

LEGG MASON APPRECIATION BALANCED TAX-FAVORED PORTFOLIOS (60/40)

Investment overview

Legg Mason Appreciation Balanced Tax Favored Portfolios seeks long-term capital appreciation by emphasizing blue-chip growth and value stocks, and utilizing municipal bonds to manage portfolio volatility and offer a balanced approach to diversification.

Investment objective

The strategy seeks to:

- achieve long-term capital appreciation
- utilize fixed income to manage volatility in the overall portfolio, as well as to provide income, some of which is taxable and some of which is exempt from regular U.S. income tax

Investment philosophy

We believe that:

- solid and competitive risk-adjusted returns may be achieved by investing in a diversified portfolio of growth and value stocks— consisting primarily of large capitalization, blue-chip companies— combined with the potential stability of bonds. The lead equity managers may also invest in select mid- and small-capitalization companies
- balance upside participation in good markets, while trying to manage downside risk during difficult markets

Management team

ClearBridge Investments is a well-established global investment manager focusing on proprietary research and fundamental investing. With over 50 years of experience building portfolios for clients seeking income solutions, high active share or low volatility, long-tenured portfolio managers provide strong leadership in a centralized investment structure.

Western Asset, one of the world's leading fixed income managers, was founded in 1971. With a focus on long term fundamental value investing that employs a top-down, bottom-up approach, the firm has nine offices around the globe and deep experience across the range of fixed income sectors. Western Asset has been recognized for its emphasis on team management and intensive proprietary research, supported by robust risk management.

Investment management team

Scott Glasser,
Co-Chief Investment Officer and Managing Director

- Portfolio Manager
- Industry since 1991

Michael Kagan,
Managing Director

- Portfolio Manager
- Industry since 1985

Western Asset team-managed approach

- Team unites groups of specialists dedicated to different market sectors
- Each group of sector specialists utilizes their expertise in bottom-up analysis of each portfolio sector

Risks: All investments involve risk, including loss of principal and there is no guarantee that investment objectives will be met.

Investments in small- and mid-cap companies may involve a higher degree of risk and volatility than investments in larger, more established companies.

While most investments are in U.S. companies, investments may also be made in ADRs and other securities 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 fluctuation, political and economic developments, foreign taxation and differences in auditing and other financial standards. These risks are magnified in emerging markets.

Fixed income securities are subject to interest rate and credit risk, which is a possibility that the issuer of a security will be unable to make interest payments and repay the principal on its debt. As interest rates rise, the price of fixed income securities falls.

Fixed income securities are subject to illiquidity risk, which is the risk that securities may be difficult to sell at certain prices when no market participants are willing to purchase the securities at such prices. The managers may sometimes hold significant portions of portfolio assets in cash equivalents while waiting for buying opportunities.

Tapering of the Federal Reserve Board's quantitative easing program and a general rise in interest rates may lead to increased portfolio volatility.

Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

For tax-exempt securities, certain investors may be subject to the federal Alternative Minimum Tax (AMT), and state and local taxes will apply. Capital gains, if any, are fully taxable. Depends on individual tax situation.

Diversification does not assure a profit or protect against market loss.

Investment process

STEP 1

Equity investment process

Define the investment universe

Emphasize domestic large-capitalization stocks, but also consider mid- and small capitalization companies and ADR's of foreign companies opportunistically

Fixed Income investment process

Interest rate exposure/Duration weighting

Western Asset's investment team comprehensively analyzes a variety of domestic and international macroeconomic factors to establish a duration target

STEP 2

Equity investment process

Evaluate stocks using proprietary discipline

Screen for high-quality companies with dominant market positions, proven management teams and superior balance sheets across all market sectors

Fixed Income investment process

Term structure weighting

The Firm carefully employs strategies in an attempt to take advantage of changes in the yield curve's shape and shifts in the relationship between short-, intermediate-, and long-maturity securities.

STEP 3

Equity investment process

Select securities and construct portfolio

Conduct fundamental research to identify companies with attractive growth characteristics relative to their valuation levels, with a range of 80-100 stocks

Fixed Income investment process

Sector allocation

Western Asset believes that the value can be added to a portfolio by actively rotating among, and within, different sectors of the Municipal bond market. The investment team studies the fundamental factors that influence sector spread relationships.

