

# ClearBridge

## Large Cap Growth Portfolios

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 Portfolio Managers

### Portfolio highlights

With another year in the books, it is a good time to reflect on what 2009 was, and importantly, what it could have been. Putting aside the stock market for a moment, the world economy suffered quite a few blows (i.e., a global credit collapse leading to a G7 recession), but it avoided the “knock out punch” (i.e., a depression). Unprecedented global central bank intervention clearly helped avert the worst-case scenario. With financial Armageddon avoided, the focus has turned toward repairing the world economy. After 20-plus years of debt accumulation by financial institutions and individuals, it will certainly take longer than 18 months to return to normalcy. The economic impact of high and prolonged unemployment and continued de-levering is still unknown, in our opinion, as is the timing of a sustained recovery in housing. All are necessary to facilitate a return of real end demand.

Risk-based assets witnessed a spectacular run in 2009: equities, most forms of fixed income (with credit spreads narrowing dramatically), hard assets (precious and industrial metals), commodities, and many currencies. The notable laggard was the highly liquid U.S. dollar. Global investors borrowed dollars and invested in the assets listed above in a transaction known as the “carry trade.” With seemingly full support from the U.S. government, and the Federal Reserve’s pledge to keep interest rates low for a sustained period, many investors were pushed out of cash in order to earn any return, and most asset classes closed the year at or near their highs.

Turning to equities in particular, the year was broken up into a two-part rally: The first part, following the March swoon, was a sharp move led by “lower-quality” companies most leveraged to an economic recovery. For example, stocks that declined the most in 2008, often due to excessive levels of debt, rebounded significantly. Beaten-down financial institutions, early-cycle technology companies and levered retailers, as well as more cyclical industrials, fit that mold. The second part of the year’s equity move occurred more recently, as the rally

broadened out to include “higher-quality” companies, or those with more consistent earnings. We think the market’s preference for these types of stocks is likely to continue in 2010.

### Large Cap Growth 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	5.90	32.49	32.49	-6.82	-2.75	1.96	-3.26
“Pure” gross of fees	6.68	36.37	36.37	-4.01	0.18	5.02	-0.33
Russell 1000 Growth Index	7.94	37.21	37.21	-1.89	1.63	5.92	-3.99

*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 Large Cap Growth Portfolios returned 6.55% (gross of fees) for the fourth quarter. In comparison, the benchmark Russell 1000 Growth Index returned 7.94% for the same period. The Portfolios had investments in six out of 10 economic sectors during the quarter and produced positive absolute returns in four of them, with the greatest returns coming in consumer discretionary and information technology (IT) sectors, while returns in the industrials and financials sectors for the quarter were negative.

Relative to the benchmark Russell 1000 Growth Index, overall stock selection had a negative effect on performance while the effect of overall sector allocation was negligible. In particular, stock selection in the consumer discretionary sector was a significant contributor to relative performance, but it was offset by the negative impact of stock selection in the IT, health care, industrials, consumer staples and financials sectors.

While we did not close any existing positions or establish any new ones in the fourth quarter, over the past 18 months the Large Cap Growth team has been extremely active in the Portfolios. The market drawdown gave us an excellent

## ClearBridge Large Cap Growth Portfolios

opportunity to upgrade the Portfolios' holdings by adding higher-growth companies at distressed prices. In addition, we took advantage of several opportunities to adjust our Portfolios, trimming stocks where we felt valuations were stretched and using the proceeds to invest in either new or existing holdings that we thought were more attractively priced.

### Top contributors

Top contributors	Contribution to equity return
Amazon.com Inc	2.19
Google Inc	0.68
Walt Disney Co	0.60
Microsoft Corp	0.56
Akamai Technologies Inc	0.46

Source: Vestek.

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

Amazon.com Inc. is a leading retail e-commerce site operator in the consumer discretionary sector. In the fourth quarter, Amazon enjoyed particularly robust sales during the holiday season. The company has continued to benefit from the secular growth of electronic commerce, while achieving market share gains through competitive pricing, higher third-party sales, enhanced service initiatives like Amazon Prime and the rollout of new proprietary products, including its Kindle electronic book device, which we expect to dominate the new market it has helped create and fuel significant future growth.

