

LEGG MASON
INVESTMENT
COUNSEL

FORM ADV DISCLOSURE BROCHURE

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This brochure provides information about the qualifications and business practices of Arthur Karafin Investment Advisors (“AKIA”). If you have questions about the contents of this brochure, please contact us at (215) 981-0110. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

AKIA is a department of Legg Mason Investment Counsel, LLC (“LMIC”), a registered investment adviser. Additional information about LMIC, including AKIA, 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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ITEM 4. ADVISORY BUSINESS

A. Firm Description

Arthur Karafin Investment Advisors (“AKIA”) is a separately operated department of Legg Mason Investment Counsel, LLC (“LMIC”) that primarily provides discretionary customized equity and fixed income investment management services to individuals, corporations and other entities.

AKIA’s office is located in Philadelphia, PA. Mr. Arthur Karafin is the Head of AKIA and serves as portfolio manager for all AKIA client accounts.

LMIC is an indirect, wholly-owned subsidiary of Legg Mason, Inc.

As a department of LMIC, AKIA has been in the business of providing investment advisory services since 2005. Prior to 2005, Mr. Karafin spent six years providing investment advisory services as a portfolio manager of Legg Mason Focus Capital and 20 years as a portfolio manager with Arthur Karafin Investment Advisors, Inc.

B. Customization of Investment Advisory Services

AKIA generally works with clients to customize its investment advisory services to reflect client investment objectives, financial situations and any client-imposed investment guidelines or restrictions on which AKIA and the client agree. Part of this customization is achieved by assisting the client in selecting an appropriate investment strategy for the client’s account. See Item 8 of this brochure for descriptions of AKIA’s investment strategies. In addition, AKIA generally will accommodate any written client-imposed investment guidelines and restrictions, including restrictions on specific securities and types of securities, if AKIA agrees that they are reasonable as an investment matter. AKIA may also provide financial planning services to individual clients, as described in Item 8 of this brochure.

C. Assets Under Management

As of April 30, 2014, AKIA managed approximately \$923 million in assets on a discretionary basis. AKIA did not manage any assets on a non-discretionary basis.

LMIC, including AKIA, managed approximately \$7.9 billion in assets as of April 30, 2014, consisting of approximately \$7.8 billion of assets managed on a discretionary basis and approximately \$76 million of assets managed on a non-discretionary basis.

ITEM 5. FEES AND COMPENSATION

A. How AKIA is Compensated

Generally, clients agree to pay AKIA compensation for its investment advisory services based on a percentage of the market value of the assets AKIA manages. AKIA's standard annual fee is 1.00% of assets. AKIA may on occasion agree to rates lower than its standard annual fee based on factors such as the amount under management and the composition of the client's investment portfolio.

AKIA has agreed to fixed dollar fees for certain clients, but in its sole discretion may refuse to agree to fixed-dollar fees for any one or more clients.

B. Fee Billing

Billing Methods. AKIA generally requires clients to authorize AKIA to collect (or debit) AKIA's agreed-upon investment advisory fees directly from the client's account. AKIA 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 AKIA. AKIA also sends a copy of the invoice to the client. AKIA generally will consider client requests to instead collect investment advisory fees by billing the client directly. AKIA has agreed to such billing for certain clients, but may in its sole discretion refuse requests for this alternative billing method from any one or more clients.

Advance and Arrears Fee Billing; Frequency. Generally, AKIA requires clients to agree to pay AKIA investment advisory fees quarterly in advance – i.e., billing of fees at the beginning of the quarter during which AKIA is to provide the investment advisory services covered by the fees. However, AKIA has agreed, and may in the future agree, with certain clients to bill investment advisory fees in arrears or at monthly, semi-annual or other intervals.

For a client that agrees to advance billing, AKIA will refund the client a portion of the investment advisory fees previously paid for the billing period in the event the client or AKIA terminates the client's investment advisory agreement during such period. AKIA 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 fee paid in advance.

AKIA pays fee refunds by mailing checks to client custodians for deposit into the accounts previously managed by AKIA or, if the client requests, directly to the client.

