciation in the price of the borrowed securities would result in a loss upon such repurchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short-selling exposes a portfolio to unlimited risk with respect to that security due to the lack of an upper limit on the price to which an instrument can rise.

Strategic Risk

Strategic risk means the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution and/or other inherent risks of the business, including reputational risk. Although all companies face a similar risk to a greater or lesser extent, strategic risk is particularly acute in the financial services industry due to changing customer and regulatory environments and the intense competition within the industry.

Financial Services Counterparty Risk

The financial services industry is highly interconnected, and financial services companies have exposure to many different industries, issuers and counterparties, and often execute transactions with counterparties that also operate in the financial services industry, including brokers and dealers, commercial banks, investment banks, hedge funds and other investment funds and other institutions. Many of these transactions expose a financial services company to credit risk in the event of default of the counterparty. In addition, with respect to secured transactions, a financial services company's credit risk may be exacerbated when the collateral held by the company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it. A financial services company may also have exposure to other issuers in the form of holdings in unsecured debt instruments, derivative transactions and stock investments of such issuers.

Financial Services Regulatory Risk

The financial services industry is subject to complex and extensive regulation by numerous primary Federal regulators, including: the Office of the Comptroller of the Currency (“OCC”), the Federal Reserve Board (“FRB”), the Federal Deposit and Insurance Corporation (“FDIC”) and the Office of Thrift Supervision (“OTS”). State chartered institutions also are subject to regulation and supervision by state bank regulatory agencies. Further, all federally insured depository institutions are subject to certain oversight and supervision by the FDIC as the insurer of deposit accounts. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities. Moreover, the laws, rules and regulations comprising such regulatory framework are constantly changing, as are the interpretation and enforcement of existing laws, rules and regulations. The regulatory framework governing the financial services industry is currently under close Congressional and regulatory agency scrutiny and is the subject of pending and contemplated legislation and rulemaking initiatives that could drastically alter the manner in which financial services companies operate and are structured.

Investment in the Banking Industry

The results of operations of banking institutions may be materially affected by general economic conditions, changes in the level of interest rates, national and local cycles in real estate and the monetary and fiscal policies of the Federal government. In addition, over the last couple of years, the world’s financial markets have experienced extraordinary market conditions, including the failure of the credit markets to function and extreme volatility in the securities market. As a result, U.S. and foreign financial regulators undertook unprecedented regulatory action and continue to consider and implement other measures to stabilize U.S. and global financial markets. While the U.S. financial market appears to have reached a level of stability, there continues to be a high level of troubled depository institutions and therefore likely consolidation in the financial services industry and uncertainly in other markets that affect the U.S. market.

Other Financial Services Companies

Many of the investment considerations discussed in connection with banks, mortgage brokers and insurance companies also apply to other financial services companies. These companies are all subject to extensive regulation, rapid business changes and volatile performance dependent on the availability and cost of capital, prevailing interest rates and significant competition. General economic conditions significantly affect these companies. Credit and other losses resulting from the financial difficulty of borrowers or other third parties have a potentially adverse effect on companies in this industry.

ITEM 9. DISCIPLINARY INFORMATION

Disclose the material facts about any legal or disciplinary event that is material to a client's (or prospective client's) evaluation of the integrity of the adviser or its management personnel. (Disciplinary events that are presumptively material if they occurred in the previous 10 years).

We do not have any legal, financial or other "disciplinary" items to report to you. We are obligated to disclose any disciplinary events that would be material to you when evaluating us to initiate a Client/Adviser relationship or to continue a Client/Adviser relationship with us.

This statement applies to our firm and every employee.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Describe any material relationships or arrangements LMIC (or any of its management persons) has with related financial industry participants, any material conflicts of interest that these relationships or arrangements create, and how we address the conflicts.

LMIC has arrangements that are material to its advisory business or its clients with the following related persons:

- (1) Broker-Dealer. Legg Mason Investor Services, LLC ("LMIS"), a limited purpose broker-dealer, serves as the principal underwriter for investment companies advised by LMIC. LMIC and LMIS are wholly owned subsidiaries of Legg Mason, Inc.

A small number of LMIC's employees, including members of management, are registered with FINRA as registered representatives of LMIS and may actively market LMIC managed mutual funds; however, these employees do not receive sales commissions from LMIS.

- (2) Investment Companies. Pursuant to agreements with Legg Mason Partners Fund Advisor, LLC ("LMPFA"), an affiliate of LMIC, LMIC serves as investment adviser to the Legg Mason Maryland Tax-Free Income Trust, Legg Mason Investment Counsel Financial Services Fund, and the Legg Mason Partners Social Awareness Funds and receives a fee for sub-advisory services.
- (3) Other Investment Advisers. LMIC may also retain one or more of the following investment advisers, each of which is a wholly owned subsidiary of, or otherwise affiliated with, Legg Mason, Inc., to provide investment management services or research for client accounts:
 - Brandywine Global Investment Management, LLC (BAM)
 - Global Currents Investment Management, LLC (GCIM)

LEGG MASON INVESTMENT COUNSEL

- Permal Asset Management, Inc. (“Permal”) In the case of Permal Asset Management, Inc., LMIC may allocate client assets to the following investment vehicles in which it sponsors: Permal Capital Management, LLC, Permal Private Equity Holdings IV, L.P. and Permal Alternative Investment Holdings, L.P.

To the extent that one or more of these affiliated advisors is retained to provide investment management services, they will typically receive a portion of LMIC’s fee.

On July 19, 2005, BAM began supplying LMIC with research services and portfolio manager support, including, among other things: (i) approved lists of equity securities based upon model portfolios; (ii) asset allocation guidelines and sector rotation guidelines for varying levels of risk tolerance; and (iii) support material for LMIC’s investment professionals. On July 1, 2008, the international group of BAM formed a new company, GCIM. As of that date, in addition to BAM, GCIM began supplying LMIC with research services and portfolio manager support, as described above. LMIC’s investment professionals may base their investment decisions on the research materials and guidance provided by BAM and GCIM, as described above; however, there is no guarantee that the future performance of LMIC will be consistent with the past performance of BAM or GCIM, or that the future performance of LMIC will equal the performance achieved by BAM or GCIM for its clients. The performance returns and account composition may differ from that of either Model, on which these strategies are based, due to Client imposed restrictions and guidelines, timing of trade executions, and fluctuations in the market.

LMIC has entered into an agreement with Permal under which LMIC clients, where appropriate, may invest in private equity or hedge funds sponsored and/or managed by a Permal entity as part of a client’s asset allocation strategy in alternative investments. In these circumstances, LMIC shall provide client services such as: (1) providing offering documents; (2) investor liaison services and administrative assistance; and, (3) investment advisory and asset allocation services to potential and existing investors in Permal Funds.

