

ClearBridge

Dividend Strategy Portfolios

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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 seem 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 that 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 its 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 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.

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.

ClearBridge Dividend Strategy Portfolios

Dividend Strategy Portfolios - Retail

Annualized returns net and gross of fees
(%) as of March 31, 2012

	Q112	YTD	1-yr	3-yr	5-yr	7-yr
Net of fees	6.14	6.14	8.92	17.79	2.39	3.41
"Pure" gross of fees	6.92	6.92	12.16	21.27	5.46	6.51
S&P 500 Index	12.59	12.59	8.54	23.42	2.01	4.71

Quarterly and YTD numbers are not annualized. **Past performance is no guarantee of future results.** Please see the GIPS® endnotes for important additional information regarding the portfolio performance and for effects of fees. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs. Fees: Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 3.0% annual wrap fee, which is the maximum anticipated wrap fee for equity and balanced portfolios. Actual fees may vary. For fee schedules, contact your financial professional, or if you may enter into an agreement directly with LMPPG, refer to LMPPG's Form ADV disclosure document.

Portfolios' highlights

In light of the first quarter's record advance for the benchmark S&P 500 Index – its best first-quarter performance since 1998 – the ClearBridge Dividend Strategy Portfolios produced a solid return of 6.92% (gross of fees) for the quarter, but still underperformed the benchmark's remarkably strong 12.59% return for the same period. Over the longer term, the Portfolios have outperformed the benchmark for the 1-, 5- and 7-year periods.

For the first quarter, stock selection in the materials sector significantly contributed to relative performance. In terms of individual stocks, leading contributors to performance included positions in Microsoft Corp., in the information technology (IT) sector, Comcast Corp. and Home Depot Inc., in the consumer discretionary sector, and International Paper Co. and DuPont Co., both in the materials sector.

Relative to the benchmark, significant detractors from first-quarter performance included stock selection in the financials, IT, consumer staples, health care, consumer discretionary and industrials sectors. As for allocation, detractors included underweights in the IT and financials sectors and overweights in the telecommunication services (telecom), utilities and consumer staples sectors. In terms of individual holdings, leading detractors from performance included positions in Verizon Communications Inc., in the telecom sector, Bristol-Myers Squibb Co., in the health care sector, American Electric Power Co. Inc., in the utilities sector, McDonalds Corp., in the consumer discretionary sector, and General Mills Inc., in the consumer staples sector.

Over the course of the first quarter, new portfolio positions were established in Eaton Corp., in the industrials sector, Nestle S.A., in the consumer staples sector, and Target Corp., in the consumer discretionary sector, while existing positions in United Technologies Corp., in the industrials sector, McDonald's Corp., in the consumer discretionary sector, and Qualcomm Inc., in the IT sector, were closed.

ClearBridge Dividend Strategy Portfolios

Top contributors¹

Top contributors	Contribution to equity return %
Microsoft Corp	0.74
Comcast Corp	0.58
International Paper Co	0.55
DuPont Co	0.52
Home Depot Inc	0.40

Source: Vestek.

In terms of individual stocks, the top contributors to Portfolio performance for the first quarter included:

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.

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 business. During the quarter Comcast shares performed well, reacting to strong earnings and a definitive plan to return cash to shareholders through buybacks and dividends.

International Paper Co., in the materials sector, is a global producer of paper and packaging products. The stock bounced back materially in the quarter after selling off in the back half of 2011 and the closing of the Temple Inland acquisition in February 2012.

DuPont Co., in the materials sector, is a diversified chemical company with divisions focused on agriculture, manufacturing, electronics, automotive coatings, polymers, safety, nutrition, pharmaceuticals, and several other areas. The shares gained in the first quarter thanks to continued strong earnings stemming from improvements in automotive sector sales and other areas of the global economy.

Home Depot Inc., in the consumer discretionary sector, operates home improvement retail stores and offers related services and materials to both do-it-yourself and professional customers. Home Depot continued to execute its strategy with a high degree of success. Over the years the company has changed its strategy from a focus on growing its square footage to improving its returns. Home Depot's solid execution and improving profitability has occurred against a backdrop of continued weakness in residential investment, which makes us bullish on Home Depot's potential.