C. Other Fees and Expenses

In addition to the investment advisory fees AKIA charges, a client generally will incur brokerage and trade execution costs for securities transactions AKIA effects for the client's account. These costs are imposed by the broker-dealer firms clients select to execute such transactions and are not covered by AKIA's investment advisory fees. 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 transfers.
- Fees for investment advisory services a firm other than AKIA provides. These may include services such as the other firm's evaluation, recommendation and monitoring of AKIA, and financial planning and asset allocation services provided by the other firm.
- Fees for account reporting by a firm other than AKIA, such as the client's custodian. Account reporting may include the preparation of periodic account statements.
- Any SEC fees, transfer taxes or other governmental charges based on securities transactions.
- Internal fees and expenses of any mutual fund, private investment fund or other collective investment fund purchased or held for the client's account, as well as sales charges (initial or deferred) on investments in fund shares and any annuities held in the account.

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

Not Applicable.

ITEM 7. TYPES OF CLIENTS

AKIA provides investment management services to the following types of clients: high-net-worth individuals and families, other charitable organizations, pension and profit sharing plans, corporations, individual retirement plans, trusts, estates, and other taxable individual plans. Clients subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) should refer to Appendix C to this brochure (“COMPENSATION DISCLOSURE STATEMENT FOR ERISA PLANS”) for disclosures relating to direct and indirect compensation LMIC expects to receive in connection with providing investment management services.

For new client accounts, AKIA generally imposes an account minimum of \$1 million. AKIA in its sole discretion may waive this minimum for any one or more clients.

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

A. Introduction

AKIA's main investment strategies, including AKIA's methods of investment analysis, are described below in Sections B, C and D. Section E sets forth certain information that may apply to investment advisory services AKIA provides. As described in Item 4 of this brochure, AKIA generally customizes its management of client accounts to reflect client investment objectives and financial situations and any client-imposed investment guidelines and restrictions on which AKIA and the client agree. As a result, the investment strategy descriptions in this brochure may not fully apply to all clients depending on the nature of customization AKIA 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 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.

AKIA employs three main investment strategies: equity, fixed income, and balanced. AKIA's core capability is the construction of large-to-mid capitalization primarily domestic equity portfolios and investment grade primarily domestic fixed income portfolios utilizing individual securities.

B. Equity Investment Strategy

AKIA's core equity investment philosophy is described below:

- AKIA is an active manager that focuses on high quality stocks and employs a bottom-up approach.
- AKIA employs independent proprietary and third-party research in an attempt to discover unrecognized sources of value.
- AKIA focuses on companies it believes have a demonstrable competitive advantage in an attempt to enhance long-term opportunities and maximize returns.
- AKIA emphasizes high-quality companies with strong cash flows, modest capital expenditures and low historical and relative valuations in an attempt to reduce fundamental risk and avoid significant loss.
- AKIA seeks to identify promising sectors that offer above-average opportunities and diversification benefits.

Equity Selection Process

Step 1

Narrowing the field from thousands of possibilities to a portfolio of stocks AKIA believes represent superior investment potential requires intensive research and a disciplined process. AKIA draws from a broad universe of approximately 2,000 companies with equity market capitalizations greater than \$500 million, including ADRs of non-U.S. domiciled companies.

Step 2

With the goal of establishing the dynamic AKIA Investment Universe comprised of approximately 100-150 high quality companies exhibiting a durable competitive advantage at attractive valuations while producing sizable cash flows, AKIA employs a number of quantitative and qualitative protocols. AKIA investment personnel determine which of the remaining companies warrant further examination for consideration as a buy candidate for client portfolios.

Step 3

AKIA performs intensive fundamental and valuation work on selected companies under consideration for purchase. AKIA seeks to determine the sustainability of revenue and earnings growth over the long-run, while examining margin trends and their impact on company cash flows. AKIA prefers to purchase companies that have recently suffered poor price performance and seeks to determine if any fundamental changes have occurred in the operating model and whether or not those changes are cyclical or secular in nature.

Step 4

Upon completion of due diligence, AKIA investment personnel evaluate the risks and rewards of each security considered and the portfolio manager makes a final investment decision.

To a limited extent, AKIA also may select equity investments following analytical processes different from the above steps if it determines such investments present attractive opportunities for clients.

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 – although significant individual stock overweights may be permitted, particularly for smaller accounts
- AKIA identifies an alternative investment it believes is superior

Main Risks

The main risks associated with AKIA's equity investment strategy 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. Industry and Issuer Concentration Risk typically will be heightened in accounts that are significantly below AKIA's standard \$1 million account minimum and hold a relatively small number of investments in individual equity securities.

C. Fixed Income Investment Strategy

AKIA's fixed income investment 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)

AKIA reviews and tailors fixed income 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, AKIA constructs a specific fixed income investment strategy addressing:

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

Main Risks

The main risks associated with AKIA's fixed income investment strategy are General Investment Risk, Credit Risk, Interest Rate Risk, Extension Risk, Prepayment Risk and Illiquidity Risk. An additional main 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.

