

LMM LLC

INVESTMENT ADVISER BROCHURE

Form ADV Part 2A

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100 International Drive
Baltimore, MD 21202

www.lmminvestments.com

(410) 454-3130

This brochure provides information about the qualifications and business practices of LMM LLC. If you have any questions about the contents of this brochure, please contact us at (410) 454-3130 or compliance@lmminvestments.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.

LMM LLC is a registered investment adviser. Additional information about LMM LLC is available on the SEC's website at www.adviserinfo.sec.gov. Investment adviser registration does not imply a certain level of skill or training.

ITEM 2. MATERIAL CHANGES

This section summarizes a material change to the Form ADV Part 2A Brochure dated March 31, 2014 (the “Prior Brochure”). Please see the identified section for additional detail.

BROKERAGE PRACTICES (ITEM 12)

This section has been amended to add disclosures about a potential conflict of interest LMM’s traders have when selecting brokers to execute trades for client accounts (due to their status as dual employees of an affiliate of certain brokerage firms LMM may use to execute trades). The disclosures also describe how LMM addresses this potential conflict and thereby seeks to ensure that it continues to adhere to its obligation to seek best execution in selecting brokers to execute trades for client accounts.

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ITEM 4. ADVISORY BUSINESS

LMM LLC (“LMM” or the “Firm”) has been in the investment advisory business since 1999 and generally provides investment management services to mutual funds, comparably regulated foreign investment funds, and other institutional or large accounts. As of February 28, 2015, LMM managed approximately \$2.8 billion in assets on a discretionary basis. LMM is 50% owned by Legg Mason, Inc., a publicly traded company (NYSE: LM), and 50% owned, directly or indirectly, by Bill Miller.

LMM offers clients a value-driven, research intensive investment process. By adhering to a consistent, value-driven process, LMM strives to outperform its benchmarks over the long-term. LMM seeks to provide its client accounts with long-term outperformance and capital appreciation by actively selecting securities that it believes are trading at a discount to intrinsic value.

LMM’s investment management services are typically provided on a fully discretionary basis; however, clients may request that LMM adhere to restrictions in managing their accounts (for example, limits on the percentage invested in a particular security or type of security; limits on industry concentration; or prohibitions against investments in particular securities or types of securities). In most circumstances, LMM will accommodate requested client restrictions provided they do not interfere materially with LMM’s portfolio construction process.

LMM manages two investment strategies, the Opportunity strategy and the Income Opportunity strategy. The Opportunity strategy seeks to provide clients with long-term capital appreciation, while the Income Opportunity strategy seeks to provide clients with a high level of income while preserving the potential for capital growth. Both may invest in securities, derivatives and other financial instruments that, in the portfolio managers’ opinion, offer the opportunity to meet the aforementioned goals. The portfolio managers exercise flexible strategies in the selection of investments, not limited by investment style or asset class.

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

ITEM 5. FEES AND COMPENSATION

LMM negotiates fees directly with each of its clients. LMM's investment management fees are generally based on a percentage of assets under management and they range from an annual rate of .35% to 1.00%. LMM's standard fee schedule for Opportunity strategy separate accounts is 1.00% on the first \$100 million under management and 0.75% for remaining amounts over \$100 million under management.

LMM's fees do not include transaction charges (more information regarding the Firm's transaction practices can be found in 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 LMM 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.

Alternative Fee Arrangements

LMM 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 LMM 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. LMM does not require clients to pay fees in advance; however some clients may chose to do so. If an agreement with a client that pays fees in advance is terminated, LMM will refund a proportionate part of any prepaid fee.

For separate account clients, LMM typically sends fee invoices to the client's custodian and thereby directs the custodian to pay LMM's agreed-upon investment management fee from the client's account.

No Compensation from the Sale of Securities

Neither LMM nor any of its personnel accepts compensation for the sale of securities or other investment products.

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

LMM 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 LMM'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. LMM recognizes that this creates the potential for conflicts of interest and will take steps to address these conflicts should they arise.

LMM maintains and enforces written policies and procedures designed to ensure that all client accounts are treated equitably, regardless of the fee arrangement or a client's affiliation with LMM. LMM 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. LMM may under certain circumstances allocate securities in a manner other than pro-rata, but only if it is determined that the allocation is fair and equitable under the circumstances and does not unfairly 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 LMM's Compliance Department.

ITEM 7. TYPES OF CLIENTS

LMM generally provides investment advice and management to mutual funds, comparably regulated foreign investment funds, and other institutional or large accounts.

