

LMP REAL ESTATE INCOME FUND INC.

Form N-CSR

February 26, 2016

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-21098**

**LMP Real Estate Income Fund Inc.**

**(Exact name of registrant as specified in charter)**

**620 Eighth Avenue, 49<sup>th</sup> Floor, New York, NY 10018**

**(Address of principal executive offices) (Zip code)**

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: (888)777-0102**

**Date of fiscal year end: December 31**

**Date of reporting period: December 31, 2015**

**Table of Contents**

ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

**Table of Contents**

Annual Report

December 31, 2015

LMP

REAL ESTATE INCOME

FUND INC. (RIT)

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

**Table of Contents**

|  |    |
|--|----|
| <b>What's inside</b>   |    |
| <a href="#"><u>Letter from the chairman</u></a>  | II |
| <a href="#"><u>Investment commentary</u></a>   | IV |
| <a href="#"><u>Fund overview</u></a>   | 1  |
| <a href="#"><u>Fund at a glance</u></a>  | 6  |
| <a href="#"><u>Schedule of investments</u></a>   | 7  |
| <a href="#"><u>Statement of assets and liabilities</u></a>   | 10 |
| <a href="#"><u>Statement of operations</u></a>   | 11 |
| <a href="#"><u>Statements of changes in net assets</u></a>   | 12 |
| <a href="#"><u>Statement of cash flows</u></a>   | 13 |
| <a href="#"><u>Financial highlights</u></a>  | 14 |
| <a href="#"><u>Notes to financial statements</u></a>   | 15 |
| <a href="#"><u>Report of independent registered public<br/>accounting firm</u></a>                   | 23 |
| <a href="#"><u>Board approval of management and subadvisory agreements</u></a>                       | 24 |
| <a href="#"><u>Additional information</u></a>  | 31 |
| <a href="#"><u>Annual chief executive officer and principal financial officer certifications</u></a> | 37 |
| <a href="#"><u>Other shareholder communications regarding accounting matters</u></a>                 | 38 |
| <a href="#"><u>Dividend reinvestment plan</u></a>  | 39 |
| <b>Fund objectives</b>   |    |

The Fund's primary investment objective is high current income and the Fund's secondary investment objective is capital appreciation.

The Fund primarily invests in income producing common shares, preferred shares, convertible preferred shares and debt securities issued by U.S. real estate companies, including real estate investment trusts ( REITs ).

**Letter from the chairman**

**Dear Shareholder,**

We are pleased to provide the annual report of LMP Real Estate Income Fund Inc. for the twelve-month reporting period ended December 31, 2015. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

**Special shareholder notice:**

On October 23, 2015, LMP Real Estate Income Fund Inc. (the Fund ) announced that its Board of Directors approved the conversion of the Fund from a closed-end fund to an open-end fund through a merger with and into ClearBridge Real Estate Opportunities Fund ( CRO ), a series of Legg Mason Funds Trust ( LM Trust ) (the Merger ). LM Trust is newly organized and is registered as an open-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act ). The Merger will require the approval of the Fund's stockholders. If approved by stockholders of the Fund, the Merger is anticipated to occur during the second quarter of 2016. If the Merger is consummated, stockholders of the Fund will become holders of Class O shares of CRO and will have the ability to redeem their shares at net asset value, subject to certain conditions including the imposition of a redemption fee of 1% for one year after the Merger.

The Fund and CRO have different investment objectives, but similar investment policies and strategies. The Fund's primary investment objective is high current income with capital appreciation as a secondary investment objective. CRO's primary investment objective is total return. CRO is expected to invest in a broader universe of real estate and real estate-related companies.

As previously announced, Bulldog Investors, LLC ( Bulldog ) and the Fund have entered into a Settlement Agreement following a protracted proxy contest pursuant to which Bulldog has agreed to vote in favor of (i) the Merger, (ii) any routine management proposal, including a

proposal relating to the

II LMP Real Estate Income Fund Inc.

**Table of Contents**

election of directors or selection of auditors and (iii) the Board of Director s recommendation on any proposal submitted by a stockholder.