D. Balanced Investment Strategy

AKIA 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, cash flow needs and tax position are unique to them. Asset allocation is a dynamic process that must adapt as client circumstances and market conditions change.

For clients that select AKIA's balanced investment strategy, AKIA creates guidelines and a framework for strategic and tactical asset allocation ranges for the following variants of the strategy, based on the client's investment objective and risk tolerance:

- Balanced Growth
- Balanced Growth & Income
- Balanced Income

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

Main Risks

The main risks of balanced accounts are a combination of the main risks referred to above for AKIA's equity investment strategy and for AKIA's fixed income strategy. See Appendix B to this brochure for explanations of these risks.

E. Certain Additional Information

Financial Planning. AKIA provides financial planning services to certain clients. Financial planning services typically involve preparing and recommending a financial program for a client based on the client's financial circumstances and objectives. The program may cover present and anticipated assets and liabilities, including insurance, savings, investments, and anticipated retirement or other employee benefits. For example, AKIA may recommend that a client keep personal spending within certain limits, establish an IRA, or increase or decrease funds invested in securities. In addition, AKIA may refer clients to accountants or attorneys for estate planning and tax planning services. AKIA will not be responsible for a third party's provision of services.

Margin Loans. A client's custodian may permit a client to take out a loan secured by assets in the client's account. Such loans are referred to as "margin loans." Clients should understand that, if they obtain margin loans secured by assets in their accounts, the custodian generally will be able to

liquidate all or part of the account at any time to repay any portion of the loan, even if the timing of the liquidation is disadvantageous to the client and disrupts AKIA's management of the account. AKIA does not have any responsibility for (i) a client's decision to take out a margin loan, (ii) the terms of any margin or related agreement to which a client is a party, or (iii) the sale, liquidation, or disposition of securities in the client's account in order to satisfy the client's obligations under such an agreement.

Investment Funds. AKIA invests mainly in individual equity and fixed income securities, but also may invest client assets in mutual funds, closed-end funds, exchange-traded funds and other collective investment vehicles ("Funds"). Situations in which AKIA may invest in Funds include without limitation: (i) to provide investment exposure in areas where AKIA believes the Fund manager has greater security-specific expertise (for example, where a client seeks exposure to an area, such as below investment grade fixed income, in which AKIA does not focus its security research efforts), and (ii) to obtain fixed income investment exposure where AKIA considers the availability of individual fixed income securities to be limited. As noted in Item 5 of this brochure, a client whose account assets are invested in a Fund will pay a pro rata share of the Fund's internal fees and expenses, in addition to account-level investment advisory fees payable to AKIA. As noted in Item 11, AKIA does not purchase affiliated Funds but may provide investment management services for affiliated Fund shares clients contribute to their accounts.

In addition, depending on the nature of a Fund's portfolio investments, an investment in the Fund may involve any one or more of the main risks explained in Appendix B, including without limitation Below Investment Grade Risk, Non-U.S. Investment Risk and Derivatives Risk. Clients should refer to the Fund prospectuses or other offering documents for complete more detailed explanations of the main risks associated with investments in Fund shares.

ITEM 9. DISCIPLINARY INFORMATION

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

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

LMIC pays the law firm of Karafin & Gruenstein, P.C. monthly rent for the space AKIA occupies. Karafin & Gruenstein, P.C. is a law firm controlled by Arthur Karafin, the Head of AKIA. AKIA and Mr. Karafin's law firm occupy the same suite of office space.

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

A. Code of Ethics

AKIA is committed to maintaining the highest standards of professional conduct and ethics. AKIA employees are subject to the LMIC Code of Ethics (the “Code”), which is based on the principle that LMIC personnel, including AKIA employees, 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. The Code 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) provisions regulating giving and acceptance of gifts; and (5) a requirement to report violations of the Code to LMIC’s Chief Compliance Officer. Because AKIA executes client trades with broker-dealers designated by clients (as described in Item 12 of this brochure) and does not utilize LMIC’s Trading Desk, LMIC exempts AKIA employees from the Code’s preclearance and blackout requirements designed to prevent certain employee personal trades when LMIC’s Trading Desk has an open order in the same security pending for client accounts. LMIC’s Compliance Department instead periodically reviews AKIA employee personal securities transactions against trades effected for AKIA clients to seek to ensure that the personal transactions do not disadvantage AKIA clients. Also, the Code subjects AKIA employee personal securities transactions to maximum daily size limits intended to prevent such transactions from adversely affecting any trades AKIA effects in the same or related securities for AKIA clients.

