

ClearBridge Advisors “Socks or Stocks”: The importance of quality and fundamentals in investing

“Long ago, Ben Graham taught me that ‘price is what you pay; value is what you get.’ Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down.”

—Warren Buffett, Feb. 27, 2009¹

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¹ Berkshire Hathaway Inc., Chairman’s Letter – 2008. Used with the permission of the author.
All investments involve risk, including possible loss of principal.

INVESTMENT PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE

The basic challenge for equity investors has changed little over the last century; how do you assemble a portfolio of stocks that are likely to grow over time, at prices that allow for attractive returns relative to the level of risk?

At ClearBridge Advisors, we believe the answer lies in investing in high-quality companies for the long term, using fundamental analysis to select those companies and determine their intrinsic value. It's a simple concept, but executing it effectively and consistently is no simple matter. In this paper, we explain why maintaining this focus on quality is so important, detail the fundamentals that are most important to our approach and show how they function as the cornerstone of our investment process.

Executive summary

The classic fundamental investment approach embraced by ClearBridge Advisors is firmly rooted in the pioneering work of investment legends Benjamin Graham and Philip A. Fisher, who emphasized investing in quality companies for the long term and the use of both qualitative and quantitative research and analysis to assess real intrinsic value. Their lessons are more relevant than ever in the wake of the challenges posed by the past decade, which affirm the importance of fundamentals in selecting securities.

Regardless of the market capitalization or investment objective, our focus is on seeking out quality firms and is founded on fundamentals, with special emphasis on the details of a company's financials, capital allocation, business model and management quality.

We emphasize proprietary research and seek to leverage intellectual content and institutional access to company management across the firm to produce an information advantage and help manage risk in our portfolios. To that end, our portfolio managers work closely with our team of specialized analysts as well as our skilled traders in an open, active and collaborative process.

We feel our ability to produce superior risk-adjusted investment returns over the long term is a direct reflection of how well we meet these goals. That is why we have been, and will remain, focused on quality and guided by fundamentals.

From Graham and Fisher to Buffett: Quality, fundamentals and the origins of “value,” “growth” and security analysis

While the advent of the stock market predates the industrial revolution, its modern era can arguably be dated from the “Black Thursday” crash of the New York Stock Exchange in 1929 and the subsequent Great Depression, which triggered regulatory reforms intended to provide a fair playing field for investors and restore confidence in the securities exchanges, starting with the Securities Act of 1933.

Drawing lessons from what they saw as the failures of Wall Street in the Crash of ‘29 and the frequent irrationality of market pricing, Columbia Business School professors Benjamin Graham and David Dodd laid the groundwork for what would come to be known as “value” investing in their 1934 book *Security Analysis*. Graham and Dodd advocated a new approach to investing that sought to determine the real value of a security by gauging the value of the underlying business through disciplined analysis of its financial statements. Thus armed with a true or “intrinsic” value, Graham and Dodd posited that the savvy investor could earn returns and collect dividends with a minimum of risk by purchasing undervalued securities and selling them once their true value was reflected in their market price.

Graham advocated maintaining a “margin of safety” between the price paid for a stock and its intrinsic value to give the investor room for error, labeling it the central concept of investing, and expounded on his ideas in the 1949 book *The Intelligent Investor*. His methods were focused on the quantitative analysis of financial statements and, since they could be uniformly applied to publicly available data for a large number of companies, typically led to the construction of diversified portfolios across a range of industries.

One of Graham’s best-known students is famed investor Warren Buffett – the “Oracle of Omaha” – who chose to earn his degree in Economics at Columbia so he could study under Graham. Buffett has frequently praised Graham as one of his main influences, writing the Preface to the Fourth Edition of *The Intelligent Investor*, published in 2003. He has explained his own investment approach succinctly: “I’m 15 percent Fisher and 85 percent Benjamin Graham.”

“Fisher,” in this case refers to Philip Arthur Fisher, an investor and professor at the Stanford Graduate School of Business. Fisher is known as one of the progenitors, and greatest practitioners, of “growth” investing. His first book, *Common Stocks and Uncommon Profits*, published in 1958, advised investors to purchase and hold for the long term a concentrated portfolio of outstanding companies with compelling growth prospects. The key for Fisher, however, was to be sure that one thoroughly understood the company before one bought it and to then be attentive to any negative changes in its prospects once it was held. The exhaustive research and monitoring Fisher advocated necessitated making investments in fewer companies and produced more concentrated portfolios than Graham’s approach.

