

Is the time right for emerging market equities? Ask Legg Mason.

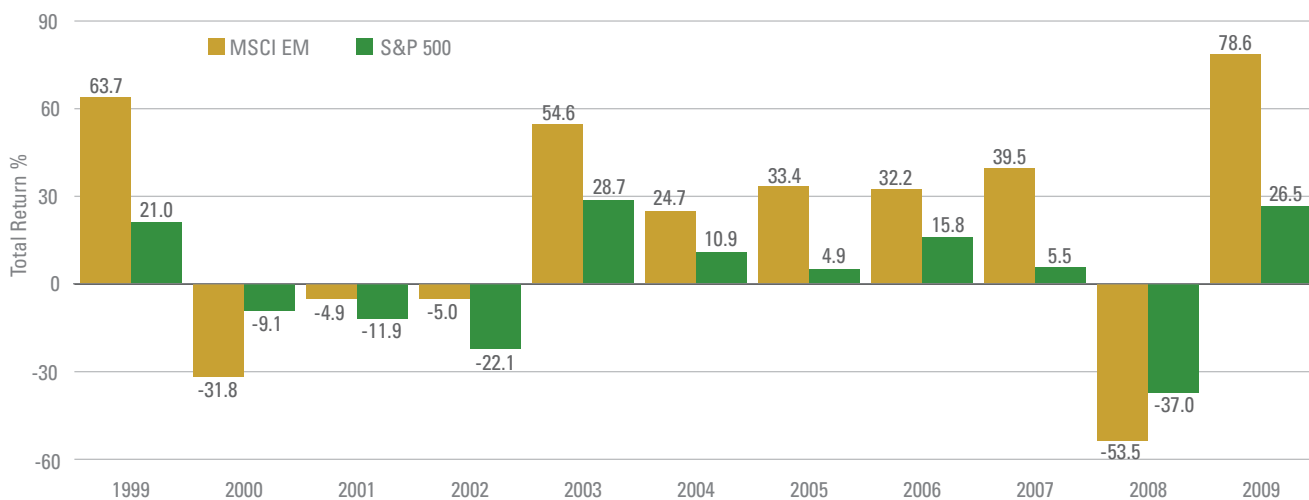
Given their growing significance in the global economy, as well as relatively strong financial market performance during the recent widespread downturn, there's reason to believe that emerging markets offer excellent potential for investors with longer-term time horizons.

Developing countries such as Brazil, India and China, commonly known as "emerging markets," have experienced substantial economic and social change over the past decade. The result is a more compelling investment landscape, one with less uncertainty than has traditionally been associated with this asset class, but with continuing attractive growth opportunities.

No 'lost decade' in emerging markets

Emerging market equities, as measured by the MSCI Emerging Markets Index, have outperformed the S&P 500 in every up year since 1999 and in two of the four down years. For the 10-year period ended December 31, 2009, the MSCI Emerging Markets Index returned 10.11% on an average annual basis, compared to -0.95% for the S&P 500.

Emerging market equities have outperformed the S&P 500 in every up year since 1999



Source: Bloomberg.

Past performance is no guarantee of future results.

Please note that an investor cannot invest directly in an index. The graph above is for illustrative purposes only and is not reflective of how an actual investment performed.

¹ The MSCI Emerging Markets Index is a free float-adjusted market-capitalization index that is designed to measure equity market performance in the global

emerging markets. The MSCI Emerging Markets Index consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

² 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.

An expert take on recent performance

Legg Mason manager Batterymarch Financial Management believes that the recent strong performance and renewed inflows into emerging market equities mark a major shift in investor perception — recognizing that emerging markets have remained fundamentally strong throughout the recent global economic turmoil.

The bottom line: It's not your father's emerging markets

According to Batterymarch, rising economic independence and fundamental strength at the government, corporate and household levels position emerging markets for continued progress. Here are some reasons why:

- Emerging market economies are less hampered by systemic issues facing developed economies because their financial institutions had limited exposure to global credit problems.
- Changes in monetary and fiscal policies have improved the foreign currency reserves, sovereign debt ratings and balance of payments in many developing nations.
- Growth in emerging markets is increasingly driven by local demand fueled by an expanding middle class, as well as extensive development projects related to roads, utilities and other infrastructure.
- Emerging countries are under-represented on the global investment stage, accounting for more than 80% of the world's population and just over 50% of world GDP, but still just 12.9% of global equity market capitalization.
- Investment opportunities in developing economies are now more diversified, with expansion into telecom, banking, healthcare and technology, in addition to a long-standing focus on industries such as energy, basic industry, metals and mining.

This asset class, though not low-risk, is arguably less risky than it used to be, and worthy of consideration by a broader spectrum of long-term investors.

Ask your financial advisor if an investment in emerging market equities is right for your portfolio.

“With their combination of low valuations, superior growth prospects and, most important, solid balance sheets at the sovereign, corporate, and household level, we remain confident that developing markets will provide a growing source of attractive opportunities and perform well over the long run.”
— Batterymarch

What should I know before investing?

All investments involve risks, including loss of principal amount invested.

Equity securities are subject to price fluctuation and possible loss of principal. Stocks of non-U.S. companies 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 opinions and views expressed herein are as of December 31, 2009 and are subject to change and may differ from other managers or the firm as a whole, and are not intended to be relied upon as a factual 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 decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed.

Batterymarch Financial Management, Inc., and Legg Mason Investor Services, LLC, are subsidiaries of Legg Mason, Inc. PerspectivesSM is a service mark of Legg Mason Investor Services, LLC.

© 2010 Legg Mason Investor Services, LLC, member FINRA, SIPC 403558 MIPX012036 2/10 FN0911350