

# Our approach to tax-exempt fixed-income investing

Building a diversified portfolio of municipal bonds takes research expertise and market perspective. It requires the ability to anticipate changes in the marketplace and move swiftly as opportunities emerge. It requires continual monitoring of the economic landscape for data that might spark interest rate movements or move bond prices. It requires the management skills of veteran municipal bond fund managers, such as the Western Asset portfolio team that manages the **Western Asset municipal bond funds**.

## Why invest with Western Asset?

Western Asset's fixed-income discipline emphasizes a team approach that unites groups of specialists dedicated to different market sectors. The investment responsibilities of each sector group are distinct, yet results are derived from the constant interaction that unites the specialty groups into a cohesive investment management team. The sector teams are composed of professionals — including Western Asset's senior portfolio managers, research analysts and an in-house economist — who are highly skilled and experienced in all major areas of the fixed-income market.

They exchange views on a daily basis and meet more formally twice each month to review the firm's economic outlook and investment strategy. This structure seeks to ensure that investors may benefit from a consensus that draws on the expertise of all team members.

- Founded in 1971
- Best known as an active fixed-income manager offering products spanning the yield curve and the globe
- Firm's philosophy centers upon a team approach

AN INVESTOR SHOULD CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES CAREFULLY BEFORE INVESTING. FOR A FREE PROSPECTUS, WHICH CONTAINS THIS AND OTHER INFORMATION ON ANY LEGG MASON FUND, VISIT [WWW.LEGGMASON.COM/INDIVIDUALINVESTORS](http://WWW.LEGGMASON.COM/INDIVIDUALINVESTORS). AN INVESTOR SHOULD READ THE PROSPECTUS CAREFULLY BEFORE INVESTING.

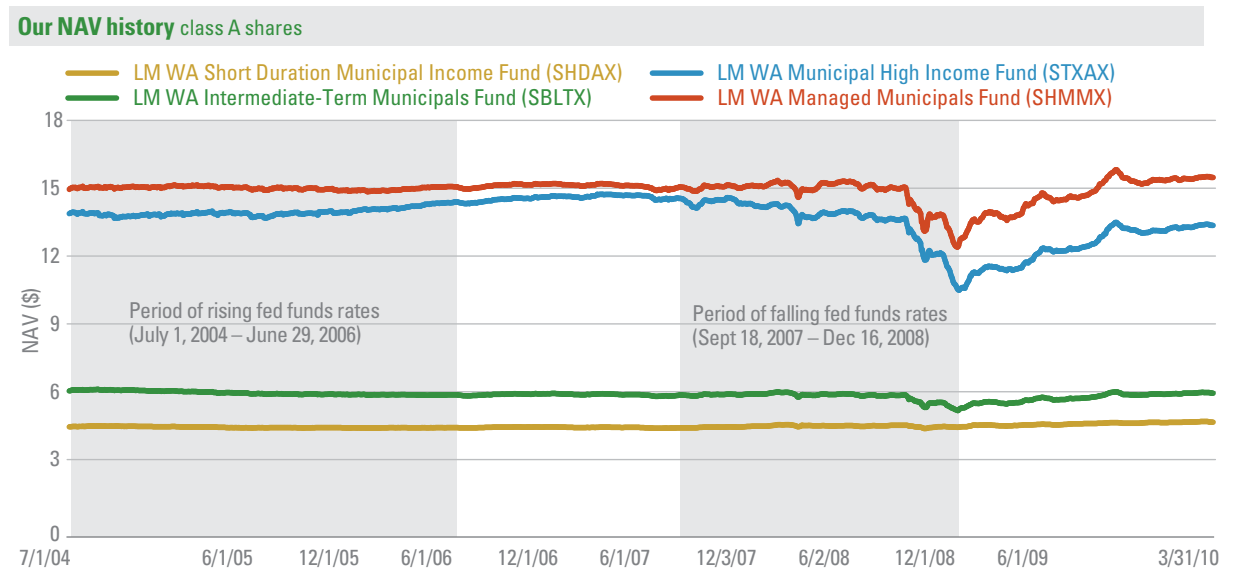
INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

## The Western Asset approach

The **Legg Mason Western Asset Intermediate-Term Municipals** and **Legg Mason Western Asset Municipal High Income Funds** seek to provide investors with income exempt from regular federal income tax. **Legg Mason Western Asset Managed Municipals** and **Legg Mason Western Asset Short Duration Municipal Income Funds** also seek to provide investors with capital preservation.

