

LEGG MASON
CAPITAL MANAGEMENT

INVESTMENT ADVISER BROCHURE
Form ADV Part 2A

LEGG MASON CAPITAL MANAGEMENT, LLC
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This brochure provides information about the qualifications and business practices of Legg Mason Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at 866-410-5500 or compliance@lmcm.com. 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.

Additional information about Legg Mason Capital Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

MATERIAL CHANGES

This section summarizes the material changes to the Form ADV Part 2A Brochure for Legg Mason Capital Management, LLC ("LMCM") dated June 28, 2011. Please see the identified sections for additional detail.

ADVISORY BUSINESS

LMCM has added a new investment strategy, Global Growth

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ADVISORY BUSINESS

Legg Mason Capital Management, LLC (“LMCM” or the “Firm”) and its predecessors have been providing discretionary investment management services for clients since 1982. LMCM is a wholly owned subsidiary of Legg Mason, Inc., a publicly traded company (NYSE: LM). As of March 31, 2012, LMCM managed approximately \$7.3 billion in assets on a discretionary basis and \$147 million in assets on a non-discretionary basis.

LMCM offers a variety of investment mandates to a global-client base. Each strategy adheres firmly to LMCM's value-driven, research intensive investment process. By adhering to a consistent, value-driven process, LMCM strives to outperform its benchmarks over the long-term. LMCM seeks to provide its client accounts with long-term capital appreciation by actively selecting securities that the Firm believes are trading at a discount to intrinsic value.

LMCM's investment management services are typically provided on a fully discretionary basis; however, clients may impose reasonable restrictions on their accounts (for example, limits on the percentage invested in a particular security; limits on industry concentration; or prohibitions against investments in particular securities). In most circumstances, LMCM will accommodate client restrictions provided they do not interfere materially with LMCM's portfolio construction process.

LMCM may also provide non-discretionary investment management services for certain model-based separately managed account programs sponsored by other firms. In these programs, LMCM typically delivers a model portfolio to the program sponsor and the sponsor is responsible for executing transactions and coordinating account guidelines and restrictions with the separate account client. In exchange for these services, LMCM receives a fee from the program sponsor. LMCM does not serve as the sponsor of any model-based separate account or other wrap fee program.

LMCM currently offers the investment strategies described below:

Value Equity is designed for investors seeking a concentrated portfolio of primarily large-cap U.S. securities.

Mid-Cap is designed for investors seeking a concentrated portfolio of primarily mid-cap U.S. securities.

Growth Equity is designed for investors seeking a secularly advantaged, concentrated, high-alpha approach to large cap growth.

Global Growth is designed for investors seeking a concentrated portfolio of U.S. and foreign securities that, in LMCM's opinion, appear to offer above average growth potential and trade at a significant discount to our assessment of their intrinsic value.

All Cap is designed for investors seeking a U.S. equity strategy that is not constrained by investment style or market capitalization.

Opportunity Strategy is designed for investors seeking an aggressively managed portfolio of primarily U.S. securities.

Research Equity is designed for investors seeking a portfolio of all-cap securities in the U.S. markets with broad sector exposure.

Small Cap is designed for investors seeking a concentrated portfolio of primarily small-cap U.S. securities.

Collective Alpha is designed for investors who want the best of LMCM - broadly-sourced, high alpha ideas.

Income Opportunities is designed for investors who want to capture both income and capital appreciation by investing at all levels of the capital structure.

Systematic Equity is designed for investors seeking exposure to large and mid-cap US equities through a methodically constructed portfolio with broad market representation.

In addition to the investment styles described above, LMCM may, from time to time, agree to manage accounts according to different investment guidelines specifically negotiated with a client.

FEES AND COMPENSATION

LMCM's standard investment management fees are generally based on a percentage of assets under management. LMCM's fees do not include transaction charges (more information regarding the Firm's transaction practices can be found under the Section entitled "Brokerage Practices"), custodial fees, transfer taxes, exchange fees, interest charges, electronic fund and wire transfer fees, or any charges, taxes or other fees mandated by any federal, state or other applicable law or otherwise agreed to with the client. In addition, if LMCM acquires a mutual fund, exchange-traded fund, real estate investment trust, business development company or other pooled fund for a client account, the

client will be responsible for the fees and expenses charged by the underlying fund.

Separate Account Clients

LMCM's fees for separate account clients are negotiable. The fees typically range from 0.30% to 0.80% of assets under management. The factors involved in negotiation may include the size of the client's account, other investment account relationships between the client and LMCM, whether the account is taxable or non-taxable, and the level of client service required.

Mutual Fund Clients

LMCM individually negotiates its investment management fees with its mutual fund clients and with other comparably regulated funds. The factors involved in negotiation may include the size of the fund, other investment account relationships between the fund company and LMCM, the level of client service required, and the scope of LMCM's responsibilities (for example, whether LMCM acts as manager or sub-adviser). Specific information relating to the fees charged to mutual fund clients can be found in each fund's Statement of Additional Information.

