

Legg Mason ClearBridge Equity Income Builder Fund

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Market overview and outlook

Sometimes, the simplest things are the best things to do. As managers of assets for investors, we try to balance risk and potential rewards. Given the very low interest rates available, we have tilted toward stocks as the best asset category available. For several years, in our commentaries, we have emphasized the absolute and relative values available in high-quality stocks. Of particular note are those with a history of dividend payments, or the ability to pay a rising stream of dividends.

By high quality we mean strong balance sheets, excess free cash flow, and business models that could maintain leadership positions in their respective industries.

That theme has continued to play out as we had hoped, for the right reasons. The long and painful bear market of 2000 through 2008 left stocks at levels that had already discounted worst-case scenarios, and with earnings yields that, in our opinion, kept the downside limited. For the first time since the mid-1950s, many high-quality stocks offered up-front dividend yields that were higher than interest rates available on high-quality bonds. One of the most striking features of this quarter has been the number and size of dividend increases by cash-rich companies. There is a growing awareness of the need to reward shareholders. Payout ratios of after-tax profits remain well below historical levels, and this, combined with massive corporate liquidity, implies continued strong dividend growth.

While the media seems to have caught on to our dividend story, evidence points to continued caution, if not outright fear, of stock ownership. In our year-end commentary we proposed the thesis that it was the enormous volatility of stocks, rather than actual losses, which was keeping a generation of investors on the sidelines.

With the economy showing some minor signs of improvement, we still look to the Federal Reserve for clues about their intentions. Chairman Bernanke has recently restated his concerns about tightening money, or removing fiscal stimulus too early in what remains the most treacherous economy since the 1930s. The intent

Average annual total returns and fund expenses – Class A (%) as of March 31, 2012

	3-mo	1-yr	5-yr	10-yr	Since incept. (11/6/92)	Gross*	Net**
Excluding sales charges	8.39	10.75	1.91	5.75	7.94	1.30	1.15
Including effects of maximum sales charges	2.16	4.38	0.71	5.13	7.62		
Russell 3000 Value Index	11.16	4.30	-0.75	4.73	N/A		

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%. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived and/or reimbursed in various periods. Returns for less than one year are cumulative. For the most recent month-end information, please visit www.leggmason.com/individualinvestors.

*Gross expenses are the Fund's total annual operating expenses for the share class(es) shown in the Fund's most current prospectus.

**Net expenses are the Fund's total annual operating expenses (after waiving fees and/or reimbursing expenses pursuant to expense limitation arrangements) for the share class(es) shown in the Fund's most current prospectus. These expense limitation arrangements may not be terminated prior to December 31, 2013 without the Board's consent and are subject to future recapture by the investment manager. Please see the prospectus for more details on fees, expenses and expense limitation arrangements, if any. In periods of market volatility, assets may decline significantly, causing total annual fund operating expenses to become higher than the numbers shown in the table above.

The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.) The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market. Please note that an investor cannot invest directly in an index.

of the Fed to keep rates exceptionally low for another two years continues to promote the need for savers, pension funds, and endowments to own equities. While the rally over the past six months has taken the S&P 500 Index from 11 times earnings to 14 times estimated earnings for 2012, stocks are still not particularly expensive.

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In our year-end commentary we suggested that for the market to break out of its doldrums, certain things needed to happen. First, volatility needed to abate, and it has. Second, a U.S.-type solution to the European banking crisis had to have been started, as it has. While we still harbor strong doubts about European economies showing growth, at least the financial collapse seems to have been averted. Finally, housing in this country, the main drag on any longer-term outlook, has begun to show signs of bottoming. Sadly, the stabilization in housing is not due to a reinvigorated consumer, as unemployment remains stubbornly high and peoples' pocketbooks remain stretched. Rather, a lot of inventory is getting absorbed by investors who intend to own and rent out the very cheap homes.

As we pointed out in our last commentary, domestic energy has become the biggest engine for job growth. Articles are starting to appear about eventual energy independence. Now, if we can just get through what promises to be a contentious election period, the president and Congress could get down to solving some long-term issues.

In the meantime, we continue to focus on balancing risk and opportunities.

Fund highlights

For the quarter ended March 31, 2012, the Legg Mason ClearBridge Equity Income Builder Fund — Class A Shares had a cumulative return of 8.39%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell 3000 Value Index, gained 11.16% and the Lipper Equity Income Funds category average rose 8.77% for the same period.¹

During the first quarter, in terms of absolute returns, all 10 industry sectors in the Fund's portfolio showed positive performance. The greatest contributions to returns came from the information technology (IT), financials and consumer discretionary sectors, while the smallest came from the health care, telecommunication services and utilities sectors.

Relative to the benchmark Russell 3000 Value Index, significant contributors to performance for the quarter included stock selection in the IT and utilities sectors, along with an underweight to the health care sector and an overweight to the IT sector. However, these were offset by the negative impact of stock selection in the financials and health care sectors, as well as the impact of an

underweight to the financials sector and overweights in the utilities and consumer staples sectors. The Fund's cash holdings also detracted from relative performance for the period.

Over the course of the quarter, we established new positions in a number of companies, including those in Target Corp., in the consumer discretionary sector, Broadcom Corp. and Texas Instruments Inc., both in the IT sector, as well as in Wisconsin Energy Corp., in the utilities sector.

We also closed a number of our existing positions, including those in United Technologies Corp., in the industrials sector, Whirlpool Corp., in the consumer discretionary sector, as well as in Oracle Corp., Microchip Technology Inc. and Google Inc., all in the IT sector.

