

For Immediate Release

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US Large Caps significantly undervalued, says Bill Miller of Legg Mason Capital Management

- Miller overweight financials, healthcare and technology for 2011

London – 9 January 2011 – Bill Miller, the Chairman and CIO of Legg Mason affiliate Legg Mason Capital Management, believes US large cap equities are significantly undervalued and that the S&P 500 could deliver as much as 15% growth in 2011. He believes financial stocks will be a key driver of incremental earnings growth over the next twelve months, and could drive over 25% of the earnings growth for the S&P 500. To date, both cost cutting and revenue growth have contributed to earnings which have continued to beat expectations this year. The direction of the market is highly correlated with the direction of earnings. Consensus expectations for the next two years are still comfortably positive.

Miller referenced a speech that Warren Buffett gave recently where Buffett said, “It’s quite clear that stocks are cheaper than bonds. I can’t imagine anyone having bonds in their portfolio today when they can own equities”. Given that Warren Buffett rarely speaks about the market and whether it is attractive or not, Miller highlighted the October 2010 speech as important because investors who have followed these rare points of recommendation from Buffett over the past 35 years, have been richly rewarded.

Miller explains, “The economy is expanding, liquidity is ample, inflation is under control, corporate profits are growing and are set to pass their all time high, nominal GDP is at its all time high and real GDP will have fully recovered to its all time high within a quarter – two at the most, profit margins are at record levels, and corporate balance sheets are very strong, yet stocks languish below where they were in late August 2008, and that was hardly a bull market.”

He continues, “We are faced with a market that is heavily influenced by behavioral shifts amongst investors, not economic and political factors. Historically, we observe that investors tend to want the investment that has done the best over the previous 3-5 years. Today, that preference is overwhelmingly in favour of fixed income rather than US equities which have been among the worst performing areas of investment for the past decade. Ironically, most investors wait for reassurance in the form of higher prices as the green light to invest. We believe now is the time to for investors to focus on the valuation and prices available in the US.”

He believes financial stocks, his largest overweight position, are at historically cheap levels which in part can be explained by the uncertainty due to the recent financial regulation. Furthermore, he believes financials represent one of the most attractive sectors in the market based on price/book ratio and normalised earnings power basis. Miller also believes, that we will begin to see restoration of dividends for many of the largest financials in early 2011 which will further underpin their relative attractiveness.

He explains, “Within the financial sector, consensus expectations for 2011 earnings growth vs. 2010 imply that four financial companies will drive over ½ of the growth for the sector. These include JP Morgan, Wells Fargo, Citigroup, and Bank of America. We find it very puzzling that so many fund managers agree that financials are undervalued and yet continue to hold them as underweight positions.”

Miller also has overweight positions in healthcare and technology as he believes these are among the cheapest areas in the market based on valuation. He is underweight materials, energy and consumer staples. It is important to remember though that securities are selected based on their individual merits so investors should not read too much into relative sector positions. He concluded that his team believes the potential upside for the Value portfolio is quite considerable relative to current prices and he, along with Sam Peters and Mary Chris Gay will continue to focus the positioning of the portfolio in areas of the market that offer the best risk-adjusted return potential.

- Ends -

Notes to editors

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