

ClearBridge Appreciation Portfolios

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Market overview

A year – no, make that two years – to remember.

After collapsing in 2008, the U.S. equity market finished 2009 with its third straight quarterly advance as the S&P 500 Index (S&P 500) gained nearly 6% in the fourth quarter and 23% for all of 2009, its best year since 2003 and a tremendous turnaround from the previous year's 37% loss. The market's recovery since the lows of the past spring was remarkable, with the S&P 500 gaining 65% from its 12-year low on March 9 through the end of the year. We will gladly accept the recovery in the stock market since March of this past year. We also express our appreciation to Ben Bernanke and his partners at the Federal Reserve, who understood the risk to the entire financial system in late 2008 and early 2009, and acted to prevent a worldwide calamity by flooding the financial system with money. But forgive us for continuing to believe that Wall Street's recovery and optimism is neither felt nor shared by Main Street.

Appreciation Portfolios – Retail

Annualized returns net and gross of fees (%) as of December 31, 2009

	Q409	YTD	1-yr	3-yr	5-yr
Net of fees	5.43	18.00	18.00	-3.18	0.93
"Pure" gross of fees	6.20	21.50	21.50	-0.27	3.96
S&P 500 Index	6.04	26.46	26.46	-5.63	0.42

Quarterly and YTD numbers are not annualized. Please see the GIPS® Endnotes at the end of this document for important additional information. **Past performance is no guarantee of future results.**

Portfolio highlights

The ClearBridge Appreciation Portfolios returned 6.20% (gross of fees) for the fourth quarter. In comparison, the benchmark S&P 500 Index returned 6.04% for the same period. The Portfolios had investments in all 10 economic sectors during the quarter and produced positive absolute returns in nine of them, with the greatest returns coming in the consumer discretionary, utilities, information technology (IT) and industrials sectors and the only negative returns seen in the financials sector.

Relative to the benchmark S&P 500 Index, both overall stock selection and overall sector allocation contributed positively to Portfolio performance for the quarter. In particular, stock selection in the industrials, consumer staples, consumer discretionary and financials sectors helped performance while it hurt relative performance in the health care, IT and materials sectors. In terms of allocation, the Portfolio's underweight to financials helped relative performance while its underweight to the consumer discretionary sector hurt it.

Top contributors

Top contributors	Contribution to equity return %
Microsoft Corp	0.93
United Technologies Co	0.62
Waste Management Inc	0.48
3M Co	0.45
Walt Disney Co	0.44

Source: Vestek.

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

Microsoft Corp., in the IT sector, is the leading global supplier of computer software. Microsoft's shares performed well in the fourth quarter, reflecting the successful launch of a new product cycle, led by the Windows 7 operating system, which also provided a lift to the company's growth prospects. The company's new Internet search engine, Bing, was also well received, and it took market share from second-place Yahoo! Inc.

United Technologies Corp., in the industrials sector, is a provider of products and services to the building systems and aerospace industries through several operating segments. The company's shares performed well in the fourth quarter as investors embraced industrial sector companies in general and companies with significant exposure to the China and other emerging markets in particular. We believe United Technologies remains a best-in-class company with a strong outlook and an attractive valuation.

Waste Management Inc., in the industrials sector, provides of integrated waste services including collection, transfer, recycling, disposal and waste-to-energy services for commercial, industrial, municipal and residential customers. Waste Management shares benefited during the quarter from the company's continued improvement in pricing and the expectation of demand to improve as the economic recovery firms. As a reflection of the company's strong cash flow, it raised its dividend substantially during the quarter. This, coupled with an attractive valuation, also provided a lift of the share price during the quarter. We made no meaningful change to our position size, and it continues to be a significant holding.

3M Co. is a diversified technology company in the industrials sector, with global operations in several divisions, including industrial and transportation; healthcare, safety, security and protection services; consumer and office; display and graphics; and electronics and communications. The company benefited from strong reported and projected earnings, as its short-cycle businesses performed well and margins were better than expected during the quarter. 3M also benefited from significant emerging markets exposure during the period.

Walt Disney Co. is a global entertainment company in the consumer discretionary sector that operates in several segments: Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products, and Interactive Media Group. Disney was a beneficiary in the fourth quarter of the

economic recovery. Theme park attendance continued to be strong and its cable networks saw a boost in advertising revenues. In the second half of 2009, Disney announced plans for the acquisition of Marvel Entertainment; a transaction that we feel furthers Disney's disciplined approach to high-quality content acquisitions. In our opinion, Disney remains one of the great global brands in entertainment, and our outlook for the company remains constructive.

Bottom contributors

Bottom contributors	Contribution to equity return %
Amgen Inc	-0.18
General Electric Co	-0.17
Encana Corp	-0.09
Wells Fargo & Co	-0.08
Forest City Enterprise	-0.06

Source: Vestek.