¹ Holdings, sector weightings, market capitalization and portfolio characteristics are based on a representative portfolio within the composite and are subject to change at any time. Holdings, sector weightings, market capitalization and portfolio characteristics of individual client portfolios in the program may differ, sometimes significantly, from those shown. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors and securities listed and should not be used as the sole basis for any investment decision. **Past performance is no guarantee of future results.**

ClearBridge Dividend Strategy Portfolios

Bottom contributors²

Bottom contributors	Contribution to equity return %
Verizon Communications Inc	-0.11
Bristol-Myers Squibb Co	-0.11
American Electric Power	-0.06
McDonald's Corp	-0.03
General Mills Inc	-0.02

Source: Vestek.

The bottom contributors to Portfolio performance for the first quarter included:

Verizon Communications Inc. is a telecommunication services sector company with domestic wireline and wireless operations. In our view, Verizon continued to perform well during the quarter, but the shares lagged behind the very strong move up for the broad market because the company is considered a more conservative, yield-oriented investment with a strong dividend profile. We continue to believe that Verizon is attractive at current valuations.

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.

McDonald's Corp., in the consumer discretionary sector, is the largest restaurant franchise in the world. After a phenomenal

rise in 2011 (and indeed since 2003), McDonald's shares took a breather in the quarter. While we continue to believe McDonald's is an excellent company, we believe its merits are pretty fully reflected in its share price. Consequently, we exited the position during the quarter.

General Mills Inc., in the consumer staples sector, is a global producer of foods sold through retail stores, and in the food service and commercial baking industries. After a strong performance in 2011, General Mills shares lagged in the quarter as investors favored more cyclical, less defensive names.

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ClearBridge Dividend Strategy Portfolios

Market capitalization³

Market cap breakdown (\$)	Portfolio weight	Benchmark weight
Above 50 billion	51.71	51.82
25-50 billion	19.58	18.30
10-25 billion	25.72	20.46
3-10 billion	2.99	9.14
0-3 billion	0.00	0.29
Weighted average market cap (\$bil)	97.15	110.21

Top 10 holdings³

Top 10 holdings	Percent of Equity
Exxon Mobil Corp.	4.42
AT&T Inc.	4.34
Procter & Gamble Co.	3.58
Automatic Data Processing Inc.	3.45
E.I. du Pont de Nemours & Co.	3.43
Microsoft Corp.	3.43
Travelers Cos. Inc.	3.29
Kimberly-Clark Corp.	3.25
Waste Management Inc.	3.24
NextEra Energy Inc.	3.11
Total number of holdings	46

Source: Vestek.

Sector highlights³

Average sector weightings and performance (gross of fees) from 12/31/11 – 3/31/12 (%)

Sector	Port. weight	Port. return	Benchmark* weight	Benchmark* return	Weight diff.	Active contrib.
Materials	9.28	16.59	3.60	11.19	5.68	0.417
Energy	11.23	2.75	11.99	3.87	-0.76	-0.094
Consumer Discretionary	11.79	14.11	10.83	15.96	0.96	-0.170
Industrials	12.93	10.15	10.82	11.31	2.11	-0.191
Utilities	5.70	0.13	3.52	-1.61	2.18	-0.207
Health Care	8.69	2.58	11.52	9.06	-2.83	-0.491
Telecomm Service	7.32	1.31	2.84	2.67	4.48	-0.552
Consumer Staples	15.59	1.26	10.90	5.54	4.70	-0.994
Information Technology	11.08	14.41	19.77	21.46	-8.69	-1.443
Financials	6.38	7.80	14.21	22.09	-7.83	-1.575

*Benchmark: S&P 500 Index.

Source: Vestek.

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ClearBridge Dividend Strategy Portfolios

Important information

All opinions and data included in this market commentary are as of the date indicated and are subject to change. The opinions and views expressed herein are those of the portfolio managers specified and may differ from those of other managers or the firm as a whole, and they are not intended to be relied upon as a prediction or forecast of actual future events or performance, or a guarantee of future results, or investment advice. 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. The information contained should not be used as the sole basis to make any investment decisions. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Securities referenced should not be construed as a solicitation or recommendation or be used as the sole basis for any investment decision.

Please refer to www.leggmason.com/individualinvestors for more information about the Portfolio, including objective, risks and investment process. The information presented does not constitute and should not be construed as investment advice with respect to any investment discussed. There is no guarantee that investment objectives will be met. An investor cannot invest directly in an index. Investments are not FDIC insured or guaranteed by any government agency. Values may fluctuate due to market conditions and other factors.