- (4) Bank. LMIC has retained its parent company, LMIC&T to provide LMIC with portfolio management support, such as trade execution, and fixed income portfolio management pursuant to a sub-advisory agreement. LMIC’s clients may also retain LMIC&T to provide trust and fiduciary services including, but not limited to: management of distributions, compliance, fiduciary tax preparation, reporting and record keeping in accordance with the trust documents and the needs of the beneficiaries and investment support services. In addition, LMIC&T may be retained by LMIC’s clients to serve as a custodian for client assets. Generally, LMIC provides investment advisory services to LMIC&T trust clients pursuant to a sub-advisory agreement.

Affiliations and Conflicts of Interest

Although LMIC is committed to acting in the best interests of our clients, in some situations there may be conflict of interest between the Firm's interests and a client's interests or there may be conflicts in the interests of multiple clients. Many of these conflicts of interest are inherent in operating an investment advisory business. For example, LMIC may have an incentive to resolve a matter in favor of clients that are affiliates of the Firm over clients that are not affiliates of the Firm. LMIC has adopted policies and procedures that it believes are reasonably designed to mitigate these conflicts of interest.

The investment adviser affiliates of LMIC that are listed above may provide advice to their clients with respect to investment strategies that are similar to or the same as strategies offered by LMIC. Those advisory affiliates may purchase on behalf of their clients the same securities that LMIC may purchase for our clients. As a result, the interests of LMIC's clients may conflict with the interests of the clients of these affiliated advisers. For example, if an investment adviser affiliate implements a portfolio management decision for its client ahead of, or contemporaneously with, a decision LMIC makes for its client(s), the market impact of the decision made by the Firm's advisory affiliate could result in one or more of LMIC's clients receiving less favorable trading results than they otherwise would. LMIC's trade allocation and trade aggregation procedures do not typically apply to portfolio management decisions and trading executed by investment advisory affiliates for their clients that are not clients of LMIC.

Under appropriate circumstances, LMIC may invest any portion or all of a client account assets in any mutual fund or other pooled investment vehicle (each a "Fund"), including any Fund that LMIC or an affiliate of LMIC sponsors, advises or distributes. LMIC may charge a fee on these assets, as more fully discussed in Item 5 above. Anytime LMIC invests any portion or all of a client account assets in any Fund, the client will bear a proportionate share of the fees and expenses of the Fund, including advisory fees or management fees paid to the investment advisers or sponsors of such products, which may in some circumstances be affiliates of LMIC. A description of such fees and expenses that will be paid by clients that invest in Funds is contained in the prospectuses for the Funds.

LMIC provides investment advice to a large number of clients. LMIC provides investment advice to Legg Mason sponsored mutual funds that pay fees to LMIC. As a result, it is possible that the officers and employees who serve in such capacities may have potential conflicts of interest with the pooled vehicle. Each such officer or employee of LMIC who serves in such a capacity carefully considers his or her obligations to all clients and endeavors to resolve any such conflicts fairly.

Relationships with Other Investment Advisers

When LMIC selects other advisers for our clients, the adviser is paid a portion of the fee you pay for our investment management services. All Outside Managers are approved by LMIC's Third Party Committee. Generally, selection is based on performance history, firm reputation, management stability and continuity, and the overall fee structure. The Third Party Committee looks at both affiliated and unaffiliated managers in the selection process so it is possible that LMIC may select an

affiliate to provide sub-advisory services. Additional information regarding the selection of Outside Managers can be found in Item 8.

Although we will select other investment advisers for our clients, it is important to note that we do not receive compensation, either directly or indirectly from those advisers that would create a material conflict of interest. Neither we nor any of our executives have any undisclosed arrangements, either oral or in writing, where we are paid cash or receive some economic benefit to anyone other than a client in connection with giving advice to clients.

Please see Item 11, "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" for additional information regarding conflicts of interest that arise as a result of the Firm's investment advisory activities.

ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Briefly describe LMIC's code of ethics.

LMIC is committed to maintaining the highest standards of professional conduct and ethics in order to discharge our legal obligations to our clients, to protect our business reputation, and to avoid even the appearance of impropriety in our investment activities on behalf of clients. As a registered investment adviser, we are obligated to render to our clients on a professional basis unbiased and continuous advice regarding their investments. Our fiduciary relationship with our clients requires that we act with undivided loyalty, fairness, and good faith and without any regard to personal interest or profit.

LMIC maintains and enforces a written code of ethics that includes: (1) standards of business conduct for LMIC and AKIA's directors and employees; (2) compliance with applicable federal securities laws; (3) reporting by directors and employees, and review by LMIC, of all personal securities transactions on a periodic basis; (4) provision to, and acknowledgment of acceptance of, by directors and employees of a copy of the code of ethics and any amendments; (5) reporting by directors and employees of any violations of the code of ethics promptly to the Chief Compliance Officer. Records of all trading by its investment advisory representatives are maintained. The Code also includes provisions for the acceptance of gifts by employees. LMIC's policy manual includes policies that govern conflicts related to political contributions, service as a director of a public company and other outside business activities.

Employees must disclose to the Compliance Department all potential conflicts of interest, including those in which they may have been placed inadvertently due to business or personal relationships with clients, prospects, vendors, other employees, or other third parties. In addition, any employee who is aware of a material transaction or relationship that could reasonably be expected to give rise to a conflict of interest or perceived conflict of interest should discuss the matter promptly with our Compliance Department.

LMIC's Code of Ethics has been approved by the board of directors of each Investment Company to which it provides investment services.

We will provide you with a copy of our complete Code of Ethics upon request. You may request a complete copy of our Code of Ethics by contacting us at the address, telephone number, or email on the cover page of this Part 2 section of our Form ADV.

LMIC's Participation or Interest in Client Transactions

LMIC anticipates that, in appropriate circumstances and consistent with client investment objectives, we or a related person, may recommend the purchase or sale of securities in which we, or one of our affiliates, employees or clients, directly or indirectly, has a financial interest. This may include the following circumstances:

- LMIC, its employees, or one of its affiliates may invest in a mutual fund or other pooled investment vehicle that clients invest in.
- We or one of our affiliates may be paid an investment management fee or performance fee for managing by a mutual fund or pooled investment vehicle that clients invest in. (see Item 6, "Performance-Based Fees and Side-By-Side Management").
- We or one of our affiliates, employees or clients may sell securities at the same time that LMIC is recommending the security to other clients
- We or one of our affiliates, employees or clients may buy securities at the same time we are recommending that other clients sell the security.