Alternative Fee Arrangements

LMCM may, in its discretion, be willing to consider and negotiate fee arrangements that are not based on a percentage of assets under management (for example, performance fees or flat fees).

Additional Information on Fees

Fees are typically billed to clients on a quarterly basis and they are payable in arrears based upon the value of the assets in the account on the last trading day of the calendar quarter. If the investment management agreement between LMCM and the client is terminated, the client will be responsible for paying a pro-rated fee for the quarter in which the account was terminated. LMCM does not require clients to pay fees in advance; however some clients have chosen to do so. If an agreement with a client that pays fees in advance is terminated, LMCM will refund a proportionate part of any prepaid fee.

No Compensation from the Sale of Securities

Neither LMCM nor any of its supervised persons accepts compensation for the sale of securities or other investment products. LMCM's affiliate, Legg Mason Investor Services, LLC ("LMIS") serves as principal underwriter for mutual funds and other regulated funds managed or sub-advised by LMCM. LMIS may receive asset based sales or service fees in connection with the services that it provides to these funds.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

LMCM may manage accounts that pay a performance-based fee. These accounts may be managed by a portfolio manager that also manages accounts that pay fees based on a percentage of assets under management. Since the compensation of each of LMCM's portfolio managers is impacted by firm profitability, it is possible under certain circumstances that a portfolio manager's compensation could be more positively impacted if an account that pays a performance fee performs better than accounts that do not. LMCM recognizes that this creates the potential for conflicts of interest and the Firm has taken steps to address these conflicts.

LMCM maintains and enforces written policies and procedures designed to ensure that all accounts are treated equitably, regardless of the fee arrangement. LMCM will generally combine client orders to buy or sell the same security (known as "bunched" orders) in an effort to obtain best execution or to negotiate a more favorable commission rate. In addition, if orders to buy or sell a security for multiple accounts at approximately the same time are executed at different prices or commissions, the transactions will generally be allocated to each account at the average execution price and commission. In circumstances where a bunched order is not completely filled, each account will normally receive a pro-rated portion of the securities based upon the account's level of participation in the order. LMCM may under certain circumstances allocate securities in a manner other than pro-rata, but only if it determines that the allocation is fair and equitable under the circumstances and does not discriminate against any account. In circumstances where a portfolio manager is making a decision to acquire an investment of limited availability (for example, purchases in an initial public offering), the investments must be allocated to participating clients on a pro rata basis (based upon account size) unless otherwise approved by the Legal and Compliance Department. LMCM's Legal and Compliance Department reviews and keeps accurate records of all investments of limited availability to ensure that client accounts are treated equitably.

TYPES OF CLIENTS

LMCM generally provides investment advice to high net worth individuals, investment companies (including mutual funds and foreign equivalents), pension and profit sharing plans (other than plan participants), other pooled investment vehicles (for example, private funds), charitable organizations, endowments, foundations, corporations, state or municipal government entities, sovereign wealth funds, insurance companies and other tax exempt entities.

With the exception of the services that LMCM provides to model-based separate account programs, LMCM will generally accept only fully discretionary accounts. LMCM does not have a specific minimum account size.

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

LMCM offers a variety of investment mandates to a global-client base. Each strategy adheres firmly to LMCM's value-driven, research intensive investment process (See Section entitled "Advisory Business" for more information). By adhering to a consistent, value-driven process, LMCM strives to outperform its benchmarks over the long-term. LMCM seeks to provide its client accounts with long-term capital appreciation by actively selecting securities that the Firm believes are trading at a discount to intrinsic value.

LMCM invests primarily in equity securities. Risk is inherent in all investing. There is no assurance that a client account will meet its investment objective. Clients may lose a significant part of the value of their account and their account may not perform as well as other similar investments. The following is a summary description of the material risks that clients should consider when establishing an account.

Growth and Value Investing Risk

Growth or value securities as a group may be out of favor and underperform the overall equity market while the market concentrates on other types of securities. Growth securities typically are very sensitive to market movements because their market prices tend to reflect future expectations. When it appears those expectations will not be met, the prices of growth securities typically fall. The value approach to investing involves the risk that stocks may remain undervalued. Although client accounts will not typically be concentrated in any one industry or industry group, accounts may, like many growth or value accounts, weight investments toward certain industries, thus increasing exposure to factors adversely affecting issuers within those industries.

Market and Interest Rate Risk

The market prices of the securities in client accounts may go up or down, sometimes rapidly or unpredictably, due to general market conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest rates or currency rates, lack of liquidity in the markets or adverse investor sentiment. Market prices of securities also may go down due to events or conditions that affect particular sectors or issuers. When market prices fall, the value of your account will go down.

