

LEGG MASON
INVESTMENT
COUNSEL

FORM ADV DISCLOSURE BROCHURE

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This brochure provides information about the qualifications and business practices of Legg Mason Investment Counsel, LLC (“LMIC”). If you have questions about the contents of this brochure, please contact us at (410) 454-2171. 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. Additional information about Legg Mason Investment Counsel, LLC is available on the SEC’s website at www.adviserinfo.sec.gov. Investment adviser registration does not imply a certain level of skill or training.

ITEM 2. MATERIAL CHANGES

NOT APPLICABLE.

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* SUPPLEMENTS ARE NOT INCLUDED WHEN THIS BROCHURE IS FILED WITH THE SEC, AS PERMITTED BY SEC REGULATION. SUPPLEMENTS ARE INCLUDED WHEN THE BROCHURE IS DELIVERED TO CLIENTS.

ITEM 4. ADVISORY BUSINESS

A. Firm Description

Legg Mason Investment Counsel, LLC ("LMIC") is a wholly-owned subsidiary of Legg Mason Investment Counsel & Trust Company, N.A. ("LMIC&T"), which in turn is a wholly-owned subsidiary of Legg Mason, Inc.

LMIC has been in the business of providing investment advisory services since 2005. Prior to 2005, the business now conducted by LMIC was conducted by certain offices of the Scudder Private Investment Counsel unit of Deutsche Investment Management Americas Inc. LMIC acquired these offices at the end of 2004.

LMIC provides active equity and active fixed income discretionary and non-discretionary investment advisory services. LMIC provides financial planning services in certain situations (as described in Item 8 of this Brochure) and may also provide other types of investment advisory services. LMIC provides investment advisory services through the following departments:

- High Net Worth Department
- Institutional Department
- Socially Responsive Investment Department
- Global Total Return Department
- Small- and Mid-Cap Investing Department
- Arthur Karafin Investment Advisors Department*
- Wrap Department

*LMIC maintains a separate Form ADV Brochure for its Arthur Karafin Investment Advisors Department ("AKIA"). Clients of, and persons considering entering into an investment advisory relationship with, AKIA should refer to that brochure (not this brochure) for information about AKIA. Request a copy of the separate brochure by calling AKIA at (215) 981-0110.

High Net Worth Department. LMIC's High Net Worth Department manages equity, fixed income, and balanced portfolios for high net worth individual, family and trust clients, and seeks to maximize performance while managing risk. Portfolio managers work directly with clients to develop Investment Policy Statements and tailor portfolios to reflect individual client considerations including time horizon, risk tolerance, restrictions on investing in specific securities or types of securities, income needs and tax situation. Portfolio managers primarily focus on liquid mid- to large-cap stocks and investment grade fixed income securities and may supplement with strategies they believe complement these core assets.

The High Net Worth Department offers clients a mutual fund investment program in which LMIC directs the investment of client assets in mutual funds.

Institutional Department. LMIC's Institutional Department manages all institutional client accounts except for those institutional accounts managed by the Socially Responsive Investment, Arthur Karafin Investment Advisors, and Wrap Departments of LMIC.

Socially Responsive Investing Department. LMIC's Socially Responsive Investing ("SRI") Department manages LMIC client accounts that select a socially responsive investment strategy. The SRI Department employs specialized research and custom screening to reflect a client's ethical investing goals and aligns those goals the client's financial goals. The SRI Department specializes in constructing social investing policies and screens, supported by both proprietary investment research and social research analysis, to eliminate companies that do not meet a client's requirements and to select investments that do meet these requirements.

Global Total Return Department. LMIC's Global Total Return Department manages global equity accounts of individual and institutional clients that select the Department's Global Total Return investment strategy.

Small- and Mid-Cap Equity Department. On March 31, 2010, Amy LaGuardia's investment team joined LMIC. This team comprises the Small- and Mid-Cap Equity ("SMID") Department of LMIC. Prior to 2010, Amy's team, then known as the Seifert Group, was part of Barrett Associates, Inc.

Although LMIC's SMID Department shares research and other investment resources with LMIC's other investment departments, the SMID Department's investment strategy focuses on small- to mid-cap equities. LMIC's other investment departments primarily focus on mid- to large-cap equities.

Wrap Department. LMIC may enter into arrangements with investment advisory firms ("sponsors") under which LMIC's Wrap Department provides discretionary investment advisory services to clients through a wrap fee program. In wrap fee programs, sponsors offer clients services, which may include brokerage, custody and investment advice, for fees that are not directly related to transactions in client accounts (e.g., asset-based fees instead of trade-by-trade commissions). LMIC's Wrap Department provides investment management services to wrap fee program clients based upon the information and guidelines provided by the sponsor. LMIC does not manage wrap fee program accounts any differently than other accounts managed in the same investment strategy. In wrap fee programs, LMIC either receives a portion of the wrap fee charged to the client by the program's sponsor or receives a separate fee from the client.

The Wrap Department currently provides three investment strategies: International Equity ADR, Large Cap Value Equity and Quality Growth Equity.

Quality Growth Equity is a proprietary LMIC investment strategy that LMIC Portfolio Managers Ron Bates and Lori Laub oversee. The Wrap Department manages International ADR Equity accounts based on an investment model provided by Global Currents Investment Management, LLC, an affiliated investment management firm. The Wrap Department manages Large Cap Value Equity accounts based on an investment model provided by Brandywine Global Investment Management, LLC, also an affiliated investment management firm.

B. Non-Discretionary Investment Advice

LMIC typically provides discretionary investment management services, which involve LMIC selecting investments for client accounts. However, LMIC has agreed to provide certain clients with non-discretionary investment advisory services. When LMIC provides non-discretionary investment advisory services, the client decides whether or not to approve LMIC's non-discretionary investment advice. If LMIC has agreed to implement approved non-discretionary advice, then LMIC will implement the advice after receiving the client's approval.

LMIC's non-discretionary investment advisory services may include:

- providing another financial firm (the client) with, and continuously monitoring and updating, a model investment portfolio that the client, in turn, may implement for accounts of its own clients;
- continuously monitoring and making investment recommendations for specific client accounts; or
- reviewing and making investment recommendations for client accounts at periodic intervals.