Unlike Graham’s emphasis on financial statements, Fisher’s research focused on qualitative study of a company and its management. His book listed “Fifteen Points to Look for in a Common Stock” and constituted a guide to finding well-managed companies with excellent growth prospects. In contrast to “statistical bargains” that were merely inexpensively priced, Fisher argued that good growth stocks are ones with excellent long-term growth prospects, based on an intelligent appraisal of their underlying business. Paying the optimum purchase price for a growth stock, according to Fisher, mattered less than its underlying fundamentals. The fifth of his “Five Don’ts for Investors” was clear on this point: “Don’t quibble over eighths and quarters.”

Buffett combined Graham’s quantitative-driven value perspective and diversified portfolios with Fisher’s qualitative and concentrated growth, and refined it into what many would now consider an evidently commonsense approach – one that has been widely followed and copied by investors for decades. As he wrote in 1977, “We select our marketable equity securities in much the same way we would evaluate a business for acquisition in its entirety. We want the business to be (1) one that we can understand, (2) with favorable long-term prospects, (3) operated by honest and competent people, and (4) available at a very attractive price.”²

² Berkshire Hathaway Inc., Chairman’s Letter – 1977. Used with the permission of the author.

The “Lost Decade”: From the “Dot-bomb” to the “Black Swan” and the “New Normal”

The ten-year period from 1999 to 2009 – the so-called “lost decade” – has been the first decade of negative annualized returns (including dividends) for the Standard & Poor’s 500 Index since its inception in 1927. Given the advances made in technology, finance and academic study since the days of Graham and Fisher, one may wonder, how could this have come to pass? In our opinion, one of the key reasons is that for much of the past decade, the underlying quality of an individual company or security as measured by its fundamentals was often seen as an inconsequential factor in a new paradigm of increasingly sophisticated financial engineering.

At the start of the decade, the speed with which the emerging technologies of the Internet produced a new “dot-com” economy and outsized investments in the technology sector was matched only by the speed of this “new economy’s” collapse when the speculative bubble burst in what was dubbed the “dot-bomb” of 2000.

To many in this “new economy,” the “old economy’s” fundamental measurements of a security’s worth – which often did not correspond to the soaring prices these new companies’ stocks were awarded upon their increasingly frantic initial public offerings – were either meaningless, or simply incapable of capturing the true value promised by these new ventures. It appeared that any company with an “e-” at the front of its name or a “com” at the end had discovered a surefire formula for rising share prices without demonstrating the ability to consistently generate earnings or, in some cases, even possessing a business model that could eventually produce them.

In the aftermath of the bubble’s collapse, investors frequently admonished themselves for succumbing to a speculative mania, the likes of which had not been seen since the Dutch developed a fancy for tulips in the 1630s. Lessons, it was heard again and again, had been learned. Investors, we were told, would not be so easily swayed the next time by phantom earnings or illusory valuations based on “black box” business models that were poorly understood at best and mere fictions at worst.

Yet the ensuing economic and stock market recovery coincided with the inflation of yet another speculative bubble where values detached from fundamentals – this time in the housing sector, fueled by collateralized debt obligations composed of subprime home loans and complex derivative instruments. The quality of the underlying assets mattered little, investors were assured, because their value would only rise – and further, the application of novel securitization techniques would effectively eliminate risk of default or loss from the equation.

But this time, the collapse of that bubble in 2007 triggered a recession and a global liquidity and financial crisis of truly historic proportions – labeled a “Black Swan” event for its rarity – and took with it many of the financial institutions that had helped create the crisis in the first place.

Given this pattern, it should come as no surprise that in the wake of this latest crash there has been a significant market rally. But while the economic indicators provided mixed messages in the wake of the recession that officially began in December of 2007 and appears to have ended in the fall of 2009 – the speed and extent of the stock market gains seen following the lows of March were remarkable. The S&P 500 Index gained 65% from its 12-year low on March 9, 2009 through the end of the year.

However, as has been widely reported over the course of the past several months, the securities that typically made the greatest gains during this rally were considered to be “low quality” stocks that benefited most from the historically low interest rate environment and supportive policies of the federal government. The conventional wisdom conveyed in the business news now says the run-up seen in 2009 in these “low quality” stocks is unlikely to continue much further, and investors are advised to position their portfolios cautiously for 2010. They are told to invest in “high quality” stocks and to adjust their expectations to a slower-growth, narrower-margin and lower-return environment dubbed the “New Normal” by fixed-income manager Bill Gross.³

³ “Staying Rich in the New Normal,” Bill Gross, PIMCO Investment Outlook, June 2009.

