

# LEGG MASON LARGE CAP GROWTH BALANCED TAX-FAVORED PORTFOLIOS (60/40)

## Investment overview

Legg Mason Large Cap Growth Balanced Tax-Favored Portfolios seek long-term capital appreciation through investments in large-capitalization stocks with potential for solid long term performance. The portfolios use municipal bonds to manage portfolio volatility and offer a balanced approach to diversification.

## Investment objective

The strategy seeks to:

- Focus on consistent, long-term growth of capital while seeking to minimize volatility
- Perform well in improving markets and outperform a mix of 60% Russell 1000 Growth and 40% Bloomberg Barclays Muni. 5 Year Index in difficult markets
- Provide competitive returns regardless of which investment style is in favor

## Investment philosophy

We believe that:

- Ownership of high-quality, large-company stocks can provide the potential for solid long-term performance.
- When combined with the traditional stability of municipal bonds, large cap stocks have the potential to manage volatility during turbulent 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

Peter Bourbeau,  
Managing Director

- Portfolio Manager
- Industry since 1991

Margaret Vitrano,  
Managing Director

- Portfolio Manager
- Industry since 1996

## 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.

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. U.S. Treasuries are direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasuries, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

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.

## Investment process

# STEP 1

### Equity investment process Idea generation

- Sector analysts and PMs each propose companies with attractive business models and good long-term growth prospects for further review
- Idea generation is an ongoing and continual process

### Fixed Income investment process

#### Interest rate exposure/Duration weighting

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

# STEP 2

### Equity investment process Fundamental analysis

- Analysts and PMs work together to understand the durability of a company's growth and profit
- Meet with target company management, competitors and industry experts

### 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 Portfolio construction

- Own companies with a range of growth and volatility
- Maintain high active share
- Monitor sector weightings and correlations among current holdings

### 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 bond market. The investment team studies the fundamental factors that influence sector spread relationships.

# STEP 4

### Equity investment process Risk management/Evaluation discipline

Assess risk regularly

### Fixed Income investment process

#### Issue selection

Using a bottom-up process, the Firm seeks to identify companies 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 December 31, 2018 - PRELIMINARY

	Dec '18	Q4 '18	YTD	1-year	3-year	5-year	7-year	10-year	15-year	20-year	25-year
Large Cap Growth BTF (60/40) (gross)	-5.01	-8.27	0.81	0.81	7.58	7.97	10.96	10.92	6.68	5.77	8.23
Large Cap Growth BTF (60/40) (net)	-5.26	-8.97	-2.13	-2.13	4.46	4.84	7.75	7.71	3.58	2.69	5.09
Index Mix (60/40)	-4.77	-9.09	0.11	0.11	7.39	7.16	9.29	10.53	6.75	4.95	7.34
S&P 500 Index	-9.03	-13.52	-4.38	-4.38	9.26	8.49	12.70	13.12	7.77	5.62	9.07

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Large Cap Growth BTF (60/40) (gross)	0.81	17.22	5.37	7.28	9.85	24.48	13.40	3.09	6.91	23.47
Large Cap Growth BTF (60/40) (net)	-2.13	13.84	2.31	4.17	6.66	20.91	10.12	0.09	3.80	19.92
Index Mix (60/40)	0.11	18.71	4.21	4.60	9.10	19.45	10.35	4.66	11.76	24.89
S&P 500 Index	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://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% Russell 1000 Growth Index and 40% Bloomberg Barclays 5-Year Municipal Bond Index.