STEP 4

Equity investment process

Review holdings continuously

Re-examine a current holding when valuation is realized, fundamentals deteriorate, insiders are selling and/or cyclical shifts alter industry's attractiveness.

The managers may sometimes hold significant cash reserves as a portion of the portfolio while waiting for buying opportunities.

Fixed Income investment process

Issue Allocation

Using a bottom-up process, the Firm seeks to identify issuers with changing credit characteristics and securities that are undervalued and out of favor due to unusual circumstances.

Performance

Annualized rates of return - gross and net of fees (%) as of June 30, 2018 - PRELIMINARY

	Jun '18	Q2 '18	YTD	1-year	3-year	5-year	7-year	10-year	15-year
Appreciation BTF (60/40) (gross)	0.61	0.85	-1.02	5.05	6.56	7.38	8.15	7.48	6.99
Appreciation BTF (60/40) (net)	0.36	0.11	-2.47	2.00	3.47	4.26	5.01	4.36	3.88
Index Mix (60/40)	0.48	2.40	1.77	8.62	7.84	8.88	8.89	7.73	7.09
S&P 500 Index	0.62	3.43	2.65	14.37	11.93	13.42	13.23	10.17	9.30

Calendar-year total returns - gross and net of fees (%) ending December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Appreciation BTF (60/40) (gross)	11.91	7.11	0.64	9.00	19.37	10.82	5.19	8.72	15.76	-13.94
Appreciation BTF (60/40) (net)	8.67	4.00	-2.30	5.84	15.93	7.61	2.13	5.57	12.42	-16.49
Index Mix (60/40)	14.04	7.03	2.02	9.46	18.86	10.76	4.33	10.77	19.13	-21.87
S&P 500 Index	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46	-37.00

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit www.leggmason.com for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 3.0% annual wrap fee, which is the maximum anticipated wrap fee for equity and balanced portfolios. Actual fees vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Legg Mason Private Portfolio Group (LMPPG), refer to LMPPG's Form ADV disclosure document. Returns reflect the reinvestment of dividends and other earnings.

The investment process may change over time. The characteristics set forth above are intended as a general illustration of some of the criteria the strategy team considers in selecting securities for client portfolios. There is no guarantee that investment objectives will be achieved.

The index mix consists of 60% S&P 500 Index and 40% Bloomberg Barclays 5-Year Municipal Bond Index (rebalanced monthly).

YTD numbers are not annualized. **Past performance is not a guarantee of future results. Please see Performance Endnotes for important additional information regarding the portfolio performance shown and for effects of fees.** Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

Separately Managed Accounts (SMAs) are investment services provided by Legg Mason Private Portfolio Group, LLC (LMPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by one or more of the following Legg Mason-affiliated subadvisors: ClearBridge Investments, LLC and Western Asset Management Company. Management is implemented by LMPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

Portfolio information¹

Top ten equity holdings (%) as of June 30, 2018

	Portfolio
Microsoft Corp	4.92
Alphabet Inc	3.97
JPMorgan Chase & Co	3.65
Berkshire Hathaway Inc	3.56
Raytheon Co	3.45
Comcast Corp	3.40
Johnson & Johnson	3.34
Cisco Systems Inc	3.13
Walt Disney Co/The	3.09
TJX Cos Inc/The	2.87
Total	35.38

Equity sector weightings (%) as of June 30, 2018

	Portfolio
Information Technology	22.80
Financials	14.31
Industrials	14.15
Health Care	10.93
Consumer Staples	9.67
Consumer Discretionary	9.36
Materials	5.14
Energy	4.77
Utilities	1.59
Real Estate	1.36
Telecommunication Services	1.10
Cash	4.82

Equity characteristics as of June 30, 2018

	Portfolio
Number of Holdings	48
Dividend Yield	2.11
Forecasted P/E Ratio -1 Year	17.18
Price/Book Ratio	5.13
Long-Term EPS Growth	11.77
Weighted Median Market Capitalization	151.18
Weighted Average Market Capitalization	198.07

Equity market cap. (%) as of June 30, 2018

	Portfolio
Above \$50B	86.51
\$25 - \$50B	13.49
\$10 - \$25B	0.00
\$3 - \$10B	0.00
0 - \$3B	0.00