In connection with the Merger, the Fund and LM Trust intend to file a proxy statement/prospectus on Form N-14 in final form with the Securities and Exchange Commission ( SEC ). **Investors are advised to read the proxy statement/prospectus statement when it becomes available because it will contain important information.** When filed with the SEC, the proxy statement/prospectus and other documents filed will be available free of charge at the SEC s website, <http://www.sec.gov>. Stockholders can also obtain copies of these documents, when available, for free by calling the Fund at 1-888-777-0102. This is neither an offer to purchase nor a solicitation of an offer to sell shares of the Fund.

The Fund, its directors and executive officers and the Fund s investment adviser, members of its management and employees may be deemed to be participants in the Fund s solicitation of proxies from its stockholders in connection with the proposed merger. Information concerning the interests of the participants in the solicitation will be set forth in the Fund s proxy statement and stockholder reports on Form N-CSR, to be filed with the SEC.

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.lmcef.com](http://www.lmcef.com). Here you can gain immediate access to market and investment information, including:

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

January 29, 2016

---

**Table of Contents**

## Investment commentary

### Economic review

The pace of U.S. economic activity was mixed during the twelve months ended December 31, 2015 (the reporting period). Looking back, the U.S. Department of Commerce reported that first quarter 2015 U.S. gross domestic product (GDP) growth was a tepid 0.6%. Economic activity then accelerated, as second quarter 2015 GDP growth was 3.9%. The upturn was driven by increasing exports, accelerating personal consumption expenditures (PCE), declining imports, expanding state and local government spending, and rising nonresidential fixed investment. Third quarter 2015 GDP growth then moderated to 2.0%. Decelerating growth was primarily due to a downturn in private inventory investment and decelerations in exports, PCE, nonresidential fixed investment, state and local government spending, and residential fixed investment. Finally, the U.S. Department of Commerce's initial estimate for fourth quarter 2015 GDP growth released after the reporting period ended was 0.7%. Slower growth was attributed to a deceleration in PCE and downturns in nonresidential fixed investment, exports and state and local government spending.

The U.S. labor market significantly improved and was a tailwind for the economy during the reporting period. When the period began, unemployment was 5.7%, as reported by the U.S. Department of Labor. By December 2015, unemployment was 5.0%, equaling its lowest level since April 2008.

After an extended period of maintaining the federal funds rate<sup>1</sup> at a historically low range between zero and 0.25%, the Federal Reserve Board (Fed) finally increased the rate at its meeting on December 16, 2015. This marked the first rate hike since 2006. In particular, the U.S. central bank raised the federal funds rate to a range between 0.25% and 0.50%. In its official statement after the December 2015 meeting, the Fed said,

The stance of monetary policy remains accommodative after this increase, thereby supporting further improvement in labor market conditions and a return to 2 percent inflation. The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. During its meeting that concluded on January 27, 2016 after the reporting period ended the Fed said it is, closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook. Given the economic outlook, the Committee decided to maintain the target range for the federal funds rate at 1/4 to 1/2 percent. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Jane Trust, CFA

Chairman, President and

Chief Executive Officer

January 29, 2016

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.



**Table of Contents**

- <sup>i</sup> Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- <sup>ii</sup> The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- <sup>iii</sup> The Federal Reserve Board ( Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

LMP Real Estate Income Fund Inc.

V

---

**Table of Contents**

## Fund overview

### **Q. What is the Fund's investment strategy?**

**A.** The Fund's primary investment objective is high current income with capital appreciation as a secondary investment objective. The Fund has a fundamental policy of concentrating its investments in the U.S. real estate industry and not in any other industry. The Fund primarily invests in income-producing common shares, preferred shares, convertible preferred shares and debt securities issued by real estate companies, including real estate investment trusts (REITs). Real estate companies are companies that generally derive at least 50% of their revenue from the ownership, construction, financing, management or sale of commercial, industrial and residential real estate, or have at least 50% of their assets invested in such real estate.

Our investment process focuses on finding securities with sustainable, high or growing distributions that are covered by a company's operating cash flows. We also look for securities that are trading at a discount to what we believe is the intrinsic value of the company. We feel this provides the Fund with additional capital appreciation potential, as well as superior defensive characteristics. Sector allocation is largely an outgrowth of our fundamental securities analysis.