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

LMM's investment strategies adhere firmly to a value-driven, research intensive investment process. By adhering to a consistent, value-driven process, LMM strives to outperform its benchmarks over the long-term. LMM seeks to provide its client accounts with long-term capital appreciation by actively selecting securities that it believes are trading at a discount to intrinsic value.

LMM manages two investment strategies, the Opportunity strategy and the Income Opportunity strategy. The Opportunity strategy seeks to provide clients with long-term capital appreciation, while the Income Opportunity strategy seeks to provide clients with a high level of income while preserving the potential for capital growth.

LMM may invest in securities, derivatives and other financial instruments that, in the portfolio managers' opinion, offer the opportunity for long-term growth of capital. The portfolio managers exercise a flexible strategy in the selection of investments, not limited by investment style or asset class. Client accounts may be invested in the common stock of U.S. and foreign issuers and in other U.S. and foreign securities, including: securities convertible into common stock and securities issued through private placements; preferred securities; warrants and rights; securities issued by investment companies, including open-end mutual funds, closed-end funds, unit investment trusts, business development companies, private investment companies (including hedge funds and private equity funds), and foreign investment companies; securities issued by exchange-traded funds; securities issued by real estate investment trusts and other issuers that invest, deal, or otherwise engage in transactions in real estate; debt securities; options, futures, forward contracts, swaps, caps, floors, collars, indexed securities and other derivatives; currencies, including currency related derivatives; commodity-linked derivatives; and other instruments. Further, client accounts may engage to a substantial degree in short sales of securities and other instruments. If not prohibited by applicable laws or client guidelines, accounts may also borrow money for investment purposes, a practice known as "leveraging." Although the portfolio managers consider ratings in determining whether securities convertible into common stock or debt securities are appropriate investments for client accounts, such securities may include investments rated below investment grade, commonly known as "junk" bonds, and unrated 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.

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.

Industry and Issuer Concentration Risk

LMM 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. LMM 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

LMM may invest in small and 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

LMM may invest in securities of foreign issuers, including issuers located in emerging market countries. These investments may involve greater risk than investments in securities of U.S. issuers. Foreign countries in which LMM 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.

Liquidity Risk

Some securities held by client accounts may be difficult to sell, or be illiquid, particularly during times of market turmoil. Illiquid securities may also be difficult to value. If an account is unable to sell a deteriorating security because the market is illiquid, losses may be magnified.

Leveraging Risk

Use of leverage can magnify the effects of changes in the value of an account's investments and makes such investments more volatile. Accounts may also have to sell assets at inopportune times to satisfy their collateral obligations.

Credit Risk

If an issuer or guarantor of a security held by an account or a counterparty to a financial contract with an account defaults or is downgraded, or is perceived to be less creditworthy, or if the value of the assets underlying a security declines, the value of the client's investment will typically decline. Junk bonds are considered speculative, have a higher risk of default, tend to be less liquid and are more difficult to value than higher grade securities. Junk bonds tend to be volatile and more susceptible to adverse events and negative sentiments.

Derivatives Risk

Using derivatives, especially for non-hedging purposes, involves a significant risk of loss to a client account and can reduce opportunities for gains when market prices, interest rates, currency rates or the derivative instruments themselves behave in a way not anticipated by the portfolio manager. Using derivatives also can have a leveraging effect and increase an account's volatility. Derivatives may be difficult to sell, unwind or value, and the counterparty may default on its obligations to a client. Recent legislation calls for new regulation of the derivatives markets. The extent and impact of the regulation are not yet fully known and may not be known for some time. New regulation of derivatives may make them more costly, may limit their availability, or may otherwise adversely affect their value or performance. Swap agreements will tend to shift a client's investment exposure from one type of investment to another. Credit default swap contracts, a type of derivative instrument, involve special risks, including leverage risks, liquidity risks and increased credit risk, and may result in sudden and substantial losses. They may also be difficult to value.

Commodities Risk

Investing in commodity-linked instruments may subject client accounts to greater volatility than investments in traditional securities. The value of commodity-linked instruments may be affected by changes in overall market movements, commodity index volatility, prolonged or intense speculation by investors, changes in interest rates or factors affecting a particular industry or commodity, such as drought, floods, other weather phenomena, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

Convertible Securities Risk

Convertible securities are subject to market and interest rate risk and credit risk. When the market price of the equity security underlying a convertible security decreases, the convertible security tends to trade on the basis of its yield and other fixed income characteristics, making the convertible security more susceptible to credit and interest rate risks. When the market price of such equity security rises, the convertible security tends to trade on the basis of its equity conversion features and be more exposed to market risk. Convertible securities are typically issued by smaller capitalized companies whose stock prices may be volatile.

