

Brandywine Global Traditional Large Cap Value Equity Portfolios

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Market overview

When reviewing a fourth quarter it is incumbent upon the observer to look back and assess the whole year. Carrying that obligation or expectation further at the end of the decade demands a bit more than we and our readers are prepared to tackle. We must note, though, that this past decade was the worst for U.S. stocks going all the way back to the 1830's; it was even worse than the 1930s. The best that can be said is that it's over and we are all standing, if a little wobbly.

This past year had as much action as some of those fantastical products coming out of Hollywood. Stocks continued 2008's hideous course early in the year when fear of the financial system's stability didn't dissipate as quickly as maybe it should have. The word "nationalization" was on everyone's lips especially in regards to some of our largest banks. The ultimate stockholder sacrifice (e.g. Fannie Mae, Freddie Mac) was the specter that was present, if not rational. As we have written before, the actions of policy-makers were multi-pronged and gargantuan, in the scale that the calamity warranted. "TARP" (Troubled Asset Relief Program) is not the dirty word some critics thought – the abyss had been avoided. As some smoke cleared investors marveled at the saving of our financial system and the neat mechanisms employed. Goldman Sachs, JP Morgan, Wells Fargo, Morgan Stanley and Citigroup limped through with the government's big assist. The spectacular rally (up almost 70% at year-end from the early- March low) was sparked by a recognition that the most important structure, our financial system, was on the road to improvement. Investors were not even shaken by the rescue of General Motors, since we all had years to accept the sad fact that this once great icon was a proverbial "basket case."

As is normally the case when a market rally is linked to the ending of a recession, the greatest stock returns are seen among the highest-risk stocks. Simply, the riskiest stocks were down the most, since viability was an issue for many –so, in the early stage of a recovery-based rally, their outperformance is understandable. From spring to mid-December, S&P companies with no earnings outperformed S&P companies with earnings by 35%. Small-capitalization stocks generally outperformed the very large stalwarts. One research firm calculated that the disparity in returns between low quality and high quality was the greatest in the 40 years of their collected data. A good reason for looking back is it can help you identify the opportunities in the present. We see an unusually attractive opportunity today in the very largest, highest quality stocks. As value investors used to plying our trade by focusing on stocks selling at low valuations it is rare that these stocks are also some of the highest-quality stocks.

As this is written, the central debate – the main event – is the contest of outlooks of the very nature (robustness and longevity) of the recovery our economy has entered. There is ample evidence supporting opposing views –the belief in a strong, sustainable expansion versus the expectation of a "quick fade the bounce" scenario. Obviously, we hope for the former, but we monitor potential culprits that could cause derailment. Commercial real estate and its likely future woes receive a lot of attention and we don't ignore this market, particularly because of its relevance to financial institutions. However, our prime concern rests with the problem that ignited the crisis – unrealistic house prices and the irresponsible funding – and the potential for long, persistent tentacles. Today, 25% of U.S. homeowners owe more on their home than the home is worth¹. The homeownership rate is still well above

¹ Source: David Rosenberg, 1/4/10, Gluskin sheff.

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normal, and returning to that lower level means more pain and economic ripple. In year number four of the deflating of the housing bubble, it is sobering to say that we have a ways to go.

There are more macro variables looming today than ever before, according to our memory. Fed tightening, the dollar and foreign currencies, Chinese expansion, fiscal stimulus and federal debt, state debt, intractable unemployment, the consumer savings rate, deleveraging and possible protectionism do not complete the list. In our view, four other worrisome issues probably could manifest because of political and economic forces: higher taxes, more government regulations, higher interest rates and high inflation. We have lived through all of these before, and they are associated with lower stock market valuation. Traditional measures (such as price-to-earnings ratio) historically have compressed when these factors occur. We quickly note that this is not a reason to reduce stock holdings, as earnings growth could outstrip a multiple contraction but it is a reason to be ready to alter strategy as needed.

Traditional Large Cap Value Equity Portfolios - Retail

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

	Q409	YTD	1-yr	3-yr	5-yr	7-yr	10-yr
Net of fees	2.56	18.59	18.59	-13.95	-4.53	2.53	0.50
"Pure" gross of fees	3.31	22.10	22.10	-11.33	-1.65	5.61	3.52
Russell 1000 Value Index	4.22	19.69	19.69	-8.96	-0.25	5.92	2.47
S&P 500 Index	6.04	26.46	26.46	-5.63	0.42	5.52	-0.95

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

Outlook

Finally, we wanted to touch on a subject we have discussed before: long-term change in consumer behavior. As a result of debt-fueled overspending the consumer component of our GDP is 71%, which is well above the pre-bubble norm of 66%.² As the consumer retrenches, the retarding impact on economic growth cannot be avoided. It is suggested above that we are inclined to believe consumer behavior has changed for what will be some enduring period. Will the thrift and conservatism that dominated generations after the Great Depression be the path? The consumer, in our view, is highly unlikely to return to his pre-bubble extravagance, partly because the "ATM" – his home equity – is closed, but primarily because the gut-wrenching terror of grave financial difficulty will not be forgotten soon. Here's an example of a switch to thriftiness: We read this weekend in the newspaper of a formerly free-spending family that now spends quality time paddling their canoe in Miami's Biscayne Bay. No cost or low cost activities have ticked up meaningfully: museum attendance, gardening, sightseeing and reading, looking, and reading to name a few. Should this unfold and last for a while, the country will be stronger for it. But again, it will mean an economic expansion that is muted.

² Source: Stephen Roach, 1/5/10, Morgan Stanley.

