

# LEGG MASON DIVIDEND STRATEGY BALANCED TAX-FAVORED PORTFOLIOS (60/40)

## Investment overview

Legg Mason Dividend Strategy Balanced Tax-Favored Portfolios aims to meet long-term financial goals with dividend income, dividend income growth and long-term capital appreciation. The portfolios use municipal bonds to manage portfolio volatility, and offer a balanced approach to diversification.

## Investment objective

The strategy seeks to:

- generate dividend income
- achieve growth of dividend income
- achieve long-term capital appreciation
- utilize fixed income as an anchor to manage volatility in the overall portfolio, as well as to provide income that is exempt from regular U.S. income tax and total return.

## Investment philosophy

We believe that:

- A total return portfolio—with exposure to companies that either pay an existing dividend or have the potential to pay and/or significantly grow their dividends—combined with the potential added stability of tax-favored municipal bonds to help manage volatility—has the potential to outperform over the long term
- Competitive risk-adjusted returns may be achieved by investing in select large- and mid-cap companies complemented by investment-grade securities within the municipal bond market and by seeking to limit portfolio turnover to capitalize on potential for long-term growth

## 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

John Baldi

*Managing Director, Senior Portfolio Analyst*

- Portfolio Manager
- Industry since 1999

Michael Clarfeld, CFA

*Managing Director*

- Portfolio Manager
- Industry since 2000

Scott Glasser,

*Co-Chief Investment Officer and Managing Director*

- Portfolio Manager
- Industry since 1991

Diane Keady

*Managing Director*

- Portfolio Manager
- Industry since 2000

Peter Vanderlee, CFA

*Managing Director*

- Portfolio Manager
- Industry since 1999

## 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.

Investments may be made in small-cap and mid-cap companies which involve a higher degree of risk and volatility than investments in larger, more established companies.

While most investments are in U.S. companies, investments may be made in ADRs and U.S.-traded ordinary shares 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 fluctuations, political and economic developments, foreign taxation and differences in auditing and other financial standards. These risks are magnified in emerging markets.

Managers seek to keep portfolio turnover low to allow for the positive compounding effect of dividends over time, although market, security and other investment considerations may cause turnover to be higher from time to time. Also, all capitalization ranges will not necessarily be represented in an individual account.

The managers may sometimes hold significant portions of portfolio assets in cash equivalents while waiting for buying opportunities.

Limited investments also may be made in non-dividend paying stocks that are not expected to pay a dividend in the near future.

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.

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.

## STEP 1

## Equity investment process

## Define the investment universe

Emphasize domestic large-capitalization stocks, but also consider mid- and small-capitalization companies and ADRs of foreign companies opportunistically

## Fixed Income investment process

## Interest rate exposure/Duration weighting

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

## STEP 2

## Equity investment process

## Evaluate stocks using proprietary discipline

Screen for companies across all market sectors with either an attractive dividend yield, a history of (or prospects for) dividend growth, strong balance sheets, dominant positions and/or reasonable valuations

## 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

## Select securities and construct portfolio

Conduct fundamental research and dividend analysis to identify companies with attractive growth characteristics relative to their valuation levels

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

## STEP 4

## Equity investment process

## Review process

Re-examine a current holding when valuation is realized, fundamentals deteriorate, and/or cyclical shifts alter industry's attractiveness

## Fixed Income investment process

## Issue selection

Using a bottom-up process, the Firm seeks to identify issuers 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 June 30, 2019 - PRELIMINARY

	Jun '19	02 '19	YTD	1-year	3-year	5-year	7-year	10-year
Dividend Strategy BTF (60/40) (gross)	4.10	3.82	12.74	10.57	8.28	6.88	8.65	9.70
Dividend Strategy BTF (60/40) (net)	3.85	3.07	11.12	7.37	5.14	3.77	5.50	6.52
Index Mix (60/40)	4.45	3.38	12.64	8.77	9.35	7.47	9.32	10.20
S&P 500 Index (USD)	7.05	4.30	18.54	10.42	14.19	10.71	13.98	14.70

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Dividend Strategy BTF (60/40) (gross)	-1.98	12.62	9.01	-0.97	9.02	17.87	9.37	8.76	8.61	14.78
Dividend Strategy BTF (60/40) (net)	-4.85	9.36	5.85	-3.87	5.86	14.48	6.20	5.61	5.45	11.47
Index Mix (60/40)	-1.72	14.04	7.03	2.02	9.46	18.86	10.76	4.33	10.77	19.13
S&P 500 Index (USD)	-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% S&P 500 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 GIPS 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.

## Portfolio information<sup>1</sup> as of June 30, 2019

Top ten equity holdings (%)	
Microsoft Corp	3.63
Home Depot Inc/The	2.77
Bank of America Corp	2.74
Comcast Corp	2.68
Merck & Co Inc	2.68
Walt Disney Co/The	2.46
PPG Industries Inc	2.33
United Technologies Corp	2.32
Nestle SA	2.29
BlackRock Inc	2.29
<b>Total</b>	<b>26.19</b>

Equity sector weightings (%)	
Financials	13.43
Information Technology	12.47
Consumer Staples	11.69
Industrials	10.62
Health Care	9.68
Materials	9.24
Energy	8.48
Communication Services	7.06
Consumer Discretionary	5.55
Utilities	3.78
Real Estate	2.10
Cash	5.89