We are heartened to see that the lessons conveyed about the importance of fundamental security analysis and quality assets by the likes of Graham and Fisher – and popularly championed by Buffett (and in the offices of ClearBridge Advisors at least, by our Chief Investment Officer, Harry “Hersh”

Cohen) – seem to be back in favor with the investing public, if only for the time being. However, we will still be operating with these principles at our core when the next wave of enthusiasm for the next new paradigm washes over the market.

Looking for a needle in a pile of needles: The distinguishing features of quality companies

Reliably determining whether or not a given security has been issued by a truly “quality” company and accurately establishing its intrinsic value is difficult, but we believe that performing these functions are two of the primary methods by which our professionals add value to the investment process. Proper portfolio construction and diligent risk management, efficient trading, effective administration and responsive client service are vitally important aspects of our business, but we believe it is the prudent exercise of managers’ and analysts’ judgment in stock selection and valuation that drives our enterprise.

Our managers all work within a disciplined investment framework, focused on the search for quality through fundamental research and analysis. However, because different investment strategies have varying objectives and operate within different “universes” of companies, our portfolio managers are encouraged to follow their own distinct styles and processes in the day-to-day management of their portfolios.

Practically speaking, this means our managers share a common list of features they think are key to distinguishing a high-quality company, but the specific quantitative measurements and qualitative characteristics that they look for can vary substantially. In terms of quantitative measurements, our emphasis can be roughly divided between financial metrics and capital allocation. On the qualitative side, the broadest categories for the qualities we seek would be a company’s business model and its management.

Quantitative characteristics

Financial metrics

We will not make an investment decision based solely on positive financial metrics, but negative findings in any of these key areas that cannot be

explained to our satisfaction will normally preclude us from considering a company to be a quality enterprise or from giving it any further consideration. For an investment we already hold, any signs of deterioration in these areas will trigger a thorough review at minimum and further action if it impacts our original rationale for holding it. We analyze a tremendous amount of data about financial performance, but the key criteria are:

- **Superior balance sheet:** Having a strong balance sheet is normally a primary prerequisite for us to consider a company as a quality investment. A very strong or superior balance sheet in comparison to industry peers is preferred. In both good and difficult economies, a strong balance sheet enables a company to function effectively, regardless of whether the credit environment is loose or tight. We ordinarily prefer to see little or no debt on balance sheets, but higher financial leverage ratios may be acceptable – depending on the industry and the specific investment strategy – in firms with strong market positions and highly visible revenues.
- **High cash flows:** Cash is both a critical resource to companies and a significant indicator of performance that is not easily manipulated for the benefit of appearances (unlike earnings), so it would be difficult to overstate its role in our fundamental analysis. At their most basic, we believe quality companies are effectively cash-generation machines, and so any shortcomings or problems seen in their cash flows are significant red flags for us. We look for companies with abundant cash flows that have been able to sustain their growth rates over time, which we believe helps minimize the risk of our chasing after momentum-driven stocks. In particular, we typically want to find companies that can sustain high free cash flow growth rates over longer terms.

- **Sustainable income:** Both top-line (revenues) and bottom-line (net income) data will be factored into our analysis. Ordinarily, we will want to see a company deliver highly predictable and consistent earnings. In most cases, we prefer to see recurring (or low volatility) revenues from companies with long product cycles that are not dependent on closing large amounts of business in a short period of time in order to deliver consistent earnings. Vital revenue streams and cost drivers should be readily apparent, and we will want to understand their related margin implications. We ordinarily prefer to see companies with visible means of improving their margin structure and returns over time. Our growth-oriented products will tend to favor superior revenue growth, accelerating earnings growth and potential for upside earnings surprises, while our value-oriented products will be more concerned with normalized earnings power and its relation to price.
- **Return on Invested Capital (ROIC) and Return on Equity (ROE):** The first calculation measures the cash rate of return on capital that a company has invested, and is widely considered one of the more reliable metrics for distinguishing quality companies, but is often overlooked because it is not as readily available as other, more commonly used financial ratios. In most instances we expect a quality company will consistently maintain an ROIC in excess of its weighted average cost of capital (WACC), and should produce a rising ROIC over time. Measuring the net income a company produces from its total shareholder equity or book value, ROE gives us another quantitative indicator for quality companies, which again, will allow for a range of acceptable values based on a number of circumstances. As with ROIC, we expect to see a quality company generate an industry-leading and steadily rising ROE as confirmation that it is growing increasingly efficient in the use of equity to generate profits.