C. Tailoring of Investment Advisory Services to Client Needs

LMIC tailors the investment advisory services it provides to client needs in multiple ways. In addition to making available a wide range of investment advisory services, LMIC Departments (excluding the Wrap Department) tailor their investment advisory services to client needs by creating and updating investment policy statements, or agreeing to client-developed investment guidelines, reflecting client investment objectives and guidelines. As noted above, LMIC's Wrap Department manages client accounts in accordance with the strategy the client or its sponsor firm selects and other information and guidelines the sponsor firm provides. All LMIC Departments, including the Wrap Department, accommodate written client-imposed restrictions on specific securities and types of securities if they determine that such restrictions are reasonable as an investment and operational matter.

D. Assets Under Management

As of March 31, 2012, LMIC, including AKIA, managed approximately \$6,699.1 million in assets, consisting of approximately \$6,530.1 million of assets managed on a discretionary basis (AKIA managed approximately \$752.2 million of these assets) and approximately \$169 assets managed on a non-discretionary basis (AKIA managed none of these assets). LMIC assets managed on a non-discretionary basis include assets for which LMIC provides non-discretionary investment advice on a continuous basis, but do not include client assets for which LMIC provides non-discretionary investment advice only at periodic intervals. The LMIC assets under management reported above do not include client assets managed by Legg Mason Investment Counsel & Trust Company, N.A. ("LMIC&T"), the affiliate that together with LMIC comprises the "Legg Mason Investment Counsel" business unit. In marketing materials, this business unit may disclose the collective assets under management of LMIC and LMIC&T as its assets under management.

ITEM 5. FEES AND COMPENSATION

A. HOW LMIC IS COMPENSATED

Generally, clients agree to pay LMIC compensation for its investment advisory services based on a percentage of the assets LMIC manages. LMIC generally considers client requests to negotiate a fixed dollar fee instead and has agreed to fixed dollar fees for certain clients. However, LMIC in its sole discretion may refuse to agree to fixed-dollar fees for any one or more clients.

LMIC's standard fee schedules for its Departments and different types of clients and accounts are set forth below.

Standard Annual Fee Schedule for High-Net-Worth Clients

Equity/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

Minimum account or client relationship size: \$2 million
Minimum annual fee: \$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

Minimum account or client relationship size: \$5 million
Minimum annual fee: \$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.

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

Minimum annual fee for Equity/Balanced Accounts: \$37,500

Minimum annual fee for Fixed Income Accounts: \$10,000

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.

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

The Socially Responsive Investing and Global Total Return Departments generally follow the standard fee schedules, including minimum account sizes and minimum annual fees, set forth above for High-Net-Worth and Institutional client accounts.

Standard Annual Fee Schedule for Portfolios Managed by the Small- and Mid-Cap Equity Department

For client accounts managed by LMIC's Small- and Mid-Cap Equity Department, LMIC's annual fees generally are based on the market value of each account as follows:

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

The Small- and Mid-Cap Equity Department generally requires the minimum account sizes and minimum annual fees set forth above for High-Net-Worth and Institutional clients.

Fees for Portfolios Managed by the Wrap Department

Generally, in a wrap fee program, a client pays a single fee to the program sponsor. This fee typically covers investment management fees and costs of custody and brokerage transactions executed by the sponsor or by a broker-dealer designated by the sponsor. Clients with accounts in a wrap fee program should contact the program's sponsor for information regarding fees and expenses associated with program accounts.

In a wrap fee program, the sponsor determines and pays LMIC, from the single fee the sponsor charges to the client, a fee for managing client accounts in the program. The rate of LMIC's fee typically is based on the amount of client assets LMIC manages in the program.

Standard Annual Fee Schedule for Investments in Mutual Funds, Private Investment Funds and Other Collective Investment Funds

As described in Item 8 of this brochure, LMIC may invest client assets in affiliated and unaffiliated mutual funds, private investment funds and other collective investment funds, including funds that invest in other funds (collectively, "Funds"). Affiliated Funds may include Funds LMIC manages as investment subadviser and from which LMIC receives compensation (in addition to asset allocation fees paid directly by clients, subject to applicable law – see below). As described in Item 9 of this brochure, investments in all affiliated Funds may involve a potential conflict of interest.

When LMIC invests client assets in Funds, other than money market funds, LMIC's standard approach is to charge the client an asset allocation fee on these assets. LMIC's standard asset allocation fee is the lesser of (a) an annual rate of 0.50%, or (b) the lowest marginal fee rate then applicable to assets in the client's account under the client's fee schedule. The client will also bear its proportionate share of the internal fees and expenses of any Funds in which the client's assets are invested, including investment management fees and any distribution fees the Funds pay to their investment managers and sponsors. Not all clients have agreed to the asset allocation fee described above.

LMIC complies with applicable laws when investing client assets in affiliated Funds. Also, if an affiliated Fund is a private investment fund managed by LMIC, LMIC may charge a Fund-level management fee and forgo also charging its typical account-level asset allocation fee. Subject to compliance with applicable laws, the Fund-level management fee rate in this situation may be equal to, or higher than, LMIC's fee rate for other assets LMIC manages for the client. If the fee is higher, LMIC will have a potential conflict of interest as described in Item 11 of this brochure.

B. Negotiability of Fees and Account/Relationship Minimum Waivers

LMIC generally considers client requests to negotiate investment advisory fee rates and minimum fees lower than the standard fees set forth in Section A above. In addition, LMIC generally considers client requests to waive minimum account/relationship sizes. However, LMIC in its sole discretion may refuse to agree to lower fee rates or to waive account/relationship minimums for any one or more clients.

In determining whether to agree to lower fees or waive account/relationship minimums for a client, LMIC may consider factors such as the current and anticipated future size of the client's account and other accounts the client has with LMIC and its affiliates (or is anticipated to have in the future). In addition, if a third party is involved in establishing the client relationship, LMIC may consider investment advisory business it expects the third party to refer to LMIC in the future.

C. Fee Billing

Billing Methods. LMIC's standard form of investment advisory agreement includes client authorization of LMIC to collect (or debit) LMIC's agreed-upon investment advisory fees directly from the client's account. LMIC collects its fee in this situation by sending the custodian of the client's account an invoice setting forth the amount of the fee payable to LMIC. LMIC considers client requests to instead collect investment advisory fees by billing the client directly and has agreed to such billing for certain clients. However, LMIC in its sole discretion may refuse requests for this alternative billing method from any one or more clients.