Past performance is no guarantee of future results.

This presentation is to report on the investment strategies as reported by ClearBridge Advisors and is for illustrative purposes only. The information contained herein is obtained from multiple sources and is believed to be reliable.

Risks

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met.

Investments may be made in small- and mid-cap companies, which involve a higher degree of risk and volatility than investments in large-cap companies.

Investments may also be made in ADRs and other securities of non-U.S. companies in developed and emerging markets, which involve risks in addition to those ordinarily associated with investing in domestic securities, including the potentially

negative effects of currency fluctuation, political and economic developments, foreign taxation and differences in auditing and other financial standards. These risks are magnified in emerging markets.

Limited investments also may be made in non-dividend-paying stocks that are not expected to pay a dividend in the near future. The manager may hold significant portions of portfolio assets in cash equivalents while waiting for buying opportunities.

Dividends and yields represent past performance, and there is no assurance they will continue to be paid in the future.

Index/term definitions

The S&P 500 Index is a capitalization-weighted, composite index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Portfolio composition typically varies from that of the above-noted, unmanaged index.

Professional money management may not be suitable for all investors.

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Client portfolios are managed based on investment instructions or advice provided by one or more of the following Legg Mason-affiliated investment management firms, as indicated in portfolio names or otherwise: ClearBridge Advisors, LLC, Western Asset Management Company, and Global Currents Investment Management. Management is implemented by Legg Mason Private Portfolio Group, LLC or, in the case of certain programs, by the program sponsor or its designee.

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ClearBridge Dividend Strategy Portfolios – Retail – GIPS® endnotes (\$USD) — ending December 31

Inception date: January 2006

Composite creation date: June 2008

Period	Total Return Net (%)	Total return (*pure gross) (%)	S&P 500 Index return (%)	No. of portfolios	% of bundled fee portfolios in the composite	Composite dispersion (%)	Total composite assets at end of period (USD million)	% of firm assets	Total firm assets at end of period (USD million)
2010	9.09	12.34	15.06	4,260	100	0.75	718.9	1.30	55,361
2009	15.07	18.49	26.46	4,358	100	0.96	652.8	1.22	53,523
2008	-24.32	-21.99	-37.00	4,666	100	1.07	586.3	1.16	50,615
2007	2.75	5.83	5.49	5,713	100	0.64	862.5	1.83	47,112
2006	14.17	17.55	15.79	6,056	100	0.62	900.3	1.66	54,078
2005	-0.43	2.55	4.91	7,187	100	0.39	n/a	n/a	n/a
2004	6.93	10.12	10.88	5,369	100	0.81	n/a	n/a	n/a
Jun 2003 - Dec 2003	7.01	8.85	16.62	1,926	100	n/m	n/a	n/a	n/a

n/m - Equal-weighted standard deviation is not meaningful because the composite consisted of fewer than five portfolios throughout the period presented or the time period is less than one year.

*Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs, and are presented as supplemental to the net of fee returns.

ClearBridge Advisors (also referred to as "CBA") has prepared and presented this report in compliance with the Global Investment Performance Standards ("GIPS®").

For purposes of compliance with GIPS, the "firm" is defined as ClearBridge Advisors, which encompasses all assets managed or advised on a discretionary or non-discretionary basis by ClearBridge Advisors, LLC and ClearBridge Asset Management Inc (collectively, "ClearBridge Advisors"). In June 2008, ClearBridge Advisors combined its separate institutional and retail firms to form a single GIPS firm, CBA. The two predecessor firms were "ClearBridge Advisors Institutional" and "ClearBridge Advisors Retail". ClearBridge Advisors Institutional ("CBA-Inst") encompassed ClearBridge Advisors' mutual fund and other collective investment vehicle businesses and separately managed accounts contracted directly with ClearBridge Advisors. ClearBridge Advisors Retail ("CBA-Retail") was created in 2008 and encompassed separately managed accounts for which ClearBridge Advisors served as sub-advisor under sponsored programs ("retail separately managed accounts"). CBA-Retail's claim of GIPS compliance is effective as of January 2006. In accordance with GIPS, CBA-Retail's historical performance returns prior to January 2006 are presented as non-compliant information. The ClearBridge Advisors entities are wholly-owned subsidiaries of Legg Mason, Inc. ("Legg Mason") and are not affiliated with Citigroup Inc. ("Citigroup").