Real Estate Investment Trust ("REIT") Risk

The value of Real Estate Investment Trusts, or REITs, may be affected by the condition of the economy as a whole and changes in the value of the underlying real estate, the creditworthiness of the issuer of the investments and property taxes, interest rates, liquidity of the credit markets and the real estate regulatory environment.

Privately Placed Securities Risk

Investments in privately placed securities involve additional risks, including that the issuers of such securities are not typically subject to the same disclosure and other regulatory requirements and oversight to which public issuers are subject, there may be very little public information available about the issuers and they may have limited liquidity.

Short Sales Risk

An account may suffer significant losses if assets that it sells short appreciate rather than depreciate in value. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the client account may be required to pay in connection with the short sale. While the possible loss on a security that is purchased is limited to the price paid for the security, there is no limit on the amount of loss on a security that is sold short.

Investment Company Securities

LMM may invest client accounts 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 LMM 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 LMM. 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.

LMM may also invest client accounts 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 LMM. 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

LMM may invest client accounts 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 LMM 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 LMM.

ITEM 9. DISCIPLINARY INFORMATION

Neither LMM , nor any of its personnel, 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 LMM 's advisory business or the integrity of such personnel.

ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

LMM has the following arrangements that are material to its advisory business with affiliated U.S. registered investment companies, an affiliated investment adviser, an affiliated broker-dealer, and an affiliated offshore pooled investment vehicle:

Legg Mason Opportunity Trust and Miller Income Opportunity Trust. LMM manages the investments of two U.S. mutual funds, Legg Mason Opportunity Trust and Miller Income Opportunity Trust. Legg Mason Opportunity Trust is a portfolio of Legg Mason Investment Trust, a U.S. registered investment company. Miller Income Opportunity Trust is a portfolio of Legg Mason Global Asset Management Trust, a U.S. registered investment company.

Legg Mason Partners Fund Advisor, LLC. In connection with its management of the Legg Mason Opportunity Trust and Miller Income Opportunity Trust, LMM has arrangements with Legg Mason Partners Fund Advisor, LLC (“LMPFA”), an affiliated U.S. registered investment adviser that is a wholly owned subsidiary of Legg Mason, Inc. Pursuant to these arrangements, LMPFA performs certain administrative services with respect to the Trusts.

Legg Mason Investor Services, LLC. Legg Mason Investor Services, LLC (“LMIS”) is a U.S. registered broker dealer and serve as the distributor for Legg Mason Opportunity Trust and Miller Income Opportunity Trust. LMIS is a wholly owned subsidiary of Legg Mason, Inc.

Legg Mason Opportunity Fund. LMM, acting as investment sub-adviser to its affiliate Legg Mason Investments (Europe) Limited, manages the Legg Mason Opportunity Fund, a foreign investment fund domiciled in Dublin, Ireland. Legg Mason Investments (Europe) Limited, which is authorized by the U.K. Financial Conduct Authority to engage in investment management and certain other regulated financial activities, performs certain administrative, distribution and shareholder services for the Fund.

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

LMM has adopted a written Code of Ethics 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. Existing and prospective clients may obtain a copy of LMM's Code of Ethics by contacting LMM at LMM LLC, 100 International Drive, 5th Floor, Baltimore, Maryland 21202, Attn.: Compliance Department or by sending an email request to compliance@lmminvestments.com.

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

Personal Securities Accounts Reporting

Each access person (all LMM 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 managed by LMM or managed by other Legg Mason affiliates. LMM'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, LMM 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. 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/or pending LMM 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

LMM requires the provision of duplicate statements for each securities account (with certain limitations) in which an access person has a beneficial interest. 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.

ITEM 12. BROKERAGE PRACTICES

Selection and Utilization of Brokers

Unless a client instructs LMM to execute securities transactions through a particular brokerage firm, LMM 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, LMM 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 LMM that assists with the investment process.

Soft Dollar Arrangements

Consistent with the analysis set forth above, LMM may cause client accounts to pay an executing broker that provides research and brokerage services that assist LMM's performance of its investment decision making process a commission greater than another qualified broker might charge; provided LMM 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 LMM. Such arrangements, which are generally referred to as "soft dollar arrangements", may or may not involve a target commission amount that LMM seeks (but is not obligated) to have client accounts pay the broker over specified time periods. Since LMM receives research services from brokers that it would otherwise have to produce or pay for with its own assets, soft dollar arrangements result in a benefit to LMM and give LMM an incentive to select brokers based on this benefit instead of a client's interest in receiving most favorable execution. LMM believes that its policies and procedures adequately address this conflict of interest and are reasonably designed to ensure that clients receive best qualitative execution. LMM's Brokerage Review Committee regularly assesses the transactions executed through soft dollar brokers to assess the value of the research and brokerage services provided by such brokers.

