

ClearBridge

All Cap Value Portfolios

John Goode and Peter Hable
 Senior Portfolio Managers

Market overview

Over the next six months we expect economic surprises to be on the upside. We believe GDP and job growth may grow well above the general consensus. Inventory levels in many industries have been cut to the bone and any improvement in the economy could lead to production increases to refill them. Capital expenditures in many sectors have been cut severely. Economic improvement almost certainly will lift capital expenditure levels materially, another factor that could cause economic growth to surprise on the upside.

In order to participate fully in the economic strength we anticipate in coming quarters, our sector emphasis will focus on financials, information technology, industrials, energy, and materials. We are always alert for emerging themes and trends that bode well for companies in a particular area of the stock market. We believe nuclear energy will be an important new theme in 2010. Nuclear energy has been a “pariah” in the United States since the problems at Three Mile Island in 1979. Increased nuclear power generation in this country would reduce dependence on foreign sources, limit carbon emissions, and provide a new source of domestic employment.

The president’s “State of the Union” address later in January will be important for a number of reasons, including its psychological impact. Many investors continue to be risk averse which is reflected in individual investors putting nine times as much money in bond funds in 2009 as they placed in equities.¹ With more than \$3 trillion still residing in money market funds², any improvement in confidence could cause much more interest to develop in common stocks.

¹ Ned Davis Research.

² Ned Davis Research.

All Cap Value 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	3.03	24.77	24.77	-7.02	-1.55	3.30	0.40
“Pure” gross of fees	3.79	28.46	28.46	-4.21	1.41	6.39	3.43
Russell 3000 Index	5.90	28.34	28.34	-5.42	0.77	6.21	-0.20

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.**

Top contributors

Top contributors	Contribution to equity return %
Walt Disney Co (consumer discretionary)	0.57
Merck & Co Inc (healthcare)	0.38
Jones Lang LaSalle Inc (financials)	0.36
Microsoft Corp (information technology)	0.35
Weyerhaeuser Co (materials)	0.34

Source: Vestek.

The fourth quarter of 2009 was one where the market was digesting its strong gains from the March 2009 lows around S&P 500 670.

During the quarter, the five largest contributors to performance included Disney, Merck, Jones Lang LaSalle, Microsoft, and Weyerhaeuser. Media companies, including Disney, did much better during the quarter as the stock market realized that they too would be beneficiaries of an improving economy. Merck and other healthcare stocks (a more defensive group) reflected the facts that the health care bill in Congress was in some

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trouble and the more onerous features might not come to pass. Merck also benefited from the fact that it provides an above-average dividend yield, and many investors are increasingly interested in current income.

Jones Lang LaSalle is a real estate services company with operations worldwide. This company should be a major beneficiary of increased leasing, and sales (brokerage) in commercial real estate. Microsoft, after years of relatively slow growth, seems to be entering a period where new products boost its growth rate substantially. A number of leading analysts also began recommending switches out of areas such as semiconductors and in the direction of software that helped Microsoft as well.

During the fourth quarter, Weyerhaeuser announced it would convert to the REIT format, which would mean it would pay out a large part of its cash flow. Good yield vehicles are relatively scarce and Weyerhaeuser now is more attractive because of the transition to REIT status. There is one other thing that may help Weyerhaeuser in the future. The company is almost unique in that its stock over the last 20 years has gone almost nowhere in contrast to most natural resources companies. Lumber prices are at 20-year lows, and studies over the last century show real lumber prices being at a low as well. It is likely there will be some improvement in lumber prices in the coming years.

Bottom contributors

Bottom contributors	Contribution to equity return %
State Street Corp (financials)	-0.45
Bank of America Corp (financials)	-0.38
Weatherford International (energy)	-0.19
JPMorgan Chase & Co (financials)	-0.16
Fluor Corp (industrials)	-0.12

Source: Vestek.

The five largest detractors were State Street, BankAmerica, Weatherford, JPMorgan Chase, and Fluor. Three of these (STT, BAC, and JPM) are banks or financial services companies. Many of these outperformed a strong market through September of 2009. During the fourth quarter, most consolidated their earlier gains and this was reinforced by the fact that Congress might impose new rules and taxes on many of them. We continue to believe our selections in financial services are well positioned for growth over the next six to 12 months.

Weatherford is an energy services company that reported soft results, especially from its Mexican and Russian operations. Historically WFT has been the “beta trade” in energy services, often outperforming on the upside when the industry is in vogue and also underperforming when it is not. We believe the current valuation discounts the known negatives and we suspect WFT will be a good absolute and relative performer over the next year.