Existing and prospective AKIA clients may request a copy the Code by mailing a written request to:

Arthur Karafin Investment Advisors
c/o 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

Subject to the requirements of the Code, AKIA employees may make personal investments in the same securities AKIA invests in for client accounts, as well as in securities that AKIA does not invest in for client accounts. Employees may also make personal investments in related securities or financial instruments, such as options, futures and warrants. AKIA employees may make personal investments at or about the same time AKIA is making the same investments or related investments for client accounts. Although this involves a potential conflict of interest between client and employee interests, AKIA believes the large market capitalization and high trading volume of the equities it invests in makes it unlikely that employee personal trading in the same securities will disadvantage client accounts. Employee transactions in fixed income securities typically are combined with client trades in the same fixed income security, with both the employee and clients

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receiving the same price. Also, as noted above, AKIA employee personal securities transactions are subject to size limits and LMIC's Compliance Department periodically reviews such transactions to seek to ensure that such transactions do not disadvantage AKIA clients.

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

AKIA may provide investment management services with respect to client investments in shares of mutual 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/or its affiliates typically receive fee compensation from Affiliated Funds and these fees are in addition to the account-level investment advisory fees clients pay AKIA, AKIA will have a potential incentive to hold investments in such Funds for clients in order to maximize the aggregate compensation to LMIC (of which AKIA is part) and its affiliates. AKIA 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.

ITEM 12. BROKERAGE PRACTICES

A. Directed Brokerage

AKIA requires clients to designate the brokerage firm through which AKIA will effect account transactions. This is commonly referred to as “directed brokerage”. Not all investment advisers require directed brokerage. AKIA does not negotiate commission rates as part of the services it provides. Any discounted commission rate available to the client will be dependent on the client’s ability to negotiate a discount directly with the brokerage firm. By directing AKIA to execute trades through a particular broker-dealer, the client may not receive the best execution available, and will most likely not receive the best execution available as compared to trades for clients of investment advisers that select executing brokerage firms and negotiate commissions on behalf of clients.

A large majority of AKIA’s clients have designated Morgan Stanley as executing broker for their accounts and AKIA typically recommends that clients designate Morgan Stanley as executing broker. AKIA considers client requests to designate executing brokers other than Morgan Stanley and has agreed to other designated brokers for certain clients. In determining which directed broker to select, clients are encouraged to consider that, among other factors:

- Brokerage arrangements other than those directed by the client may exist that would provide the client more favorable execution and/or additional brokerage-related services;
- Other than in connection with its monitoring of trade execution data for client transactions, AKIA has no responsibility to determine or assess the extent or value of services provided by designated executing brokers (nor does AKIA generally have access to such information); and
- The technological or other operating requirements of a client’s executing broker may adversely affect AKIA’s ability to communicate trading instructions to such broker as efficiently as it is able to relay instructions to other brokers. This may result in less favorable, more costly execution of transactions for clients.

Clients should periodically review the terms of their brokerage agreement to ensure that such arrangements meet the client’s needs and are competitive in the market in relation to the services offered. In designating an executing broker, clients should also take into account services other than trade execution they may require, such as account service, investment manager due diligence and selection recommendations, asset allocation advice, financial or estate planning, or tax advice.

Clients also should be aware that there are certain discount brokerage options available that may cost less than traditional brokers but include only limited customer service options.

Where clients agree to designate Morgan Stanley as executing broker, either the client selects the individual Morgan Stanley Financial Advisor through whom AKIA places securities trades for the client or AKIA selects such Morgan Stanley Financial Advisor. AKIA in its sole discretion may

refuse a client request to select a particular Financial Advisor and intends to limit the number of Financial Advisors it uses to place securities trades for clients.

B. Research Services

AKIA does not itself direct client brokerage in exchange for research. In some cases, brokers AKIA uses to effect client trades provide AKIA with access to their research platforms. In all such cases, the research AKIA receives will be used, if at all, for the benefit of AKIA clients generally and not specifically for the clients that direct brokerage to such brokers. The types of research products and services received include:

- Advice as to the value of securities, the advisability of investing in, purchasing or selling securities;
- Meetings with analysts;
- Macro-economic research and information, including weekly reports and quarterly conference calls;
- 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.

The research services provided by brokers to AKIA may be produced by the broker or by another firm. The research services benefit AKIA because AKIA does not have to produce or pay for the research itself.