Google Inc. (Class A) is an IT sector company that has expanded from its original search Web site into advertising, Web applications, and most recently, mobile devices. Because search is typically a precursor to most e-commerce transactions, we believe Google experienced a particularly robust holiday paid search season, thanks in part to the increased prominence of many "Cyber Monday" post-Thanksgiving online shopping promotions. As the economy and advertising begin to recover, Google's newly acquired display advertising business is showing strength – Google already has a firm lead in paid search. We expect that new initiatives, such as those in Operating Systems and Mobile, should also help fuel further growth.

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

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.

Akamai Technologies Inc. is a leading service provider in the IT sector whose products and services accelerate networking, content delivery and business processes over the Internet. Digital downloads and live streaming continues to increase as online user experience and services are enhanced. We believe that HD downloads will grow significantly in 2010. In our view, Akamai's superior technology makes it a favored partner for both content creators and application providers, which bodes well for its future growth prospects.

### Bottom contributors

Bottom contributors	Contribution to equity return
CVS Caremark Corporation	-0.25
Amgen Inc	-0.25
General Electric Co	-0.20
Electronic Arts Inc	-0.20
First Solar Inc	-0.18

Source: Vestek.

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The bottom contributors to Portfolio performance for the quarter included:

CVS Caremark Corp., in the consumer staples sector, operates retail pharmacies and provides various pharmacy services. CVS experienced a hiccup during the quarter in its Prescription Benefit Management (PBM) business, with lost contracts as a result of a confusing marketing message, as well as aggressive pricing for new and existing business. Its retail stores, however, continue to outperform their competitors. We feel that whatever path health care reform takes, higher utilization of prescription drugs and the drive to generics will benefit CVS over the long term.

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, a treatment for osteoporosis and cancer-related bone loss in Phase 3 clinical trials. 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. 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 sector. On a "sum of its parts" basis, we continue to see unrealized value in the company's core franchises.

Electronic Arts Inc. (EA), in the IT sector, is a leading developer, publisher and distributor of interactive entertainment software for video game systems, personal computers, wireless devices and the Internet. Disappointing quarterly earnings news and lowered earnings guidance pressured EA shares while a slowdown in consumer discretionary spending negatively impacted the entire video game industry. Sales data for the year-to-date period for the industry released during the quarter were down from the previous year's already poor

showing. However, we are encouraged by the following: EA has several new game titles that are due for release in 2010, and we believe they should generate improved sales; the company has announced an acquisition that it expects to be accretive to earnings in 2010; and it has made job and facilities cuts that should trim expenses meaningfully.

First Solar Inc., in the industrials sector, manufactures electricity-producing solar modules using a proprietary polycrystalline thin-film technology. The modules are used primarily in constructing large, utility-scale solar energy facilities. The company has also developed and constructed several solar-energy producing projects using its modules. First Solar shares have traded off recently, largely on concerns relating to reduced government subsidies for the industry and price reductions from competitors using more traditional poly silicon-based technologies. While we expect pricing pressures to continue as solar panel capacity ramps up, we believe First Solar's superior technology, strong track record in the utility market and ability to reduce the cost-per-watt of its products position it to be a dominant producer and a long-term beneficiary from the growth of the alternative energy industry.

### Outlook

Looking ahead, our recurring investment themes are still in place: We continue to seek large, dominant, global franchises with sustainable competitive advantages and which are trading at attractive valuations. We expect that these types of firms will continue to take market share and prosper in the present low-growth environment. More than ever, we feel that our focus on investment in high-quality, well-capitalized companies is a wise strategy leading into 2010, as the equity market is likely to be more discriminating in the year ahead.

While we are cognizant of the risks to the nascent economic recovery that persist – namely, the reduction of credit availability to consumers and small businesses, as well as the fragile political environment for big-ticket items such as healthcare reform, two wars, carbon capture projects, etc., we remain constructive in our long-term view of our portfolio companies. As contrarians, we would also note that U.S. large-cap growth equity, as an asset class, has underperformed almost every other asset class (i.e., bonds, cash and other styles of equities) for the last decade, potentially setting us up for improved relative performance in the period ahead.