Arrears and Advance Fee Billing; Frequency. LMIC charges its investment advisory fees in accordance with the terms of its investment advisory agreements with clients. Generally, LMIC agrees to charge investment advisory fee quarterly in arrears – i.e., billing of fees at the end of the quarter during which LMIC provided the investment advisory services covered by the fees. However, LMIC has agreed, and may in the future agree, with certain clients to bill investment advisory fees in advance or at monthly, semi-annual or other intervals.

For a client that agrees to advance billing, LMIC will refund the client a portion of the investment advisory fees previously paid for the billing period in the event the client or LMIC terminates the client's investment advisory agreement with LMIC during such period. LMIC calculates refunds in these circumstances by:

1. Dividing the number of days left (after termination) in the period for which the client paid the fee by the total number of days in the period; and
2. Multiplying the result by the dollar amount of the pre-paid fee.

LMIC pays fee refunds by mailing checks to client custodians for deposit into the accounts previously managed by LMIC or directly to clients at their addresses most recently shown on LMIC's records.

Where LMIC manages client accounts as a subadviser to another firm or as part of a wrap fee program in which another firm collects and pays LMIC its investment advisory fees, clients should contact such other firm for information on fee refunds in the event LMIC's investment advisory relationship is terminated.

D. Other Fees and Expenses

In addition to the investment advisory fees LMIC charges for its investment advisory services, a client generally will incur brokerage and trade execution costs for securities transactions LMIC effects or recommends for the client's account. These costs are imposed by the broker-dealer firms used to execute such transactions and are not covered by LMIC's investment advisory fees. For wrap fee programs, if the transactions are executed by the program sponsor or its designated broker, these costs often are included in the fee the client pays to the sponsor. If the transactions are not executed by the sponsor or its designated broker, however, then these costs typically are in addition to the fees the client pays to the sponsor. For more information on brokerage, refer to Item 12 of this brochure.

A client may also incur any one or more of the costs listed below.

- Fees for account custody services and related services such as security transfers and wire transfer.
- Fees for investment advisory services a firm other than LMIC provides. These may include services such as the other firm's evaluation, recommendation and monitoring of LMIC, and financial planning and asset allocation services provided by the other firm. Unless LMIC otherwise agrees with a client, LMIC will pay the fees of any subadvisers LMIC retains to manage client account assets.
- Fees for account reporting by a firm other than LMIC, such as the client's custodian or, in the case of wrap fee programs, the sponsor firm. Account reporting may include the preparation of periodic account statements.
- Any SEC fees, transfer taxes or other governmental charges based on securities transactions.
- Conversion and foreign exchange fees and charges associated with purchases and sales of American Depositary Receipts ("ADRs") in non-U.S. markets for ordinary shares underlying the ADRs.

Internal fees and expenses of any mutual fund, private investment fund or other collective investment fund ("Fund") purchased or held for the client's account, as well as sales charges (initial or deferred) on investments in Funds shares or on any annuities held in the account.

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

Not Applicable.

ITEM 7. TYPES OF CLIENTS

LMIC provides investment advisory services to the following types of clients: 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.

For new client accounts and relationships, LMIC generally imposes the minimums described in Item 5 of this brochure. As described in Item 5, LMIC in its sole discretion may waive otherwise applicable minimums for any one or more clients.

In addition, LMIC reserves the right to refuse or terminated business for any reason, even if such business would meet applicable standard LMIC account and relationship minimums.

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

A. Introduction

LMIC makes available a variety of investment strategies. LMIC's main investment strategies, including LMIC's methods of investment analysis, are described below in Section B of this Item 8. As described in Item 4 of this brochure, LMIC often customizes its investment strategies to reflect unique client investment objectives, guidelines and needs. As a result, the investment strategy descriptions in this brochure may not fully apply to all clients depending on the nature of customization LMIC applies in managing their accounts.

Each investment strategy involves risk of loss, which clients should be prepared to bear. The investment strategy descriptions set forth in Section B of this Item 8 identify the main risks for the strategies. Appendix B to this brochure explains these risks. It is not practical to identify all possible risks and one or more risks that this brochure does not identify for an investment strategy nevertheless may result in losses for clients. For all investment strategies, there is no assurance or guarantee that client investment objectives will be met.

Section C of this Item 8 sets forth certain additional information relating to investment advisory services LMIC provides.

B. Investment Strategies

Core Equity (Equity Institutional)

LMIC's core equity investment capability is the construction of large-to-mid capitalization primarily domestic equity portfolios. A Core Equity or Equity Institutional client account or account portion typically contains 30-60 individual stock holdings. LMIC's Core Equity philosophy is described below:

- LMIC is an active manager that focuses on high or improving quality stocks, employing a bottom-up approach.
- LMIC employs independent proprietary research in an attempt to discover unrecognized sources of value.
- LMIC focuses on companies it believes have a demonstrable competitive advantage in an attempt to enhance long-term opportunities and maximize returns.
- LMIC emphasizes high-quality or improving-quality securities in an attempt to reduce fundamental risk and avoid significant loss.
- LMIC seeks to identify promising sectors that 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 LMIC believes represents superior investment potential requires intensive research and a disciplined process. LMIC draws from a broad universe of companies with equity market capitalizations greater than \$1.0 billion including American Depositary Receipts (“ADRs”) of non-U.S. domiciled companies.

Step 2

With the goal of establishing the dynamic LMIC Investment Universe comprised of high or improving quality companies exhibiting a durable or improving competitive advantage, LMIC Research employs a number of quantitative and qualitative protocols. Each LMIC research analyst has sector responsibility and recommends companies they believe have high or improving financial quality and demonstrable competitive advantage for addition to the LMIC Investment Universe. Industry-specific quantitative fundamental screens developed by LMIC Research and intensive fundamental research performed by the analysts serve as the foundation of this process.

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

Companies in the LMIC Investment Universe that LMIC’s research analysts favorably rank or that LMIC’s quantitative valuation tools rank favorably comprise LMIC’s Focus List, which includes securities LMIC portfolio managers may purchase for client accounts. LMIC Research employs risk/reward valuation disciplines to identify and rank companies LMIC believes have the highest probability of outperformance potential relative to risk and market expectations.

Step 4

Portfolio managers construct customized portfolios from the Focus List 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
- The portfolio manager identifies an alternative investment believed to be superior

LMIC frequently refers to the Core Equity investment strategy as “Equity Institutional.” In addition, the Core Equity investment strategy described above is the foundation for LMIC’s Quality Growth Equity investment strategy, which is more growth oriented than Equity Institutional.