Issuer Risk

The value of a security can go up or down more than the market as a whole and can perform differently from the value of the market as a whole, often due to disappointing earnings reports by the issuer, unsuccessful products or services, loss of major customers, major litigation against the issuer or changes in government regulations affecting the issuer or the competitive environment. Client accounts may experience a substantial or complete loss on an individual security.

Portfolio Selection Risk

The value of a client's account may decrease if the portfolio manager's judgment about the attractiveness, value of or market trends affecting a particular security, industry or sector, country or region, or about market movements is incorrect. In addition, the investment models used by LMCM to evaluate securities or securities markets are based on certain assumptions concerning the interplay of market factors and do not assure successful investment.

Industry and Issuer Concentration Risk

LMCM may invest a significant portion of a client account in a small number of industries, and thus will be more susceptible to negative events affecting those industries. LMCM also tends to manage concentrated portfolios and invest in a smaller number of stocks as compared to other investment managers. As a result, changes in the value of individual stocks may have a significant impact on a client's investment account.

Large Capitalization Company Risk

Large capitalization companies may fall out of favor with investors.

Small and Medium Capitalization Company Risk

LMCM may invest in small or mid-sized companies. Such companies may be more at risk than larger companies because, among other things, they may fall out of favor with investors, they may have limited product lines, operating history, market or financial resources, or because they may depend on limited management groups. Securities of smaller companies may be more volatile, especially in the short term, may have limited liquidity and may be difficult to value. Smaller companies are often involved in actual or anticipated reorganizations or restructurings and it may be difficult to obtain information as to the financial conditions of smaller companies.

Special Risks of Companies Undergoing Reorganization or Restructuring

Investing in companies undergoing reorganization or restructuring involves special risks including that the transaction may not be completed on the terms or time frame contemplated. It may be difficult to obtain information on the

financial condition of such companies, and the issuer's management may be addressing a type of situation with which it has little experience, making the market prices of such securities subject to above-average price volatility.

Foreign Investments Risk

LMCM may invest in securities of foreign issuers. These investments may involve greater risk than investments in securities of U.S. issuers. Foreign countries in which LMCM may invest may have markets that are less liquid, less regulated and more volatile than U.S. markets, may suffer from political or economic instability and may experience negative government actions, such as currency controls or seizures of private businesses or property. In some foreign countries, less information is available about issuers and markets because of less rigorous accounting and regulatory standards than in the United States. Currency conversion costs and currency fluctuations could erase investment gains or add to investment losses. The risks of investing in foreign securities are heightened when investing in issuers in emerging market countries.

Additional Risks

Certain of the investment strategies offered by LMCM may also invest in securities with additional risks. A description of these securities and their risks follows:

Investment Company Securities

LMCM may advise its clients to invest in securities issued by investment companies, including open-end mutual funds, closed-end funds, unit investment trusts, private investment companies, business development companies and offshore investment companies. An investment in an investment company involves risks similar to investing directly in the investment company's portfolio securities, including the risk that the value of the portfolio securities may fluctuate in accordance with changes in the financial condition of their issuers, the value of stocks and other securities generally, and other market factors. In addition, investing in investment companies involves certain other risks, costs, and expenses. For example, if LMCM invests in an investment company on a client's behalf, the client will bear its proportionate share of the advisory fees and other operating expenses of such investment company, which are in addition to the fee payable by the client to LMCM. In addition, the client may incur a sales charge in connection with purchasing an investment company security or a redemption fee upon the redemption of such security. An investment in a closed-end investment company may also require the payment of a substantial premium over, and a sale of such security may be made at a substantial discount from, the net asset value of the issuer's portfolio securities.

LMCM may also advise clients to invest in the securities of private investment companies, including hedge funds. As with investments in other investment companies, the client will bear its proportionate share of the advisory fees and other operating expenses of such company. These fees, which may be substantial, are in addition to the fee paid by the client to LMCM. In addition, private investment companies are not registered with the Securities and Exchange Commission, and may not be registered with any other regulatory authority. Accordingly, they are not subject to certain regulatory restrictions and oversight to which other issuers are subject. There may be little public information available about their investments and performance. Moreover, as sales of shares of private investment companies are generally restricted to certain qualified purchasers, it could be difficult for a client to sell its shares of a private investment company at an advantageous price and time. Finally, because shares of private investment companies are not publicly traded, it may be difficult to establish a fair value for the client's investment in these companies.