LMIC's Policy for Personal Trading

Since we recognize that our employees should have an opportunity to develop investment programs for themselves and their families, our Code of Ethics does not prohibit personal trading by employees. The Code sets forth standards of conduct expected of employees and in part addresses conflicts that arise from personal trading by employees. It provides policies and procedures to ensure that employees conduct their personal securities transactions in a manner that complies with the securities laws, rules and regulations and that does not raise the appearance of impropriety. In addition, it sets forth controls designed to avoid actual or potential conflicts of interest between clients and our employees. Controls in place include blackout periods for certain employees, pre-clearance of employee trades, holdings disclosure and other trading restrictions. The Code provides for periodic securities holdings reports and periodic transactions reports from all access persons that meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940. The Code also prohibits employees from revealing information relating to the investment intentions, activities or portfolios of LMIC and AKIA clients, except to persons whose responsibilities require knowledge of the information.

Does LMIC or a related person (e.g., advisory personnel) invest in or is LMIC or a related person permitted to invest in the same securities that it recommends to clients, or in related securities such as options or other derivatives?

LMIC, including Amy LaGuardia's investment team, or AKIA may buy or sell securities for its own account or managed accounts owned by employees of the Firm that are also recommended to unaffiliated clients, including selling securities that it may recommend to purchase for clients and vice versa. In these circumstances, LMIC employee trades will be aggregated with other clients where possible. Employee trades for Amy LaGuardia's group or AKIA are generally not aggregated with client transactions.

Other Conflicts of Interest Related to Personal Trading

A personal conflict of interest occurs when an employee's private interest improperly interferes with the interests of clients and/or the firm. Specifically, it is possible that when proprietary accounts or employee managed accounts trade in the same securities as the Firm trades for its clients, proprietary or employee accounts may receive an execution price that is more favorable than a LMIC or AKIA client. As a general requirement of the Code, employees must have prior approval to effect each securities transaction in which an employee has or acquires a beneficial interest to ensure that client interests come before the interests of the employee. Generally, employees cannot buy or sell securities if a client trade is pending execution. Exceptions to these policies are granted where (i) the accounts are managed on a discretionary basis by LMIC or another investment adviser; or (ii) the employee is buying or selling a certain type of security or where trades are under a certain size where the transaction would not affect the market of execution price for client trades. Employee and Proprietary account transactions are reviewed periodically against unaffiliated client accounts to determine whether any personal trading abuses have occurred.

ITEM 12. BROKERAGE PRACTICES

We owe our clients a fiduciary duty to obtain best execution at all times. As such, we execute transactions for clients in such a manner that the client's execution is the most favorable over time under the circumstances.

Unless otherwise noted, all orders to buy or sell securities are considered not-held orders, and are to be executed at the discretion of authorized trading personnel. Where multiple orders of the same equity security on the same side of the market are received at the same time, it is our procedure to block these orders together. If an aggregated order is executed in multiple transactions at varying prices, each client receives the average price for such transactions.

Circumstances may exist where LMIC may decide that exceptions to normal procedure are appropriate, such as with multiple large trades that may create a market impact. Generally, trades for clients who direct their brokerage to a particular brokers-dealer, will not be aggregated with those where LMIC selects the executing broker. Arthur Karafin does not aggregate trades when he has the opportunity to do so, and may therefore his clients may pay higher brokerage costs.

Partially Filled Allocations

Partially filled orders are allocated pro rata or in another matter that we conclude is fair and equitable to each client. This may include use of the random fill function of our trading system.

Pro rata allocations will be subject to any minimum acceptable amounts for each account. If the pro rata allocations result in odd block sizes, they will be rounded to the nearest acceptable block size. If the order is only partially filled and the securities would be insignificant if spread over all accounts participating in the trade, we will remove an entire account objective from the trade. In this way, the amount of bonds or shares or equity securities purchased or sold is significant to the accounts participating in the trade, and accounts with the same investment objective are treated equally.

If LMIC bases the allocation on reasons other than the preceding, it will maintain a record of this decision, which includes a description of the reasons that the general allocation policy was not followed.

Money Market Securities

When several accounts need to buy money market securities maturing on the same date, we attempt to fill the entire order. In the event that the necessary amount is not available, we try to find eligible securities with maturities as close to the target maturity date as possible. In this case, rather than allocate the purchases on a pro rata basis, we will generally make the purchase in the account(s) whose objectives would be most closely satisfied by the trade. We would then make one or more additional purchases in the other account(s). In this way, over time no one account will be consistently advantaged or disadvantaged.

Allocation of “Hot” Issues

When the firm has the opportunity to participate in a new issuance of securities, the portfolio managers will provide the trader(s) placing the order with a list of client accounts that are eligible to participate based upon the clients’ investment restrictions and guidelines, as well as the desired allocation.

If the order is not filled, the trader(s) will inform the portfolio managers and the portfolio managers will determine the final allocation. If the issue is “hot,” the portfolio managers will allocate the shares pro-rata among the eligible clients based upon the initial size of each client’s order. If the portfolio managers determine that a pro-rata allocation is impractical, the portfolio managers may allocate the shares in a different manner, however, the rationale for the allocation must be documented.

When shares are allocated in a manner other than pro-rata, the portfolio managers will keep accurate records of accounts that have received the “hot” issues in order to ensure that future allocations go to accounts that did not previously participate, and that all clients are treated equally.

How does LMIC Select Which Brokers to Use?

Unless clients specifically direct the broker-dealer, we allocate transactions to unaffiliated broker-dealers for execution on markets at prices and commission rates that we determine will be in the best interests of the client. We will select the broker-dealer to be used for best execution based on a number of factors.

Obtaining best execution is the top priority. The equity or fixed income desk take into account the following considerations:

- The procurement of the lowest possible net cost, comprised of the level of execution and brokerage commission;
- A decision by the trader as to the broker-dealer most qualified to provide superior execution capabilities;
- That all broker-dealer business allocated for research services will be provided at a commission rate reasonable in relation to the services received; and
- The ability to settle trades in a timely manner.

LMIC has adopted formal policies and procedures governing the selection and utilization of brokers. This Policy sets forth the factors used to evaluate brokerage execution quality. It is included in our firm-wide Policy Manual read by each of our employees on an annual basis. We must use our best efforts to obtain for all client accounts the most favorable price and execution available, except as otherwise directed by a client. To the extent relevant under the circumstances, the following specific factors may apply to our best execution determination:

- Price;
- Commission;
- Size of the order;
- Difficulty of execution;
- Degree of skill required by the broker-dealer; and
- Trading and execution, clearing and settlement capabilities.