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 information<sup>1</sup> as of December 31, 2018

Top ten equity holdings (%)	
Amazon.com Inc	6.23
Alphabet Inc	5.69
Microsoft Corp	4.70
Visa Inc	3.49
Facebook Inc	3.46
UnitedHealth Group Inc	3.32
Adobe Inc	2.66
Thermo Fisher Scientific Inc	2.30
Apple Inc	2.29
WW Grainger Inc	2.21
<b>Total</b>	<b>36.35</b>

Equity sector weightings (%)	
Information Technology	30.62
Health Care	16.86
Communication Services	13.24
Consumer Discretionary	11.93
Industrials	8.28
Consumer Staples	5.37
Financials	5.12
Materials	3.49
Energy	1.87
Real Estate	1.62
Utilities	0.00
Cash	1.59

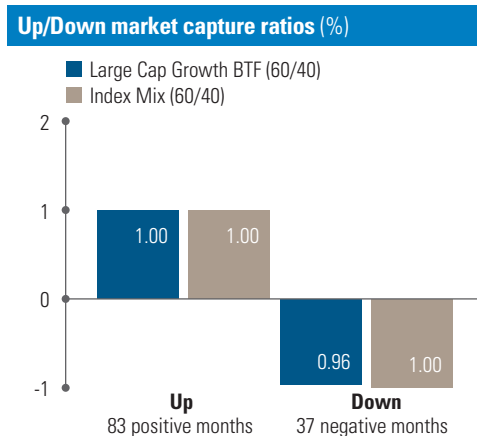
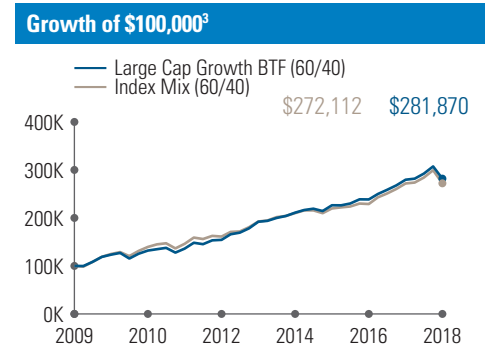
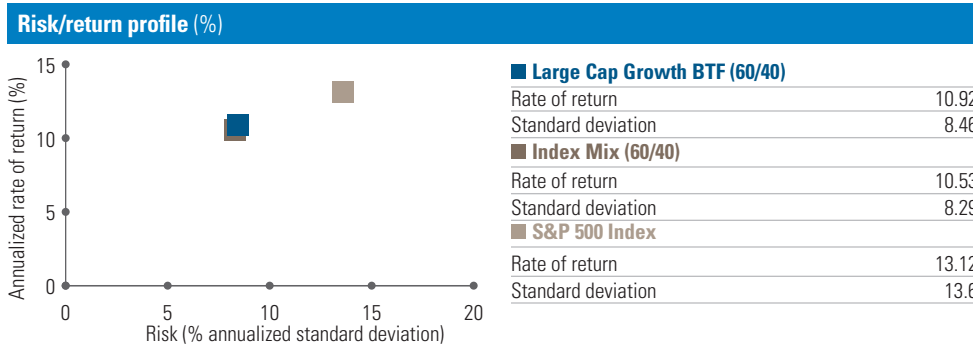
Equity characteristics	
Number of Holdings	51
Dividend Yield	1.14
Forecasted P/E Ratio -1 Year	19.91
Price/Book Ratio	7.63
Long-Term EPS Growth	17.40
Weighted Median Market Capitalization	97.81
Weighted Average Market Capitalization	217.43

Equity market cap. (%)	
Above \$50B	69.58
\$25 - \$50B	13.25
\$10 - \$25B	16.07
\$3 - \$10B	1.10
0 - \$3B	0.00

Fixed Inc. sector weights (%)	
Revenue	58.54
General Obligation	28.78
Other	9.58
Pre-Refunded	3.10

Fixed Inc. characteristics	
Effective Duration (Years)	3.54
Average Coupon Rate (%)	4.60
Average Maturity (Years)	4.22
Yield to Worst (%)	2.00

## Performance statistics (gross of fees)<sup>2</sup> – Preliminary (based on 10-year period ended December 31, 2018)



Modern portfolio statistics	
Alpha	0.50
Beta	0.99
Sharpe ratio	1.23
R-Squared	0.94

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://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.