### Our NAV history in all interest rate environments

The Western Asset approach, which incorporates duration weighting, maturity/term structure, sector allocation and issue selection, has helped to manage NAV<sup>1</sup> volatility for its municipal bond funds despite ever-shifting interest rate environments. Monetary policy changes in light of economic conditions. For instance, the federal funds rate<sup>2</sup> was raised 17 times between the end of June 2004 and the end of June 2006. From mid-September 2007 through the middle of September 2009, the fed funds rate was lowered 10 times.



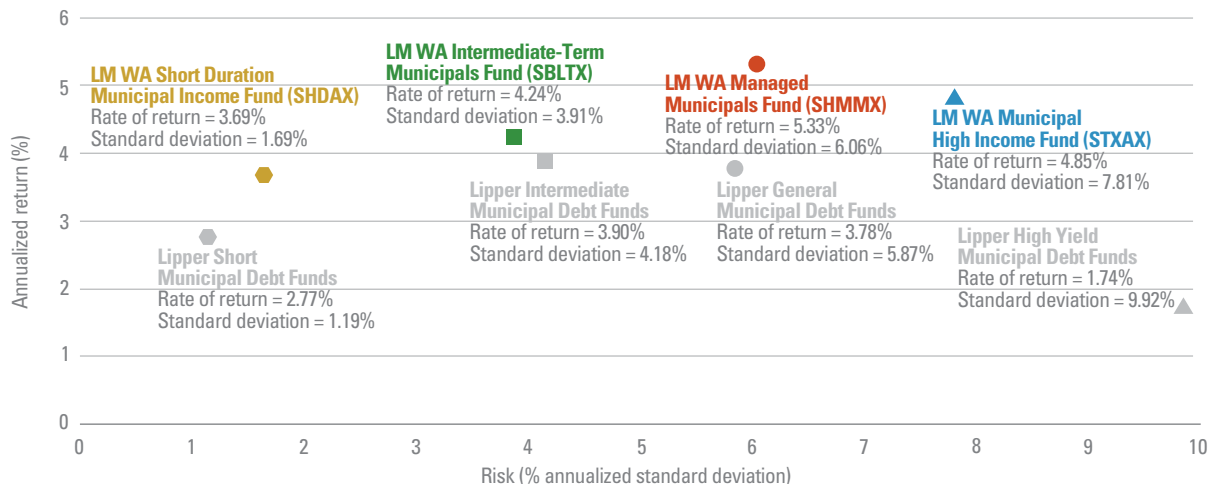
Past performance is no guarantee of future results. Please see next page for more complete performance information.

<sup>1</sup> Net asset value (NAV) is the dollar value of a single mutual fund share, based on the value of the underlying assets of the fund minus its liabilities, divided by the number of shares outstanding. NAV is calculated at the end of each business day.

<sup>2</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

## Compared with their Lipper peer groups

Five-year risk/return<sup>3</sup> vs. Lipper peer group (class A shares excluding sales charges) as of March 31, 2010



Past performance is no guarantee of future results.

Source: Lipper Inc.

Average annual total returns and expense ratios (%) as of March 31, 2010

	Excluding the effects of sales charges						Including the effects of sales charges					
	1-yr	5-yr	10-yr	Since inception	Expenses (Gross) <sup>4</sup>	Expenses (Net) <sup>5</sup>	1-yr	5-yr	10-yr	Since inception	Inception date	Ticker
LM WA Short Duration Municipal Income Fund	5.09	3.69	N/A	2.85	0.66	0.66	2.82	3.23	N/A	2.50	3/17/03	SHDAX
LM WA Intermediate-Term Municipals Fund	11.75	4.23	4.68	5.40	0.69	0.69	9.19	3.75	4.43	5.29	11/28/88	SBLTX
LM WA Managed Municipals Fund	17.88	5.33	5.70	8.44	0.67	0.67	12.87	4.42	5.24	8.28	3/4/81	SHMMX
LM WA Municipal High Income Fund	23.16	4.85	4.70	4.97	0.77	0.77	17.90	3.95	4.25	4.71	11/6/92	STXAX

The performance shown above represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown above. Investment return, yield and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance data current to the most recent month-end, please visit our website at [www.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors).

Average annual total returns assume the reinvestment of all distributions at net asset value and the deduction of all fund expenses. For performance data including the effects of sales charges, Class A shares reflect the deduction of a maximum front-end sales charge of 2.25% for the LM WA Intermediate-Term Municipals Fund and the LM WA Short Duration Municipal Income Fund and 4.25% for the LM WA Managed Municipals Fund and the LM WA Municipal High Income Fund. Performance would have been lower if fees had not been waived in various periods for LM WA Managed Municipals Fund and LM WA Short Duration Municipal Income Fund. Performance data does not reflect trade date adjustments made to the NAV at month end. Performance for other share classes will vary due to differences in sales charge structure and class expenses. All classes of shares are not available through all distribution channels.