C. Aggregation of Trades

AKIA generally does not aggregate client trades in equity securities even when there is an opportunity to do so. AKIA generally does aggregate trades in fixed income securities that it effects for multiple clients at the same time, to the extent such clients are serviced by the same Financial Advisor and executing broker.

Where AKIA does not aggregate trades, clients will not benefit from the lower costs or better execution prices that aggregating trades may provide. This may cost clients more money.

D. Trade Errors

In the event of a trade error made by AKIA, AKIA's policy is to place the client in the position it would have been in absent the error unless the client directs otherwise.

ITEM 13. REVIEW OF ACCOUNTS

Mr. Karafin reviews client accounts upon client request or as he deems necessary. He reviews accounts at least annually and often more frequently. AKIA bases the frequency and scope of reviews for each account on a combination of the following factors: (i) the type of client; (ii) the size and complexity of the relationship; (iii) the type of client mandate; (iv) the type of investments utilized; (v) general market conditions and associated factors; and (vi) specific client needs and objectives. Each review generally 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. If a client communicates a change in investment objectives or guidelines or a change in financial situation to AKIA, Mr. Karafin and his assistant portfolio manager will review the account to determine if the investments continue to be appropriate.

AKIA generally does not provide regular reports to clients regarding their accounts, but Mr. Karafin speaks with clients regarding their accounts upon client request or as he deems necessary. In addition, clients should receive account statements from their custodians at least quarterly. Clients should contact AKIA if they are not receiving at least quarterly statements from their custodian.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

AKIA compensates certain unaffiliated third parties for client referrals in the form of a portion (typically 20%) of the investment management fee the referred client pays to AKIA for investment management services. AKIA typically pays this compensation quarterly based on its management fee billing cycle. The amount of the compensation may vary for each client referred. AKIA has entered into agreements with these third parties that govern their referral activities. These agreements also contemplate that the third parties will have involvement in AKIA's ongoing servicing of referred client accounts.

AKIA may enter into similar referral agreements with additional third parties, including without limitation other registered investment advisers, broker-dealers, financial planners, or clients. AKIA does not charge clients additional fees as a result of any AKIA referral arrangements. Investment management fees, however, are negotiable based on a number of factors and therefore a client's investment management fee may be higher or lower than the investment management fees paid by other clients.

ITEM 15. CUSTODY

Although AKIA does not maintain custody of client assets, clients generally authorize AKIA to collect AKIA's investment advisory fees by debiting the client's account held at the client's custodian. Clients should receive account statements from their custodians on a quarterly or more frequent basis. Clients should carefully review these account statements. Reviewing account statements will allow clients to determine whether account transactions and fee deductions are proper.

ITEM 16. INVESTMENT DISCRETION

AKIA's standard investment advisory agreement grants the firm discretionary authority over client accounts. This authority includes authorization for AKIA to make and implement securities purchase and sale decisions for client accounts. AKIA accepts client accounts for management if it has received all documents and information it deems necessary. AKIA then typically countersigns the investment advisory agreement signed by the client and provides a copy of the fully-signed agreement to the client.

Clients may place limitations on AKIA's investment authority. For example, clients may ask AKIA not to invest in securities of particular investment classes, issuers, or sectors. Clients may ask AKIA not to invest in fixed income securities below a designated credit quality rating. Clients may place limitations on a balanced portfolio's asset allocation.

AKIA generally works with clients to customize its investment advisory services to reflect client investment objectives, financial situations and any client-imposed investment guidelines or restrictions on which AKIA and the client agree. Client-imposed investment restrictions may limit AKIA's ability to manage client accounts like other similarly managed accounts. Such restrictions may adversely affect the account's performance relative to other accounts.

ITEM 17. VOTING CLIENT SECURITIES

AKIA generally does not receive proxy materials or vote proxies for securities in client accounts. In situations where AKIA does vote proxies, it does so in accordance with the LMIC proxy voting policies described below.

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, LMIC's 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 proxy voting authority, AKIA will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of LMIC's affiliates (other than Legg Mason Investment Counsel & Trust Company, N.A., which shares personnel and other resources with LMIC) regarding the voting of any securities owned by its clients.

An account owner may direct AKIA to refrain from voting a specific security, and name themselves or another person to so vote, while AKIA retains voting authority over the other securities in the account.

