

Conference Call Series

The following notes are based on a conference call on February 2, 2010. The call featured insights from Bill Miller of Legg Mason Capital Management.

Market Views

- Miller continues to believe that 2010 will be a very good year for the overall U.S. equity market. He said that things are developing pretty much as expected in the sense that the underlying fundamentals in the market are still very powerful.
- According to Miller, the fourth quarter earnings season has been largely positive, with approximately 80% of the companies thus far surpassing expectations. This is roughly the same percentage as in the third quarter of 2009. In addition, expectations continue to be revised higher and, in many cases--especially in some of the tech names--they are being revised considerably higher.
- Miller said that the Federal Reserve remains extremely accommodative, liquidity is plentiful, and stock valuations get more attractive by the day given better than expected GDP growth.
- It is Miller's belief that the euro is still dramatically overpriced versus the U.S. dollar. He expects to see the U.S. dollar strengthen versus the euro. This should draw dollars into the U.S. equity market, since valuations in the U.S. are still extremely attractive.
- Broadly speaking, Miller said that, thus far in 2010, the areas that were the worst performers during the 2008 collapse and that did not have a strong 2009 are now playing catch-up. He feels this is partially because the economy is getting stronger. At the same time, we're experiencing a rotational correction with some of the strongest performers last year.
- Regardless of their recent weakness, Miller continues to believe that technology stocks are extremely attractive given their valuations and free cash flows. He also pointed out that yields in the sector are among the highest in the market. A stock he highlighted with a compelling valuation was Texas Instruments. Its shares are trading at 11 times next year's earnings, the lowest multiple in a decade or more. Despite its high quality, strong growth and pristine record, IBM is now around ten times next year's earnings.
- Miller said that he was encouraged by the fact that financials, which had it been largely flat since September or October 2009, have begun to "perk up again," especially the smaller financials.

Q&A

Q: What should the market's P/E range be given issues such as the debt level as a percent of GDP, high consumer debt, unfunded mandates, etc.?

A: The assumption is that those types of macro factors will dominate the market and they're somehow going to make a difference in individual share prices. I'd argue that these macro factors are providing investors with an opportunity to buy these businesses at big discounts. That's because people are unreasonably worried about things that won't impact certain companies' share prices.

Q: During a recent interview, you said that one of the major lessons you learned was that you can't rule anything out. How do you now assess different scenarios and the impact they could have on your portfolios?

A: The key thing in terms of risk control is how an unforeseen event, say for example a global pandemic, would impact aggregate demand or aggregate supply. If it's going to have a significant impact then you have to make adjustments for that.

MANAGER INSIGHTS

Q: At the end of 2009, Value Trust had almost 28% in tech stocks, yet Opportunity Trust was just shy of 11%. Could you explain this difference and do you envision any significant adjustments for either portfolio?

A: We don't construct the Value Trust portfolio based on the benchmark, we construct it based on risk adjusted expected rate of return. Opportunity Trust is a go-anywhere fund and it has historically been tilted toward more distressed balance sheets. Tech is where the good balance sheets typically reside, so there's less of a weighting in Opportunity Trust's portfolio. It's important to note that we did pare some of our tech exposure during the fourth quarter into the market's strength. Now, given the selloff, we're seeing some really good buying opportunity in technology. I don't know what Opportunity Trust's tech weighting will eventually be, but we are currently looking at more names in that space.

Q: At the end of 2008, the top ten stocks in Value Trust represented about 48% of its portfolio. At the end of 2009, this had fallen to 41%. Was that deliberate and do you think this trend will continue in 2010?

A: It was a deliberate change. As 2009 progressed, we identified other names that could enhance the risk adjusted rate of return of the portfolio. Given these opportunities, and in an attempt to reduce some of the overall volatility in the portfolio, we pared some of our largest positions. If I had to guess, I'd say the percentage would go down again in 2010, because of where I'm seeing values in the market. There are many names that we don't own yet that could eventually be significant parts of the portfolio.

Q: What are your views on the potential new regulations and taxes in the banking industry?