Capital allocation

The essence of what businesses do is to allocate their resources to generate returns for their shareholders. We believe a quality company will consistently manage this process with great efficiency, no matter the stage of its life cycle. We need to understand a firm's capital structure and see sufficient evidence of its capital allocation discipline before we will consider it for investment. Our expectations for performance will vary depending on size, but they must be met for us to consider a company a quality investment. Key criteria include:

- **Dividends and share repurchase:** For companies large and mature enough to generate sufficient free cash flow, we prefer to see appropriate dividends paid out to shareholders – particularly in our income- and value-oriented strategies but less so in our growth and small-cap strategies. We monitor dividend history and prefer to see increasing dividend yield and dividend growth, or at a minimum, dividend growth potential. We consider share repurchase programs to be an indicator of quality companies in most cases, provided we have confidence in management that is supported by both qualitative and quantitative indicators.
- **Intelligent Mergers & Acquisitions:** In short, no empire builders need apply. We look for a management to pursue M&A activity that is strategic, goal-oriented, and can be expected to contribute to earnings rapidly and for the foreseeable future. Managers should clearly understand the potential downsides to proposed M&A activity.
- **Prudent capital expenditures:** We feel the key to successful investing and wealth creation is deploying capital at returns that exceed the cost of that capital. We appreciate that growing firms may require significant capital investment. However, expenditures that are high relative to historical patterns or depreciation are usually a flag that will lead us to investigate further the wisdom of these investments. Firms and management teams with a history of capital destruction are typically avoided.

Qualitative characteristics

Business model

While qualitative traits of companies are often more difficult to discern than quantitative ones, they are one place we believe we can establish an information advantage through the combination of our proprietary fundamental research and our direct access to company management. Under the heading of Business Model Analysis, we seek to answer the simple question: “Do we want to be in this business?” To that end, we collect a wide range of information that can help separate quality companies in promising industries from those that have generated impressive quantitative data for a period either through fortunate circumstance or their competitors’ failings, or are well-run companies with limited futures by reason of broader industry trends beyond their control. As with quantitative measures of quality, different traits will apply to companies in different market capitalization ranges and stages of their life cycles.

- **Dominant companies with dominant products or services:** In mature markets, we seek out companies that are leaders in their market or industry. They should have the best-in-class product or service and leadership positions in both developed and expanding markets. Dominant companies often have pricing power and near-monopolistic profits.
- **Share takers in expanding addressable markets or industries:** Whether large or small, young or old, we expect to see quality companies take increasing market share from their competitors over time. If that is not the case, even when earnings or revenues are increasing, there may be a fundamental problem with the company or its product or service that is not necessarily obvious at the time and will only be clear in hindsight. We also prefer a tailwind to a headwind, and will normally choose companies operating in markets and industries that are growing or expanding rather than those that are shrinking.
- **Wide “economic moats”:** A term coined by Warren Buffett, wide “moats” represent large and sustainable competitive advantages. These characteristics act as barriers to entry against other companies wanting to compete and can vary from one industry to another. Examples of “moats” include exclusive patents in technology or healthcare sectors, large economies of scale in manufacturing or industrial sectors, or cost advantages in consumer sectors, etc. They are characterized more by their effect on competitors than by their form, which can make them difficult to recognize.
- **Innovative products or “disruptive” technologies:** Among younger or smaller companies, we prize innovation and efficient research and development (R&D) spending, which can provide greater control over pricing of their products or services, or “disruptive” technologies that can displace or undercut existing market leaders and enable significant market share gains.
- **Proven business models we understand:** In order to make sound judgments about the quality of a company, we have to build a solid understanding of its business “ecosystem,” which includes its competitive landscape, its competitors and the industry’s benchmarks, the cyclical or secular growth patterns of its business, etc. We therefore prefer proven business models – ones with at least several years’ worth or, preferably, several full business cycles’ worth, of history – rather than untested models or concepts.
- **Compelling products:** There will always be some products that people are practically compelled to use because of their unique and vital function. Novel treatments for life-threatening or debilitating illnesses are a prime example – the alternative to using the product would be considered unacceptable in most circumstances. Sometimes these are products that are mandated by law and sometimes they are monopolistic products with no viable alternatives, such as patented technologies.