Under normal market conditions, the Fund invests at least 90% of its total assets in income-producing common shares, preferred shares, convertible preferred shares (preferred shares that, upon the passage of time or the happening of certain events, automatically convert into common shares) and debt securities issued by real estate companies, including REITs. At least 80% of the Fund's total assets will be invested, under normal market conditions, in income-producing securities issued by REITs.

It is the Fund's intention to invest approximately 60% to 80% of its total assets in common shares issued by real estate companies and 20% to 40% of its total assets in preferred shares, including convertible preferred shares, issued by real estate companies. The actual percentage of common, preferred and convertible preferred shares and debt securities in the Fund's portfolio may vary over time based on our assessment of market conditions. Our use of leverage is also based on our current view of the risk/return profile of the market. While we do not expect to change the amount of leverage we use frequently, it will be managed in accordance with market conditions and will not be held static if we believe it makes sense to make an adjustment.

ClearBridge Investments, LLC (ClearBridge) is the subadviser to the Fund. ClearBridge provides day-to-day portfolio management services to the Fund, while the Fund's investment manager, Legg Mason Partners Fund Advisor, LLC (LMPFA), provides management and administrative services to the Fund and supervises the Fund-related activities of ClearBridge. Mark McAllister serves as senior portfolio manager and John Baldi as co-portfolio manager to the Fund.

### **Q. What were the overall market conditions during the Fund's reporting period?**

**A.** REITs outperformed the broader U.S. equity market in 2015 for the second straight year as the Fund's benchmark, the MSCI U.S. REIT Index<sup>ii</sup> closed the year with a total return of 2.52%, roughly 100 bps above that of the S&P 500 Index<sup>iii</sup>. Returns varied by property type within the benchmark. The Self-Storage, Manufactured Housing and Apartment sub-sectors were the top performers, gaining 31.2%, 22.0% and 15.5%, respectively. Meanwhile, the Hotel

**Table of Contents****Fund overview (cont d)**

sub-sector fell nearly 25% and the Health Care sub-sector also lagged, down 6.5%.

**Q. How did we respond to these changing market conditions?**

**A.** During the year, we took a number of steps to position the portfolio to take advantage of opportunities and mitigate risks. At the beginning of 2015, we thought that interest rates would rise over the course of the year, as the U.S. economic expansion continued to mature. However, we did not view this prospect with alarm as we believed that equity REIT common stocks were not as interest-rate sensitive as some others did, that industry fundamentals were strong and that REIT share price valuations were reasonable. Among the more material changes we made to our common stock holdings were additions to our Apartment, Industrial and Hotel REIT weightings, and reductions to our positions in the Regional Malls and Shopping Center sectors. By contrast, we were net sellers of REIT preferred stocks as they are quite interest-rate sensitive due to their fixed coupons.

We are moderately positive on the state of the U.S. REIT market. While property valuations are high by historical standards, we believe these are currently supported by operating fundamentals for most property types and geographic markets. In addition, recently enacted legislation that made favorable changes to the rules governing ownership of U.S. property by non-U.S. investors bodes well for continued strong capital flows into U.S. real estate, which should be supportive of property valuations. However, we expect financing conditions for commercial real estate are likely to tighten in 2016 and we are monitoring the impact of weaker international economic conditions on the demand by foreign buyers for U.S. commercial real estate. On balance, we think that U.S. REITs remain an attractive investment.

**Performance review**

For the twelve months ended December 31, 2015, LMP Real Estate Income Fund Inc. returned -0.44% based on its NAV<sup>iv</sup> and 9.97% based on its New York Stock Exchange ( NYSE ) market price per share. The Fund's unmanaged benchmark, the MSCI U.S. REIT Index, returned 2.52% for the same period. The Lipper Real Estate Closed-End Funds Category Average<sup>v</sup> returned 3.16% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$0.72 per share\*. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of December 31, 2015. **Past performance is no guarantee of future results.**

**Performance Snapshot as of December 31, 2015**

|                        |                            |
|------------------------|----------------------------|
| Price Per Share        | 12-Month<br>Total Return** |
| \$13.57 (NAV)          | -0.44%                     |
| \$13.04 (Market Price) | 9.97%                      |

**All figures represent past performance and are not a guarantee of future results.**

**\*\* Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage**

\* For the tax character of distributions paid during the fiscal year ended December 31, 2015, please refer to page 21 of this report.

