2Q 2019 | Product Commentary

SCD - LMP CAPITAL & INCOME FUND INC.

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Average annual total returns (%)
as of June 30, 2019

	3-mo	YTD	1-yr	3-yr	5-yr	10-yr	Since Incept. (2/24/04)
NAV	5.05	23.56	14.87	7.01	2.26	10.62	6.01
Market Price	7.48	32.92	16.14	10.78	3.43	13.01	5.97

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so shares, when sold, may be worth more or less than the original cost. Returns are based on Market Price or NAV and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other Fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. Performance data of less than one year are cumulative figures and are not annualized. For current month-end performance, visit* www.lmcef.com.

Executive summary

- The Fund's net asset value return was 5.05% during the second quarter, whereas it returned 7.48% from a market price perspective.
- The quarter was bookended by positive returns in April and June as investors were cheered by hints of a more accommodative policy turn by the Federal Reserve and optimism that a trade deal between the U.S. and China would be reached.
- Financials led the broad market higher despite net interest income pressure from a 40-basis-point decline in the 10-year U.S. Treasury yield to 2.0% and a 50-basis-point reduction in the projected year-end federal funds rate. Materials and information technology (IT) stocks also generated strong returns.
- ClearBridge remains positive on the outlook for the U.S. equity market. Economic conditions are slowing but they remain sound overall, corporate profitability is still solid but profit growth is hard to come by, and inflation rates remain stubbornly low.

There is no change in our view that focusing on companies with sound or improving balance sheets, attractive current dividend yields and dividend growth potential is a sound course in the current environment.

Market review

The U.S. equities market continued to generate solid returns in the second quarter, with the broad S&P 500 Index growing 4.30% and the Dow Jones U.S. Select Dividend Index up 2.30%. Gains were broad-based across market capitalizations and investment styles, with the Russell 1000 Growth Index up 4.64% and the Russell Mid Cap Index rising 4.13%. The small-cap Russell 2000 Index trailed modestly with a 2.10% gain. Financials led the broad market higher despite net interest income pressure from a 40-basis-point decline in the 10-year U.S. Treasury yield to 2.0% and a 50-basis-point reduction in the projected year-end federal funds rate. Materials and information technology (IT) stocks also generated strong returns. Alternatively, energy was the only sector to generate a negative return, despite higher oil prices during

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the period. Meanwhile, the health care and real estate sectors generated relatively more modest, but still positive returns in the period.

The quarter was bookended by positive returns in April and June as investors were cheered by hints of a more accommodative policy turn by the Federal Reserve and optimism that a trade deal between the U.S. and China would be reached. In May trade tensions reappeared and threatened to broaden: the U.S. administration raised tariffs from 10% to 25% on $200 billion worth of Chinese goods and raised the specter of tariffs on imports from Mexico. It also stepped up actions against Huawei, banning the Chinese telecom giant from doing business in the U.S. and effectively barring U.S. suppliers from selling to the company. By June, however, Mexican tariffs were off the table, a U.S.-China trade deal again looked closer, and the Fed had dropped the word "patient" from its statement and said it would "act as appropriate" to prop up the economy. The risk asset trade was on again.

The swing from month to month in the second quarter was a reminder of the volatility still present behind strong gains for the year-to-date data. Slowing global growth remained a concern in the second quarter, with China's GDP growth declining, the euro area economy losing momentum, and trade tensions dampening business confidence. Reflecting a more pessimistic outlook, 10-year U.S. Treasury yields dropped to 2.0% and the yield curve inverted.

Oil prices edged down from $60 per barrel of WTI crude at the end of March to $58.47 to finish the quarter, largely on rising U.S. crude oil inventories and worries that escalations in the U.S.-China trade dispute would further slow already sluggish global economic growth and curb energy demand. Prices hit almost as low as $51 per barrel, but they rebounded in June as tensions increased between the U.S. and Iran, OPEC reached a consensus on extended production cuts, lower-than-expected U.S. inventories kept the supply picture in check, and reported progress in U.S.-China trade talks helped improve the demand picture.