## ClearBridge Large Cap Growth Portfolios

## Sector highlights

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

Sector	Port. weight	Port. return	Bench-mark* weight	Bench-mark* return	Weight diff	Active contrib
Consumer discretionary	19.96	20.23	10.51	7.74	9.46	2.37
Energy	0.00	0.00	4.30	5.36	-4.30	0.10
Utilities	0.00	0.00	0.92	3.04	-0.92	0.05
Materials	0.00	0.00	3.99	6.48	-3.99	0.05
Telecomm service	0.00	0.00	0.57	15.90	-0.57	-0.05
Consumer staples	14.67	2.97	16.23	5.39	-1.56	-0.36
Industrials	4.03	-8.73	10.10	6.86	-6.08	-0.62
Financials	11.18	-0.51	5.05	1.76	6.13	-0.68
Healthcare	16.19	1.92	16.10	6.74	0.09	-0.78
Information technology	33.97	7.29	32.23	11.83	1.74	-1.43

Benchmark: Russell 1000 Growth Index.  
Source: Vestek.

Top 10 holdings and average sector weightings<sup>1</sup>

Top 10 holdings	Percent of Equity
Amazon.Com Inc	5.97
Berkshire Hathaway Inc	4.86
Coca-Cola Co	4.54
Johnson & Johnson	4.00
Biogen IDEC Inc	3.84
Cisco Systmes Inc	3.80
Intel Corp	3.65
Amgen Inc	3.64
Procter & Gamble Co	3.59
Texas Instruments Inc	3.56
<b>Total number of holdings</b>	<b>33</b>

Source: Vestek.

Market cap breakdown (\$)	Portfolio Weight	Benchmark Weight
Above 50 billion	50.24	43.99
25-50 billion	19.39	16.26
10-25 billion	19.64	17.87
3-10 billion	10.74	17.57
0-3 billion	0.00	4.31
<b>Weighted average market cap (\$bil)</b>	<b>73.86</b>	<b>76.38</b>

<sup>1</sup> 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 Large Cap Growth Portfolios

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](http://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.**

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.

### Risks

Investments may 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.

### Index/term definitions

A basis point is one one-hundredth (1/100 or 0.01) of one percent.

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 Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher 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.)

U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. Government. The U.S. Government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity.

An investor cannot invest directly in an index. All investments involve risk, including possible loss of principal.

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.

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# ClearBridge Large Cap Growth Portfolios | Separately Managed Accounts

## ClearBridge Large Cap Growth Portfolios – GIPS® endnotes (\$USD) — ending December 31

Inception date: January 2006

Composite creation date: June 2008

Period	Total return net(%)	Total return (*pure gross)	Russell1000 Growth 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	-39.53	-37.63	-38.44	4,113	100	1.08	435.3	0.9	50,615
2007	0.97	4.00	11.81	6,280	100	1.15	1043.0	2.2	47,112
2006	5.01	8.15	9.07	7,741	100	0.89	1271.0	2.4	54,078
2005	2.39	5.46	5.26	10,465	100	0.96	n/a	n/a	n/a
2004	0.86	3.88	6.30	4,214	100	1.47	n/a	n/a	n/a
2003	30.59	34.42	29.75	4,390	100	2.03	n/a	n/a	n/a
2002	-25.12	-22.69	-27.88	4,430	100	2.05	n/a	n/a	n/a
2001	-15.45	-12.80	-20.42	4,685	100	1.76	n/a	n/a	n/a
2000	-1.05	1.93	-22.42	4,343	100	3.67	n/a	n/a	n/a
1999	19.73	23.17	33.16	3,785	100	2.75	n/a	n/a	n/a
1998	31.62	35.33	38.71	2,915	100	1.91	n/a	n/a	n/a

\*Pure gross of fee returns do not reflect the deduction of any expenses, including certain 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 Large Cap Growth I 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. All accounts within the composite are primarily invested in large-capitalization U.S. equities, with an objective of outperforming the Russell 1000 Growth.

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 Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, and represents approximately 92% of the total market capitalization of the Russell 3000 Index.