Fixed Inc. sector weightings (%) as of June 30, 2018

	Portfolio
Revenue	59.61
General Obligation	27.76
Other	8.59
Pre-Refunded	4.04

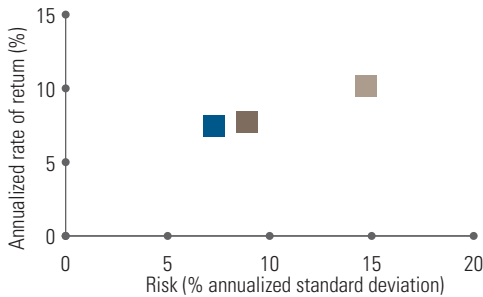
Fixed Inc. characteristics as of June 30, 2018

	Portfolio
Effective Duration (Years)	3.70
Average Coupon Rate (%)	4.64
Average Maturity (Years)	4.40
Yield to Worst (%)	2.07

Performance statistics (gross of fees)² – Preliminary

Risk/return profile (%)

Gross of fees (based on 10-year period ended June 30, 2018)



■ Appreciation BTF (60/40)

Rate of return	7.48
Standard deviation	7.29

■ Index Mix (60/40)

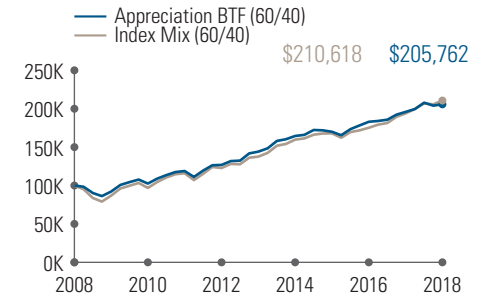
Rate of return	7.73
Standard deviation	8.89

■ S&P 500 Index

Rate of return	10.17
Standard deviation	14.71

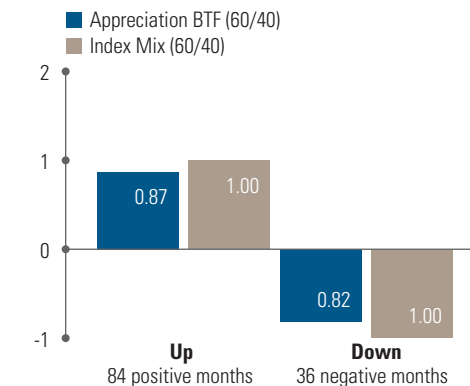
Growth of \$100,000³

Gross of fees (based on 10-year period ended June 30, 2018)



Up/Down market capture ratios (%)

Gross of fees (based on 10-year period ended June 30, 2018)



Modern portfolio statistics

Gross of fees (based on 10-year period ended June 30, 2018)

Alpha	1.20
Beta	0.79
Sharpe ratio	0.99
R-Squared	0.94

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit www.leggmason.com for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

¹ Portfolio characteristics and composition are currently inaccessible at the representative account level for the Appreciation BTF portfolio. In lieu of this, the following pages show portfolio characteristics for a model portfolio of Appreciation Portfolio (Source: FactSet) for the equity portion and for the aggregate of individual client portfolios in the Current Market Muni (Source: InvestorTools) program for the fixed income portion. Portfolio characteristics are subject to change at any time. Portfolio characteristics of individual client portfolios in the program may differ, sometimes significantly, from those shown above.

² Source: Legg Mason.

³ For illustrative purposes only. Assumes no withdrawals or contributions. These statistics are based on gross-of-fees quarterly composite returns, were calculated assuming reinvestment of dividends and income, and take into account both realized and unrealized capital gains and losses.

YTD numbers are not annualized. Past performance is not a guarantee of future results. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

PERFORMANCE CALCULATION:

Legg Mason Appreciation Balanced Portfolios (Tax Favored) composite performance has the approximate target allocation of: 60% equity and 40% fixed income components. The Index Mix is comprised of 60% S&P 500 Index and 40% Bloomberg Barclays 5-Year Municipal Bond indices, rebalanced monthly. Unlike the indices included in the Index Mix, investment styles included in balanced portfolios are not automatically rebalanced each month.