Exchange Traded Funds

LMCM may advise clients to invest in exchange traded funds ("ETFs"). ETFs are ownership interests in unit investment trusts, depositary receipts, and other pooled investment vehicles (primarily registered investment companies) that are traded on an exchange and that hold a portfolio of securities or stocks (the "Underlying Securities") typically selected to correspond to the stocks or other securities that comprise a particular broad based, sector or international index, or that are otherwise representative of a particular industry sector. An investment in an ETF involves risks similar to investing directly in each of the Underlying Securities, including the risk that the value of the Underlying Securities may fluctuate in accordance with changes in the financial condition of their issuers, the value of stocks and other securities generally, and other market factors.

Investors in an ETF are eligible to receive their portion of dividends, if any, accumulated on the securities held in the portfolio. The performance of an ETF will be reduced by transaction and other expenses, including fees paid by the ETF to service providers. If LMCM invests in an ETF on a client's behalf, the client will bear its proportionate share of the advisory fees and other operating expenses of such ETF, which are in addition to the fee payable by the client to LMCM.

DISCIPLINARY INFORMATION

Neither LMCM, nor any management person, has legal or disciplinary events (i.e., criminal or civil action in a domestic, foreign or military court,

administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or self-regulatory organization) that are material to evaluating LMCM's advisory business or its integrity.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Certain management persons of LMCM are registered representatives of Legg Mason Investor Services, LLC, an affiliated broker-dealer ("LMIS"). These individuals maintain their registrations solely to permit the marketing of mutual funds managed by LMCM.

LMCM has an arrangement with its affiliate LMIS, a registered broker-dealer, that is material to LMCM's advisory business. LMIS is a wholly owned subsidiary of Legg Mason, Inc. and serves as the distributor for several mutual funds and other investment companies that are managed or sub-advised by LMCM.

LMCM has arrangements that are material to its advisory business with affiliated investment companies. These arrangements are described as follows:

LMCM serves as investment manager for the following U.S. registered investment companies: (a) Legg Mason Capital Management Value Trust; (b) Legg Mason Capital Management Special Investment Trust; (c) Legg Mason Capital Management Growth Trust; (d) Legg Mason Capital Management All Cap Fund; and (e) Legg Mason Capital Management Disciplined Equity Research Fund.

LMCM also provides investment advisory services to Legg Mason Capital Management Opportunity Trust, a U.S. registered investment company, pursuant to an investment advisory agreement with LMM LLC, the manager of the fund and an affiliate of LMCM.

LMCM also provides investment advisory or sub-advisory services to the following foreign investment companies: (a) Legg Mason Capital Management Value Fund, a portfolio of Legg Mason Global Funds plc ("LM Global Funds"), a collective investment scheme incorporated in Ireland; (b) Legg Mason Capital Management Growth Fund, a portfolio of LM Global Funds; (c) Legg Mason US Equity Fund, a sub-fund of Legg Mason Funds ICVC, an investment company incorporated in the United Kingdom; and (d) Legg Mason U.S. Equity Fund, a sub-fund of the Legg Mason Fund Series, a unit trust domiciled in Hong Kong.

LMCM has arrangements that are material to its advisory business with an affiliated investment adviser. LMCM conducts its investment advisory business in close coordination with its affiliate LMM LLC ("LMM"). LMCM and LMM share employees and office space. In addition, LMCM may aggregate its clients' brokerage orders with orders for clients of LMM in an effort to obtain best execution. LMM also conducts business under the name Legg Mason Capital Management.

In addition, LMCM provides investment advisory services to Legg Mason Capital Management Opportunity Trust pursuant to an investment advisory agreement with LMM, the manager of Legg Mason Capital Management Opportunity Trust.

LMCM also has an arrangement that is material to its advisory business with its affiliate Legg Mason Investment Counsel & Trust Company, National Association, a national bank organized under the laws of the United States ("LMIC"). LMIC is trustee of the Legg Mason Collective Trust and it has appointed LMCM to serve as investment sub-adviser for a collective investment fund called the Legg Mason Value Equity CIF.

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

LMCM has adopted a written Code of Ethics ("Code") that complies with the requirements relating to registered investment advisers set forth under Rule 17j-1 of the Investment Company Act of 1940, as well as Rule 204A-1 under the Investment Advisers Act of 1940. Clients may obtain a copy of LMCM's Code of Ethics by contacting LMCM at Legg Mason Capital Management, 100 International Drive, Baltimore, Maryland 21202, Attn.: Chief Compliance Officer or by sending an email request to compliance@lmcm.com.

Employees of LMCM may from time to time buy or sell securities for their own accounts that are also purchased and/or sold for the accounts of LMCM's clients. This has the potential to create a conflict of interest between employees of LMCM and clients. In order to address this potential conflict of interest, LMCM's Code of Ethics establishes policies and procedures relating to trading by LMCM and its employees. The Code of Ethics is based on the principle that LMCM's 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 any client. Among other things, LMCM's Code of Ethics generally requires the following:

Personal Securities Accounts Reporting

Each access person (all LMCM employees are deemed to be access persons) is required to report a list of personal securities holdings and accounts, including holdings and transactions in brokerage accounts, as well as mutual funds sub-advised by LMCM or offered by other Legg Mason affiliates. LMCM's Code of Ethics requires the provision of duplicate statements for each securities account (with certain limitations) in which an access person has a beneficial interest, thus enabling the monitoring of each employee's trading activity to ensure the activity does not conflict with the best interests of the Firm's clients.