Main Risks

The main risks associated with the above-noted LMIC equity investment strategies are General Investment Risk, Mid Cap Risk, Industry and Issuer Concentration Risk, and Non-U.S. Investment Risk. See Appendix B to this brochure for explanations of these risks.

Core Fixed Income

LMIC’s Core Fixed Income strategy seeks to maximize total return and minimize risk through:

- An investment strategy customized to client goals, needs and risk preferences
- A conservatively managed risk profile
- Tax sensitive management (if applicable)

LMIC reviews and tailors 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, a specific investment strategy is constructed addressing:

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

LMIC’s Core Fixed Income investment strategy described above is the foundation for the following LMIC fixed income investment strategies: A-Rated Intermediate Fixed Income, Intermediate Duration Fixed Income, Full Range Duration Fixed Income and Intermediate Municipal Fixed Income.

Main Risks

The main risks associated with the above-noted LMIC fixed income investment strategies are General Investment Risk, Credit Risk, Interest Rate Risk, Extension Risk, Prepayment Risk and Illiquidity Risk. An additional risk is Geographic Concentration Risk if municipal securities from a particular state are emphasized. See Appendix B to this brochure for explanations of these risks.

Balanced

LMIC believes 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.

For clients that select LMIC's balanced investment strategy, LMIC creates guidelines and a framework for strategic and tactical asset allocation ranges for the following variants of the strategies:

- Balanced Growth
- Balanced Growth & Income
- Balanced Income

LMIC allocates accounts in these balanced categories across equity and fixed income investments and cash equivalents.

Main Risks

The main risk of balanced accounts are a combination of the main risks described above for LMIC's Core Equity investment strategy and Core Fixed Income strategy. See Appendix B to this brochure for explanations of these risks.

SRI Investment Strategies

LMIC's Socially Responsive Investment ("SRI") Department offers several equity and fixed income investment strategies for which other investment strategies described or identified in this Item 8 serve as the foundations. In developing and implementing these SRI investment strategies for client accounts, the SRI Department seeks competitive risk-adjusted returns, while reflecting the unique social goals of each client. The SRI Department's dedicated team of social research analysts conducts proprietary social research on domestic and international companies and issues. The social research team evaluates each security considered for purchase 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. When providing fixed income investment strategies, the team generally applies social research analysis only to corporate issuers and not also to governmental issuers.

Main Risks

The main risks associated with SRI investment strategies are the main risks associated with the non-SRI investment strategies that serve as the foundation of the SRI investment strategies.

Large Cap Value Equity

LMIC offers the Large Cap Value Equity investment strategy, which seeks to outpace the long-term returns of the Russell 1000 Value Index, while adhering to a value-based investment philosophy. Utilizing investment strategy and ideas generated by LMIC's affiliate, Brandywine Global Investment Management, LLC ("Brandywine"), LMIC structures a portfolio in this strategy with regard to diversification, balance and general economic sensitivity, focusing 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 below normal valuation. Fundamental analysis seeks to identify stocks with the ability to return to normal value.

Main Risks

The main risks associated with the Large Cap Value Equity investment strategy are General Investment Risk, Industry and Issuer Concentration Risk, and Non-U.S. Investment Risk.

International ADR Equity

LMIC offers the International ADR Equity investment strategy, which seeks to outperform the total return of the MSCI EAFE (net) Index over a fully market cycle of 3 to 5 years. This investment strategy is based on investment strategy and ideas generated by LMIC's affiliate, Global Currents Investment Management, LLC ("Global Currents"). Global Currents engages in both quantitative and fundamental analysis and identifies publicly-traded securities with market capitalizations greater than \$100 million from developed and emerging countries. Global Currents seeks ADRs of foreign companies that are trading below normal valuation levels and that have catalysts in place to spur a return to normal valuation. An ADR in this strategy becomes a sale candidate if it appreciates to its target price based upon Global Currents' estimate of the intrinsic value of the company's business, the risk/reward tradeoff of a new investment appears more favorable, or a successful recovery fails to materialize causing a fundamental change in Global Currents' assessment of the security's upside potential.

Main Risks

The main risks associated with the International ADR Equity investment strategy are General Investment Risk, Non-U.S. Investment Risk, Small Cap Risk and Mid Cap Risk. See Appendix B for explanations of these risks.

Global Total Return

LMIC's Global Total Return Department offers the Global Total Return equity investment strategy. This strategy is a concentrated strategy focused on investment in companies serving rapidly expanding markets and capitalizing on themes that are currently visible. The strategy seeks to add value through the portfolio managers' 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, the Global Total Return portfolio managers 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.

Main Risks

The main risks associated with the Global Total Return equity investment strategy are General Investment Risk, Industry, Issuer and Geographic Concentration Risk, Non-U.S. Investment Risk, Mid Cap Risk, and Small Cap Risk.

Multi-Cap Core Equity

LMIC's Small- and Mid-Cap Investing Department offers the Multi-Cap Core Equity investment strategy. The investment team invests primarily in small and mid-capitalization companies for client accounts that select this strategy. The investment team may also make investments in large capitalization companies for such accounts and may invest primarily in such companies when it believes market conditions warrant such an approach. The investment team stresses current earnings in selecting stocks for this strategy, believing that stock performance ultimately follows earnings performance. The investment team generally will not consider a company for investment unless it has a history of real earnings and the prospect of a positive ongoing earnings stream. Based on the team's interpretation of various fundamental factors, the team may concentrate the strategy's investments in certain sectors. Also, the team generally will consider selling an investment in a company if the company falls short of the team's forecasted earnings.

Main Risks

The main risks for the Multi-Cap Core Equity investment strategy are General Investment Risk, Small Cap Risk, Mid Cap Risk, Industry and Industry Concentration Risk and High Volatility Risk. See Appendix B for explanations of these risks. The investment team seeks to reduce risks that are issuer-specific by investing no more than 5% (calculated at time of investment) of the equity portion of a client account in an individual stock. Also, the team seeks to reduce risk by focusing on high quality company investments with earnings streams.

Select Third Party Managers for Non-Core Asset Classes

To complement LMIC's core investment strategies, LMIC employs third party investment managers focus on specific asset classes or styles of management and who LMIC believes execute those strategies particularly well. LMIC typically accesses third party managers via mutual funds, private investment funds or other collective investment vehicles ("Funds") managed by such managers. However, LMIC may also access such managers by retaining them as subadvisers to manage client assets. LMIC often uses third party managers for the following asset classes:

- Small Cap Equity
- Developed International Equity
- Emerging Markets Equity
- Commodities
- Alternative Investments
- Real Estate
- High Yield (Junk Bond) or Distressed Debt

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.

