LEGG MASON
GLOBAL ASSET MANAGEMENT

WHAT IS AN ETF?

Exchange-traded funds (ETFs) are investment tools that combine characteristics of both mutual funds and stocks.

For more information, visit: leggmason.com

ETFs are similar to mutual funds in that ...

One share of an ETF represents ownership of a number of stocks or bonds, providing a convenient way to potentially achieve diversification.

They can be a cost-effective way to build a diversified portfolio.

ETFs are similar to stocks in that ...

They can be bought or sold through any brokerage account, online or traditional, using a full range of order types (market, limit and stop). ETFs can even be traded on margin. This can make ETFs more liquid, but it can also make them more volatile.

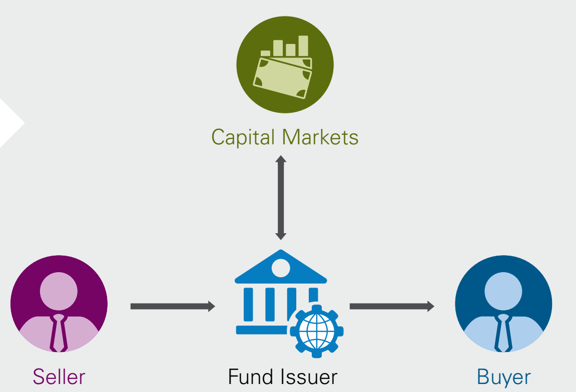
An ETF can be traded any time the market is open, at the ETFs current market price. Like stocks, ETFs reprice throughout the market day. In contrast, most mutual funds are priced daily and do not offer the opportunity to buy or sell during market hours.

ETFs may also offer advantages for tax efficiency in comparison to traditional funds.

How a mutual fund transaction works

The purchase and sale of mutual fund shares can force the issuer to go to the capital markets to fulfill requests for shares or cash. If, for example, fund investors rush to redeem shares in down markets, the fund may be compelled to sell portfolio securities to raise cash, which is a taxable event that affects all remaining shareholders.

If portfolio securities are sold for a gain, a tax liability may be created, which can be passed through to non-redeeming investors.



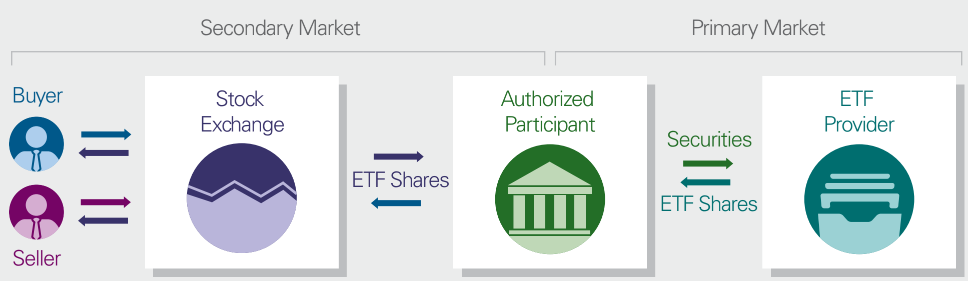
When investors buy mutual funds, they purchase shares directly from the fund issuer.

They likewise sell back (redeem) their shares to the fund company when they exit their investments.

This transaction can cause tax consequences for other investors in that fund.

How an ETF transaction works

When investors buy or sell ETFs, they don't deal with the fund issuer. Their counterparty is either another investor, acting through a broker, or a market maker (in institutional transactions) known as an authorized participant (AP). APs are financial institutions that create and maintain inventories of ETF shares by trading large baskets of the fund's component securities, generally "in kind" with the fund issuer. These cashless transactions are generally not taxable events. In most cases, there are no pass-through capital gains consequences for everyday investor transactions in ETF shares. **Remember, selling your mutual fund or ETF shares at a gain will trigger a taxable event.**



What should I know before investing?

All investments involve risk, including loss of principal. Diversification does not guarantee a profit or protect against a loss.

The differences between ETFs, mutual funds and stocks could significantly impact performance. These differences include, but are not limited to, investment strategy, tax implications, fees and expenses, cash flows, trading structures, and transparency requirements.

Authorized participants (APs) may acquire shares in the primary market directly from the ETFs and may tender their shares for redemption directly to the ETFs, at net asset value per share only in Creation Units or Creation Unit Aggregations. Once created, shares of the funds generally trade in the secondary market in amounts less than that of a Creation Unit.

Retail investors buy and sell shares of ETFs at market price, not the net asset value (NAV) in the secondary market throughout the trading day. These shares are not individually available for purchase or redemption directly from the ETF. For Legg Mason ETFs, market price are based upon the mid-point of the National Best Bid and Offer (NBBO) when the ETF's NAV is determined, which is typically 4pm eastern time. These returns will not represent your returns had you traded shares at other times.

In-Kind is a payment made in the form of securities or other property, rather than in cash.

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