A: A lot of investors seemed concerned about the financial reforms we're likely to see. I'd say that, aside from the big tax, they won't be problematic for banks at all. And in terms of the tax, it's just going to get passed along like any other tax. I'm encouraged by the way the financials holding up despite all of the bashing we've seen.

Q: Many portfolio managers have been positioning themselves for the "quality trade." What is your definition of quality?

A: If you look at any two competing companies you can probably tell which one's higher quality. That's because one will have a higher market share, a better balance sheet, a higher return on capital, a more stable business model, etc. What we're looking for is comparative quality.

Q: What are your views on future sector rotations in the market?

A: If you look at long stretches in the market, you can see where the leadership has come from. Then you may have a sense of where it's not going and, by default, where it might be going. From a decade perspective, in the 1980s the leaders were largely consumer names. In the 1990s, it was technology companies. In the 2000s, the top performers were energy, then industrials and a few small healthcare names. This year, some of the energy and materials names are struggling. If you're looking for pockets of strength in the overall market, it has been sort of scattered. One potential theme that could emerge is leadership from very high quality names that are trading at extremely low valuations.

Q: Looking at the healthcare space, were do you think valuation anomalies exist? Is it in HMOs, large pharmaceuticals, biotech, instrument producers?

A: They actually exist in most parts of healthcare. The sector was slammed during most of last year given concerns surrounding healthcare reform. As is often the case, the uncertainty is worse than the reality, and that's what we saw in healthcare. Broadly speaking, I think there are opportunities in every area of the healthcare sector.

MANAGER INSIGHTS

Q: Toward the end of last year, you added to a number of high quality names in Value Trust's portfolio. Is this indicative of a larger move towards quality, or was it more stock-specific?

A: I want to be clear on this, it's not a move towards quality per se. Quality is where the value is in the marketplace. If the value were in really low quality names and I could buy them, then I would buy them. The best mix for Value Trust is up the quality spectrum, which is why you saw those names being added to its portfolio. Again, we're not buying quality, we're buying value. And value currently happens to be in the quality names.

AN INVESTOR SHOULD CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES CAREFULLY BEFORE INVESTING. FOR A FREE PROSPECTUS WHICH CONTAINS THIS AND OTHER INFORMATION ON ANY LEGG MASON FUND. VISIT WWW.LEGGMASON.COM/INDIVIDUALINVESTORS. AN

Investment Risks

Investing in mutual funds involve risks, including possible loss of principal.

Legg Mason Capital Management Opportunity Trust

Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The fund may focus its investments in certain regions or industries, increasing its vulnerability to market volatility. As a non diversified fund it is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund which may magnify the fund's losses from events affecting a particular issuer. International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on fund performance. The Manager's investment style may become out of favor and/or the Manager's selection process may prove incorrect; which may have a negative impact on the Fund's performance.

Average annual total returns & fund expenses (%) as of December 31, 2009

	Without sales charges					With maximum sales charges					Expenses (Gross) ¹	Expenses (Net) ²	Inception date
	1-yr	3-yr	5-yr	10-yr	Since inception	1-yr	3-yr	5-yr	10-yr	Since inception			
Class A ³	-	-	-	-	94.68	-	-	-	-	83.43	1.61	1.61	2/3/09
Class C	83.14	-14.63	-5.52	1.99	1.99	82.14	-14.63	-5.52	1.99	1.99	2.36	2.36	12/30/99
Class FI	83.61	-14.12	-4.91	-	-2.41	83.61	-14.12	-4.91	-	-2.41	1.64	1.64	2/13/04
S&P 500 Index	26.46	-5.63	0.42	-0.95	-	26.46	-5.63	0.42	-0.95	-			

Performance shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front-end sales charge of 5.75%. Class C shares have a one-year contingent deferred sales charge (CDSC) of 1.0%. If sales charges were included, performance shown would be lower. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Performance data does not reflect trade date adjustments made to the NAV at month-end. Performance would have been lower if fees had not been waived in various periods. For the most recent month-end information, please visit www.leggmason.com/individualinvestors. Prior to 2/2/09, Class C Shares were known as Primary Shares.