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The sectors or industries discussed herein should not be perceived as investment recommendations and securities within a sector or industry may no longer be held in an account's portfolio. It should not be assumed that investments in any of the sectors or industries listed were or will prove profitable. Sector and industry weights of any particular client may vary based on investment restrictions applicable to the account. The views expressed represent the opinions of Brandywine Global Investment Management as of the date indicated and are subject to change and are not intended as a forecast or guarantee of future results. The opinions and views expressed herein are those of the portfolios 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 factual prediction or forecast of actual future events or performance, or guarantee of future results or investment advice. The information contained should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Indices are unmanaged and not available for direct investment.

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Risks

Investments may be made in 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 of non-U.S. companies 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. **Past performance is no guarantee of future results.**

Definitions

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Value Index measures the performance of those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values. Please note that an investor cannot invest directly in an index.

The Russell 1000 Value® Index is a trademark of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company. S&P® is a trademark of Mc Graw Hill, Inc.

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 that an investor cannot invest directly in an index.

Professional money management may not be suitable for all investors.

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Traditional Large Cap Value Equity All Wrap Composite Disclosure-GIPS® Endnote (\$ USD) — Ending December 31

Year	Composite return gross ¹ (%)	Composite Return net (%)	R1000V ² (%)	S&P 500 ³ (%)	Number of accounts	Market value (\$MM)	Firm assets (%)	Total firm assets (\$MM)	Composite dispersion (%)
2008	-41.68	-43.46	-36.85	-37.00	687	146	0.4	32,755	1.00
2007	-2.12	-4.98	-0.17	5.49	878	322	0.7	49,208	0.57
2006	19.67	16.22	22.25	15.79	886	352	0.9	39,241	0.53
2005	10.29	7.09	7.07	4.91	765	311	1.2	26,332	0.43
2004	15.52	12.19	16.49	10.88	626	249	1.3	18,547	0.79
2003	37.82	33.90	30.03	28.69	434	187	1.5	12,680	1.06
2002	-17.81	-20.25	-15.52	-22.10	392	123	1.5	7,990	0.62
2001	0.95	-2.00	-5.59	-11.88	287	129	1.7	7,772	1.28
2000	16.30	12.94	7.01	-9.11	227	133	2.0	6,683	1.90
1999	6.55	3.45	7.35	21.04	254	141	2.1	6,583	1.19
1998	13.11	9.84	15.63	28.58	269	164	2.2	7,327	1.16

Organization

Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Legg Mason, Inc. The Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). For the periods July 1, 2000 through June 30, 2007, the Firm has been verified by Kreischer Miller. A verification includes assessing whether the Firm (1) complied with the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards. A copy of the verification report is available upon request. Disclosed total firm assets represent the total market value of all discretionary and nondiscretionary, fee-paying and non-fee-paying assets under the Firm's management.

Composite description

Traditional Large Cap Value Equity (All Wrap) Composite (the "Composite") Inception date is July 1, 1993. The Creation date is January 15, 2002. The Composite includes all fully-discretionary, private client portfolios engaged through wrap-sponsor programs and invested in the Traditional Large Cap Value Equity strategy (the "Strategy"). The Strategy uses quantitative analysis to screen 100 - 150 stocks from the universe of all U.S.-listed stocks that meet targeted market capitalization and current-valuation ratios (P/E, P/B, and P/CF). Portfolios are constructed with 45 - 55 stocks further selected through additional fundamental analysis that focuses on a company's position in the earnings cycle, as well as its financial condition, competitive position, and management. The strategy focuses on long-term and cyclical industry trends in order to identify and measure the risks associated with a company's business.

Benchmark

The Composite returns are benchmarked to the Standard & Poor's 500 and Russell 1000® Value Indices. S&P 500 is a broad measure of U.S. domestic large cap stocks and is designed to capture the returns of many different sectors of the U.S. economy. Russell 1000 Value Index offers investors access to the large-cap value segment of the U.S. equity universe. Russell 1000 Value is constructed to provide a barometer of the large-cap value market.

Performance calculation

Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. Prior to July 1, 2007, portfolios were included in the Composite beginning with the first full quarter of performance through the last full quarter of performance. After July 1, 2007, portfolios are included in the Composite beginning with the first full month of performance through the last full month of performance. Composite returns are reported on quarterly basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into

other currency returns using the appropriate currency exchange rate returns. "Pure" gross returns do not reflect the deduction of any fees, transaction costs, or expenses and are presented only as supplemental information to net returns. Net returns reflect the deduction of a hypothetical 3% "wrap" fee which includes a comprehensive brokerage, custodial, and advisory service fee. Wrap fees, and fees in lieu of commissions, vary across brokerage firms and accounts based upon account size and other factors. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for period Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. The number of accounts and market values are as of the end of the period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request. As a result of our internal review process during the quarter ended September 30, 2007, the performance results shown reflect certain immaterial revisions to performance information previously reported by the Firm for periods through June 30, 2007.

Fee schedule

Brandywine Global offers investment advisory services on a discretionary basis to the clients of introducing financial consultants or broker-dealers (Sponsors). In these instances, the client enters into an agreement with Brandywine and the Sponsors or enters into an agreement solely with the Sponsor. The client portfolios are charged Comprehensive Wrap fees, which vary by sponsor and include brokerage, custodial and investment management fees. Due to the difficulty in separating these fees, an industry standard of 3% annual fee is applied to calculate the Composite net returns. Minimum initial investment: \$100 thousand. Additional information on the Firm's fee schedule can be found in Form ADV Part II which is available upon request. schedule can be found in Form ADV Part II, which is available upon request.

Risk

The program manager(s) may, to a limited extent, invest in other securities entailing additional risks beyond those highlighted in this profile. All investments involve risk, including possible loss of principal.

1Supplemental information

2 R1000V = Russell 1000 Value Index 3 S&P 500 = S&P 500 Index