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. LMIC's manager selection process focuses on philosophy, process and people, which LMIC believes are the three determinants of the persistent performance LMIC seeks for clients. LMIC uncovers managers through its own due diligence and the use of its industry contacts.

LMIC's Third Party Manager Committee, a group of senior LMIC investment professionals, are charged with selecting third-party managers, which may be affiliated or unaffiliated with LMIC and also may include LMIC. The Committee members consider both quantitative and qualitative factors, and the relative importance they assign to different factors may 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. The analysts look for consistent, above-average returns versus the relevant benchmark(s) and peer group(s) as measured by total return and risk-adjusted return.

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

Quantitative data which LMIC may review for various trailing and rolling time periods include:

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)

LMIC's 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.

LMIC's Investment Policy Committee annually reviews the appropriateness of third party managers, including unaffiliated Funds and Affiliated Funds (including LMIC-managed Funds), based on materials presented by the LMIC Third Party Manager Committee, a group of LMIC investment professionals who are charged with selecting LMIC's third party managers.

Main Risks

LMIC's use of third party managers, whether affiliated or unaffiliated with LMIC, may subject clients to the investment risks identified and explained on Appendix B to this brochure, depending on the types of investments made by such managers.

ITEM 9. DISCIPLINARY INFORMATION

There are no reportable legal or disciplinary events for LMIC or its employees.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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

- (1) Legg Mason Investor Services, LLC. Legg Mason Investor Services, LLC (“LMIS”), a limited purpose broker-dealer, serves as the principal underwriter for investment companies LMIC manages as a subadviser LMIC. LMIC and LMIS are wholly owned subsidiaries of Legg Mason, Inc. A small number of LMIC’s employees, including certain members of management, are registered with FINRA as registered representatives of LMIS and may actively market LMIC-subadvised mutual funds. However, these employees do not receive sales commissions from LMIS.
- (2) Legg Mason Investment Counsel Investment Companies. Pursuant to agreements with Legg Mason Partners Fund Advisor, LLC (“LMPFA”), an affiliate of LMIC, LMIC serves as investment subadviser to the Legg Mason Investment Counsel Maryland Tax-Free Income Trust, the Legg Mason Investment Counsel Financial Services Fund, the Legg Mason Investment Counsel Social Awareness Fund and the Legg Mason Investment Counsel Variable Social Awareness Portfolio. LMIC receives a fee from LMPFA for the investment subadvisory services it provides to these investment companies. In addition, as described in Item 11 of this brochure, LMIC may invest client assets in one or more of these investment companies.
- (3) Brandywine Global and Global Currents. LMIC has entered into agreements with its affiliates, Brandywine Global Investment Management, LLC (“Brandywine Global”) and Global Currents Investment Management, LLC (“Global Currents”) pursuant to which Brandywine Global and Global Currents each provide LMIC with model investment portfolios in exchange for compensation from LMIC. LMIC pays this compensation and uses these model investment portfolios to provide the Large Cap Value Equity and International ADR Equity investment strategies (described in Item 8 of this brochure) to its clients.
- (4) Legg Mason Investment Counsel & Trust Company, N.A. LMIC shares its management, investment and other personnel, as well as other resources, with its direct parent company, Legg Mason Investment Counsel & Trust Co., N.A. (“LMIC&T”), which is a direct wholly-owned subsidiary of Legg Mason, Inc. LMIC&T is a nationally-chartered trust company that is regulated by the U.S. Office of the Comptroller of the Currency. LMIC&T provides its clients with trustee and investment advisory services. LMIC and LMIC&T together comprise the “Legg Mason Investment Counsel” business unit and their business and investment operations are significantly integrated. Conflicts may arise between the interests of LMIC&T clients and LMIC clients in connection with the allocation of partially filled trade orders. As described in Item 12 of this brochure, LMIC and LMIC&T address the possibility of such conflicts by allocating partially-filled trade orders in a manner designed to treat all clients fairly.

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

A. Code of Ethics

LMIC is committed to maintaining the highest standards of professional conduct and ethics

LMIC employees are subject to the LMIC Code of Ethics, which is based on the principle that LMIC personnel owe a fiduciary duty to clients and must avoid activities, interests and relationships that might interfere with making decisions in the best interests of clients. LMIC's Code of ethics includes: (1) mandatory standards of business conduct ; (2) a requirement to comply with applicable federal securities laws; (3) reporting of personal securities accounts and transactions to LMIC's Compliance Department, subject to certain exceptions; (4) a requirement to report violations of the Code of Ethics to LMIC's Chief Compliance Officer. The Code of Ethics also imposes preclearance and blackout requirements on employee personal securities transactions in certain situations (AKIA personnel are exempt from these requirements but their personal securities transactions are subject to enhanced periodic review by LMIC's Compliance Department).

Existing and prospective clients may request a copy of LMIC's Code of Ethics by mailing a written request to:

Legg Mason Investment Counsel, LLC
100 International Drive, 5th Floor
Baltimore, MD 21202
Attention: Compliance Department

B. Discussion of Potential Conflicts of Interest Associated with Employee Personal Trading

LMIC employees may make personal investments in the same securities LMIC invests in for client accounts, as well as in securities that LMIC does not invest in for clients accounts. Employees may also make personal investments in related securities or financial instruments, such as options, futures and warrants. There is no specific limitation on the frequency of employees' personal trades and, therefore, such trades may be frequent. LMIC employees may make personal investments at or about the same time LMIC is making the same investments or related investments for client accounts. This possibility involves a potential conflict between client interests and the personal interests of the employee. For example, if an LMIC employee learns of an LMIC investment decision prior to the decision's implementation for client accounts, the employee may have an incentive to seek to benefit himself or herself by making a personal transaction in the security before such implementation takes place, potentially disadvantaging the client accounts. Another example involves an employee's personal investment in a particular security giving the employee an incentive to benefit himself or herself by investing client accounts in the same security or a related security (instead of investing client accounts based solely on what the employee believes is in the best interests of clients).