With respect to shares over which AKIA has voting authority, AKIA will not decline to vote proxies except in extraordinary circumstances where AKIA believes that refraining from voting is in the client's best interests. Nor will AKIA accept direction from others with regard to the voting of proxies, although AKIA will take the investment guidelines of an account into consideration in deciding how to vote on a particular issue. AKIA may vote proxies related to the same security differently for different clients.

AKIA seeks to identify any material conflicts that may arise between the interests of AKIA and its clients. AKIA employees are to inform LMIC's 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 AKIA's business. AKIA will consider a conflict to be material if it is significant enough to potentially influence or appear to influence AKIA'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

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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.

There are times when AKIA 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 AKIA, a complete record and file of all votes cast, and where appropriate, the reason therefore, shall be maintained 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 that delegate proxy voting authority to AKIA 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. Please refer to Item 8 for which of these main risks apply to each strategy. As described in Item 8 of the brochure, AKIA's investment strategies may also involve risks that are not identified or explained in the brochure or this Appendix.

In addition, depending on the nature of a Fund's portfolio investments, an investment in the Fund may involve any one or more of the main risks explained in this Appendix B, including without limitation Below Investment Grade Risk, Non-U.S. Investment Risk and Derivatives Risk. Clients should refer to the Fund prospectuses or other offering documents for complete more detailed explanations of the main risks associated with investments in Fund shares.

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 A 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.

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 "**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**” 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.

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

Derivatives are subject to a number of risks, including without limitation Illiquidity Risk, Interest Rate Risk, Credit Risk and General Investment Risk (each described elsewhere in this Appendix) and the following additional risks:

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

APPENDIX C: COMPENSATION DISCLOSURE STATEMENT FOR ERISA PLANS

This Compensation Disclosure Statement is being furnished to you pursuant to the U.S. Department of Labor's Rule under Section 408(b)(2) of the Employee Retirement Income Security Act of 1974 ("ERISA"). It provides disclosure concerning the direct and indirect compensation expected to be received by Legg Mason Investment Counsel, LLC ("LMIC") in connection with the investment management services that LMIC provides to your employee benefit plan (the "Plan") through its Arthur Karafin Investment Advisors ("AKIA") Department.

LMIC provides investment management services to the Plan in accordance with the investment strategy and guidelines set forth in our Investment Advisory Agreement.

LMIC provides investment management services to the Plan as a "fiduciary," as defined in Section 3(21) of ERISA, and as an investment adviser registered under the Investment Advisers Act of 1940.

For its services, LMIC generally receives an investment management fee directly from the Plan, as specified in the Investment Advisory Agreement.

LMIC generally is paid its investment management fee in advance, as provided in the Investment Advisory Agreement. If the Investment Advisory Agreement is terminated during the period for which fees have been paid, LMIC will refund to the Plan a pro-rata portion of pre-paid investment management fees. LMIC will not charge any compensation or fees in connection with the termination of the Investment Advisory Agreement.

As described in the Form ADV disclosure brochure for LMIC's AKIA Department, AKIA clients designate the brokerage firm through which securities transactions will be effected for their accounts. The AKIA Department does not select brokerage firms to execute securities transactions and does not direct client brokerage transactions to any broker-dealer in exchange for products and services (e.g., research). Although the AKIA Department does not participate in such arrangements, it may receive research from broker-dealers that clients select to execute transactions. In all such cases, the research the AKIA Department receives as a result of the brokerage relationship established by its clients will be used, if at all, for the benefit of AKIA clients generally and not specifically for the clients that direct brokerage to the firms providing such research.

From time to time, employees of LMIC may receive non-monetary compensation such as gifts and entertainment from vendors (e.g., broker-dealers) with whom LMIC may engage in business dealings on behalf of clients, including the Plan. Under LMIC's compliance policies, any gifts and entertainment must be reasonable under the circumstances and not excessive in either value or frequency. In no event may an employee of LMIC accept gifts or entertainment that are conditioned on directing specific transactions or a specific level of business to another firm. LMIC believes that any gifts and entertainment received by its employees from a vendor are received in the context of a general business relationship between LMIC and the vendor and should not be viewed as attributable

ARTHUR KARAFIN INVESTMENT ADVISORS

or allocable to any transactions engaged in with such vendor on behalf of LMIC's clients, including the Plan. In any event, if the value of gifts and entertainment received by employees of LMIC were allocated by LMIC to client accounts, including the Plan's account, pro rata based on the value of each client's account in relation to total assets under management, LMIC believes the value allocated to the Plan would be beneath the Department of Labor's de minimis reporting threshold for non-monetary compensation.