## **Table of Contents**

**commissions or taxes that investors may pay on distributions or the sale of shares.**

**Total return assumes the reinvestment of all distributions at NAV.**

**Total returns assume the reinvestment of all distributions in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

### **Q. What were the leading contributors to performance?**

**A.** On an absolute basis the Fund had positive returns in four REIT industry subsectors: Residential, Retail, Specialized and Industrial. Relative to the Fund's benchmark, the strongest contributors were the Hotel & Resort, Healthcare, Diversified and Industrial subsectors.

In terms of individual Fund holdings, leading contributors to performance for the period included Digital Realty Trust, UDR, AvalonBay Communities, Equity Residential and BioMed Realty Trust.

### **Q. What were the leading detractors from performance?**

**A.** On an absolute basis the Fund saw the greatest negative returns in the Health care sub-sector, followed by Diversified, Hotel & Resort, Mortgage and Office REITs. Relative to the Fund's benchmark, the Specialized, Residential, Mortgage, Retail and Office subsectors were the largest detractors.

In terms of individual Fund holdings, top detractors from performance for the period included Senior Housing Properties Trust, LaSalle Hotel Properties, Dream Office Real Estate Investment Trust, Liberty Property Trust and Kilroy Realty.

### **Q. Were there any significant changes to the Fund during the reporting period?**

**A.** There were a number of specific changes made to the portfolio over the course of the reporting period. Among the largest additions to the Fund's portfolio were General Growth Properties, Camden Property Trust, Prologis Inc., Parkway Properties Inc. and PS Business Parks Series T preferred shares. We purchased shares of General Growth Properties, a leading owner of Class A regional malls, because it was trading at a deep discount to our assessment of the underlying value of its portfolio, which includes some of the most productive retail real estate in the country. Camden Property Trust, an owner of high quality apartment assets primarily in Sunbelt markets, was added because it was trading at a value that we believed overly discounted the downside from its holdings in the Houston market, which is under pressure due to low energy prices. Prologis Inc., the largest owner/developer of industrial real estate in the U.S., offered an attractive entry point for a company that is benefiting from the increase in Internet retailing (most goods are shipped from a warehouse to the customer's premises) and is also undergoing a substantial balance sheet de-levering. Parkway Properties Inc. is an opportunistic owner of Sunbelt office properties and job growth is accelerating in many of its markets. Lastly, we purchased PS Business Parks Series T preferred shares as they offered an attractive yield (6% coupon at par) and call protection until May 2017 from a company with a superb balance sheet.

We also eliminated several Fund holdings over the course of the period, notably pre-

---

**Table of Contents**

## Fund overview (cont'd)

ferred shares of LBA Realty Fund, Excel Trust common and preferred shares, and common stock of Westfield Corp., Dream Office Real Estate Investment Trust and CBL & Associates Properties. The preferred shares of LBA Realty fund were called at par by the issuer. We exited our position in both the common and preferred shares of Excel Trust, a shopping center REIT, due to the company's acquisition by private equity investor Blackstone Group. We sold our stake in Westfield Corp. an Australia-listed owner of Class A U.S. and European mall assets, as we saw better overall relative value in other opportunities, including U.S.-based mall REITs. Dream Office Real Estate Investment Trust, an owner of Canadian office assets with concentrations in Calgary and Toronto, was sold as we expect weak long-term market conditions driven by weakening demand and substantial new supply in key markets. Finally, we sold our shares of CBL & Associates Properties, an owner of Class B malls, as the company has been unable to execute its plan to de-lever its balance sheet by selling non-core assets at reasonable prices.

### Looking for additional information?

The Fund is traded under the symbol RIT and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XRITX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern Time, for the Fund's current NAV, market price and other information.