We may also take into account factors that are relevant to the specific broker-dealer such as:

- Trading and execution;
- Clearing and settlement capabilities;
- Financial stability;
- Reputation;
- Past history of prompt and reliable execution of client trades;
- Operational efficiency with which transactions are effected;
- Access to markets;
- Access to capital to accommodate trades;
- Ability to maintain confidentiality;
- Market knowledge;
- Willingness and ability to make a market in a particular security;
- Brokerage and research services provided or the ability to accommodate third-party research arrangements;
- Overall responsiveness; and
- Depth of services provided (including research and coverage).

Client trades are only allocated to broker-dealers that have received a preliminary approval from the Head of Fixed Income, based on a credit review. Final approval is determined by the Investment Policy Committee ("the Committee") based on the factors listed above. Once preliminary approval is granted, the ultimate determination as to which broker-dealer is selected from the Approved Broker List on any given trade is made by the trader(s) responsible for executing the transaction.

The Committee determines whether a broker-dealer should be added to or removed from the Approved Broker List. It is comprised of the Chief Executive Officer, Chief Administrative Officer, Chief Investment Officer, members of the portfolio management team, and the Chief Compliance Officer. The Committee meets quarterly to review requests for the addition or deletion of a broker-dealer and to oversee the implementation of our best execution obligation. The Committee is also responsible for developing, implementing and evaluating our trade management policies and procedures in order to satisfy our duty to seek best execution. In addition, from time to time, legal, operations, investment management and other personnel, as necessary or appropriate may attend Committee meetings. Minutes of each meeting of the Committee are recorded and maintained.

Among other duties, the Committee meets quarterly to:

- Review and approve policies and procedures that address, monitor and oversee client-directed brokerage arrangements;
- Evaluate and monitor the broker-dealers on the Approved Broker List and develop and oversee procedures for changes to the Approved Broker List;
- Review and approve controls to monitor and evaluate broker-dealer performance and execution quality. This could include the retention of a third party service to analyze executions and the evaluation of the information provided by such service provider;
- Review and approve policies and procedures to help ensure that all clients are treated fairly in the execution of orders and allocation of trades;

- Establish a forum for traders to present, discuss and formally escalate, trading/soft dollar/best execution and related issues to management;
- Oversee maintenance of trading records documenting the firm's efforts to achieve best execution; and,
- Oversee and monitor soft dollar transactions and arrangements.

Since fixed income securities trade over-the-counter and do not trade on a centralized exchange, we use the brokerage services from a variety of Wall Street and regional firms. We will use those firms that are direct issuers, underwriters or market-makers in specific fixed income sectors. The broker-dealers with whom we trade fixed income securities are also on the Approved Broker List. In order to obtain best execution, our fixed income traders place orders in competitive situations, utilizing offerings and bids from numerous local and national broker-dealers. The fixed income traders review the market environment, the new issue calendar, secondary offerings and historical relationships to help determine a competitive price for the bonds they are trading. Generally, at least three broker-dealers are contacted when buying or selling securities. By hitting the highest bid when selling securities, or selecting the dealer with the lowest-priced offering, our clients are ensured of getting the best execution on their trades. The quality of execution is ascertained by reviewing the bids and offerings received relative to recent pricing data.

Soft Dollar Practices

We regularly receive research and other products and services other than execution from broker-dealers and third parties in connection with client securities transactions. This practice is commonly known as soft dollar benefits. In the selection of broker-dealers for trade execution, we take into consideration not only the available prices of securities and rates of brokerage commissions, but also other relevant factors such as execution capabilities, research and other services provided by such broker-dealers which are expected to enhance our general portfolio management capabilities. In accordance with the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934, we are allowed to receive research services. However, if research services are a factor in selecting a broker-dealer, we must determine that the amount of commission paid is reasonable in relation to the value of the brokerage and research services provided by the broker-dealer.

Risks Related to the Use of Soft Dollars

In using research and related services from broker-dealers on a soft dollar basis, we consider the following risks:

- The risk that the product or service does not fall within the statutory limits of Section 28(e) of the Securities Exchange Act of 1934 as eligible "research" under Section 28(e)(3)(A) or (B), or eligible "brokerage" under Section 28(e)(3)(C);
- The risk that the eligible product or service does not provide "lawful and appropriate assistance" to us as an investment adviser in the performance of our investment decision-making responsibilities; and

- The risk that the amount of client commissions paid is not reasonable in light of the value of the products received or services rendered.

To manage and mitigate these risks, we have developed soft dollar policies and procedures to comply with Section 28(e) of the Securities Exchange Act of 1934. It is our policy that all soft dollar transactions/arrangements will be approved by our Investment Policy Committee (“the Committee”) following a good faith determination that the amount of commissions to be paid to the broker-dealer is reasonable in relation to the value of services to be provided. When approving a soft dollar arrangement, the Committee will also determine whether the arrangement: (i) complies with our best execution obligations, applicable law and individual client guidelines; and (ii) is an appropriate use of clients’ commissions considering available alternatives. The Committee does not permit “mixed-use” allocations related to soft dollar products and services. All soft dollar payments are made through the equity trading desk. Fixed income portfolios are not used to pay for soft-dollar services.

Types of Research Products and Services Received

The types of research products and services received from third party research and consulting firms and/or broker-dealers include:

- Advice as to the value of securities, the advisability of investing in, purchasing or selling securities;
- Financial publications;
- Meetings with management representatives of issuers and other analysts;
- Quantitative analytical software and other research-oriented software;
- Macro-economic research and information, including weekly reports and quarterly conference calls;
- Platforms for accessing company information and financials such as earnings estimates, and ownership data;
- Bond analytics on fixed income portfolios, including duration, yield to maturity, and convexity;
- Fundamental analysis of particular companies or securities;
- Equity research on individual companies and/or sectors;
- Credit ratings, research, and risk analysis on municipals;
- Technical research; and
- Other relevant materials affecting investment decisions.

When we use client brokerage commissions (also referred to as soft dollars) to obtain research or other products or services, we receive a benefit since we do not have to pay for the research, products or services via hard dollars (or check). In exchange for the allocation of commissions to certain broker-dealers, we may be credited for payment of expenses which might otherwise be charged directly to us. We can then use these soft dollar credits to pay for the research products and services provided by such broker-dealers. This may result in our allocating more commission

business to broker-dealers who also provide research products and services than to broker-dealers who only effect securities transactions. Soft dollar credits may be:

- Used to obtain research products and services that are proprietary to, and prepared by, the broker-dealer selected to effect a particular transaction
- Used to obtain third party research products and services prepared or developed by an independent research firm and provided by the broker-dealer or
- Allocated to a pool of “credits” as part of a commission sharing arrangement.