¹ Gross expenses are the Fund's total annual operating expenses for the share class(es) indicated as of the date of the Fund's most current prospectus and do not reflect fee waivers or reimbursements. These expenses include management fees, 12b-1 distribution and service fees and other expenses.

² Because the Fund does not have fee waivers or reimbursements, gross and net expense ratios are the same.

Prior to October 5, 2009, the Fund was known as Legg Mason Value Trust. The Fund's Investment Objective, portfolio managers and investment strategy have not changed. Please see the prospectus for details.

³ Indicated returns are not annualized.

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Legg Mason Capital Management Value Trust

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Average annual total returns & fund expenses (%) as of December 31, 2009

	Without sales charges					With maximum sales charges					Expenses		Inception date
	1-yr	3-yr	5-yr	10-yr	Since inception	1-yr	3-yr	5-yr	10-yr	Since inception	(Gross) ¹	(Net) ²	
Class A ³	—	—	—	—	53.38	—	—	—	—	44.56	1.06	1.06	2/2/09
Class C	40.64	-16.12	-8.03	-3.20	12.04	39.69	-16.12	-8.03	-3.20	12.04	1.72	1.72	4/16/82
Class FI	41.63	-15.57	-7.42	—	-1.44	41.63	-15.57	-7.42	—	-1.44	1.06	1.06	3/23/01
S&P 500 Index	26.46	-5.63	0.42	-0.95	—	26.46	-5.63	0.42	-0.95	—			

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Top Ten Holdings

The top ten holdings of Legg Mason Capital Management Opportunity Trust as of December 31, 2009 were Assured Guaranty Ltd 5.9%, UAL Corp 4.5%, AES Corp 4.3%, XL Capital Ltd 4.2%, Sprint Nextel Corp 4.1%, Level 3 Communications Inc 3.9%, Hartford Financial Svcs Group 3.8%, Bank of America Corp 3.8%, Nii Holdings Inc 3.6%, Citigroup Inc 3.6%

The top ten holdings of Legg Mason Capital Management Value Trust as of December 31, 2009 were AES Corporation 8.3%, Aflac Inc 3.7%, Sears Holdings Corp 3.6%, Aetna Inc 3.4%, eBay Inc 3.3%, IBM Corp 3.2%, Hewlett-Packard Co 3.1%, CA Inc 3.1%, Capital One Financial Corp 3.0%, Cisco Systems Inc 3.0%

Top Five Sectors

The top five sectors of Legg Mason Capital Management Opportunity Trust as of December 31, 2009 were Financials 41.2%, Consumer Discretionary 17.9%, Telecommunication Services 12.5%, Industrials 10.9%, Information Technology 10.3%

The top five sectors of Legg Mason Capital Management Value Trust as of December 31, 2009 were Information Technology 28.1%, Financials 26.1%, Consumer Discretionary 16.2%, Health Care 10.4%, Utilities 8.3%

The views expressed are those of the portfolio managers as of February 2, 2010 and are subject to change based on market and other conditions. These views may differ from other portfolio managers or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. The mention of any individual securities or sectors should neither constitute nor be construed as a recommendation to purchase or sell such securities, and the information provided regarding such individual securities is not a sufficient basis upon which to make an investment decision.

The information provided is intended solely to describe the managers' management style, investment strategies and securities selection process, and does not have regard to specific investment objectives, financial situation and particular needs of any specific person who may receive it. The information provided does not constitute, and should not be construed as, an offer or solicitation with respect to any securities, products or services mentioned or discussed.

Past performance is no guarantee of future results. Any statistics have been obtained from sources the portfolio managers believed to be reliable, but the accuracy and completeness of the information cannot be guaranteed. All investments involve risk, including possible loss of principal. Dividends represent past performance, and there is no guarantee that dividend payments will continue. Diversification does not assure a profit or protect against market loss.

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Definitions

The Federal Reserve Board ("Fed") is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

Gross Domestic Product ("GDP") is the market value of all final goods and services produced within a country in a given period of time.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Please note an investor cannot invest directly in an index.