

Value Equity – 4Q 2009



Bill Miller, CFA and Mary Chris Gay
Portfolio Managers

Strategy: Large Cap Value

Inception of Style: April 16, 1982

Assets Under Management: \$9.7 billion (\$25 MM account min.)

Objective: Value Equity seeks to provide investors with long-term growth of capital through ownership of a diversified portfolio of undervalued securities with market capitalizations generally greater than \$5 billion at the time of purchase.

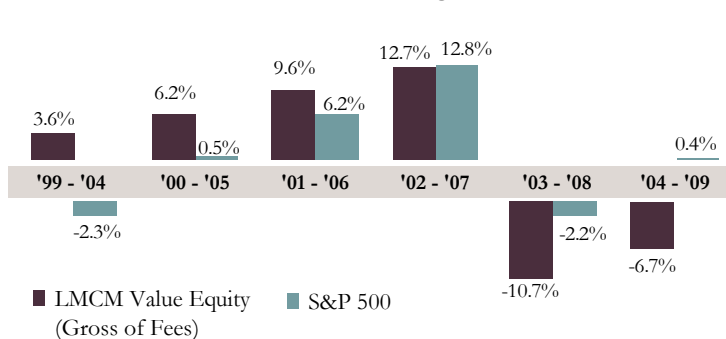
A **concentrated, bottom-up, valuation-based approach** to investing in companies trading at significant discounts to their intrinsic value.

Fortune named **Bill Miller, CFA “One of the greatest investors of our time.”**¹

Highlights: Outperformed the S&P 500 Index by 258 basis points on average per year since inception (*Gross of Fees*). Value Equity outperformed the S&P 500 Index 79% of rolling 5-year periods.²

GOOD LONG-TERM RESULTS

Annualized Five-Year Rolling Performance³



SECTOR BREAKDOWN	LMCM Value Equity	S&P 500
Information Technology	28.10%	19.86%
Financials	26.13%	14.38%
Consumer Discretionary	16.23%	9.58%
Health Care	10.38%	12.63%
Utilities	8.30%	3.71%
Industrials	3.48%	10.24%
Cash	2.30%	0.00%
Consumer Staples	1.67%	11.36%
Energy	1.59%	11.48%
Materials	1.09%	3.60%
Telecommunication Services	0.73%	3.16%

PERFORMANCE

	4Q 2009	1 Year	3 Years	5 Years	10 Years	Since Inception ⁴
						Gross Net
Value Equity (Gross of Fees)	3.53%	42.21%	-14.97%	-6.67%	-1.67%	14.02%
Value Equity (Net of Fees)	3.35%	41.24%	-15.57%	-7.33%	-2.34%	10.78%
S&P 500	6.04%	26.46%	-5.63%	0.42%	-0.95%	11.44% 9.55%

TOP TEN HOLDINGS BY ISSUER

The AES Corporation	8.30%
Aflac Inc	3.69%
Sears Holdings Corporation	3.59%
Aetna Inc	3.43%
eBay Inc	3.43%
International Business Machines Corp.	3.23%
Hewlett-Packard Company	3.10%
CA Inc	3.02%
Capital One Financial Corporation	2.99%
Texas Instruments Incorporated	2.96%

For more information, please contact:
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All data as of December 31, 2009. Please see the disclosure on the back for more information. Returns for periods greater than one year are annualized. Prior to 1988, Legg Mason Capital Management is not in compliance with AIMR-PPS standards due to the unavailability of records. Performance data since inception is shown as supplemental information. The portfolio information is based on a representative Value Equity account and is provided as supplemental information. It may not be disclosed or distributed without the prior written consent of Legg Mason Capital Management. ¹Fortune, November 27, 2006. ²Percentage of rolling monthly five-year periods for the ten years ended 12/31/09 in which the Value Equity Composite outperformed the S&P 500 Index, gross of fees. ³All five-year rolling returns are for periods ending December 31. ⁴Inception of gross performance is 04/16/82. Inception of net performance is 01/01/88.