Management

One of the greatest advantages conveyed by our status as institutional investors is the direct access we have to senior management teams at companies, both those where we already hold positions or those we are considering as investments. We meet with company management teams regularly, and treat the meetings as an opportunity to learn about not just their businesses, but also to gain insight into their competitors, their suppliers, their customers, their industries in general and the economy at large. However, the biggest insights we normally gain from these meetings concern the managers themselves. While enough has been written about business management to fill several libraries, what we look for in management can be reduced to a few salient points:

- **Seasoned teams:** We feel there is no substitute for first-hand experience in business management. We look for managers that have established track records of performance in the industry and prefer to see several business cycles' worth of experience. Even a merely adequate manager can often guide a company to positive results in good economic circumstances, so we want to see managers who have proven their ability to steer companies through difficult straights with proficiency, preferably more than once.
- **Stable teams with depth:** When new managers claim credit for ostensibly inherited success, we are naturally skeptical. We look for low turnover in management teams, and want to see teams that have been in place long enough to rightfully lay claim to a company's present successes or to give us meaningful insights into its past failings, and in some cases, both. Where we already know and like a given management team, our chief concern will typically focus on their succession plan. We want to see successors already working with current management, learning from their predecessors directly and establishing validity with their own companies and shareholders as well as with the market.
- **Shareholder-oriented managers with "skin in the game":** Too often we have seen the consequences of managers who place their own interests ahead of those of their company and its shareholders. We look for managers who clearly understand – and whose actions confirm – their primary role as custodians of shareholder value. We also want to see appropriate compensation structures in place that align the managers' interests with those of the shareholder and that reward the steady increase of shareholder value. Having a meaningful portion of management compensation in the form of equity – putting their own "skin in the game" – is a positive indicator in our view.
- **Visionary management:** We make investment decisions with a long-term perspective and expect a quality management team to do the same. Managers focused on delivering results for only the current quarter, or even the next few quarters, will not necessarily win our confidence. We expect managers to offer clearly defined long-term strategies to increase shareholder value and practical paths to success. They should have both near-term and long-term plans that are integrated into a cohesive vision of their company's future.

You can't eat a recipe: Turning stock picks into investment portfolios

As an asset manager, we are not in the business of selling lists of our stock picks; rather, we offer meticulously constructed and actively managed investment portfolios designed to meet specific objectives. It is easy to lose sight of the fact that all the work ClearBridge collectively performs to both find quality companies and calculate our own

assessment of their intrinsic value is really just the first step in a collaborative investment process.

Although our portfolio managers are encouraged to follow their own distinct styles and processes in the day-to-day management of their portfolios, in general the process can be divided into three phases:

Fundamental Research and Bottom-Up Security Selection

This phase entails narrowing all of the potential investments in a given strategy's broad universe to a specific sub-set that the portfolio managers believe best meet the strategy's criteria.

Portfolio Construction

The portfolio managers will further refine this list, using macroeconomic or top-down factors, technical analytics, and other techniques to produce what they feel is an appropriately diversified or concentrated portfolio of the highest quality and that is best suited to meet the strategy's specific investment goals.

Risk Management, Ongoing Portfolio Monitoring and Review

Conducted at both the security and the portfolio level, initially this step seeks to optimize the risk-reward relationship of the entire portfolio. After the initial portfolio construction is complete, this transitions into an ongoing set of functions carried out by the portfolio managers in conjunction with our analysts, our Senior Management including our Chief Investment Officer, and our dedicated Risk Management Team, for the life of the strategy.



Thinking outside the style boxes: Quality vs. Style and market capitalization

It is our belief that a focus on quality companies is not the exclusive province of growth-, core- or value-oriented investment styles. In our view, quality is not a characteristic dependent on a stock's valuation or its earnings growth rates – rather, quality companies can be both over- and under-valued, and can undergo periods of comparatively stronger or weaker growth, for any number of reasons that have no meaningful connection to their fundamentals. Maintaining style purity is usually a question of priorities at ClearBridge: After quality, which secondary characteristic of a stock is given greater weight in the portfolio construction process? Valuation or projected growth rates?