LMIC seeks to prevent personal trading-related potential conflicts of interest from affecting LMIC's investment advisory services by subjecting LMIC employees' personal trading activity to the requirements and restrictions of the Code of Ethics described above, including the Code's preclearance

and blackout requirements, which are designed to prevent certain larger employee personal securities transactions when LMIC has open orders at its trading desk in the same security for client accounts. AKIA employees are not subject to the preclearance and blackout requirements but LMIC's Compliance Department periodically reviews AKIA employee personal securities transactions against trades effected for AKIA clients to ensure that the personal transactions do not conflict with the interests of AKIA clients and are otherwise appropriate.

C. Discussion of Potential Conflicts of Interest Associated with Affiliated Fund Investments

LMIC may provide investment management services with respect to client investments in shares of mutual funds, private investment funds or other collective investment vehicles for which LMIC or one or more LMIC affiliates act as investment manager, distributor or other service provider ("Affiliated Funds"). Because LMIC and its affiliates typically receive fee compensation from Affiliated Funds and these fees are in addition to the advisory fees clients pay LMIC, LMIC will have a potential incentive to hold investments in such Funds for clients in order to maximize the aggregate compensation to LMIC and its affiliates. LMIC addresses this potential conflict of interest by not purchasing such Funds for clients and instead providing investment management services for investments in shares of such Funds only when clients contribute the Fund shares to their accounts. In addition, AKIA is committed to providing investment advisory services solely in the interests of its clients and without regard for any benefits that particular investments may confer on LMIC, including AKIA, or LMIC's affiliates.

LMIC's intention is to select mutual funds, private investment funds and other collective investment vehicles, including Affiliated Funds (including Affiliated Funds managed by LMIC), based solely on the best interests of clients and without regard for the amount of compensation payable to LMIC and its affiliates in connection with such investments. As described in Item 8 of this brochure, LMIC's Investment Policy Committee annually reviews Affiliated Funds that LMIC's Third Party Committee has selected for investment to determine whether such Funds continue to be appropriate investments. In addition, LMIC will comply with laws applicable to the investment of client assets in Affiliated Funds.

ITEM 12. BROKERAGE PRACTICES

To the extent practical and consistent with client directions and applicable laws, LMIC seeks to obtain best execution when selecting broker-dealers to execute securities transactions for client accounts. As such, LMIC seeks to 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, orders LMIC places to buy or sell securities are considered not-held orders, and are to be executed at the discretion of authorized trading personnel. Where LMIC's trading desk receives multiple orders of the same equity security on the same side of the market at the same time, LMIC typically will 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 of clients for which LMIC selects the executing broker.

A. Partially Filled Allocations

LMIC allocated partially filled orders pro rata or in another matter that LMIC concludes is fair and equitable to each client. This may include use of the random fill function of LMIC's 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, LMIC 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.

B. Money Market Securities

When several accounts need to buy money market securities maturing on the same date, LMIC attempts to fill the entire order. In the event that the necessary amount is not available, LMIC attempts 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, LMIC will generally make the purchase in the account(s) whose objectives would be most closely satisfied by the trade. LMIC 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.

C. Allocation of “Hot” Issues

When LMIC 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.

D. How LMIC Selects Which Brokers to Use

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

Seeking to obtain best execution is the top priority. LMIC’s trading desk takes 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 policies and procedures governing the selection and utilization of brokers. The Policy sets forth the factors used to evaluate brokerage execution quality. It is included in LMIC’s Policy Manual. LMIC must use its best efforts to obtain for 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 LMIC’s 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.

LMIC 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, and members of the portfolio management team. Also, the Chief Compliance Officer attends and participates in Committee meetings. The Committee meets quarterly to review requests for the addition or deletion of a broker-dealer and to oversee LMIC's brokerage practices. 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.

Since fixed income securities trade over-the-counter and do not trade on a centralized exchange, LMIC uses the brokerage services from a variety of Wall Street and regional firms. LMIC 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 seek best execution, LMIC's 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, LMIC generally seeks to ensure that clients obtain best execution on their trades. LMIC seeks to ascertain the quality of execution by reviewing the bids and offerings received relative to recent pricing data.

E. Soft Dollar Practices

LMIC regularly receives 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, LMIC takes 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, LMIC is allowed to receive research services. However, if research services are a factor in selecting a broker-dealer, LMIC 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.

LMIC has a soft dollar policy to assure its compliance with Section 28(e) of the Securities Exchange Act of 1934. It is LMIC's policy that all soft dollar transactions/arrangements will be approved by LMIC's 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 and that the research services to be received will assist LMIC in making investment decisions for client accounts. The Committee may permit "mixed-use" allocations related to soft dollar products and services. All soft dollar payments are made through the equity trading desk. Fixed income securities transactions are not used to pay for soft-dollar services.

The types of research products and services LMIC receives 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 LMIC uses client brokerage commissions (also referred to as soft dollars) to obtain research or other products or services, LMIC receives 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, LMIC may be credited for payment of expenses which might otherwise be charged directly to LMIC. LMIC can then use these soft dollar credits to pay for the research products

and services provided by such broker-dealers. This may result in LMIC 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 by a particular broker-dealer, LMIC may, consistent with the 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.

Certain broker-dealers on LMIC’s 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, LMIC periodically determines the fair value of the proprietary research products and services that it expects 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.

A particular broker-dealer may also provide research products and services that are prepared or developed by independent research providers (including other broker-dealers). LMIC 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.

From time to time, LMIC may request that broker-dealers that effect transactions for clients allocate a portion of their commissions to a pool of soft dollar credits maintained by the introducing or executing broker-dealer. At LMIC’s 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, LMIC 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, LMIC believes that commission sharing arrangements can help achieve best execution for clients.

Research provided by broker-dealers is used for a broad range of accounts for which LMIC has investment management responsibility. LMIC does 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, LMIC does 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, LMIC does not allocate soft dollar benefits to client accounts according to the soft dollar credits the accounts generate.

All research products and services must be approved by the Committee. Requests for approval of new research services are submitted on LMIC's Soft Dollar Questionnaire, which requires a description of the research service and how it will aid LMIC in investment decisionmaking and other relevant information.

The Committee is responsible for reviewing whether the product or service falls within the safe harbor requirements of Section 28(e). The Committee may allocate a portion of an eligible research service to hard dollars and a portion to soft dollars – i.e., LMIC's own assets. A research service for which LMIC makes such an allocation may be referred to as a "mixed-use" service. Any allocation for a mixed-use service will be in proportion to LMIC's good faith estimate of the value of the service for investment decisionmaking assistance purposes and the value of the service for non-28(e)-eligible purposes, such as client communications. The Committee will have a potential conflict of interest in making this allocation, given that LMIC by definition will pay hard dollar costs out of its own pocket. The Committee will record in writing all mixed-used service allocation decisions and will periodically review such decisions to confirm that they continue to be appropriate.