Performance returns for periods prior to January 2006 are based on the performance of a composite of accounts from a formerly-affiliated sponsor channel, which represented an overwhelming majority of the strategy's retail assets under management during such periods. Such pre-2006 returns were calculated on an equal-weighted basis where each portfolio contributed an equal weight to the resulting composite return regardless of its asset size. Performance returns for periods subsequent to January 2006 are based on the composite performance of all discretionary retail managed accounts in the strategy. Such post-2005 returns were calculated on an asset-weighted basis where each portfolio contributed to the resulting composite return proportionately based on asset size.

FEES:

Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 3.0% annual wrap fee, which is the maximum anticipated wrap fee for equity and balanced portfolios. Actual fees may vary. For fee schedules, contact your financial professional, or if you may enter into an agreement directly with LMPPG, refer to LMPPG's Form ADV disclosure document.

Past performance is not a guarantee of future results.

INDEX DEFINITIONS:

The **Index Mix (60/40)** consists of 60% S&P 500 Index and 40% Bloomberg Barclays 5-Year Municipal Bond Index.

The **S&P 500 Index** is a capitalization-weighted, composite index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Bloomberg Barclays 5-Year Municipal Bond Index** is a market-value-weighted index representative of the medium term (4 to 6 years) tax-exempt bond market.

Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.

Index/Terms and definitions:

Dividend yield is determined by dividing a stock's annual dividends per share by the current market price per share. Dividend yield is a financial ratio that shows how much a company pays out in dividends.

P/E (Year 1) is the previous day's closing price of the stock divided by the consensus earnings per share (EPS) of fiscal year 1 (FY1) provided by I/B/E/S. Forecasts are inherently limited and should not be relied upon as indicators of future performance.

The **Price-to-book ratio (P/B)** is a stock's price divided by the stock's per share book value. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of a common stock.

Weighted median market capitalization represents the value at which half the portfolio's market capitalization weight falls above and half falls below.

Weighted average market capitalization represents the average value of the companies held in the portfolio. When that figure is weighted, the impact of each company's capitalization on the overall average is proportional to the total market value of its shares.

Market capitalization measures the number of outstanding common shares of a given corporation multiplied by the latest price per share.

Average coupon based on the portfolio's underlying holdings, which may differ and are subject to change. Coupon rate is the annual coupon payments paid by the issuer relative to a bond's face or par value.

Maturity is the date at which a debt instrument is due and payable. A bond due to mature on January 1, 2010, will return the bondholder's principal and final interest payment when it reaches maturity on that date. Bond yields are frequently calculated on a yield-to-maturity basis.

Duration is the measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows.

Yield to worst (YTW) is based on a portfolio's current holdings on one specific day, is gross of all portfolio expenses, and is calculated based on assumptions that prepayment occurs if the bond has call or put provisions and the issuer can offer a lower coupon rate based on current market rates. If market rates are higher than the current yield of a bond, the YTW calculation will assume no prepayments are made, and YTW will equal the yield to maturity. The YTW will be the lowest of yield to maturity or yield to call (if the bond has prepayment provisions). The YTW of a bond portfolio is the market-weighted average of the YTWs of all the bonds in the portfolio.

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.

The **up capture ratio** measures the manager's overall performance to the benchmark's overall performance, considering only quarters that are positive in the benchmark. An Up Capture Ratio of more than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark's positive quarters.

The **down capture ratio** is the ratio of the manager's overall performance to the benchmark's overall performance, considering only quarters that are negative in the benchmark. A Down Capture Ratio of less than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark's negative quarters and protects more of a portfolio's value during down markets.

Alpha is a measure of performance vs. a benchmark on a risk-adjusted basis. A positive alpha of 1.0 means the portfolio has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. Alpha is a measure of the difference between actual returns and expected performance measuring sensitivity to index movements.

Beta measures the sensitivity of an investment to the movement of its benchmark. A beta higher than 1.0 indicates the investment has been more volatile than the benchmark and a beta of less than 1.0 indicates that the investment has been less volatile than the benchmark.

Sharpe ratio is a risk-adjusted measure, calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe ratio, the better the portfolio's historical risk-adjusted performance.

R-squared measures the strength of the linear relationship between the fund and its benchmark. R-squared at 100 implies perfect linear relationship and zero implies no relationship exists.

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