

Business

Sam Peters knows the pressure of managing Legg Mason's flagship mutual fund

Peters to eventually take over for star money manager Bill Miller

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Legg Mason Inc.'s Value Trust fund is synonymous with famed money manager Bill Miller, who has the unmatched record of beating the benchmark Standard & Poor's 500 index for 15 consecutive years. His streak has been compared to the record set by Orioles legend Cal Ripken Jr.

So inevitably, the pressure is on for Miller's successor.

That falls to Sam Peters, who was named last month as the fund's next manager after Miller retires. It's not clear when that will happen; the timeline for Miller's retirement is unknown. In the meantime, Peters will join him as the fund's co-manager later this year.

Peters, 40, now manages the \$1.2 billion Special Investment Trust fund, which focuses on undervalued midsize U.S. companies, at Legg Mason Capital Management. He joined the company five years ago after a stint as an analyst and portfolio manager at Fidelity Investments. Besides managing the midcap mutual fund, Peters also heads Capital Management's research team.

Peters is well aware of "The Streak" associated with the \$4 billion Value Trust, Legg Mason's flagship product, and also its most recent struggles. The fund lost 55 percent in 2008, becoming one of the worst performers among its peers.

Then it bounced back last year, gaining 41 percent. So far this year, the fund is down 5.5 percent.

Peters recently talked to The Baltimore Sun at his Harbor East office,



ALGERINA PERNA/BALTIMORE SUN PHOTOS

Sam Peters is pictured in his office at Harbor East, where he's holding up, "IN VIVO, The Business & Medicine Report," one of several publications which are part of his business research.

where one wall is almost entirely covered with graphs and charts of financial data, including unemployment and housing figures, that help shape his investment decisions.

QUESTION: So what's the wall about?

ANSWER: I'll also show you my trading journal, which has similar things. Different facts from the market, I post them. Anytime I have ideas

and stuff, I try to be data-driven. Obviously I'm trying to handicap the future, which is perilous.

The environment is so noisy. There's so much information out there. I use this to synthesize.

Q: When you came to Legg Mason five years ago, how much of a role did working with Bill Miller play in your decision?

A: Huge. It was big.

It was Bill's approach and how he articulated it. He's a beautiful writer, so it was like, wow, it seemed like this guy really knows how to think about risk. He was very valuation-driven, which I tend to be.

So it was more that I figured that the culture was probably going to be unique.

I loved Fidelity. It was great. I wasn't looking to leave. But it was something worth coming here for the unique characteristics. So I came to take advantage of that.

Q: Did you know that at some point you would or could take over the Value Trust?

A: That's a good question but a tough question. A lot of my job was helping to institutionalize a lot of Bill's thinking and culture. ... [I thought], 'That might be an option someday, but I've got to prepare myself for it.' ... I'm not one of those guys who says, 'If I could get to that point, it's all good.' That's not how it works. I have to perform.

When the tough times and the downturn came and ... we got through it. They were pleased with that, and I could tell that I was earning Bill's respect. As you know, you can't go out and say, 'I want that person to respect me.' It's either going to happen or it's not.

Late last year, he started talking about [the transition].

Q: So you'll start co-managing the fund starting later this year?

A: That's what he has verbalized. So what we're spending the time on now is how that will work. We were co-portfolio managers on the fund I manage now, the Special Investment Trust, and we are co-portfolio managers on an institutional product. We have practice. But the fact that Value is the flagship, it's a big move for him.

We'll keep talking about the process. And how we're going to do things.

Q: You bring up a good point, the Value Trust is the flagship and so closely associated with Bill Miller. How do you feel about taking it over? Is there an intimidation factor?

A: The pressure that comes with it, I know. And I'll be given some time to do this, but I have to perform. I know that.

I'm comfortable enough in my own skin at this point, and I have enough experience and I have a team behind that. Bill and I share many, many similarities. He's clearly my key mentor, but I have to be Sam Peters, managing the fund.