In recognition of the value and benefit of the research and product services provided to us by a particular broker-dealer, we may, consistent with our duty to seek best execution, effect securities transactions through a broker-dealer that may cause a client to pay commissions higher than those charged by another broker-dealer.

Proprietary Research Products and Services

Certain broker-dealers on our Approved Broker List provide proprietary research products and services. These broker-dealers may be selected to effect transactions as a result of such services. For those broker-dealers, we periodically determine the fair value of the proprietary research products and services that we expect to receive and may set a target amount of commissions to be directed to those brokers that is reasonable in relation to the value of the brokerage services and research products and services to be provided.

Third Party Research Products and Services

A particular broker-dealer may also provide research products and services that are prepared or developed by independent research providers (including other broker-dealers). We periodically determine the fair value of the third party research products and services provided and set a target amount of commissions to be directed the broker-dealer that is reasonable in relation to the value of the third party research products and services.

Commission Sharing Arrangements

From time to time, we may request that broker-dealers that effect transactions for our clients allocate a portion of their commissions to a pool of soft dollar credits maintained by the introducing or executing broker-dealer. At our direction, the introducing or executing broker-dealer will pay independent research providers (including other broker-dealers) for research products and services from this pool of soft dollar credits. This type of arrangement is called a commission sharing arrangement because the introducing or executing broker-dealer will share its commission with an independent research provider to pay for research products and services. Commission sharing arrangements may be used to pay for proprietary and third party research products and services. For example, an introducing broker-dealer may offer access to a network of many executing broker-dealers through which we can trade. In this case, rather than paying the individual broker-dealer for research and services by placing trades, we may direct the trade to the introducing broker-dealer and request that the introducing broker-dealer pay the research provider from the pool of “credits” accumulated. Because commission sharing arrangements help separate the execution decision from

the research decision, we believe that commission sharing arrangements can help us achieve best execution for clients.

Allocation of Soft Dollar Benefits

Research provided by broker-dealers is used for a broad range of accounts for which we have investment management responsibility. We do not require that the use of soft dollar research be limited to the accounts that generated the commissions. Research provided by broker-dealers is commonly used to service accounts other than those paying for it directly. Although, not all research from broker-dealers will be useful to, or benefit, every account, we do not restrict soft dollar benefits to service only those accounts that paid for the benefits. Since soft dollar research may be used to service accounts other than those paying for it directly, we do not allocate soft dollar benefits to client accounts according to the soft dollar credits the accounts generate.

Soft Dollar Oversight

All research products and services must be approved by the Investment Policy Committee. Requests for approval of new research products and services are submitted on the "Soft Dollar Questionnaire." Every Soft Dollar Questionnaire must include the following information:

- Product(s) or service(s) to be obtained with soft dollars;
- The name of the broker-dealer;
- The name of the third-party provider; and
- Termination date/renewal term (if any).

In reviewing a request for approval of new research products and services, the Investment Policy Committee generally will (i) inquire into the type of the soft dollar service to be received (e.g., report or database) and the intended use of such service (e.g., research, execution). The Committee will verify the legitimate use of soft dollars for the service.

A Questionnaire is also completed quarterly to review exiting research products and services to verify that they are eligible under LMIC policy.

The Committee is responsible for reviewing whether the product or service falls within the safe harbor requirements of Section 28(e). This review is done quarterly. If the Committee determines that a soft dollar arrangement does not comply with Section 28(e) or these procedures, the soft dollar arrangement will be terminated.

Client Referrals

It is our long-standing practice not to allocate commissions to any person or company on the basis of business they might direct to us. It is against firm policy for any employee to suggest to any third party that in return for referring business to us, we will direct brokerage commissions to that third party or its affiliates. We will honor written directed brokerage instructions from a client provided such instructions are consistent with applicable law. Under no circumstances may any of our employees enter into an arrangement with any financial institution, broker-dealer, prime broker, investment adviser or investment vehicle for the purpose of directing brokerage commissions in exchange for either the sale of our products or investing assets with us, including situations that give rise to indirect compensation such as “step outs” or similar arrangements.

This policy also does not prohibit directed brokerage arrangements whereby a client of ours has directed us to use a specific broker-dealer for a portion or all of that client’s transactions.

LMIC’s Practices When a Client Directs Brokerage

In certain cases, clients choose to retain discretion over the broker-dealer used to execute transactions and/or the commission rate that the client will pay with respect to all or a portion of the transactions to be effected by us. If a client specifically directs the use of a specific broker-dealer for execution of securities transactions, we will direct such transactions to the specified broker-dealer.

When a client instructs us to direct a portion of the transactions for its account to a designated broker-dealer, the client has made a decision to retain some control over broker-dealer selection and services. We will treat the direction as a decision by the client to retain, to the extent of the direction, the discretion that otherwise would be given by the client to us to select broker-dealers to effect transactions and the other terms of the trade for the client’s account. In some cases, the client may have negotiated the commissions to be charged by the designated broker-dealer.

When clients direct us to use a specific broker-dealer for the execution of securities transactions, the commissions charged may not be the lowest available rates and may not be as low as the rate that we would have obtained for the client had we been authorized to select the broker-dealers for the transactions. The client may not receive the potential benefits that other clients may derive from aggregation of orders. In these situations, we may be unable to obtain most favorable execution of client transactions. In addition, directed brokerage may cost clients more money. Since directed brokerage accounts may not be able to aggregate orders to reduce transaction costs, the client may receive less favorable prices and pay higher brokerage commissions.

**Arthur Karafin Investment Advisers (“AKIA”)
Brokerage Discretion**

AKIA’s standard Investment Management Agreement provides for clients to designate an executing broker for their account. AKIA’s services to clients do not include the independent selection of brokerage firms or the negotiation of commission rates for separate account clients. AKIA requires each such client to designate the brokerage firm through which account transactions will be effected and AKIA does not negotiate commission rates as part of the services provided by AKIA. Any discounted commission rate available to the client will be dependent on the client’s ability to negotiate such discount. However, with respect to the arrangements with the particular registered representatives at Morgan Stanley Smith Barney referenced above, AKIA clients often receive commission rates that are 50% below the standard retail rate for each firm. Clients are still encouraged to negotiate even further discounted commission rates with these brokers. By designating that AKIA execute trades through a particular broker-dealer the client may not receive the best execution available, and will most likely not receive the best execution available as compared to other LMIC client trades. AKIA encourages all clients to meet with the brokerage firms and discuss their normal trade activity, including the number of shares and dollar amounts. The broker can then indicate the commission amounts the client can expect to pay.