Our general view of the relationship between market capitalization and quality is simple: we don't think there is any. A company's size is often an indicator of its past success, but it is no guarantee of its present quality or its future success. While investments in smaller companies ordinarily carry greater risk than those in larger companies, we believe that quality companies can be found in all sizes, which is why we can manage strategies across the capitalization range and still emphasize quality.

Caveat Emptor: The first rule of risk management

Our view is that buying securities of companies that we have determined to be high-quality through our own diligent fundamental research is the most basic form of risk management. We believe that while the Latin phrase *Caveat Emptor* ("Let the Buyer Beware") may be ancient, it is still sound advice for investors.

Of course, our multi-step investment oversight process involves many additional steps and incorporates many more factors than just due diligence and fundamental research. We view risk management – and the maintenance of a risk-aware culture – as an ongoing and firm-wide responsibility. But the most important step, in our view, is to confirm that the securities we are buying in the first place are issued by high-quality companies, and to have a clear understanding of what those securities are really worth.

Many hands make light work: Our collaborative approach to fundamental research

Our portfolio managers have at their fingertips access to a vast wealth of accumulated historical stock data and up-to-the-minute market intelligence, from a diverse range of sources. Unfortunately for us, so does the rest of the market. In order to manufacture our own information advantage, we have made proprietary fundamental research and analysis the cornerstone of our disciplined investment approach.

Because many of our portfolio managers have a background in fundamental analysis, they will typically conduct their own research in addition to what our analysts produce, including regular interaction with corporate management teams. It is our belief that having a seasoned portfolio management team also leads to a more robust vetting process for our research that in turn, improves the overall quality of our information. Our fundamental research team is organized in a unique and flexible matrix that utilizes both sector-specific analysts focused on individual industries in support of our entire portfolio management team, and portfolio analysts, who cover a broad range of stocks for a single portfolio manager. The two types of analysts share a common analytical approach to investments, monitor existing holdings, and opportunistically seek out new ideas.

In addition, our dedicated team of traders provides the portfolio managers with market feedback and insight throughout the investment process. Individual traders work with specific portfolio managers, interacting constantly over the course of the day and developing relationships over several years in many cases. Our traders work in partnership with portfolio managers, rather than simply executing purchase or sale orders.

ClearBridge Advisors

Focused on quality. Guided by fundamentals.

At ClearBridge Advisors, we seek to make long-term investments in what we believe are high-quality companies at prices that create a sufficient margin of error given the level of risk to produce superior returns. We base our judgments about those companies and their intrinsic value on quantitative and qualitative criteria that we believe serve as highly reliable and accurate indicators of underlying quality and value. We gather and analyze information from a wide range of public and external sources, but because this information is typically also available to the rest of the market, we also conduct our own proprietary research and analysis in an effort to manufacture a meaningful information advantage. We then leverage this data across the firm as part of our collaborative investment process to create portfolios and products tailored to meet specific investment objectives.

As we noted at the outset, this is a very simple concept, but one that is deceptively difficult to execute properly. Our firm's investment approach is designed to seek out high-quality companies through fundamental analysis and invest at a price that captures the optimal risk-reward relationship. We feel our ability to produce superior risk-adjusted investment returns over the long term is therefore a direct reflection of how well we meet these goals. That is why ClearBridge has been, and will remain, focused on quality and guided by fundamentals.

About ClearBridge Advisors

Legg Mason's largest equity manager, ClearBridge offers investment opportunities for institutional and individual investors in a broad range of styles, market capitalizations and vehicles, with a common focus on seeking out high-quality companies through a fundamental-driven approach.

ClearBridge traces its asset management strengths back over 45 years to a number of prominent and well-established firms that have made meaningful contributions to our modern-day culture and investment philosophy.

The commentary provided is as of February 1, 2010 and is subject to change based on market and other conditions. Views expressed are those of ClearBridge Advisors, LLC. These views are not intended to be a forecast of future events, a guarantee of future results or investment advice. Any statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of the information cannot be guaranteed. The information provided is intended solely to describe the managers' investment strategies and securities selection process, and does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive it. The mention of any individual securities should neither constitute nor be construed as a recommendation to purchase or sell such securities, and the information provided regarding such individual securities is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional.

Past performance is no guarantee of future results. Dividends represent past performance, and there is no guarantee that they will continue to be paid. Diversification does not assure a profit or protect against market loss.

The S&P 500 is market-value weighted index comprised of 500 widely held common stocks. An investor cannot invest directly in an index.

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