Pre-Clearance of Transactions

Except for certain limited transactions, Firm access persons are required to receive pre-clearance for any securities transaction in which they have or acquire a beneficial interest. Prior to entering an order for execution, an access person must submit a trade authorization request to a Pre-clearance Officer (which is electronically routed). The request must identify the proposed transaction and provide certain representations. Upon receipt of the request, a Pre-clearance Officer will review the proposed trade, as well as information regarding past and pending LMCM client transactions. If the proposed transaction is deemed to be consistent with the requirements of the Code of Ethics, it may be approved. Regardless of whether a proposed transaction is approved or denied, a Pre-clearance Officer will maintain a record of the request, which shall include the security and number of shares, as well as the authorization/denial date and time.

Account Transaction Reporting

LMCM requires the provision of duplicate statements for each securities account (with certain limitations) in which an access person has a beneficial interest. Designated Legal and Compliance Department staff reconcile pre-clearance authorization forms with trading activity in access persons' securities accounts. The Firm conducts this reconciliation to ensure that any trading has been conducted pursuant to the requirements set forth in the Code of Ethics

LMCM also provides investment management services to private investment funds that are owned primarily by officers and employees of the Firm. For example, LMCM officers and employees may provide seed capital to fund accounts managed by LMCM which are designed to develop investment management talent and new investment products. LMCM's management of private funds may create potential conflicts of interest with regard to the allocation of investment opportunities between the private funds and other LMCM clients. LMCM monitors the allocation of investment opportunities to

such private funds in relation to other client accounts to verify that such allocations are consistent with, among other things, the Firm's allocation procedures, and client investment objectives, guidelines and restrictions. Consistent with LMCM's policies and procedures, trade orders for such investment funds may, but need not, be aggregated (or bunched) with trade orders for other client accounts.

BROKERAGE PRACTICES

Selection and Utilization of Brokers

Unless a client instructs LMCM to execute securities transactions through a particular brokerage firm or a client is participating in a model-based separate account program administered by an unaffiliated sponsor, LMCM has the authority to direct transactions to brokers or dealers that it reasonably believes can provide the best qualitative execution.

When determining which brokerage firms have demonstrated the ability to provide the best qualitative execution, LMCM will consider a variety of factors, including but not limited to, the broker's execution capability, its ability to execute large trades while avoiding significant market impact, its willingness to commit capital, the competitiveness of commission rates, and the value of information and research provided to the Firm that assists with the investment process.

Research and Other Soft Dollar Benefits

Consistent with the analysis set forth above, LMCM may pay an executing broker that provides the Firm with research and brokerage services that assist the Firm in the performance of its investment decision making process a commission greater than another qualified broker might charge; provided LMCM determines in good faith that the commission paid to the executing broker is reasonable in light of the value of all research and brokerage services provided by such broker to the Firm. Such arrangements are generally referred to as "soft dollar arrangements." LMCM only enters into a soft dollar arrangement if it determines in good faith that the commission paid is reasonable in relation to the value of the execution and research services provided. Since LMCM may receive research services from brokers that it would otherwise have to produce or pay for with its own assets, soft dollar arrangements have the potential to create incentives to utilize brokers that may not otherwise provide best execution. LMCM believes that its policies and procedures adequately address the potential conflicts and are reasonably designed to ensure that clients receive best qualitative execution. LMCM requires that its Legal and Compliance Department approve all new soft dollar arrangements and LMCM's Brokerage Review Committee regularly

assesses the transactions executed through soft dollar brokers to measure the value of the research and brokerage services provided by the firms.

LMCM's soft dollar arrangements generally take one of the following forms: proprietary, third party or commission sharing arrangements. Under a proprietary arrangement, the executing broker directly provides research services to LMCM. These services may include, among other things, traditional research reports, facilitating meetings with a company's management, facilitating meetings and other communications with analysts, conferences and special research projects. Brokers that provide proprietary research generally charge a bundled commission that includes the cost of execution and the additional research services, and they do not typically assign a particular value to their research services. LMCM regularly assesses the value of the research services provided by the brokers with which it deals. Over time, LMCM attempts to direct commission business to a broker in an amount that is fair and reasonable under the circumstances and proportional to LMCM's assessment of the value added by that broker.