LMM's soft dollar arrangements generally take the form of a proprietary soft dollar arrangement or a third party soft dollar arrangement. Under a proprietary arrangement, the executing broker directly provides research it prepares to LMM. 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. LMM regularly assesses the value of the research services provided by

the brokers with which it deals. Over time, LMM attempts to direct commission business to a broker in an amount that is fair and reasonable under the circumstances and proportional to LMM's assessment of the value added by that broker.

Under a third party arrangement, the executing broker provides LMM with research prepared by an organization other than the executing broker. As the broker is responsible for providing the third party research, the broker usually has an expectation that LMM will direct a level of business to it sufficient to compensate the broker for its execution services and the third party research it provides. Under no circumstance is LMM ever legally committed to meet this target: LMM 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 LMM may not direct sufficient business to it to cover the broker's cost of providing the research. When LMM fails to meet a broker's target, the broker's sole remedy is to discontinue providing the research to LMM.

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

The research LMM receives in soft dollar arrangements includes: traditional research reports; facilitating meetings with company managements; facilitating meetings and other communications with analysts; conferences; special research projects; technical analysis; political, economic and regulatory commentary; regulatory and policy analysis; market data; quantitative equity and economic research; general economic and market analysis; and industry/sector specific technical research.

The research services that LMM obtains through soft dollar arrangements are available for use by all members of LMM's investment team and generally are used to support LMM's provision of investment advice to all of LMM's clients. At any point in time, however, LMM may receive products or services that are used for some but not all clients. In addition, a client that directs LMM to use a particular broker to execute trades for the client's account may not contribute to the cost of research obtained in LMM's soft dollar arrangements, but may benefit from such research. LMM does not monitor its soft dollar arrangements to make sure that each client benefits equally or in the same proportion as the client's transactions constitute to the total soft dollar transactions effected for all clients.

LMM, however, believes that its soft dollar arrangements are reasonably structured and involve the payment of no more than reasonable commissions..

LMM may, from time to time, receive products or services that can be used for both research and other purposes, such as marketing. LMM 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 LMM's own assets.

Service Arrangement – Trading

LMM has an agreement with an unaffiliated investment adviser, 1919 Investment Counsel, LLC ("1919ic"), pursuant to which 1919ic provides LMM with various non-advisory business services, including assistance with trading, operations, compliance and technology. 1919ic is a wholly-owned subsidiary of Stifel Financial Corp. ("Stifel"). As part of the arrangement, 1919ic traders, acting as dual employees of LMM, have discretion to select brokerage firms to place trades from a list of brokerage firms approved by LMM's Brokerage Review Committee. The Committee is chaired by a member of LMM's investment team and includes additional representatives of such team, traders, and LMM's Chief Compliance Officer, who is also a dual employee of 1919ic.

1919ic's affiliation with Stifel may give the traders an incentive to cause LMM client accounts to pay commissions to Stifel-affiliated brokerage firms LMM's Brokerage Review Committee has approved. LMM addresses this potential conflict of interest by having its Brokerage Review Committee conduct a quarterly review of the allocation of client commissions to ensure the Firm is adhering to its obligation to seek best execution in selecting brokers to execute trades. In addition, LMM requires the traders to obtain approval from the LMM investment team before exceeding any commission targets the team has established for a Stifel-affiliated brokerage firm. If no target is established, the traders must obtain such approval for each trade with the firm.

Aggregated (Bunched) Orders

When LMM decides to purchase or sell the same security for multiple clients at approximately the same time, LMM 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. If orders to buy or sell a security for multiple 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. LMM may make exceptions to this general policy from time to time; provided, LMM determines that the allocation is fair and equitable under the circumstances and does not discriminate against any client.

Offering(s) of Limited Availability

If LMM clients participate in an offering of limited availability (for example, an initial public offering), LMM will generally allocate trades according to each client's participation in the order. If however LMM's aggregate order is greater than the amount of securities available to LMM, it will endeavor to allocate all investments of limited availability to clients on a pro-rata basis based on 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, LMM may decide to allocate in a manner other than pro-rata.

Directed Brokerage

If a client directs LMM to execute securities transactions through a particular brokerage firm, LMM does not negotiate commission rates with the brokerage firm designated by the client. The client may be able to negotiate commission rates directly with the brokerage firm it designates ("directed broker"). The prices and execution quality achieved for a client account with a directed broker may be less favorable than the prices and execution quality LMM achieves for other client accounts. In other words, the client's direction to use a directed broker may cost the client more money. LMM may not be in a position to, and may not, monitor for best price and execution of trades the directed broker executes for the client's account. LMM may place trades for client accounts that direct brokerage after it places the same trades for other clients that do not direct brokerage. This may result in directed brokerage accounts receiving worse prices than other client accounts.