In addition, clients do not participate in aggregated trades with other LMIC client trades that are not part of AKIA. As such AKIA clients will not benefit from lower costs or better execution prices that aggregating trades may provide. In selecting an executing broker clients are encouraged to consider that, among other factors:

- Brokerage arrangements other than those directed by the client may exist that would provide the client more favorable execution or additional brokerage related services;
- Other than in connection with its monitoring of trade execution data for client transactions, AKIA has no responsibility to determine or assess the extent or value of services provided to clients by their respective executing brokers, nor does AKIA generally have access to such information; and
- The technological capabilities and limitations of a client’s executing broker (*e.g.*, a broker’s inability to receive orders electronically) may affect AKIA’s ability to relay trading instructions to such broker as efficiently as it is able to relay instructions to brokers that have more sophisticated order systems.

Not all advisers require directed brokerage. Clients should periodically review the terms of their brokerage agreement to ensure that such arrangements meet the client’s needs and are competitive in the market in relation to the services offered. In designating an executing broker, clients should also take into account services other than trade execution they require, such as account service, investment manager due diligence and selection recommendations, asset allocation advice, financial or estate planning, or tax advice.

Suggestion of Brokers

In general, except where Arthur Karafin provides investment advice, LMIC does not routinely recommend, request or require clients to direct brokerage. LMIC will suggest brokers to its clients when the client requests LMIC's recommendation. The factors considered in selecting brokers to suggest to clients are the same factors that are used in selecting brokers to execute orders placed under LMIC's discretionary authority. LMIC will also take into consideration the individual client's situation and needs when recommending a particular broker for that client.

When requested to do so by a client or prospective client, Arthur Karafin ("AKIA") will provide the names of unaffiliated brokers for the client to consider in designating an executing broker for its account. AKIA makes such suggestions on the basis of (i) the broker's ability to meet certain objective trade execution and confirmation criteria, (ii) the broker having, in AKIA's view, evidenced a consistent commitment to providing quality trade execution to AKIA clients, and (iii) whether the broker offers the account services sought by the client (e.g., commission recapture). Such suggestions may include brokers that refer clients to AKIA or for which AKIA has a long-standing business relationship. As such, there is a potential conflict of interest between obtaining best execution for clients and AKIA receiving future referrals from such brokers. Based on the criteria listed above, AKIA likely will suggest either a particular registered representative at Morgan Stanley or a particular registered representative at Smith Barney for brokerage services. Notwithstanding any suggestions, AKIA does not independently select brokers for clients and it remains the client's obligation to enter into a relationship and negotiate terms with their broker of choice. Any discounted commission rate available to the client in such circumstances will be dependent on the client's ability to negotiate such discount. In these circumstances, AKIA clients will most likely pay higher commission rates and brokerage charges than other LMIC clients. With respect to their brokerage accounts, commission rates for AKIA client trades normally also include full custody services, including, for example, safekeeping of securities, recordkeeping, income collection and distribution, corporate actions, transaction and asset statements, trade confirmation, and tax information.

ITEM 13. REVIEW OF ACCOUNTS

LMIC Portfolio Managers Review of Clients' Accounts or Financial Plans

Client accounts are reviewed at least annually by the portfolio manager for the account. Portfolio managers may review multiple accounts together as part of a larger client relationship. Each review involves monitoring each account for adherence to client imposed investment guidelines, preferences, including tax situation, and restrictions, as well as adherence to appropriate investment allocations.

On a monthly basis, or other frequency specified by the client, LMIC mails to each client a portfolio statement package reflecting, among other things, portfolio analysis, summary of holdings, cost and market value for the client's account.

On a daily basis, LMIC Portfolio Managers or their Portfolio Assistants review every order to buy or sell securities in client accounts prior to entry to ensure that the order is consistent with client imposed guidelines and restrictions. All orders are reviewed upon execution to verify that orders were executed in accordance with the trading instructions.

Frequency of Reviews

The frequency and scope of the review for each account is based on a combination of the following factors: (i) the type of client; (ii) the nature of the client; (iii) the size and complexity of the relationship; (iv) the type of the client mandate; (v) the type of investment product(s) utilized; (vi) general market conditions and associated factors; (vii) specific client needs and objectives; (viii) turnover in investment management personnel; and (ix) change in client committee structure or management team.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

Client Referrals

LMIC compensates certain persons for client referrals in the form of a portion of the fee you pay for our investment management services. These persons include LMIC affiliates other registered investment advisers, broker-dealers, brokers employed by other firms, financial planners, or other clients. If these referrals materialize into new clients, we will compensate the referring party for making the introduction. Compensation is generally based on a percentage of the client's annual management fee. The range of compensation has included a recurring payment of 20 – 50% of the client's annual management fee. The payment is made quarterly based on our billing cycle. Clients will not charged additional fees as a result of any LMIC referral arrangements. Investment management fees, however, are negotiable based on a number of factors and therefore your fee may be higher or lower than the fee paid by other clients.

LMIC will not compensate any persons or entities for referrals unless the referral arrangement complies with all provisions of Rule 206(4)-3 of the Investment Advisers Act of 1940, and the referred client has been provided with a copy of this Brochure and a separate disclosure document that informs the client of the nature of such affiliate's affiliation with LMIC and details regarding the referring party's compensation arrangement with LMIC.

Schwab Advisor Network Service

LMIC receives client referrals from Charles Schwab & Co., Inc. ("Schwab") through LMIC's participation in Schwab Advisor Network® ("the Service"). The Service is designed to help investors find an independent investment advisor. Schwab is a broker-dealer independent of and unaffiliated with LMIC. Schwab does not supervise LMIC and has no responsibility for LMIC's management of clients' portfolios or LMIC's other advice or services. LMIC pays Schwab fees to receive client

referrals through the Service. LMIC's participation in the Service may raise potential conflicts of interest described below.

LMIC pays Schwab a Participation Fee on all referred clients' accounts that are maintained in custody at Schwab and a Non-Schwab Custody Fee on all accounts that are maintained at, or transferred to, another custodian. The Participation Fee paid by LMIC is a percentage of the fees the client owes to LMIC or a percentage of the value of the assets in the client's account, subject to a minimum Participation Fee. LMIC pays Schwab the Participation Fee for so long as the referred client's account remains in custody at Schwab. The Participation Fee is billed to LMIC quarterly and may increase, decreased or waived by Schwab from time to time. The Participation Fee is paid by LMIC and not by the client. LMIC has agreed not to charge clients referred through the Service fees or costs greater than the fees or costs LMIC charges clients with similar portfolios who were not referred through the Service.

LMIC generally pays Schwab a Non-Schwab Custody Fee if custody of a referred client's account is not maintained by, or assets in the account are transferred from Schwab. This Fee does not apply if the client was solely responsible for the decision not to maintain custody at Schwab. The Non-Schwab Custody Fee is a one-time payment equal to a percentage of the assets placed with a custodian other than Schwab. The Non-Schwab Custody Fee is higher than the Participation Fees Advisor generally would pay in a single year. Thus, LMIC will have an incentive to recommend that client accounts be held in custody at Schwab.