Under a third party arrangement, the executing broker provides LMCM with research prepared, or services rendered by, an organization other than the executing broker. Research and services rendered by third parties generally have a recognized commercial value. Such services may include, among other things, technical analysis, political and economic commentary, regulatory and policy analysis, market data, and quantitative equity research. As the broker is responsible for providing the third party research or service, the broker usually has an expectation that LMCM will direct a level of business to it sufficient to compensate the broker for its execution services and the commercial value of the research or service. Under no circumstance is LMCM ever legally committed to meet this target: LMCM only executes transactions through a broker if it reasonably believes that the broker is capable of providing the best qualitative execution, and the broker always bears the risk that LMCM may not direct sufficient business to it to cover the broker's cost of providing the research or service. When LMCM fails to meet a broker's target, the broker's sole remedy is to discontinue providing the research or service to LMCM.

When LMCM executes a transaction through a broker with which it has a third party arrangement, LMCM is generally given a credit, which consists of some percentage of the total commission cost, that is considered by the broker in evaluating whether LMCM has directed a level of business to the broker sufficient to cover the broker's cost of providing the service.

Under a commission sharing arrangement, LMCM arranges with an executing broker to allocate a portion of total commissions paid on certain transactions to a

pool of “credits” maintained by the broker that can be subsequently used for eligible soft-dollar brokerage and research services. LMCM may direct the broker to use accumulated credits to pay for eligible brokerage and research services received by LMCM from third parties. Such services may include, among other things, general economic and market analysis, political and regulatory commentary, quantitative economic research, and industry/sector specific technical research.

The research and services that LMCM obtains through soft dollar arrangements are generally used to service, support, and advise all of LMCM’s clients as well as the clients of its affiliate, LMM LLC (“LMM”). At any point in time, LMCM may also receive products or services that are used for some but not all clients. However, due to the fact that LMCM’s investment team services and supports all of the Firm’s clients and the research services received by the Firm are generally available for use by all of the members of the investment team, it is not possible to establish or monitor the arrangements to make sure that each client benefits equally or in the same proportion as its transactions constitute to the total transactions effected for all clients.

LMCM may, from time to time, receive products or services that can be used for both research and other purposes, such as marketing. LMCM will make a good-faith effort to estimate the relative proportions of these products or services that are or will be used for non-research purposes. The Firm will use soft dollar credits to pay only for the portion attributable to research and will pay for any non-research portion from LMCM’s own assets.

If a client instructs LMCM not to direct transactions to brokers for soft dollar credit, orders for that client may still be directed to brokers with which LMCM has a soft dollar arrangement (because LMCM usually combines orders for its clients, always executing them through the broker that LMCM reasonably believes is capable of providing the best qualitative execution), and the client will be charged the same commission rate as other clients participating in the order, who allow LMCM to effect transactions for soft dollar credit. In these cases, LMCM simply will not receive a credit towards any third party arrangement. The commission paid may be considered by LMCM in connection with a proprietary soft dollar arrangement and LMCM’s evaluation of whether over time it has directed to the broker an amount of commissions that is fair and reasonable under the circumstances and proportional to LMCM’s assessment of the value added by that broker. If a client directs transactions to a specific broker that does not provide research services, these commissions will not contribute to LMCM’s soft dollar arrangements; however the client will still receive the benefit of the research provided through LMCM’s soft dollar arrangements.

Aggregated (Bunched) Orders

When LMCM decides to purchase or sell the same security for several clients at approximately the same time, LMCM will generally combine client orders (i.e., enter a “bunched” order) in an effort to obtain best execution or to negotiate a more favorable commission rate. LMCM may also combine its trades with trades for clients of its affiliate LMM. If orders to buy or sell a security for several clients at approximately the same time are executed at different prices or commissions, the transactions will typically be allocated to each client at the average execution price and commission.

If a bunched order is partially filled, each client participating in the bunched order will generally receive a pro-rata portion of the shares filled based upon the client’s percentage participation in the order. LMCM and its affiliates may make exceptions to this general policy from time to time; provided, LMCM determines that the allocation is fair and equitable under the circumstances and does not discriminate against any client.

Offering(s) of Limited Availability

If LMCM clients participate in an offering of limited availability (for example, an initial public offering), LMCM will generally allocate trades according to each client’s participation in the order. If however LMCM’s aggregate order is greater than the amount of securities available to LMCM, it will endeavor to allocate all investments of limited availability to clients on a pro-rata basis based on upon the size of each participating client’s account. If the availability of a particular investment is limited to an extent that a pro-rata allocation based upon account size becomes impractical, LMCM may decide to allocate in a manner other than pro-rata.

