

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 65460 / September 30, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-11935

In the Matter of

Smith Barney Fund Management LLC
and Citigroup Global Markets Inc.,

Respondents.

**ORDER MODIFYING THE
DISTRIBUTION PLAN**

On January 7, 2010, the Commission published a notice of the Plan of Distribution (“Plan”) proposed by the Division of Enforcement in connection with this proceeding (Exchange Act Release No. 61312). On February 25, 2010, the Commission extended the comment period by 30 days (Exchange Act Release No. 61587). The Commission received no comments and on April 15, 2010, the Plan was approved (Exchange Act Release No. 61917). On May 12, 2010, the Commission issued an Order Directing Disbursement of Fair Fund to disburse \$110,782,362.95 from the Citigroup Distribution Fund (Exchange Act Release No. 62088.)

The Plan provided for the distribution of disgorgement-related portions of the Fair Fund to funds from the Smith Barney Family of Funds (the “Funds”) that engaged a Citigroup affiliate, Citicorp Trust Bank fsb or a predecessor entity (collectively, “CTB”), as their transfer agent and paid transfer agent fees to CTB between October 1, 1999, and November 30, 2004, or to successors to such Funds, in proportion to the total transfer agent fees paid to CTB by each Fund or class of a Fund (subject to certain adjustments). Further, the Respondents were to have advanced estimated distribution amounts to Funds that were liquidated after the initial submission of the Plan but before the distribution. On August 1, 2006, Smith Barney Fund Management LLC (“SBFM”) was replaced as investment manager or investment adviser with respect to the Funds for which it served in those capacities by Legg Mason Partners Fund Advisor, LLC (“Legg Mason”), a newly formed entity. SBFM continued to serve as administrator to three Funds until October 19, 2006, whereupon it was replaced by Legg Mason as investment manager of those Funds.

Under the Plan, the Respondents were to be reimbursed the amounts advanced to those liquidated Funds, plus interest. After the Commission issued the Order to Disburse, the staff learned that three liquidated Funds had not been advanced the estimated distribution amounts. Specifically, three subsequently liquidated funds, the Legg Mason Partners Capital Preservation II Fund (“Capital Preservation II”), the Legg Mason Partners Variable Government Portfolio (“Variable Government”), and the Legg Mason Partners Variable Equity Index Portfolio

(“Variable Equity Index”), should have received advance payments as described in paragraph 15 of the Plan, but did not.

As a result, Legg Mason proposes to disburse \$600,747.86, which should have been paid to the Capital Preservation II Fund prior to its liquidation, plus interest of \$25,809.10 to the former shareholders of the fund to reimburse them for the fund’s *pro rata* allocation of the Fair Fund. All expenses associated with this disbursement will be paid by Legg Mason. Because the Fair Fund amounts allocated to Variable Government and Variable Equity would have an immaterial impact to the per share Net Asset Value (“NAV”) for those funds, and because of the inefficiencies involved in disbursing such small amounts of money to these shareholders, Legg Mason proposes that the money that should have been advanced to those two funds, plus interest, be returned to the Commission. Pursuant to the Plan, when the final accounting is approved, any remaining residual funds will be transmitted to the U.S. Treasury.

Accordingly, it is ORDERED that the Commission modify the Distribution Plan by directing (i) Legg Mason to arrange for the disbursement of \$626,556.96 from the Fair Fund to former shareholders of the Capital Preservation II Fund; and (ii) the return of the money that would have been used to reimburse Legg Mason had it properly paid the advancements to the Legg Mason Partners Variable Government Portfolio and the Legg Mason Partners Variable Equity Index Portfolio to the Commission for transmittal to the U.S. Treasury upon termination of the Fair Fund.

By the Commission.

Elizabeth M. Murphy
Secretary