<sup>1</sup> Portfolio characteristics and composition are currently inaccessible at the representative account level for the Large Cap Growth Balanced Tax-Favored portfolio. In lieu of this, the following shows portfolio characteristics for a model portfolio of the Large Cap Growth portfolio (Source: FactSet) for the equity portion and for an aggregate portfolio of Current Market Muni (Source: Investor Tools) 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.

<sup>2</sup> Source: Legg Mason.

<sup>3</sup> 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.

Period	Total Return (Net, %)	Total Return (*Pure Gross, %)	Benchmark Return (%)	Number of Portfolios	% of Bundled Fee Portfolios in the Composite	Composite Dispersion (%)	Composite 3 Yr. St. Dev. (%)	Benchmark 3 Yr. St. Dev. (%)	Total Composite Assets at End of Period (\$MM)	Percentage of Firm Assets	Total Firm Assets at End of Period (USD million)
2017	13.84	17.22	18.71	56	100	0.46	6.37	6.35	43.4	0.1	53,956.9
2016	2.31	5.37	4.21	49	100	0.31	6.99	6.73	27.2	0.1	46,104.9
2015	4.17	7.28	4.60	30	100	0.26	7.21	6.75	17.2	0.0	42,608.6
2014	6.66	9.85	9.10	32	100	0.37	n/a	n/a	19.0	0.0	42,421.5
2013	20.91	24.48	19.45	32	100	0.70	n/a	n/a	19.4	0.1	37,054.3

\*Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs, and are presented as supplemental to the net of fee returns.

**Compliance Statement:**

Legg Mason Private Portfolio Group, LLC ("LMPPG") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Legg Mason Private Portfolio Group, LLC has been independently verified for the periods January 1, 2013 - December 31, 2017. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

**Firm Information:**

Legg Mason Private Portfolio Group, LLC is a wholly-owned subsidiary of Legg Mason, Inc. LMPPG, together with their Subadvisers ClearBridge Investments, LLC ("ClearBridge") and Western Asset, provides investment advisory services primarily in investment programs sponsored by Sponsor Firms. The investment advisory services LMPPG and the Subadvisers provide differ depending on the type of Sponsor Firm investment program in which a client participates. ClearBridge and Western Asset claim compliance with the Global Investment Performance Standards (GIPS®) and have been independently verified through December 31, 2017. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. LMPPG has used a sub advisor for all periods presented.

**Composite Information:**

The Legg Mason Large Cap Growth Balanced Tax-Favored 60/40 composite consists of discretionary wrap accounts with an account minimum of US \$25,000. The strategy seeks long-term capital appreciation through investments in large-capitalization stocks with potential for solid long-term performance. The portfolios use municipal bonds to limit portfolio volatility and offer a balanced approach to diversification. The main risks of this strategy are General Investment Risk, Credit Risk, Interest Rate Risk, Illiquidity Risk, and Geographic Concentration Risk.

**Input and Calculation Data:**

The fee schedule currently in effect is 3.00% on all assets. 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 rate. The "bundled" fee includes transaction costs, investment management, custodial, and other administrative fees. As of January 2014, the internal dispersion of annual returns is measured by the asset-weighted standard deviation of portfolio returns included in the composite for the entire year. For prior years, the equal-weighted standard deviation was used. Data prior to January 2013 is not displayed because that data is non GIPS compliant. The three-year annualized ex-post standard deviation is not available prior to 2015 because the composite did not have 36 months of GIPS compliant data. A list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not necessarily indicative of future results.

**Benchmark Information:**

The composite uses the following blended benchmark 60% Russell 1000® Growth / 40% Bloomberg Barclays Municipal 5 Year which is rebalanced monthly.

The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

The Bloomberg Barclays Municipal 5 Year is a capitalization weighted bond index intended to be representative of major municipal bonds of all quality ratings with an average maturity of approximately five years.

The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. The index is not managed and not subject to management or brokerage commissions. Dividends are subject to reinvestment.

**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.**

**The investment strategies described herein are those of Legg Mason Private Portfolio Group, LLC (LMPPG). These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these LMPPG materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.**

**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 portfolios 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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