Thank you for your investment in LMP Real Estate Income Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Mark McAllister

Portfolio Manager

ClearBridge Investments, LLC

John Baldi

Portfolio Manager

ClearBridge Investments, LLC

January 19, 2016

***RISKS:** Funds that invest in securities related to the real estate industry are subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks. In addition, investment in funds that concentrate their investments in one sector or industry may involve greater risk than more broadly diversified funds. Leverage may result in greater volatility of NAV and the market price of common shares and increases a shareholder's risk of loss. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund*

*performance.*

4 LMP Real Estate Income Fund Inc. 2015 Annual Report

---

## Table of Contents

Portfolio holdings and breakdowns are as of December 31, 2015 and are subject to change and may not be representative of the portfolio managers' current or future investments. The Fund's top ten holdings (as a percentage of net assets) as of December 31, 2015 were: Simon Property Group Inc. (4.9%), EPR Properties (4.5%), Kilroy Realty Corp. (4.2%), Regency Centers Corp. (3.9%), Starwood Property Trust Inc. (3.7%), Digital Realty Trust Inc. (3.6%), Liberty Property Trust (3.5%), Equity Residential (3.4%), Inland Real Estate Corp. (3.3%), Apartment Investment and Management Co., Class A Shares (3.2%). Please refer to pages 7 through 9 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors 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. The Fund's top five sector holdings (as a percentage of net assets) as of December 31, 2015 were: Diversified (19.2%), Shopping Centers (18.4%), Office (18.3%), Apartments (13.5%), Lodging/Resorts (11.7%). The Fund's portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

<sup>i</sup> Real estate investment trusts ( REITs ) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

<sup>ii</sup> The MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts ( REITs ) that are included in the MSCI U.S. Investable Market Index (IMI) which captures large, mid- and small caps securities. The Index represents about 99% of the U.S. REIT universe.

<sup>iii</sup> The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.

<sup>iv</sup> Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any) from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.

<sup>v</sup> Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended December 31, 2015, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 22 funds in the Fund's Lipper category.

**Table of Contents**

**Fund at a glance** (unaudited)

**Investment breakdown** (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of December 31, 2015 and December 31, 2014. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.



**Table of Contents****Schedule of investments**

December 31, 2015

**LMP Real Estate Income Fund Inc.**

|   | Shares  | Value                       |
|---|---------|-----------------------------|
| <b>Security</b>   |         |                             |
| <b>Real Estate Investment Trust Common Stocks 93.7%</b> |         |                             |
| <i>Apartments 13.5%</i>                                 |         |                             |
| Apartment Investment and Management Co., Class A Shares | 124,300 | \$ 4,975,729 <sup>(a)</sup> |
| AvalonBay Communities Inc.                              | 25,900  | 4,768,967 <sup>(a)</sup>    |
| Camden Property Trust                                   | 27,400  | 2,103,224 <sup>(a)</sup>    |
| Equity Residential                                      | 64,420  | 5,256,028                   |
| UDR Inc.  | 104,300 | 3,918,551                   |
| <i>Total Apartments</i>                                 |         | <i>21,022,499</i>           |
| <i>Diversified 14.2%</i>                                |         |                             |
| Digital Realty Trust Inc.                               | 74,200  | 5,611,004 <sup>(a)</sup>    |
| DuPont Fabros Technology Inc.                           | 99,100  | 3,150,389                   |
| EPR Properties  | 120,000 | 7,014,000 <sup>(a)</sup>    |
| Lexington Realty Trust                                  | 105,100 | 840,800                     |
| Liberty Property Trust                                  | 176,000 | 5,464,800 <sup>(a)</sup>    |
| <i>Total Diversified</i>                                |         | <i>22,080,993</i>           |
| <i>Health Care 10.7%</i>                                |         |                             |
| HCP Inc.  | 116,390 | 4,450,754 <sup>(a)</sup>    |
| Healthcare Trust of America Inc., Class A Shares        | 85,050  | 2,293,798                   |
| OMEGA Healthcare Investors Inc.                         | 108,000 | 3,777,840 <sup>(a)</sup>    |
| Senior Housing Properties Trust                         | 167,200 | 2,481,248 <sup>(a)</sup>    |
| Welltower Inc.  | 53,830  | 3,662,055 <sup>(a)</sup>    |
| <i>Total Health Care</i>                                |         | <i>16,665,695</i>           |
| <i>Industrial 3.4%</i>                                  |         |                             |
| DCT Industrial Trust Inc.                               | 90,590  | 3,385,348 <sup>(a)</sup>    |
| Prologis Inc.   | 45,300  | 1,944,276                   |
| <i>Total Industrial</i>                                 |         | <i>5,329,624</i>            |
| <i>Lodging/Resorts 5.6%</i>                             |         |                             |
| Hersha Hospitality Trust                                | 98,950  | 2,153,152                   |
| Hospitality Properties Trust                            | 166,000 | 4,340,900 <sup>(a)</sup>    |
| LaSalle Hotel Properties                                | 88,360  | 2,223,138                   |
| <i>Total Lodging/Resorts</i>                            |         | <i>8,717,190</i>            |
| <i>Mortgage 6.3%</i>                                    |         |                             |
| American Capital Agency Corp.                           | 115,310 | 1,999,475 <sup>(a)</sup>    |
| Annaly Capital Management Inc.                          | 224,700 | 2,107,686 <sup>(a)</sup>    |
| Starwood Property Trust Inc.                            | 279,300 | 5,742,408 <sup>(a)</sup>    |
| <i>Total Mortgage</i>                                   |         | <i>9,849,569</i>            |
| <i>Office 15.7%</i>                                     |         |                             |
| Alexandria Real Estate Equities Inc.                    | 31,400  | 2,837,304                   |
| BioMed Realty Trust Inc.                                | 193,700 | 4,588,753 <sup>(a)</sup>    |