The bottom contributors to Portfolio performance for the quarter included:

Amgen Inc. is a biotechnology company in the health care sector that focuses on developing therapies for use in oncology, endocrinology, hematology, neurobiology, and the treatment of infectious diseases, arthritis and inflammation. We believe that continued pressure on Amgen's franchise of treatments for anemia will be offset by cost cuts and new products in its pipeline, such as Denosumab, its treatment for osteoporosis and cancer-related bone loss. The market reacted negatively to disappointing results of a clinical trial for Denosumab, but we believe Amgen's significant balance sheet and R&D effort should allow the company to grow both organically and via acquisition.

General Electric Co. is a diversified technology, media and financial services company in the industrials sector, offering products and services including aircraft engines, power generation, water processing, business and consumer financing, and media content. GE had seen demand in its longer-cycle industrial businesses come under pressure as the global economy weakened, while the ongoing credit squeeze has reduced valuations within the company's GE Capital unit and impeded its access to funding. We believe GE has taken appropriate actions to reduce the level of risk in its portfolio. In the prior quarter, GE shares rebounded significantly as credit pressures abated and orders in the company's long-cycle businesses appeared to have stabilized, but they languished in the fourth quarter along with shares in most of the financials

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sector. On a “sum of its parts” basis, we continue to see unrealized value in the company’s core franchises.

EnCana Corp., in the energy sector, split into two focused energy companies during the fourth quarter: Cenovus Energy Inc., an integrated oil company; and EnCana Corporation, a pure-play natural gas company – both stocks detracted from Portfolio performance for the quarter. Prior to the split, Encana earnings (announced in the fourth quarter) fell below consensus estimates, pressuring the shares, along with negative market conditions for energy companies in general and natural gas producers in particular.

Wells Fargo & Co. is a diversified financial services company providing retail, commercial and corporate banking and other services. The entire sector in general, and large banks in particular, had led the stock market with strong gains in the rally off the market bottom of last March, but were down broadly in the fourth quarter as the market rotated into other industries.

Forest City Enterprises Inc. (Class A), in the financials sector, is an owner, developer and manager of primarily commercial real estate (CRE) properties in the U.S. During the fourth quarter, Forest City gave back some of the gains it made in the prior quarter as investors’ worries about CRE re-emerged amid significant capital raisings by financial institutions. In our view, the quarter saw no real change in Forest City’s fundamentals and it continues to be financially sound (following its capital raising earlier in the year), with an attractive portfolio of CRE assets.

Outlook

It seems to us that the outlook for 2010 depends on whether the domestic economy can at least partially fulfill the hopes that the stock market anticipates. The government’s massive money printing and deficit spending apparently have stopped the economic free-fall. Certain industrial production statistics and leading indicators suggest that the worst of the “Great Recession” is behind us.

We wonder, though, what the underlying economic vitality will be when government stimulus is removed. We suspect that the Federal Reserve feels similarly, as each month, in speech after speech, representatives of the Fed talk about keeping short-term interest rates at very low (near zero) levels for an extended period of time. In our opinion, housing remains weak, supported by extraordinary tax credits to buyers and by the sale of distressed properties. The U.S. consumer remains under the strain of credit card and past mortgage debts; retail

sales reflect the lack of wherewithal to spend as in the past. We have written in recent letters about the likelihood of permanent changes in consumer behavior, and that has shown up in the return of the U.S. savings rate from zero levels. “Cash for Clunkers” and “cash for caulkers” might make sense as part of a recovery effort. The ranks of the unemployed and underemployed, however, cast a long shadow over an economy that struggles despite policy measures never dreamed of in our lifetimes.

In our opinion, the financial infusions into banks, insurers and other agencies, while helping to avoid a meltdown, will leave enduring marks on our society. The public is angry – about employment loss and job insecurity, about declining real estate values and foreclosures, about loss of confidence in significant public and private institutions, about perceived favoritism for selected financial firms and compensation structures, and about the ineptitude of elected officials to effect meaningful change.

The reckless use of financial leverage by some banks and life insurance companies was intricately intertwined and causative in the collapse or near-collapse of those entities. With the use of effectively free money from the Fed, profitability in financial institutions has been restored and depositor interests have been protected. Failures were socialized, however, meaning taxpayers are footing the bill for some failed banks, as well as industrial concerns (i.e., the auto industry). In the future, assistance that may be necessary might not be as easily accomplished given outrage over the lack of regulatory oversight or penalties for the managements responsible for some elements of the crisis.

Lest we be accused of “populism,” let’s be clear that we think there is enough blame to go around for other contributors to the “Great Recession.” These include politicians who aided and encouraged lax lending standards, regulators who stood by and watched while so many abuses took place and social policies that encouraged borrowing rather than saving, creating a nation of debtors.