At some point, it will be my fund and then you live and die by the performance.

Clearly, I'm honored. It's awesome. But I don't think about the legacy. If

I've got the team and the right people, and I keep learning from Bill, it will put me in the best position to drive performance, which is what it is all about.

Q: What do you think of "The Streak?" Is there too much emphasis on that?

A: Bill downplays it because of the calendar effect.

It's statistically incredible. I think there is a lot of signal in the streak. You have to be differentiated. And that's a testament to Bill being differentiated. He wasn't trying to be anybody else.

Q: Given the financial turmoil of the last year and a half, have you changed your investment approach at all?

A: It's really just an appreciation of how violent the [market] swings can be. Everyone wants to apply logic, but the market loses its head. It just does, and you've got to think through how you are going to take advantage of that and not have it put you out of business.

That was a key lesson. The classic is the financials. We didn't have a depression, but we priced the market as if we were going to have one.

Q: What signs are you looking for now in the market as we move forward?

A: I do spend some time on sustainability: Is the recovery in the U.S. self-sustaining? I think it is.

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As featured in The Baltimore Sun, June 11, 2010**

**Performance of Legg Mason Capital Management Value Trust Class C shares
Average Annual Total Returns and Expense Ratios (as of 6/30/10)**

	Inception Date	One-Year	Three-Year	Five-Year	Ten-Year	Since Inception	Expenses (Gross)*	Expenses (Net)**
Excluding the effects of sales charges	4/16/82	8.97%	-20.78%	-9.81%	-4.08%	11.32%	1.76%	1.76%
Including the effects of maximum sales charges	4/16/82	8.02%	-20.78%	-9.81%	-4.08%	11.32%		
S&P 500 Index		14.43%	-9.81%	-0.79%	-1.59%	—		

The performance shown represents past performance. Past performance is no guarantee of future results and current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For performance data current to the most recent month end, please see our Web site at www.leggmason.com/individualinvestors.

Average annual total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Class C shares have a one-year contingent deferred sales charge (CDSC) of 0.95%. Performance data does not reflect trade date adjustment made to the NAV at the month end. Performance would have been lower if fees had not been waived in various periods. Performance for other share classes will vary due to differences in sales charge structure and class expenses. All classes of shares are not available through all distribution channels. Contact your financial advisor for more information.

- * Gross expenses are the Fund's total annual operating expenses for the share class indicated as of the date of the Fund's most current prospectus and do not reflect fee waivers or reimbursements. These expenses include management fees, 12b-1 distribution and service fees, and other expenses.
 ** Because the Fund does not currently have fee waivers or reimbursements, gross and net expense ratios are the same.
 The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. It is not possible to invest directly in an index.

An investor should consider a fund's investment objectives, risks, charges and expenses carefully before investing. For a free prospectus, which contains this and other information on any Legg Mason fund, visit www.leggmason.com/individualinvestors. An investor should read the prospectus carefully before investing.

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All Fund statistics below are as of 6/30/10 (unless otherwise noted) and are subject to change.

Top ten holdings: AES Corp. 6.5, Genzyme Corp. 4.1, International Business Machines Corp. 3.7, AFLAC Inc. 3.5, Capital One Financial Corp. 3.1, Goldman Sachs Group Inc. 3.1, Transocean Ltd. 3.1, Texas Instruments Inc. 3.0, Time Warner Inc. 3.0 and Citigroup Inc. 2.9. The holdings do not include the Fund's entire investment portfolio and may change at any time. The information provided is intended solely to describe the Fund manager's management style, 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. Investors seeking financial advice regarding the appropriateness of investing in any security or investment strategies discussed should consult their financial advisor.

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Prior to October 5, 2009, the Fund was known as Legg Mason Value Trust. The Fund's investment objective, portfolio managers and investment strategy have not changed. Please see the prospectus for details.

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