See Notes to Financial Statements.

**Table of Contents****Schedule of investments (cont d)**

December 31, 2015

**LMP Real Estate Income Fund Inc.**

|  | Shares  | Value                           |
|--|---------|---------------------------------|
| Security   |         |                                 |
| <i>Office continued</i>  |         |                                 |
| First Potomac Realty Trust   | 232,379 | \$ 2,649,121 <sup>(a)</sup>     |
| Highwoods Properties Inc.  | 110,200 | 4,804,720 <sup>(a)</sup>        |
| Kilroy Realty Corp.  | 103,740 | 6,564,667 <sup>(a)</sup>        |
| Paramount Group Inc.   | 79,800  | 1,444,380                       |
| Parkway Properties Inc.  | 90,000  | 1,406,700 <sup>(a)</sup>        |
| <i>Total Office</i>  |         | <i>24,295,645</i>               |
| <i>Regional Malls 8.3%</i>   |         |                                 |
| General Growth Properties Inc.   | 87,900  | 2,391,759                       |
| Macerich Co.   | 34,350  | 2,771,701                       |
| Simon Property Group Inc.  | 39,400  | 7,660,936 <sup>(a)</sup>        |
| <i>Total Regional Malls</i>  |         | <i>12,824,396</i>               |
| <i>Retail - Free Standing 2.5%</i>   |         |                                 |
| Spirit Realty Capital Inc.   | 384,769 | 3,855,385 <sup>(a)</sup>        |
| <i>Shopping Centers 13.5%</i>  |         |                                 |
| Inland Real Estate Corp.   | 480,000 | 5,097,600 <sup>(a)</sup>        |
| Kite Realty Group Trust  | 73,100  | 1,895,483                       |
| Ramco-Gershenson Properties Trust  | 247,620 | 4,112,968 <sup>(a)</sup>        |
| Regency Centers Corp.  | 88,500  | 6,028,620 <sup>(a)</sup>        |
| Retail Properties of America Inc., Class A Shares                            | 193,650 | 2,860,211 <sup>(a)</sup>        |
| Urstadt Biddle Properties Inc., Class A Shares                               | 46,000  | 885,040 <sup>(a)</sup>          |
| <i>Total Shopping Centers</i>  |         | <i>20,879,922</i>               |
| <b>Real Estate Investment Trust Total Common Stocks (Cost \$108,101,259)</b> |         | <b>145,520,918</b>              |
|  | Rate    |                                 |
| <b>Real Estate Investment Trust Preferred Stocks 23.8%</b>                   |         |                                 |
| <i>Diversified 5.0%</i>  |         |                                 |
| DuPont Fabros Technology Inc., Cumulative, Series B                          | 7.625%  | 103,000 2,596,630               |
| EPR Properties, Series E   | 9.000%  | 60,000 1,848,000                |
| PS Business Parks Inc., Series T   | 6.000%  | 40,500 1,034,370                |
| Retail Properties of America Inc., Cumulative, Series A                      | 7.000%  | 90,000 2,313,000                |
| <i>Total Diversified</i>   |         | <i>7,792,000</i>                |
| <i>Lodging/Resorts 6.1%</i>  |         |                                 |
| Ashford Hospitality Trust Inc., Series E                                     | 9.000%  | 64,000 1,622,400 <sup>(a)</sup> |
| Chesapeake Lodging Trust, Series A   | 7.750%  | 70,000 1,803,900                |
| Hersha Hospitality Trust, Series B   | 8.000%  | 53,119 1,345,504                |
| LaSalle Hotel Properties, Series I   | 6.375%  | 40,500 1,031,535                |
| Pebblebrook Hotel Trust, Series A  | 7.875%  | 118,000 2,964,160               |
| Pebblebrook Hotel Trust, Series C  | 6.500%  | 27,000 682,830                  |
| <i>Total Lodging/Resorts</i>   |         | <i>9,450,329</i>                |