Top contributors

The leading individual contributors to Fund performance for the first quarter included:

Apple Inc., in the IT sector, produces and markets a broad range of electronic devices, including personal and tablet computers, mobile phones and media devices, along with related software, services and equipment, third-party content and applications. Apple's ability to launch revolutionary new products in huge volumes and create new categories has defined its success. The stock performed well in the quarter due to continued strong financial performance by the company and investor enthusiasm for Apple's initiation of a dividend.

JPMorgan Chase & Co., in the financials sector, is one of the largest global financial services providers, serving individual, corporate, institutional and government clients. JP Morgan Chase shares benefitted from the broader market's rotation back into financials sector stocks during the first quarter, as concerns over Europe subsided during the period and investors started to look past the financial crisis. We believe that while the economic outlook remains uncertain, JPMorgan Chase is well capitalized and well positioned in the marketplace for long-term success.

Microsoft Corp., in the IT sector, is a leading global supplier of computer software. Microsoft shares entered the year at a low valuation level, reflecting investor pessimism about the long-term sustainability of its Windows and Office franchises and its ability going forward to compete against Apple and Google on the increasingly important mobile platforms. We believed, and continue to believe, that the magnitude of such pessimism is overdone.

¹ Lipper Inc. Past performance is no guarantee of future results. Lipper returns are based on the three-month period ended March 31, 2012, and they are calculated among 327 funds in the Lipper Equity Income peer group, including reinvestment of dividends and capital gains, if any, and excluding sales charges.

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Comcast Corp., in the consumer discretionary sector, offers consumer entertainment, information and communication products and services, including cable TV systems, Internet and phone services, and consolidated national programming networks. We believe that, entering the year, Comcast shares were weighed down by excessive concern about the long-term sustainability of cable television due to competition from newer services like Netflix. We believed such concern was overdone, as cable has proved to be highly durable and cable companies have continued to grow through the rollout of high-speed data, voice and now communications services for small and medium-size businesses. During the quarter Comcast shares performed well, reacting to strong earnings and a definitive plan to return cash to shareholders through buybacks and dividends.

Anheuser-Busch InBev N.V. ADS, in the consumer staples sector, is a brewing company with a global portfolio of approximately 200 beer brands and sizable market positions in some of the most profitable beer markets in the world, including the U.S., Canada, Mexico and Brazil. The shares performed well due to continued strong financial performance by the company and the announcement of a 50% increase in the annual dividend.

Bottom contributors

The bottom individual contributors to Fund performance for the first quarter included:

Google Inc. is an IT sector company that has expanded from its original search Web site into advertising, Web applications and mobile devices. Google remains a leader in both search and display advertising. Google shares underperformed in the quarter due to investor disappointment with fourth-quarter 2011 earnings. We exited the position in the first quarter.

UGI Corp., in the utilities sector, distributes and markets energy products and related services both domestically and internationally. UGI shares performed poorly in the quarter as the exceptionally warm winter weighed on the financial performance of its U.S. propane business and Pennsylvania Natural Gas utility.

Bristol-Myers Squibb Co., in the health care sector, is a global pharmaceutical company. We continue to believe the company has an underappreciated pipeline of products in development and a good record of success in getting drugs across the finish line. Following a strong performance in the fourth quarter, we believe the shares lagged as investors favored more economically sensitive stocks in anticipation of an improving economy. We maintain our outlook and position.

American Electric Power, in the utilities sector, operates a range of electrical generation and distribution assets in several regions of

the U.S. Utilities overall lagged in the quarter as investors favored more economically levered, less defensive stocks. American Electric Power shares were also negatively impacted by regulatory developments in its territory.

Verizon Communications Inc., in the telecommunication service sector, is one of the world's leading providers of telecom services. Following a series of divestitures of traditional wireline assets, the company's business is now focused on the wireless market, its FiOS fiber-optic services, and enterprise services. After a solid performance in 2011, we feel Verizon shares took a breather in the first quarter as investors favored more cyclical, less defensive companies. Given Verizon's business mix, we think it is well positioned for the long term and we continue to like the shares.

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What should I know before investing?

Equity securities are subject to price fluctuation and possible loss of principal. Real estate investment trusts (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest-rate risks, and risks associated with small- and mid-cap investments. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. Short selling is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets.

Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Dividends are not guaranteed, and a company may reduce or eliminate its dividend at any time.

Investments in fixed-income securities involve risk, including possible loss of principal. These securities are subject to interest-rate, credit, inflation and reinvestment risk. As interest rates rise, the value of fixed-income securities falls. Additional risks may include those risks associated with investing in high-yield securities. Please see the prospectus for more information.

Top 10 holdings	(%)
Exxon Mobil Corp.	3.2
Microsoft Corp.	3.2
Apple Inc.	3.0
Procter & Gamble Co.	2.8
H.J. Heinz Co.	2.4
Waste Management Inc.	2.4
Anheuser-Busch Inbev S Sponsored Adr	2.2
Bristol-Myers Squibb Co.	2.2
Chevron Corp.	2.1
Wal-Mart Stores Inc.	2.1
Top five sectors	
Financials	14.1
Information Technology	12.9
Consumer Staples	11.5
Industrials	11.4
Utilities	9.8

Percentages are based on total portfolio as of quarter end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

The views expressed are those of the portfolio managers as of the date indicated, are subject to change, and may differ from the views of other portfolio managers or the firm as a whole. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. All data referenced are from sources deemed to be reliable but cannot be guaranteed. Discussion of individual securities is intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. References to specific securities are not intended and should not be relied upon as the basis for anyone to buy, sell or hold any security. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional. Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time. Dividends and yields fluctuate and are subject to change. Yields and dividends represent past performance and there is no guarantee they will continue to be paid.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, which is available at www.leggmason.com/individualinvestors. Please read it carefully.

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