F. 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. Clients may also participate in a Wrap Program where the client's trades are executed through a broker-dealer selected by the Wrap Program Sponsor. If a client or Wrap Program Sponsor specifically directs the use of a specific broker-dealer for execution of securities transactions, LMIC will direct such transactions to the specified broker-dealer.

When a client or Wrap Program Sponsor instructs LMIC to direct a portion of the transactions for its account to a designated broker-dealer, the client or Wrap Program Sponsor 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/Sponsor 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/Sponsor may have negotiated the commissions to be charged by the designated broker-dealer.

When clients or their Wrap Program Sponsors direct LMIC 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 with non-directed accounts. In these situations, LMIC 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. Wrap accounts are traded last after all other trades are placed by the firm, including other client directed brokerage accounts.

G. Recommendation of Brokers

In general, except where LMIC portfolio manager Amy LaGuardia provides investment advisory services for LMIC, LMIC does not routinely recommend clients to direct brokerage. LMIC will recommend brokers to its clients when the client requests LMIC's recommendation. The factors considered in selecting brokers to recommend 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.

Amy LaGuardia may recommend that her clients establish a prime brokerage account with Pershing Advisor Solutions ("Pershing"). If a client establishes a prime brokerage account at Pershing, Pershing generally requires that approximately 50% of the client's trades be directed to Pershing for execution. Ms LaGuardia has a negotiated arrangement with Pershing pursuant to which Pershing receives commissions on a sliding scale depending on the number of shares being brought or sold. Clients that establish accounts at Pershing generally receive custody services from Pershing at no additional cost.

ITEM 13. REVIEW OF ACCOUNTS

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.

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

LMIC compensates certain persons for client referrals in the form of a portion of the fee the client pays for LMIC's investment management services. These persons may 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, LMIC 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 be 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 a client's 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, where the referral is made by a person unaffiliated with LMIC, 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 person's relationship with LMIC and details regarding such person'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.

ITEM 15. CUSTODY

Although LMIC does not maintain actual custody of our clients' assets, in some cases LMIC has been given the authority by clients to debit clients' custodial accounts for management fees or to transfer money to another person's account. In these situations, under SEC regulations, LMIC is deemed to have custody of client assets, even though the custodial bank maintains actual custody of those assets.

Clients should carefully review the account statements they receive from your qualified custodian and compare them to the account statements they receive from LMIC. Comparing statements will allow clients to determine whether account transactions, including deductions to pay investment advisory fees, are proper and in accordance with the terms of the client's investment advisory agreement with LMIC.

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.

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 in which they have previously invested.

A client's LMIC portfolio manager generally will work with the client to create an investment policy statement that will reflect the client's investment guidelines and objectives, and state any restrictions the client wishes to place on your account.

Specific client investment restrictions may limit LMIC's 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

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.

LMIC has adopted and implemented policies and procedures that it believes are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with LMIC's 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.

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.

There are times when LMIC 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.

For clients of LMIC, a complete record and file of all votes cast, and where appropriate, the reason therefor, 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 Department.

ITEM 18. FINANCIAL INFORMATION

Not applicable.

APPENDIX A: PRIVACY NOTICE

Legg Mason Investment Counsel, LLC 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.

When an account is opened, we ask for names, addresses, dates of birth (if applicable), and other information. We also request identifying documents such as drivers' licenses or passports.

Legg Mason Investment Counsel, LLC 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.

APPENDIX B: EXPLANATIONS OF CERTAIN INVESTMENT RISKS

This Appendix explains the main risks of loss associated with the investment strategies described in Item 8 of the brochure. As described in Item 8, the investment strategies LMIC provides may also involve risks that are not identified or explained in the brochure or this Appendix.

General Investment Risk. Stocks, bonds and other equity and fixed income securities may decline in value for any one or more of several reasons. The potential reasons these securities may decline in value are almost without limit and may not be foreseeable. Some common reasons securities may decline in value include:

Actual or anticipated negative developments affecting the issuer of the securities or the assets backing the securities, including: losses, earnings, revenues, expenses, profit margins, cash flow, growth rates, component unavailability, dividend levels or other financial or business metrics that do not meet expectations; deterioration in financial position; competition; changes in technology or governmental regulation; loss of or failure to obtain customers, personnel or necessary government approvals; product failures; lawsuits, corruption; government investigations or enforcement actions; loss of intellectual property protection; and loss or reduction of benefits such as exclusive distribution or supplier rights.

Actual or anticipated negative developments affecting (a) one or more industries in which the issuer of the securities participates, (b) in the case of governmental issuers, the tax base, economy or other attributes of the country or region where the issuer is located; or (c) in the case of securities backed by specified assets, the type of assets backing the securities, such as mortgages, finance receivables, toll roads, hospitals, etc.

Broader declines in security prices, including global, regional, country-specific, asset class-specific (e.g., equity, fixed income) and investment style-specific (e.g., growth, value) price declines. Potential reasons for these declines include changes in investor preferences; actual or anticipated global, regional or country-specific political, economic, regulatory or social developments (e.g., government changes, monetary policy, inflation, demographic changes, recessions), wars, terrorism, civil unrest, labor stoppages, infrastructure problems (e.g., power outages), and disasters such as earthquakes, floods, droughts, epidemics, oil spills, nuclear incidents, tsunamis, volcano activity, hurricanes and tornadoes.

Below Investment Grade Risk. Below investment grade fixed income securities, which are sometimes referred to as “junk” bonds or high yield securities, are fixed income securities that are rated below Baa or BBB and unrated fixed income securities of comparable quality. These securities have a higher risk of declining in value and defaulting than investment grade (i.e., higher quality) fixed income securities. In particular, below investment grade fixed income securities typically are more volatile and involve greater credit risk than investment grade fixed income securities. See “**High Volatility Risk**” and “**Credit Risk**” below in this Appendix A for explanations of these risks. Below investment grade fixed income securities also tend to be less liquid and more susceptible to general investment risk than investment grade fixed income securities. See “**Illiquidity Risk**” and “**General Investment Risk**” in this Appendix B for explanations of these risks.