**Legg Mason Capital Management
Value Equity Composite
Performance Disclosure**

Period Ending December 31	Composite Assets		Total Firm Assets at Period End (millions)	Accounts at Period End	Asset-Weighted Annual Returns		S&P 500 Index	Composite Dispersion
	U.S. Dollars (millions)	% of Legg Mason Capital Management Assets			Gross of Fees	Net of Fees		
2009	\$6,618	39%	\$17,169	10	42.21%	41.24%	26.46%	1.15%
2008	5,953	40%	14,903	7	-54.44%	-54.78%	-37.00%	0.49%
2007	25,669	43%	59,679	22	-5.13%	-5.80%	5.49%	0.18%
2006	32,441	48%	67,911	25	7.61%	6.86%	15.80%	0.14%
2005	27,966	46%	60,232	22	7.06%	6.31%	4.91%	0.09%
2004	22,325	46%	48,856	17	13.80%	13.06%	10.88%	0.09%
2003	14,625	42%	35,179	6	45.93%	44.99%	28.69%	N.A.
2002	9,586	47%	20,362	6	-17.49%	-18.04%	-22.10%	N.A.
2001	12,610	53%	23,971	6	-7.74%	-8.35%	-11.88%	N.A.
2000	13,164	58%	22,866	Five or fewer	-5.56%	-6.21%	-9.11%	N.A.
1999	14,845	62%	23,975	Five or fewer	28.89%	27.87%	21.04%	N.A.

N.A. – Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

- The Value Equity composite is comprised of discretionary accounts with no material investment restrictions, which invest primarily in domestic equity securities with market capitalizations generally greater than \$5 billion at the time of purchase. As of July 1, 2009, the composite includes only accounts with a minimum market value of \$25 million. From November 1, 1999 to June 30, 2009, the minimum was \$50 million; from April 1, 1999 through October 31, 1999 the minimum was \$25 million; from January 1, 1999 through March 31, 1999, the minimum was \$5 million, and prior to that, the minimum was \$3 million. Neither leverage nor derivatives are used in this composite. No balanced portfolio segments are included in this composite.
- Gross and net of fee performance results for Value Equity: (a) include the reinvestment of all dividends, interest, and capital gains; and (b) were computed on a trade date (as opposed to a settlement date) basis. Prior to January 1, 2005, accounts in the Value Equity composite were under management for at least three full months before being included. New discretionary accounts starting after January 1, 2005 are eligible to join the composite after one full month of performance. “Weighted” performance measures the average performance of all portfolios in the composite weighted by size. The U.S. dollar is the currency used to express performance. Effective, August 1, 2005, portfolio returns are calculated daily using the Modified Dietz method. Previously, portfolio returns were calculated monthly using the Modified Dietz method. Additional information regarding policies for calculating and reporting returns is available upon request.
- The “gross” of fees performance figures reflect the day-weighted performance of assets (including cash reserves) managed for the period and do not reflect the deduction of our advisory fees, but do reflect the deduction of trading commissions, custodial fees, and withholding taxes. The “net” of fees performance figures reflect the deduction of trading commissions, custodial fees, and withholding taxes and, as of January 2005, represent the highest investment advisory fee payable by Value Equity separate accounts according to our fee schedule. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. The following is our graduated fee schedule for a Value Equity separate account: 0.70% on the first \$50 million under management; 0.45% on the next \$50 million under management; 0.40% on the next \$50 million under management; 0.35% on the next \$50 million under management; 0.30% for remaining amounts over \$200 million under management. Non-fee paying accounts are excluded from the composite.
- Value Equity's benchmark is the **S&P 500 Index** which represents the large-cap segment of the U.S. equity markets and consists of approximately 500 leading companies in leading industries of the U.S. economy. Criteria evaluated include: market capitalization, financial viability, liquidity, public float, sector representation, and corporate structure. An index constituent must also be considered a U.S. company. *Other indices used for comparison purposes include the Russell 1000® Growth Index and the Russell 1000® Value Index.* The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The **Russell®** indices are trademark services of the Frank Russell Company. **Russell™** is a trademark of the Frank Russell Company.
- The dispersion of annual returns is measured by the standard deviation of asset-weighted portfolio returns represented within the composite for the full calendar year.
- The Value Equity composite was created January 1, 1997.
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- Legg Mason Capital Management has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Legg Mason Capital Management has been verified for the periods January 1, 2004 through December 31, 2008 by Ernst & Young LLP. A copy of the verification report is available upon request. Legg Mason Capital Management has been verified for the periods January 1, 1988 through December 31, 2003 by Ashland Partners & Company LLP. A copy of the verification report is available upon request. Past investment results are not indicative of future investment results. To receive a complete list and description of Legg Mason Capital Management's composites, please contact Christine Peregoy Waters at 1-866-410-5500, via email at cwaters@lmcm.com, or write to Legg Mason Capital Management, 100 International Drive, Baltimore, Maryland 21202.

Legg Mason Capital Management

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