The Participation and Non-Schwab Custody Fees will be based on assets in accounts of LMIC's clients who were referred by Schwab and those referred clients' family members living in the same household. Thus, LMIC will have incentives to encourage household members of clients referred through the Service to maintain custody of their accounts and execute transactions at Schwab and to instruct Schwab to debit LMIC's fees directly from the accounts.

For accounts of LMIC's clients maintained in custody at Schwab, Schwab will not charge the client separately for custody but will receive compensation from LMIC's clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Schwab also will receive a fee (generally lower than the applicable commission on trades it executes) for clearance and settlement of trades executed through broker-dealers other than Schwab. Schwab's fees for trades executed at other broker-dealers are in addition to the other broker-dealer's fees. Thus, LMIC may have an incentive to cause trades to be executed through Schwab rather than another broker-dealer. LMIC nevertheless, acknowledges its duty to seek best execution of trades for client accounts. Trades for client accounts held in custody at Schwab may be executed through a different broker-dealer than trades for LMIC's other clients. Thus, trades for accounts custodied at Schwab may be executed at different times and different prices than trades for other accounts that are executed at other broker-dealers.

LMIC may recommend/require that clients establish brokerage accounts With the Schwab Advisor Services division of Charles Schwab & Co., Inc. (Schwab), a FINRA registered broker-dealer, member SIPC, to maintain custody of clients' assets and to effect trades for their accounts. Although LMIC may recommend/require that clients establish accounts at Schwab, it is the client's decision to custody assets with Schwab. LMIC Is Independently owned and operated and not affiliated with Schwab.

Schwab provides LMIC with access to its institutional trading and custody services, which are typically not available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as a total of at least \$10 million of the advisor's clients' assets are maintained in accounts at Schwab Advisor Services. These services are not contingent upon LMIC committing to Schwab any specific amount of business (assets in custody or trading commissions). Schwab's brokerage services include the execution of securities transactions, custody, research, and access to mutual funds and other investments that are otherwise generally available only to institutional Investors or would require a significantly higher minimum initial Investment.

For LMIC client accounts maintained in its custody, Schwab generally does not charge separately for custody services but is compensated by account holders through commissions and other transaction-related or asset-based fees for securities trades that are executed through Schwab or that settle into Schwab accounts.

Schwab Advisor Services also makes available to LMIC other products and services that benefit LMIC but may not directly benefit its clients' accounts. Many of these products and services may be used to service all or some substantial number of LMIC's accounts, including accounts not maintained at Schwab.

Schwab's products and services that assist LMIC in managing and administering clients' accounts include software and other technology that (i) provide access to client account data (such as trade confirmations and account statements); (ii) facilitate trade execution and allocate aggregated trade orders for multiple client accounts; (iii) provide research, pricing and other market data; (iv) facilitate payment of LMIC's fees from its clients' accounts; and (v) assist with back-office functions, record keeping and client reporting.

Schwab Advisor Services also offers other services intended to help LMIC manage and further develop its business enterprise. These services may include: (i) compliance, legal and business consulting; (ii) publications and conferences on practice management and business succession; and (iii) access to employee benefits providers, human capital consultants and insurance providers. Schwab may make available, arrange and/or pay third-party vendors for the types of services rendered to LMIC. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to LMIC. Schwab Advisor Services may also provide other benefits such as educational events or occasional business entertainment of LMIC personnel. In evaluating whether to recommend or require that clients custody their assets at Schwab, LMIC may take into account the availability of some of the foregoing products and services and other arrangements as part of the total mix of factors it considers and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest.

Other Compensation Arrangements

LMIC has not participated in any arrangement under which the adviser receives any economic benefit, including sales awards or prizes, from a person who is not a client for providing advisory services to clients.

ITEM 15. CUSTODY

How does LMIC have custody of client assets?

Although we do not maintain actual custody of any of our clients' assets, in many cases we have the authority to debit our clients' custodial accounts for management fees or to transfer money to another person's account. In these situations, under SEC regulations, we are deemed to have custody of client assets, even though the custodial bank maintains actual custody of those assets. We are also deemed to have custody over client assets if LMIC employees serve as Trustee or Executor of a client's account, or if our affiliate bank, LMIC&T, serves as Trustee or Executor of a client's accounts. When LMIC&T provides trustee services, generally, it will also maintain actual physical custody of client assets.

Receipt of Account Statements Directly From Your Custodian

You should carefully review the account statements you receive from your qualified custodian. Comparing statements will allow you to determine whether account transactions, including deductions to pay advisory fees, are proper.

ITEM 16. INVESTMENT DISCRETION

LMIC's standard investment advisory agreement grants the firm "discretionary authority" over client accounts. This authority authorizes LMIC to make purchase and sale decisions for client accounts or to select other advisers for the client. Alternatively, LMIC clients may enter into a "non-discretionary" agreement with clients. Under such agreement, LMIC must consult with clients before making any execute a purchase and sale decisions for client accounts and receive client approval for the investment decision.

Will LMIC allow clients to place limitations on this authority?

Yes. Clients may place limitations of LMIC's investment authority. For example, clients may ask LMIC not to invest in securities of particular investment classes, issuers, or sectors. Clients may ask LMIC not to invest in fixed income securities below a designated credit quality rating. Clients may place limitations with respect to a portfolio's weighted average maturity or duration, or asset

allocation with respect to balanced portfolios. Clients may also ask LMIC not to sell certain securities clients may have previously invested in which.

Your portfolio manager will work with you to create an investment policy statement that will reflect your investment guidelines and objectives, and state any restrictions you wish to place on your account.

What risks to limitations pose for client performance?

Specific client investment restrictions may limit our ability to manage those assets like other similarly managed portfolios. This may impact the performance of the account relative to other accounts and the benchmark index.

ITEM 17. VOTING CLIENT SECURITIES

Does LMIC accept authority to vote client securities?

Yes. LMIC's standard investment advisory agreement grants the firm proxy voting authority. Unless directed otherwise by the client, LMIC will vote all proxies for client accounts.

What is LMIC's policy with respect to voting proxies?

LMIC has adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 ("Advisers Act"). In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, LMIC will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (other than LMIC) regarding the voting of any securities owned by its clients.

For accounts where LMIC has appointed a sub-adviser to manage the client account, LMIC shall deliver any proxies it receives to the sub-adviser for its exercise of voting rights, unless such sub-adviser expressly disclaims the voting of proxies. An account owner may direct LMIC to refrain from voting a specific security, and name themselves or another person to so vote, while LMIC retains voting authority over the other securities in the account.