The final detractor is Fluor. Engineering construction (E&C) companies such as Fluor often do best when their backlogs are increasing. That has not been the case in recent quarters; however, we feel this will change about mid-year 2010. We believe prospects for leading E&C companies over the next 5 years are excellent and we believe Fluor should be an outstanding performer over this timeframe.

Outlook

If we are correct about a stronger economy in the coming quarters, it would not be surprising if the U.S. dollar rallied. Although the U.S. economic prospects might still trail those of the emerging markets, they could be considerably more robust than those in Europe and Japan. A stronger dollar would be a magnet for capital flows into U.S. assets.

The bottom line is this: A number of things could improve at a faster rate than expected in the next few quarters. We hope to capture some of this “upside surprise” through our positioning of assets.

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Sector highlights

Average sector weightings and performance from 10/1/09 to 12/31/09 (%)³

Sector	Port weight	Port return	Bench-mark* weight	Bench-mark* return	Weight diff	Active contrib
Consumer staples	5.86	10.36	10.32	4.98	-4.46	0.33
Materials	2.72	14.47	4.02	8.25	-1.30	0.13
Healthcare	9.02	10.38	12.70	8.17	-3.68	0.10
Energy	16.38	5.97	11.10	5.65	5.28	0.06
Consumer discretionary	10.65	7.50	10.31	7.88	0.34	-0.03
Utilities	0.00	0.00	3.84	6.81	-3.84	-0.03
Telecomm service	4.05	4.91	2.86	8.17	1.19	-0.12
Financials	18.60	-3.19	15.36	-2.14	3.23	-0.45
Industrials	14.60	0.78	10.81	5.22	3.79	-0.70
Information technology	18.12	5.40	18.67	10.23	-0.55	-0.90

Benchmark: Russell 3000 Index.

Source: Vestek.

Top 10 holdings and average sector weightings³

Top 10 holdings	Percent of Equity
Walt Disney Co	3.46
Texas Instruments Inc	3.43
Novartis A G	3.38
Merck & Co Inc	3.15
Safeway Inc	3.13
Home Depot Inc	3.12
JPMorgan Chase & Co	3.05
Bank of America Corp	3.03
Cisco Sys Inc	2.82
Johnson & Johnson	2.80

Total number of holdings

61

Source: Vestek.

Market cap breakdown (\$)	Portfolio Weight	Benchmark Weight
Above 50 billion	34.49	37.50
25-50 billion	25.32	15.98
10-25 billion	19.88	16.96
3-10 billion	14.55	16.67
0-3 billion	5.77	12.89
Weighted average market cap (\$bil)	58.76	66.83

³ 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 in small- and medium-capitalization companies may involve a higher degree of risk and volatility than

investments in larger, more established companies. 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. International investing may not be suitable for everyone. The managers may sometimes hold significant portion of portfolio assets in cash equivalents while waiting for buying opportunities.

Index/term definitions

The Russell 3000 Index is composed of the 3,000 largest U.S. companies based on total market capitalization, and the index represents the majority of the investable U.S. market.

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 All Cap Value Portfolios – GIPS® endnotes (\$USD) — ending December 31

Inception date: January 2006

Composite creation date: June 2008

Period	Total return net(%)	Total return (*pure gross)	Russell3000 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	-35.60	-33.59	-37.31	6,491	100	0.70	745.0	1.5	50,615
2007	0.04	3.04	5.14	9,042	100	0.39	1538.6	3.3	47,112
2006	14.13	17.52	15.72	10,859	100	0.36	1988.5	3.7	54,078
2005	0.81	3.84	6.13	13,202	100	0.53	n/a	n/a	n/a
2004	3.59	6.69	11.95	5,129	100	0.78	n/a	n/a	n/a
2003	30.98	34.82	31.06	6,140	100	0.86	n/a	n/a	n/a
2002	-26.21	-23.80	-21.54	6,192	100	1.70	n/a	n/a	n/a
2001	-3.04	-0.09	-11.46	4,777	100	2.86	n/a	n/a	n/a
2000	15.96	19.31	-7.46	1,695	100	2.53	n/a	n/a	n/a
1999	32.42	36.13	20.90	1,015	100	2.76	n/a	n/a	n/a
1998	10.82	14.08	24.14	944	100	1.50	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 All Cap Value composite consists of fully discretionary accounts with a minimum asset value of US \$25,000 (prior to June 2008, the minimum was \$5,000). "Sleeves" of multi-style portfolios and segments of balanced account are excluded. Accounts within the composite are primarily invested in common stocks and common stock equivalents of large, medium and small capitalization companies which are believed to be undervalued in the marketplace. The investments may include ADRs, ETFs and securities of non-US issuers.

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 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.