Model-Based Separately Managed Account Programs

As noted earlier in this brochure, LMCM may provide investment advisory services to certain model-based separately managed account program(s) (“SMA Program(s)”). As part of this activity, LMCM provides a daily model portfolio to an SMA Program sponsor. LMCM, however, has no responsibility relating to portfolio implementation (e.g., trade execution) or coordination services (e.g., implementing client guidelines and restrictions). Accordingly, trades placed for execution by LMCM’s trading desk are not aggregated with trades in the same security in the SMA Program(s). As such, client orders in the SMA Program may end up competing in the marketplace with orders placed by LMCM’s trading desk on behalf of its other clients. Such competition has the potential to negatively impact all clients involved, though LMCM believes such competition concerns are mitigated as the investment strategies offered by LMCM generally involve securities that are exchange traded, have significant trading volume and are highly liquid.

Client Directed Commissions

If a client directs LMCM to execute securities transactions through a particular brokerage firm, LMCM does not negotiate commission rates with the brokerage firm designated by the client. Clients may, however, negotiate commission rates with the brokerage firm they designate. Unless a lower rate has been negotiated by the client on the client's behalf, the client should expect that the designated brokerage firm will charge commissions based upon the firm's established non-discounted commission schedule. Certain clients of LMCM negotiate for and receive commission discounts in varying amounts and, therefore, some clients may pay lower commissions than other clients in similar transactions. When LMCM's services do not include selection of brokerage firms or negotiation of commission rates, clients will not necessarily obtain commission rates as favorable as those which might be obtained through an investment adviser that does undertake to select brokerage firms and to negotiate rates with those selected firms. If a client instructs LMCM to direct brokerage, orders for such client's account may be aggregated or bunched with other client orders and stepped out to the directed broker at the same execution price and commission.

Cross Trades

When deemed appropriate or advisable by LMCM, certain client accounts managed by LMCM, including registered mutual funds, may purchase securities from, or sell securities to, another client account, including another registered mutual fund managed by LMCM or an affiliate. Such transactions are referred to as "cross transactions." A cross transaction occurs when an investment adviser or its affiliate, acting as agent, arranges a transaction between two clients. LMCM may engage in cross transactions in order to benefit client accounts by eliminating or minimizing transaction and market impact costs. LMCM has adopted policies and procedures designed to ensure that any cross transactions that are executed achieve "best execution," that no client is favored over another by such cross trading, and to prevent inadvertent cross transactions between its client accounts.

All cross transactions between client accounts require the approval of a Compliance Officer. Before the execution of a cross transaction for a client, a Compliance Officer will review the client's brokerage instructions to ensure that the client has not directed LMCM to refrain from engaging in such transactions for the client's account. If LMCM engages in a cross transaction for its clients, it will utilize an independent pricing source to ensure objectivity. Any such trades involving a registered mutual fund or an actively-managed ERISA plan will be conducted pursuant to Rule 17(a)-7 under the Investment Company Act of 1940 and Section 408(b)(19) of the Employment Retirement Income Security Act of 1974 ("ERISA"), respectively.

REVIEW OF ACCOUNTS

All orders are reviewed prior to entry to ensure that they are consistent with client imposed portfolio guidelines and restrictions. This review is generally conducted by a portfolio manager or a portfolio trading assistant.

A portfolio manager periodically reviews each portfolio under management and may coordinate this review with a portfolio trading assistant. The number of portfolios reviewed by each portfolio manager and each portfolio trading assistant varies depending upon the number of portfolios currently under management in each investment strategy offered by LMCM.

LMCM reconciles cash balances with each client's custodian on a daily basis and reconciles all client portfolio holdings on a weekly basis. LMCM's reconciliation group also performs a monthly reconciliation of cash and holdings between LMCM's portfolio accounting system and each client's custodian.

LMCM generally mails to each of its clients a quarterly portfolio analysis showing positions, cost and market value for the client's account. For clients that are domestic or foreign investment companies, LMCM provides all reports that are required by applicable federal or foreign law. Upon request, LMCM may also agree to provide additional reports to clients.

CLIENT REFERRALS AND OTHER COMPENSATION

LMCM may, from time to time, enter into agreements with parties that refer advisory clients. All such arrangements are structured in accordance with the requirements of Rule 206(4)-3 promulgated under the Investment Advisers Act of 1940, as amended, and all referred clients receive detailed disclosure regarding the nature of the referral agreement.

LMCM may provide investment management services to clients of investment consultants who introduce such clients to the Firm. LMCM will not pay an investment consultant for any introduction. LMCM may, however, purchase products or services, such as portfolio analytics or access to databases, from such investment consultants, or may pay to attend conferences hosted by such consultants. Investment consultants face a potential conflict of interest when receiving such revenues from investment advisers as the acceptance of such revenues has the potential to affect the objectivity of the consultant's advice to its clients.