Concentration Risk:

Geographic Concentration Risk. Geographic concentration risk is the risk of loss from concentrating investments in a particular geographic region, such as a single U.S. state or region, and not more broadly diversifying investments across multiple geographic regions. An investment management portfolio that concentrates investments in a particular geographic region will have a greater risk of loss from developments that negatively affect securities issuers with significant business or other financial exposure to the region. Examples of such developments include: regional disasters such as earthquakes, hurricanes and floods; deteriorating finances of regional governmental securities issuers (e.g., states, municipalities); regional infrastructure problems such as power outages or transport facility shutdowns or restrictions; and economic, demographic or regulatory changes that negatively affect the region's business environment.

Industry Concentration Risk. Industry concentration risk is the risk of loss from concentrating investments in a particular industry and not more broadly diversifying investments across multiple industries. An investment management portfolio that concentrates investments in a particular industry will have a greater risk of loss from developments that negatively affect companies in that industry. Examples of such developments include: regulatory or other government policy changes that negatively affect the industry; changes in business methods, technologies or consumer preferences that reduce demand for the industry's products or services; alternative product/service competition from new or pre-existing industries; and shortages of, or increased costs for, industry personnel, raw materials or product components.

Issuer Concentration Risk. Issuer concentration risk is the risk of loss from concentrating investments in individual securities (i.e., making larger investments in individual securities) instead of more broadly diversifying investments across a larger number of securities. An investment management portfolio that concentrates investments in individual securities will have a greater risk of loss from developments that negatively affect the issuers of those securities. See clause (i) of "**General Investment Risk**" above for examples of developments that may negatively affect the value of a particular issuer's securities.

Credit Risk. Credit risk, which is sometimes referred to as "default risk", is the risk that the value of a fixed income security will decline because of:

investor perception that the security issuer's or guarantor's future payment of the principal and/or interest obligation represented by the security has become less likely, increasing the likelihood of default; or actual default by the issuer or guarantor of the security.

Below investment grade fixed income securities generally involve more credit risk than investment grade fixed income securities. See "**Below Investment Grade Risk**" above for a description of below investment grade fixed income securities. Developments that negatively affect the issuer or guarantor of a fixed income security, or the specified assets backing the security, often will increase the security's level of credit risk. See "**General Investment Risk**" above for examples of such developments.

Extension Risk. Extension risk is the risk that issuers of fixed income securities, including mortgage-backed and other asset-backed securities, will repay their obligations more slowly than the market anticipates in the event market interest rates rise. This repayment extension may cause the prices of these securities to fall because their interest rates are lower than market rates and they remain outstanding for longer than originally anticipated.

High Volatility Risk. High volatility risk is the risk of loss associated with investments that tend to fluctuate in value more than other investments. An investment management portfolio with high volatility risk typically involves more speculative investments than a portfolio that does not have such risk. More speculative investments increase the client's risk of loss. In addition, high volatility increases the chance that a client will incur significant investment losses if and when the client or the client's investment manager decides to sell one or more securities held in the client's account.

Illiquidity Risk. Illiquidity risk is the risk that securities held in a client's account may be difficult to sell at prices close to recent valuations because few or no market participants are willing to purchase the securities at such prices. This risk, which generally is greater during times of market turmoil, may result in increased losses (or lesser gains) relative to sales of securities for which more active trading markets exist. Illiquidity risk may also result in client accounts realizing lower prices from smaller-sized sales of securities, including municipal bonds, that usually trade in larger amounts. For example selling a single \$5,000 lot of a municipal bond for a client's account may result in a lower per-bond price than a contemporaneous sale of a \$100,000 lot of the same bond.

Interest Rate Risk. Interest rate risk is the risk that market interest rates will rise, causing fixed income security prices to fall. This risk stems from the tendency of increases in market interest rates to generally make payment obligations associated with already-outstanding fixed income securities less attractive to investors and therefore the securities themselves less valuable. The risk of securities price declines caused by interest rate increases generally is higher for fixed income securities with longer-term maturities.

Mid Cap Risk. Mid cap risk is the additional risk of loss typically associated with investments in securities of mid cap companies. Negative company-specific developments tend to cause securities of mid cap companies to decline in value more than securities of large cap companies. See clause (i) of "General Investment Risk" above for examples of such developments. Reasons for mid cap companies' increased risk of loss from such developments include the tendency of mid cap companies to have more limited product lines, operating histories, markets and financial resources, and also to be dependent on more limited management groups. Securities of mid cap companies also tend to be more volatile and less liquid than securities of large cap companies. See "**High Volatility Risk**" and "**Illiquidity Risk**" above.

Non-U.S. Investment Risk. Non-U.S. investment risk is the additional risk of loss typically associated with investments in securities of non-U.S. issuers. Investments in securities of non-U.S. issuers tend to involve greater risk than investments in U.S. issuers. This increased risk arises from factors that include: many non-U.S. countries having securities markets that are less liquid and more volatile than U.S. securities markets; political and economic instability in some non-U.S. countries; lesser availability of issuer and market information in some non-U.S. countries; and less rigorous accounting and regulatory standards in some non-U.S. countries. In addition, currency exchange rate fluctuations may have a greater negative effect on the value of investments in securities of non-U.S. issuers.

Non-U.S. investment risk is increased for securities issuers and markets in emerging market countries. Emerging markets tend to have economic, political and legal systems that are less developed and less stable than those of the United States and other developed countries. In addition, securities markets in emerging market countries may be relatively illiquid and subject to extreme price volatility. See “**Illiquidity Risk**” and “**High Volatility Risk**” above.

Prepayment Risk. Issuers of many fixed income securities, including certain mortgage-backed and other asset-backed securities, have the right to pay their payment obligations ahead of schedule. If interest rates fall, an issuer may exercise this right. If this happens, the investor’s ability to reinvest the prepayment proceeds and obtain the same yield will be diminished because of the lower market interest rates. In addition, prepayment may cause the investor to lose any premium paid upon purchase of the security.

Small Cap Risk. Small cap risk is the additional risk of loss typically associated with investments in securities of small cap companies. Negative company-specific developments tend to cause securities of small cap companies to decline in value more than securities of large cap and mid cap companies. See clause (i) of “General Investment Risk” above for examples of such developments. Reasons for small cap companies’ increased risk of loss from such developments include the tendency of small cap companies to have more limited product lines, operating histories, markets and financial resources, and also to be dependent on more limited management groups. Securities of small cap companies also tend to be more volatile and less liquid than securities of large cap and mid cap companies. See “**High Volatility Risk**” and “**Illiquidity Risk**” above.