

Institutional Aggressive Growth Strategy

2Q11

Market Review

At the start of the second quarter we had a relatively mixed view of the market given generally strong corporate fundamentals and reasonable stock market valuations, which were offset by increasingly bullish sentiment that had grown beyond our comfort levels. While believing that the preconditions for a bear market were not present (i.e., overvalued stocks, sharply contracting monetary policy, market euphoria), we did believe that a health-restoring correction could help to reinvigorate the bull market that had been in place for over two years.

Following a rally in April, the market grew more volatile and indeed experienced a short term correction across most segments that we believe helped restore a healthy level of skepticism. Bearish sentiment in general rose as the market was troubled by questions about the durability of the economic recovery, concerns over the events in Greece and the Euro zone, as well as a myriad of other issues including rising oil prices and disruptions caused by the earthquake and tsunami in Japan.

From the start of May until the last two weeks of June, as the market remained focused on the macroeconomic concerns, the S&P 500 Index retreated over 8% before rapidly recovering and producing only a minor net gain for the quarter. For the entire second quarter, the broad S&P 500 Index was essentially flat, returning 0.10%, while the blue-chip Dow Jones Industrial Average returned 1.42% and the technology-focused Nasdaq Composite Index lost 0.04%.

We see an accommodative Federal Reserve and ample liquidity, substantial quantities of cash reserves on corporate balance sheets, and stock valuations that remain reasonable. We also have seen, and expect to continue to see, a great deal of consolidation across a number of sectors, including health care, technology and energy. In a relatively slow growth environment such as this, companies that can produce double digit earnings/cash flow growth either deserve a premium multiple to the market or make attractive acquisition candidates for larger companies.

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Strategy Highlights

In terms of absolute performance, the Strategy had positive returns in three out of seven sectors in which it was invested (among 10 in total) for the quarter. Contributions to returns came from the health care, consumer discretionary and industrials sectors, while the energy, information technology (IT), financials and materials sectors detracted from Strategy performance. The Strategy had no holdings in the consumer staples, utilities or telecommunications services sectors.

Relative to the benchmark index, both the Strategy's overall stock selection and overall sector allocation contributed to

outperformance for the quarter. In particular, stock selection in the health care sector accounted for the majority of outperformance, with additional contributions from stock selection in the industrials sectors, overweights to the health care and consumer discretionary sectors and an underweight to the IT sector.

Evan Bauman, Managing Director, Portfolio Manager

- 15 years of investment industry experience
- BS in Mathematics from Duke University

Richard Freeman, Managing Director, Senior Portfolio Manager

- 35 years of investment industry experience
- MBA in Finance from New York University
- BS in Accounting from Brooklyn College

Detractors from relative quarterly performance included stock selection in the IT, energy, and financials sectors, as well as an overweight to the energy sector and an underweight to the consumer staples sector (no holdings). There were no significant changes to any of the Strategy's positions over the course of the second quarter.

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Market Outlook

Looking ahead, we still believe that many of the factors that have driven the secular bull market should remain in place. Short term interest rates remain historically low, and based on statements from the Federal Reserve, we believe they should continue to be for an extended period of time. Stock valuations in general, given the low levels of inflation, are also still quite low by historic standards. Additionally, we are cognizant of the enormous buildup in cash reserves on the part of individual investors as well as corporate America, which could potentially move into equities.

During this period of volatility and below-average economic growth, we find it especially important to identify those businesses that can show solid organic growth in both revenues and earnings. We continue to favor self-financing business models with lots of cash and repetitive and consistent cash flows. We believe that those types of secular growth business models deserve a premium valuation multiple in the market or ultimately will attract interest from third party acquirers. To this end, over the course of the first half of this year our portfolio has seen an acceleration of both corporate merger and acquisition transactions and interest from value-oriented activist shareholders.

Our strong performance for the second quarter was broad based and we believe, due primarily to our bottom-up stock selection approach to investing. Much of our activity over the second quarter was focused on taking advantage of downside market volatility by selectively adding to existing positions where we had the cash available, including both recent additions but also some of our older holdings.

While we have repeatedly stated our belief that there is little to no correlation between portfolio turnover rates and investment performance, we find it interesting that much of our recent performance has been driven by stocks that we have held for 5, 10, 15, and in some cases as much as 20 years. We view this as validation of our time-tested investment discipline of a fundamentals-based approach to long-term equity investing

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