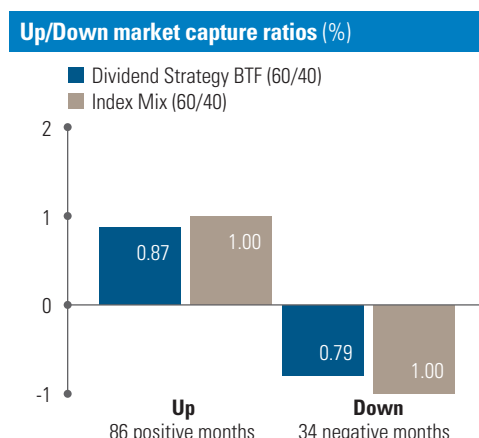
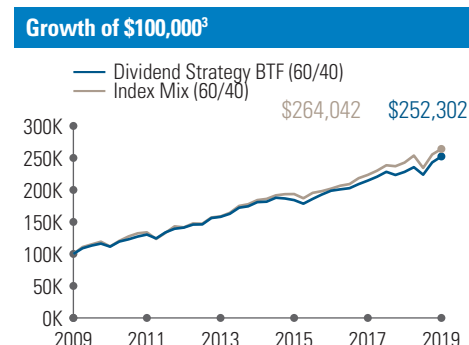
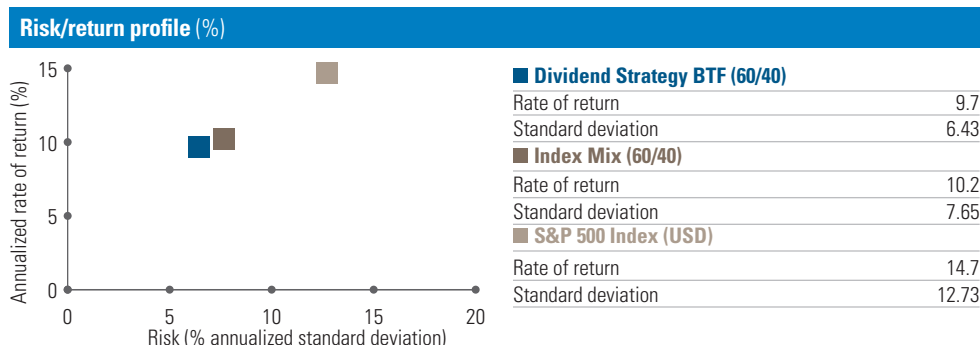
Equity characteristics	
Number of Holdings	51
Dividend Yield	2.40
Forecasted P/E Ratio -1 Year	17.68
Price/Book Ratio	5.11
Long-Term EPS Growth	10.29
Weighted Median Market Capitalization	109.17
Weighted Average Market Capitalization	193.11

Equity market cap. (%)	
Above \$50B	76.68
\$25 - \$50B	19.94
\$10 - \$25B	3.38
\$3 - \$10B	0.00
0 - \$3B	0.00

Fixed Inc. sector weights (%)	
Revenue	63.01
General Obligation	30.45
Other	4.26
Pre-Refunded	2.28

Fixed Inc. characteristics	
Effective Duration (Years)	3.82
Average Coupon Rate (%)	4.70
Average Maturity (Years)	4.22
Yield to Worst (%)	1.51

## Performance statistics (gross of fees)<sup>2</sup>— Preliminary (based on 10-year period ended June 30, 2019)



Modern portfolio statistics	
Alpha	1.42
Beta	0.80
Sharpe ratio	1.41
R-Squared	0.90

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 Dividend Strategy Balanced Tax-Favored portfolio. In lieu of this, the following shows portfolio characteristics for a model portfolio of the Dividend Strategy portfolio (Source: FactSet) for the equity portion and for an aggregate portfolio of Current Market Muni (Source: BondEdge) 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)
2018	-4.85	-1.98	-1.72	118	100	0.26	5.71	6.44	64.1	0.1	50,961.6
2017	9.36	12.62	14.04	122	100	0.45	5.57	5.84	64.0	0.1	53,956.9
2016	5.85	9.01	7.03	93	100	0.37	6.05	6.27	44.7	0.1	46,104.9
2015	-3.87	-0.97	2.02	87	100	0.28	6.38	6.54	43.7	0.1	42,608.6
2014	5.86	9.02	9.46	59	100	0.34	n/a	n/a	32.1	0.1	42,421.5
2013	14.48	17.87	18.86	47	100	0.74	n/a	n/a	24.7	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 its Subadvisers ClearBridge Investments, LLC ("ClearBridge"), Martin Currie Inc. ("Martin Currie"), QS Investors, LLC ("QS"), RARE Infrastructure (North America) Pty Ltd ("RARE"), Royce & Associates, LP ("Royce") 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, Martin Currie, QS, RARE, Royce 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 Subadvisers for all periods presented.

#### Composite Information:

The Legg Mason Dividend Strategy Balanced Tax-Favored 60/40 composite consists of discretionary wrap accounts with an account minimum of US \$25,000. The strategy aims to meet long term financial goals with dividend income, dividend income growth and long-term capital appreciation. The portfolios use municipal bonds to manage portfolio volatility, and offer a balanced approach to diversification. The main risks of this strategy are General Investment Risk, Small Cap Risk, Mid Cap 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 ratio. 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% S&P 500® / 40% Bloomberg Barclays Municipal 5 Year which is rebalanced monthly. Benchmark returns are not covered by the report of independent verifiers.

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.

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.

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, LLC. Management is implemented by LMPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

**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 materials be 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.

**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.**

www.leggmason.com

©2019 Legg Mason Investor Services, LLC. Member FINRA, SIPC. Legg Mason Investor Services, LLC, ClearBridge Investments, LLC and Western Asset Management Company, LLC are subsidiaries of Legg Mason, Inc.

3P 890280 AMXX321488 SMA -