For certain securities transactions that are not available from a client's directed broker (e.g., purchases in initial public offerings) or, in LMM's judgment, would not be advantageous to the client if executed with such broker, LMM may aggregate or bunch its order for that client with orders for other clients placed with a broker LMM selects, and then have that executing broker step out the client's portion of the order to the directed broker for settlement. For such a transaction, the directed brokerage client receives the same prices as the other clients and pays commissions to the LMM-selected executing broker at the same rate paid by the other clients participating in the order. Depending on the terms of the client's agreement with the directed broker, the directed brokerage client

may also pay a commission or separate administrative fee to the directed broker for such a transaction.

LMM's business relationship with a broker may give LMM an incentive to recommend that a client issue or continue a direction to use the broker for execution of the client's trades. On the other hand, LMM's interest in receiving research paid for with client commissions through soft dollar arrangements (discussed above) will give LMM an incentive to recommend that a client terminate its direction to use a particular broker. A client may terminate such a direction by notifying LMM in writing.

Cross Trades

When deemed appropriate or advisable by LMM, certain client accounts managed by LMM, including registered mutual funds, may purchase securities from, or sell securities to, another client account, including another registered mutual fund managed by LMM. 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. LMM may engage in cross transactions in order to benefit client accounts by eliminating or minimizing transaction and market impact costs. LMM 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 LMM to refrain from engaging in such transactions for the client's account. If LMM 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 17a-7 under the Investment Company Act of 1940 and Section 408(b)(19) of the Employment Retirement Income Security Act of 1974 ("ERISA").

ITEM 13. REVIEW OF ACCOUNTS

LMM manages a small number of client accounts. Each account is reviewed by a portfolio manager on a daily basis. The review is intended to ensure that the account is managed in accordance with its mandate and any client imposed guidelines, and to ensure that trading activity is properly reflected in the account.

For clients that are domestic or foreign investment companies, LMM provides all reports required by applicable federal or foreign law, in addition to any reports requested by the boards of the investment companies. For institutional and other separate account clients, LMM typically provides a quarterly report containing performance and holdings information.

ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION

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

LMM may provide investment management services to clients of investment consultants who introduce such clients to LMM. LMM will not pay an investment consultant for any introduction. LMM 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. The investment consultants may 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.

ITEM 15. CUSTODY

Although LMM does not maintain actual custody of client assets, in some cases LMM has the authority to debit clients' custodial accounts for its investment management fees. In this situation, LMM is deemed to have custody of client assets, even though the client's custodian maintains actual custody of the client's assets.

Clients should carefully review the account statements they receive from their custodians and compare them to any statements or reports received from LMM.

ITEM 16. INVESTMENT DISCRETION

As a general proposition, when executing an investment management agreement with LMM, clients agree that LMM 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, LMM will accommodate client restrictions provided they do not interfere materially with LMM's portfolio construction process.

ITEM 17. VOTING CLIENT SECURITIES

LMM believes that proxy voting is a valuable right of company shareholders. In general, LMM will vote all proxies it receives, unless the client reserves for itself the authority to vote proxies or as otherwise described below. However, LMM may refrain from voting in certain circumstances. For instance, LMM generally intends to refrain from voting a proxy if the company's shares are no longer held by LMM's clients at the time of the meeting. Additionally, LMM 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, LMM will be unable to vote those shares for the client. As a general matter, LMM discourages its clients from loaning the securities LMM manages.

As a general proposition, LMM 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. LMM 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.

LMM maintains proxy voting guidelines, which set forth the manner in which LMM generally votes issues that are routinely presented. For example, LMM 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 LMM instructions regarding how they would like shares they own to be voted. Where LMM is granted discretionary authority to vote proxies, LMM instructs custodians to forward proxy materials to LMM. 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.

Upon receipt of a proxy, the Firm will review the proxy and evaluate whether the voting decision presents a material conflict of interest between LMM's interests and those of its clients. If no material conflict exists, LMM decides how to vote the proxy after giving consideration to a number of sources, which may include LMM's guidelines, the views of members of LMM'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 LMM'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 LMM's guidelines, the vote will be cast based upon the recommendation of an independent third party, or LMM may disclose the conflict to its clients and seek to obtain its clients' consent to vote the proxy in the manner that LMM believes to be in the best interest of its clients.

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

ITEM 18. FINANCIAL INFORMATION

Not applicable.