For the institutional business only, CBA-Inst's predecessor "firm" for GIPS purposes was CAM Institutional ("CAM-NA"). CAM-NA encompassed assets managed by North America-based units of Citigroup Asset Management ("CAM"), the worldwide asset management business of Citigroup that was conducted through various subsidiaries of Citigroup on behalf of certain of its institutional, mutual fund and other collective investment vehicle clients. The CAM-NA "firm" definition was substantially similar to the "firm" definition of CBA-Inst. On December 1, 2005, Citigroup completed the sale of CAM, including CAM-NA, to Legg Mason. In connection with the transaction, ClearBridge Advisors became the manager of a significant portion of the institutional, mutual fund and other collective investment vehicle accounts, including most active equity accounts that were managed by CAM-NA up until the date of the Citigroup-Legg Mason transaction. Assets that were not transitioned to ClearBridge Advisors in connection with the transaction transitioned to other Legg Mason affiliates that were not part of CBA-Inst. Prior to January 2001, CAM maintained three separate AIMR (the predecessor to GIPS) firms. These firms were combined to form CAM-NA effective January 2001.

For the retail separately managed account business only, the performance returns prior to January 2006 represent a composite of accounts from a formerly-affiliated sponsor channel, which historically represented an overwhelming majority of the strategy's retail assets under management. The aforementioned composite returns were calculated on an equal weighted basis, where each portfolio contributed an equal weight to the resulting composite return for the period. As such and in accordance with GIPS, the historical performance returns prior to January 2006 are presented as non-compliant information. Total firm assets for years ending 2006 and 2007 represent the CBA-Retail firm.

Composite Description:

The ClearBridge Dividend Strategy composite consists of fully discretionary accounts with a minimum net asset value of US \$25,000 (prior to June 2008, the minimum was \$5,000). "Sleeves" of multi-style portfolios and segments of balanced accounts are excluded. Accounts within the composite are primarily invested in large and mid cap U.S. equities across a wide variety of industries and sectors but could also include ADR's. The portfolio managers seek dividend income, growth of dividend income and long-term capital appreciation. Managers may sometimes hold significant portions of portfolio assets in cash equivalents while waiting for buying opportunities.

New accounts enter the composite during the third full month under management. Accounts with external cash flows during a month that are equal to or greater than 10% of an account's market value will cause that account to be excluded from the composite during the month in which the flows occurred. Accounts will be added back to the composite in the following month. Closed accounts are included in the composite rate of return calculations through the completion of the last full month under management. All accounts are valued at calendar month end based on principal market values plus cash and cash accrued income. Account returns are calculated in U.S dollars and utilize the Daily Time Weighted methodology. The composite's monthly rates of return are the asset-weighted averages of the accounts' monthly results, which are then linked to determine the composite's annual returns.

Net of fee composite returns are calculated by reducing each monthly composite pure gross rate of return by the highest "bundled" fee charged (3.00%) annually, prorated to a monthly ratio. The "bundled" fee includes transaction costs, investment management, custodial, and other administrative fees. Pure gross returns shown do not reflect the deduction of "bundled" fees and are presented as supplemental information to net returns. Account annual returns are calculated by linking individual monthly returns.

Composite dispersion measures represent the consistency of a firm's composite performance results with respect to the individual account returns within a composite. CBA utilizes the Equal-Weighted Standard Deviation measure of dispersion. Only accounts that have been managed within the composite style for a full year are included in the Equal-Weighted Standard Deviation calculation.

No alteration of composites has occurred because of changes in personnel or other reasons at any time. Any material change in the status of an account resulted in the removal of the account from the composite.

Leverage has not been used in any of the accounts included in the composite.

A complete list and description of all composites maintained is available upon request. Additional information regarding policies for calculating and reporting returns is available upon request.

Past performance is not necessarily indicative of future results.

Benchmark Description:

The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The index covers industrial, utility, transportation, and financial companies of the U.S. markets (mostly NYSE issues). The index represents about 75% of NYSE market capitalization and 30% of NYSE issues. It is a capitalization-weighted index (stock price times number of shares outstanding), calculated on a total return basis with dividends reinvested.