With respect to shares over which LMIC has voting authority, LMIC will not decline to vote proxies except in extraordinary circumstances where LMIC believes that refraining from voting is in the client's best interests.. Nor will LMIC accept direction from others with regard to the voting of

proxies, although LMIC will take the investment guidelines of an account into consideration in deciding how to vote on a particular issue. LMIC may vote proxies related to the same security differently for different clients.

LMIC seeks to identify any material conflicts that may arise between the interests of LMIC and its clients. LMIC will maintain a log of significant client relationships that are issuers of publicly-traded securities that might become subject to a proxy vote. LMIC employees are to inform the Proxy Voting Committee or a member of LMIC's compliance group when an employee becomes aware of a conflict of interest that arises from that employee's personal relationships or in the conduct of LMIC's business. LMIC will consider a conflict to be material if it is significant enough to potentially influence or appear to influence LMIC's decision in the voting process.

Except for extraordinary circumstances, in any such instance, the material conflict will be resolved by the Proxy Voting Committee, voting in accordance with the previously established guidelines set forth by the Proxy Voting Committee. The Proxy Voting Committee may seek the advice or recommendation of an independent third party, in its sole discretion.

Voting Guidelines

The Proxy Voting Committee will meet annually to review and approve proxy voting guidelines. Proxies will not be voted without an analysis of the underlying issues involved. LMIC's proxy voting policy at all times shall be directed toward maximizing the value of the assets of managed accounts, for the benefit of the accounts' ultimate owners or beneficiaries. Any item on a proxy that would tend to inhibit the realization of maximum value shall receive a negative vote from LMIC. Examples of such items would be any activities that could be viewed as "poison pill" maneuvers. On other matters specific to a company, such as the election of directors, the appointment of auditors, granting of options, re-pricing of options, mergers and other material issues, a decision shall be made by the proxy voting vendor in accordance with the guidelines established by the LMIC Proxy Voting Committee, consistent with the policy of maximizing value.

Clients who request that their accounts be managed according to a socially responsible mandate will have proxies voted according to the values communicated in their investment policy statement.

Abstention

There are times when we may be unable to vote a proxy or may choose not to vote a proxy. Examples of these times include, but are not limited to:

- A proxy ballot was never received from the custodian,
- A meeting notice was received too late,
- The fees imposed to exercise the vote are high and outweigh the benefit of voting, or
- A proxy voting service is not offered by the custodian.

Voting Records & Client Notification

For clients of LMIC, a complete record and file of all votes cast, and where appropriate, the reason therefore, shall be maintained by LMIC with a third party voting service, Institutional Shareholder Services Inc. (ISS). A proxy log will be maintained, including the following data: issuer name, exchange ticker symbol of the issuer's shares to be voted, CUSIP number for the shares to be voted, a brief identification of the matter voted on, whether the matter was proposed by the issuer or by a shareholder of the issuer, whether a vote was cast on the matter, a record of how the vote was cast and whether the vote was cast for or against the recommendation for the issuer's management team. Clients may obtain information with regard to the manner in which their proxies were voted, as well as the more detailed policies and procedures upon which this summary is based by contacting LMIC at 100 International Drive, 5th Floor, Baltimore, Maryland, 21202, attention: Compliance Officer. In addition, when required by applicable banking or investment adviser statutes and rules, a description of these Policies and Procedures shall be provided to new clients prior to the inception of their account.

ITEM 18. FINANCIAL INFORMATION

We are required to disclose any material financial information about LMIC that would reasonably likely to impair the adviser's ability to meet contractual commitments to clients, any situations where a judgment or arbitration award was or may be sufficiently large that payment of it would create such a financial condition. In addition we are required to disclose whether we been the subject of a bankruptcy petition during the past ten years.

We do not have any material financial information to report to you. We do not foresee any situation that may lead to a financial condition as described above for which we would be required to report to you. LMIC has not been the subject of a bankruptcy petition during the past ten years.

While certain clients of LMIC have agreed to pay investment management in advance, we do not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

ITEM 19. REQUIRED DISCLOSURES FOR STATE-REGISTERED ADVISERS

Because we are an SEC-registered adviser, not a State-Registered Adviser, we are not required to complete Item 19.

ADDITIONAL INFORMATION

LMIC believes the following information may be of interest and/or important for you to know about certain of its policies and practices.

TRADE ERROR CORRECTION POLICY

In the event of a trade error attributable to LMIC or AKIA, LMIC's general policy is to place the client in the position it would have been in absent the error unless otherwise directed by the client. When an error is identified prior to settlement, LMIC will normally move the trade to its error account. In such cases, the profit or loss resulting from the reversing transactions will be owned by LMIC.

PRIVACY NOTICE

Legg Mason Investment Counsel, L.L.C. is committed to keeping nonpublic personal information about our clients secure and confidential. This notice is intended to help you understand how we fulfill this commitment.

In the course of management of client accounts, we may collect a variety of personal information, including:

Information on applications and forms, via the telephone, and through our websites;
Information about transactions with us, our affiliates, or others (such as your purchases, sales, or account balances); and Information from consumer reporting agencies.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. When an account is opened, we must ask for names, addresses, dates of birth (if applicable), and other information. We must also request identifying documents such as drivers' licenses or passports.

Legg Mason Investment Counsel does not sell our clients' nonpublic personal information to anyone. We do not disclose your nonpublic personal information, except as permitted by applicable law or regulation. For example, we may share this information with others in order to process your transactions. We may also provide this information to companies that perform operations or administrative services on our behalf, such as tax processing or printing and mailing. We require these companies contractually to protect the confidentiality of this information and to use it only to perform the services for which we hired them.

With respect to our internal security procedures, we maintain physical, electronic, and procedural safeguards to protect and restrict access to nonpublic personal information. These controls include: (1) securing office buildings; including security personnel and identification card key access to the building and individual floors; (2) placing security cameras at the building entrance; (3) maintaining client files in locked file room; and (4) providing annual employee training. As required by federal

regulation, we will take reasonable measures to protect against access to or use of nonpublic personal information by unauthorized persons when disposing of it.

If a client terminates an account with us, we still continue to adhere to our privacy policies and practices with respect to nonpublic personal information.

PART 2B: THE BROCHURE SUPPLEMENT

Rule 204-3 requires that our brochure be accompanied by brochure supplements providing information about our advisory personnel.

The following brochure supplements contain the following information about supervised persons of the adviser who actually provide the investment advice and interact with the client:

- Educational background,
- business experience, and
- disciplinary history (if any) of the supervised persons who provide advisory services to the client