The biggest losers, tragically, are the people who have done everything right. They saved, paid their mortgages, and lived within their means. Now, with short-term interest rates at temporarily low levels, they struggle to live on their retirement incomes. We are frequently asked about how to get higher yield with no risk – which is an impossible task. The Fed is forcing savers and investors to take some risk to get the returns they want. It is difficult to see how the serious social and economic cross-currents described could play out

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smoothly. We don't claim to have a perfect solution, but given that scenario, we are major believers in sticking with high-quality assets, especially given the fragility of the recovery.

If we made a "mistake" this year, it was sticking with higher-quality, rather than lower-quality, issuers. We prefer stocks with solid dividends over bonds with miniscule yields, as the dividends can rise over time. We have always emphasized quality stocks with better balance sheets, sustainable business models, high free cash flow yields, and proven managements. We will continue with the strategy and philosophy.

It is hard to imagine that 2010 could be as exciting as this past year. That is not a bad thing. Given the incredible swings of the past two years, we are extremely grateful for your continued belief in our determined efforts to help protect your financial well-being.

Sector highlights

Average sector weightings and performance from 10/1/09 to 12/31/09 (%)¹

Sector	Port. weight	Port. return	Bench-mark* weight	Bench-mark* return	Weight diff	Active contrib
Financials	8.27	-0.85	14.68	-3.32	-6.41	0.84
Industrials	18.46	9.29	10.29	5.32	8.17	0.66
Consumer staples	15.78	7.22	11.70	5.02	4.08	0.29
Utilities	2.43	10.96	3.68	7.26	-1.25	0.07
Energy	18.07	5.90	11.99	5.58	6.08	0.03
Consumer discretionary	2.47	18.76	9.34	9.12	-6.87	0.01
Telecomm service	0.00	0.00	3.09	7.43	-3.09	-0.03
Materials	6.24	4.66	3.51	7.36	2.73	-0.13
Information technology	18.25	9.43	18.95	10.70	-0.69	-0.29
Healthcare	10.04	4.60	12.79	9.09	-2.75	-0.52

Benchmark: S&P 500 Index.

Source: Vestek.

Top 10 holdings and average sector weightings¹

Top 10 holdings	Percent of Equity
Procter & Gamble Co	5.78
Microsoft Corp	5.66
United Technologies Co	4.58
IBM	4.51
Exxon Mobil Corp	4.30
3M Co	3.80
Waste Mgmt Inc	3.62
Johnson & Johnson	3.39
Raytheon Co	3.15
Travelers Companies Inc	3.10
Total number of holdings	38

Source: Vestek.

Market cap breakdown (\$)	Portfolio Weight	Benchmark Weight
Above 50 billion	58.02	45.75
25-50 billion	15.25	19.55
10-25 billion	19.47	20.05
3-10 billion	6.86	13.86
0-3 billion	0.41	0.79
Weighted average market cap (\$bil)	98.84	80.56

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.

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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. 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.

All investments involve risk, including possible loss of principal amount invested. 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.

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Risks

Investments may be made in small- and mid-cap companies which involve a higher degree of risk and volatility than investments in larger, more established companies. Investments may also be made in ADRs and U.S.-traded ordinary shares 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 fluctuations, political and economic developments, foreign taxation and differences in auditing and other financial standards. These risks are magnified in emerging markets.

The managers may sometimes hold significant cash reserves as a portion of the portfolio while waiting for buying opportunities.

Index/term 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.

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.

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, Brandywine Global Investment Management, LLC, Global Currents Investment Management, LLC and Legg Mason Capital Management, Inc. ("LMCM"). Management is implemented by Legg Mason Private Portfolio Group, LLC or, in the case of certain programs, by the program sponsor or its designee

Professional money management may not be suitable for all investors.

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ClearBridge Appreciation Portfolios – 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 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)
2008	-27.54	-25.31	-37.00	2,500	100	1.95	288.3	0.6	50,615
2007	6.14	9.31	5.49	3,096	100	1.33	439.2	0.9	47,112
2006	13.25	16.62	15.79	3,452	100	1.22	456.9	0.8	54,078
2005	1.89	4.94	4.91	3,914	100	1.03	n/a	n/a	n/a
2004	5.64	8.80	10.88	767	100	0.54	n/a	n/a	n/a
2003	n/a	n/a	n/a	821	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 (particularly fixed income and quantitative equity assets) 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 Appreciation composite consists of fully discretionary portfolios with a minimum net asset value of US \$25,000 (prior to June 2008, the minimum is \$5,000). "Sleeves" of multi-style portfolios and segments of balanced accounts are excluded. Accounts within the composite are invested primarily in large capitalization companies, but may also invest in mid and small capitalization companies. The managers seek investments among a strong core of growth and value stocks, consisting primarily of blue chip companies dominant in their industries. 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 quarterly and 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 quarterly and 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.