Fund performance and positioning

The Fund's net asset value return was 5.05% during the second quarter, whereas it returned 7.48% from a market price perspective.

During the quarter, nine of the 11 sectors that the Fund was invested in had positive returns. The financials, information technology (IT) and industrials sectors contributed the most to absolute returns. The real estate and energy sectors were the main laggards.

Relative to the Fund's benchmarks, the Bloomberg Barclays US Aggregate Index and the S&P 500 Index, the Fund outperformed due to positive contributions from both stock selection and sector allocation. In particular, stock selection in the IT, industrials and financials sectors contributed to relative results; an underweight in the energy sector was a main contributor from a sector allocation standpoint. Stock selection in the real estate sector, meanwhile, detracted from relative returns.

Relative to the Dow Jones U.S. Select Dividend Index benchmark, stock selection had a positive effect on returns. Stock selections in the energy, consumer staples and industrials sectors were the largest contributors to returns. An overweight to the IT sector and underweights to the consumer discretionary and consumer staples sectors also added to relative performance, while overweights to the energy and real estate sectors detracted.

The top contributors to performance were Blackstone, Lockheed Martin, Microsoft, Qualcomm and Westlake Chemical Partners LP.

The bottom contributors were Hoegh LNG Partners LP, Energy Transfer, LP, Simon Property Group, Park Hotels & Resorts and Intel.

During the quarter we initiated a position in Western Digital, in the IT sector, Rattler Midstream LP (RTLR), in the energy sector, and Two Harbors Investment Corp., Carlyle Group LP and Apollo Global Management, in the financials sector. We closed positions in Atrazeneca, in the health care sector, Citigroup and Annaly Capital Management, in the financials sector, and Western Midstream Partners LP, in the energy sector. Portfolio holding DowDuPont (DWDP) spun off Dow Inc. (DOW), a materials science-focused company with divisions in packaging, infrastructure and consumer care, and Corteva (CTVA), an agricultural chemical company in the materials sector, shares of both of which we received and retained in the portfolio; the remaining business, DuPont de Nemours (DD), is also held in the portfolio. Portfolio holding

Blackstone converted from a limited partnership structure to a C-corporation.

The Fund ended the quarter with 62.3% of assets in common stocks, 20.1% in energy MLPs, 8.5% in real estate investment trusts (REITs), 7.3% in convertible securities and the remainder in cash. The Fund's allocation to bonds was negligible.

As of June 30, 2019, the Fund's leverage was 23.5%, which ClearBridge believes is an appropriate level.

The Fund's top 10 holdings at the end of the quarter were in a diverse set of industries. They included Microsoft, Apple and Qualcomm, in the IT sector, Lockheed Martin, in the industrials sector, Merck, in the health care sector, Energy Transfer LP (ET), Genesis Energy LP and Hoegh LNG Partners LP, in the energy sector, Verizon, in the communication services sector, and Westlake Chemical Partners LP, in the materials sector.

As of June 30, 2019, the LMP Capital and Income Fund market price of $13.56 represented an 8.75% discount to net asset value. The Fund paid a distribution rate of 9.1% at market price.

Outlook

We remain positive on the outlook for the U.S. equity market. Economic conditions are slowing but they remain sound overall, corporate profitability is still solid but profit growth is hard to come by, and inflation rates remain stubbornly low. We believe it is increasingly likely that the Federal Reserve will lower interest rates at least once later this year. We continue to watch closely for indications of increased risks to the U.S. economy and equity market, such as a further slowing of global economic growth or an increase in trade tensions, but we currently see these risks as manageable. There is no change in our view that focusing on companies with sound or improving balance sheets, attractive current dividend yields and dividend growth potential is a sound course in the current environment.