See Notes to Financial Statements.

**Table of Contents****LMP Real Estate Income Fund Inc.**

|  | Rate   | Shares  | Value                 |
|--|--------|---------|-----------------------|
| Security   |        |         |                       |
| <i>Office 2.6%</i>   |        |         |                       |
| Alexandria Real Estate Equities Inc., Series D                                 | 7.000% | 50,000  | \$ 1,374,500          |
| Corporate Office Properties Trust, Series L                                    | 7.375% | 105,000 | 2,699,550             |
| <i>Total Office</i>  |        |         | <i>4,074,050</i>      |
| <i>Regional Malls 2.7%</i>   |        |         |                       |
| CBL & Associates Properties Inc., Series E                                     | 6.625% | 70,000  | 1,746,500             |
| General Growth Properties Inc., Series A                                       | 6.375% | 96,000  | 2,380,800             |
| <i>Total Regional Malls</i>  |        |         | <i>4,127,300</i>      |
| <i>Retail - Free Standing 2.5%</i>   |        |         |                       |
| National Retail Properties Inc., Series D                                      | 6.625% | 64,001  | 1,667,866             |
| National Retail Properties Inc., Series E                                      | 5.700% | 85,000  | 2,108,850             |
| <i>Total Retail - Free Standing</i>  |        |         | <i>3,776,716</i>      |
| <i>Shopping Centers 4.9%</i>   |        |         |                       |
| Cedar Realty Trust Inc., Series B  | 7.250% | 107,400 | 2,652,780             |
| Urstadt Biddle Properties Inc., Cumulative, Series F                           | 7.125% | 87,500  | 2,294,688             |
| WP Glimcher Inc., Series H   | 7.500% | 105,000 | 2,692,200             |
| <i>Total Shopping Centers</i>  |        |         | <i>7,639,668</i>      |
| <b>Real Estate Investment Trust Total Preferred Stocks (Cost \$35,714,495)</b> |        |         | <b>36,860,063</b>     |
| <b>Total Investments 117.5% (Cost \$143,815,754#)</b>                          |        |         | <b>182,380,981</b>    |
| Liabilities in Excess of Other Assets (17.5)%                                  |        |         | (27,111,720)          |
| <b>Total Net Assets 100.0%</b>   |        |         | <b>\$ 155,269,261</b> |

(a) All or a portion of this security is pledged as collateral pursuant to the loan agreement (See Note 5).

# Aggregate cost for federal income tax purposes is \$144,131,585.

See Notes to Financial Statements.

**Table of Contents****Statement of assets and liabilities**

December 31, 2015

|  |                       |
|--|-----------------------|
| <b>Assets:</b>   |                       |
| Investments, at value (Cost \$143,815,754)   | \$ 182,380,981        |
| Cash   | 10,903,606            |
| Dividends and distributions receivable   | 1,418,834             |
| Receivable for securities sold   | 304                   |
| Prepaid expenses   | 5,586                 |
| <b>Total Assets</b>  | <b>194,709,311</b>    |
| <b>Liabilities:</b>  |                       |
| Loan payable (Note 5)  | 37,000,000            |
| Payable for securities purchased   | 2,177,033             |
| Investment management fee payable  | 137,279               |
| Directors' fees payable  | 4,742                 |
| Interest payable (Note 5)  | 2,420                 |
| Accrued expenses   | 118,576               |
| <b>Total Liabilities</b>   | <b>39,440,050</b>     |
| <b>Total Net Assets</b>  | <b>\$ 155,269,261</b> |
| <b>Net Assets:</b>   |                       |
| Par value (\$0.001 par value; 11,441,022 shares issued and outstanding; 100,000,000 shares authorized) | \$ 11,441             |
| Paid-in capital in excess of par value   | 122,834,144           |
| Undistributed net investment income  | 675,670               |
| Accumulated net realized loss on investments and foreign currency transactions                         | (6,817,221)           |
| Net unrealized appreciation on investments and foreign currencies                                      | 38,565,227            |
| <b>Total Net Assets</b>  | <b>\$ 155,269,261</b> |
| <b>Shares Outstanding</b>  | <b>11,441,022</b>     |
| <b>Net Asset Value</b>   | <b>\$13.57</b>        |