Lipper Inc. is a nationally recognized, independent organization that reports on total return performance and rankings for investment products.

Past performance is no guarantee of future results. Average annual returns are based on the five-year period ended March 31, 2010, calculated among the number of funds in the Fund's respective Lipper fund category, with reinvestment of dividends and capital gains, if any, and excluding sales charges.

<sup>3</sup> Standard deviation measures the risk or volatility of an investment's return over a particular time period; the greater the number, the greater the risk.

<sup>4</sup> Gross expenses are the Fund's total annual operating expenses for the share class(es) indicated as of the date of the Fund's most current prospectus and do not reflect fee waivers or reimbursements. These expenses include management fees, 12b-1 distribution and service fees, and other expenses.

<sup>5</sup> Net expenses are the Fund's total annual operating expenses for the share class indicated as of the date of the Fund's most current prospectus and reflect voluntary and contractual fee waivers and/or reimbursements for LM WA Short Duration Municipal Income Fund and LM WA Managed Municipals Fund, respectively. Voluntary fee waivers or reimbursements may be reduced or terminated at any time. Contractual fee waivers in effect prior to July 1, 2008 for LM WA Managed Municipals Fund limited total annual operating expenses to 0.67%. Because these Funds do not currently have fee waivers or reimbursements, gross and net expense ratios are the same.

*Lipper Intermediate Municipal Debt Funds:* Funds which invest in municipal debt issues with dollar-weighted average maturities of five to 10 years.

*Lipper General Municipal Debt Funds:* Funds which invest at least 65% of assets in municipal debt issues in the top four credit ratings.

*Lipper High Yield Municipal Debt Funds:* Funds which invest at least 50% of assets in lower-rated municipal debt issues.

*Lipper Short/Intermediate Municipal Debt Funds:* Funds that invest in municipal debt issues with dollar-weighted average maturities of one to five years.

## Our approach to tax-exempt fixed-income investing

### LM WA municipal bond funds at a glance

#### Designed for investors who wish to receive a monthly dividend

Class A shares as of March 31, 2010

	Lipper peer group	Effective duration <sup>6</sup>	30-day SEC yield <sup>7</sup>	A shares	B shares	C shares
LM WA Short Duration Municipal Income Fund	Short Municipal Debt Funds	2.4	1.31%	SHDAX	N/A	SHDLX
LM WA Intermediate-Term Municipals Fund	Intermediate Municipal Debt Funds	5.9	3.85%	SBLTX	N/A	SMLLX
LM WA Managed Municipals Fund	General Municipal Debt Funds	8.2	4.49%	SHMMX	SMMBX	SMMCX
LM WA Municipal High Income Fund	High Yield Municipal Debt Funds	7.9	5.15%	STXAX	SXMTX	SMHLX

Past performance is no guarantee of future results.

### Western Asset's investment philosophy

Western Asset's objective is to provide investors with focused, tightly controlled, value-oriented portfolios. We believe there are four key elements to successful fixed-income asset management:

- Duration weighting
- Maturity/term structure
- Sector allocation
- Issue selection

### What should I know before investing?

There is no guarantee that investment objectives will be met. Diversification does not assure a profit or protect against loss. The Funds' investments are subject to interest rate, credit, inflation and reinvestment risks. As interest rates rise, bond prices fall, reducing the value of the Funds' share prices. High-yield bonds possess greater price volatility, illiquidity, and possibility of default. The Funds may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on the Funds' performance. Although the LM WA Short Duration Municipal Income Fund seeks to minimize risk by investing in municipal securities from a number of different states and localities, the Fund may, from time to time, invest over 25% of its assets in municipal securities from one state or region. This concentration may add additional risks. Certain investors in tax-exempt funds may be subject to state or local income taxation and some income from such funds may be subject to the federal Alternative Minimum Tax (AMT), and state and local taxes may be applicable. Capital gains, if any, are fully taxable. Consult your tax advisor about your particular situation.

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<sup>6</sup> Duration: Duration is a common gauge of the price sensitivity of a fixed-income asset or portfolio to a change in interest rates.

<sup>7</sup> 30-day SEC yield: The 30-day SEC yield is the average annualized net investment income per share for the 30 days ended March 31, 2010. Yields for other classes may vary due to differences in sales charge structure and class expenses. If fees had not been waived during this time period, the 30-day SEC yield would have been 1.40% for the LM WA Short Duration Municipal Income Fund.

[www.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors)

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