CUSTODY

LMCM is not a custodian and it seeks to avoid engaging in activities that may result in the Firm being deemed to have custody or possession of client funds or securities. Notwithstanding the foregoing, the Firm recognizes that it may be deemed to have custody under certain circumstances. In circumstances where the Firm may be deemed to have custody, the Firm will comply with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940, which requires, among other things, that a qualified custodian (for example, a bank or broker-dealer) maintain all client funds and securities. In these circumstances, LMCM will use its reasonable best efforts to ensure that the qualified custodians send account statements to all clients, including each limited partner or member of a limited partnership or limited liability company, at least quarterly. Clients, limited partners, members and other beneficial owners should carefully review all statements received from their qualified custodians. To the extent clients, limited partners, members or other beneficial owners also receive account statements from LMCM; such persons should carefully compare the statements received from LMCM with those received from the qualified custodian and bring any discrepancies promptly to LMCM's attention.

INVESTMENT DISCRETION

As a general proposition, when executing an investment management agreement with the Firm, clients agree that LMCM will generally have no limitations on its authority to determine the type and amount of securities to be purchased and sold in client accounts. However, clients may place reasonable restrictions on their accounts (for example, limits on the percentage invested in a particular security; limits on industry concentration; or prohibitions against investments in particular securities). In most circumstances, LMCM will accommodate client restrictions provided they do not interfere materially with LMCM's portfolio construction process. LMCM does not have discretion over accounts maintained by clients participating in a model-based separate account program administered by an unaffiliated sponsor.

VOTING CLIENT SECURITIES

LMCM believes that proxy voting is a valuable right of company shareholders. In general, LMCM will vote all proxies it receives, unless the client reserves for itself the authority to vote proxies or as otherwise described below. However, LMCM may refrain from voting in certain circumstances. For instance, LMCM generally intends to refrain from voting a proxy if the company's shares are no longer held by LMCM's clients at the time of the meeting. Additionally, LMCM may refrain from voting a proxy if it concludes the potential impact on

shareholders' interests is insignificant while the cost associated with analyzing and voting the proxy may be significant. If shares of a security are on loan as of the record date of the meeting for which a proxy is received, LMCM will be unable to vote those shares for the client. As a general matter, LMCM discourages its clients from loaning the securities LMCM manages.

As a general proposition, LMCM supports proposals that (i) preserve and expand the power of shareholders in areas of corporate governance and (ii) allow responsible management teams to run their company in the way that is most likely to maximize value for owners. LMCM generally opposes proposals that reduce management's accountability, misalign management and shareholders' interests, and seek to place restrictions on management in order to promote political, religious or social agendas.

LMCM maintains proxy voting guidelines, which set forth the manner in which LMCM generally votes issues that are routinely presented. For example, LMCM generally votes for cumulative voting and against staggered boards. The Firm periodically reviews these guidelines to ensure that they accurately reflect the Firm's philosophy.

Clients may reserve for themselves the authority to vote proxies. Clients may also give LMCM instructions regarding how they would like shares they own to be voted. Where LMCM is granted discretionary authority to vote proxies, LMCM instructs custodians to forward proxy materials to LMCM. When clients reserve proxy voting authority for themselves, they must coordinate with their own custodians and brokers to ensure that they receive all proxy solicitations. Clients that retain proxy voting authority are welcome to discuss particular proxy solicitations with LMCM, and they may do so by contacting the Firm at Legg Mason Capital Management, 100 International Drive, Baltimore, Maryland 21202, Attn.: Chief Compliance Officer.

Upon receipt of a proxy, a Compliance Officer will review the proxy and evaluate whether the voting decision presents a material conflict of interest between LMCM's interests and those of its clients. If no material conflict exists, LMCM decides how to vote the proxy after giving consideration to a number of sources, which may include LMCM's guidelines, the views of members of LMCM's investment team, the views of company management, and independent research services.

If a material conflict is identified, one of the following approaches is used to determine how to vote the proxy:

1. If LMCM's guidelines address the specific issue on which the vote is to be cast, the proxy is voted according to the guidelines.
2. If an issue on which the vote is to be cast is not specifically addressed by LMCM's guidelines, the vote will be cast based upon the recommendation of an independent third party, or LMCM may disclose the conflict to its clients and seek to obtain its clients' consent to vote the proxy in the manner that LMCM believes to be in the best interest of its clients.

A client may obtain a copy of LMCM's proxy voting principles and procedures, as well as specific information about how LMCM voted with respect to securities owned by the client, by contacting LMCM at Legg Mason Capital Management, 100 International Drive, Baltimore, Maryland 21202, Attn.: Chief Compliance Officer.

FINANCIAL INFORMATION

LMCM does not require or solicit prepayment of more than \$1,200 in fees from any client, six months or more in advance. LMCM is not a custodian and it seeks to avoid engaging in activities that may result in the Firm being deemed to have custody or possession of client funds or securities. Notwithstanding the foregoing, the Firm recognizes that it may be deemed to have custody under the Investment Advisers Act of 1940 under certain circumstances. LMCM is unaware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.