As before, we remain steadfast in our belief that the U.S. renaissance in energy production represents a secular growth opportunity and is attractive for the long-term investor. U.S. energy production has continued to follow an upward trajectory for some time and, in our assessment, energy production in the U.S. remains in a good position to continue increasing over time. We believe the MLP industry is becoming more mature, as evidenced, for example, by eliminations or reductions in onerous IDRs and simplified ownership structures. In our assessment, many energy infrastructure companies and MLPs remain attractively priced and are well-positioned in the portfolio, which owns good-quality energy companies that can thrive in the long term. A few MLPs have resorted to distribution cuts to shore up coverage. Many of our holdings continue to exhibit resilience in dividends and distributions, and in quite a few cases demonstrate solid growth. In our view, the long-term outlook for owning energy infrastructure companies and MLPs is positive.

We continue to be reasonably positive in our outlook for the U.S. REIT market. More accommodative Fed policy statements and ongoing economic growth have been good for share price performance so far this year. Real estate fundamentals are sound for most property types and REIT management commentary at the recent NAREIT Conference pointed to continued moderate growth in cash flows and dividends. In our opinion, current REIT valuations are modestly attractive.

Distribution rates (%):

Market price	9.1
NAV	8.3

Distribution rate is calculated by annualizing the most recent distribution amount paid, excluding special distributions, divided by the closing market price or NAV as of 6/30/19. The Fund estimates that the distributions will be paid from: 31.60% investment income; 0.00% realized capital gains; and 68.40% return of capital. These estimates are not for tax purposes and a 1099 will be issued following year end. The distribution rate is subject to change and is not a quotation of Fund performance. The board of directors may terminate or suspend the managed distribution policy at any time. Any such termination or suspension could have an adverse effect on the market price of the Fund's shares. A return of capital is not taxable and results in a reduction in the tax basis of a shareholder's investment. For more information about a distribution's composition, refer to the Fund's distribution press release or, if applicable, the Section 19 notice located in the press release section of our website.

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Glossary

A **basis point** (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

Bloomberg Barclays U.S. Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues rated investment grade or higher and having at least one year to maturity.

Gross Domestic Product (GDP) is an economic statistic which measures the market value of all final goods and services produced within a country in a given period of time.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

The **Dow Jones U.S. Select Dividend Total Return Index** aims to represent the US's leading stocks by dividend yield.

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

Russell Mid Cap Index is a complete subset of both the Russell 1000 and the Russell 3000. The Russell Midcap Index is used by institutional portfolio managers. The range of market caps covered in this 800-member index goes from about $1 billion on the low end to approximately $20 billion.

Russell 2000 Index comprises the 2,000 smallest companies in the Russell 3000 Index.

S&P 500 Index is an unmanaged index of common stock performance.

The **Organization of the Petroleum Exporting Countries (OPEC)** is a permanent intergovernmental organization of 12 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries.

Master limited partnerships (MLPs) are a type of publicly traded limited partnership where limited partners provide capital in exchange for periodic distributions from the MLP's cash flow.

Real estate investment trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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What should I know before investing?

All investments are subject to risk, including the possible loss of principal. Stock and bond prices are subject to fluctuation. Fixed income investments are subject to credit risk, inflation risk and interest rate risk. As interest rates rise, bond prices fall, reducing the value of the fixed income securities held by the Fund. Investing in foreign securities is subject to certain risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. These risks are magnified in emerging or developing markets. The Fund may invest in lower-rated high-yield bonds, which are subject to greater liquidity and credit risk (risk of default) than higher-rated obligations. The repositioning of the Fund's portfolio may increase a shareholder's risk of loss associated with an investment in the Fund's shares. The Fund's investments in energy-related MLPs subject it to the risks of investing in MLPs and the energy sector, which include the risks of declines in energy and commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. The Fund may use derivatives, such as options and futures, which can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Leverage may result in greater volatility of NAV and the market price of common shares, and it increases a shareholder's risk of loss.

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