See Notes to Financial Statements.

**Table of Contents****Statement of operations**

For the Year Ended December 31, 2015

|  |                     |
|--|---------------------|
| <b>Investment Income:</b>  |                     |
| Dividends and distributions  | \$ 8,939,684        |
| Return of capital (Note 1 (f))   | (1,257,857)         |
| <b>Net dividends and distributions</b>   | <b>7,681,827</b>    |
| Less: Foreign taxes withheld   | (32,186)            |
| <b>Total Investment Income</b>   | <b>7,649,641</b>    |
| <b>Expenses:</b>   |                     |
| Investment management fee (Note 2)   | 1,767,730           |
| Legal fees   | 771,272             |
| Interest expense (Note 5)  | 362,100             |
| Transfer agent fees  | 115,864             |
| Directors' fees  | 110,808             |
| Audit and tax fees   | 60,500              |
| Shareholder reports  | 42,515              |
| Commitment fees (Note 5)   | 40,555              |
| Stock exchange listing fees  | 21,205              |
| Fund accounting fees   | 15,861              |
| Insurance  | 3,384               |
| Custody fees   | 39                  |
| Miscellaneous expenses   | 44,601              |
| <b>Total Expenses</b>  | <b>3,356,434</b>    |
| Less: Fee waivers and/or expense reimbursements (Note 2)   | (98,207)            |
| <b>Net Expenses</b>  | <b>3,258,227</b>    |
| <b>Net Investment Income</b>   | <b>4,391,414</b>    |
| <b>Realized and Unrealized Gain (Loss) on Investments and Foreign Currency Transactions (Notes 1 and 3):</b> |                     |
| Net Realized Gain From:  |                     |
| Investment transactions  | 7,231,472           |
| REIT distributions   | 1,679,237           |
| Foreign currency transactions  | 7,651               |
| <b>Net Realized Gain</b>   | <b>8,918,360</b>    |
| Change in Net Unrealized Appreciation (Depreciation) From:   |                     |
| Investments  | (13,994,007)        |
| Foreign currencies   | (26)                |
| <b>Change in Net Unrealized Appreciation (Depreciation)</b>  | <b>(13,994,033)</b> |
| <b>Net Loss on Investments and Foreign Currency Transactions</b>   | <b>(5,075,673)</b>  |
| <b>Decrease in Net Assets From Operations</b>  | <b>\$ (684,259)</b> |

See Notes to Financial Statements.

**Table of Contents****Statements of changes in net assets**

| For the Years Ended December 31,   | 2015                  | 2014                  |
|--|-----------------------|-----------------------|
| <b>Operations:</b>   |                       |                       |
| Net investment income  | \$ 4,391,414          | \$ 6,604,627          |
| Net realized gain  | 8,918,360             | 2,430,651             |
| Change in net unrealized appreciation (depreciation)                               | (13,994,033)          | 30,712,778            |
| <i>Increase (Decrease) in Net Assets From Operations</i>                           | <i>(684,259)</i>      | <i>39,748,056</i>     |
| <b>Distributions to Shareholders From (Note 1):</b>                                |                       |                       |
| Net investment income  | (8,237,536)           | (8,237,536)           |
| <i>Decrease in Net Assets From Distributions to Shareholders</i>                   | <i>(8,237,536)</i>    | <i>(8,237,536)</i>    |
| <i>Increase (Decrease) in Net Assets</i>   | <i>(8,921,795)</i>    | <i>31,510,520</i>     |
| <b>Net Assets:</b>   |                       |                       |
| Beginning of year  | 164,191,056           | 132,680,536           |
| <b>End of year*</b>  | <b>\$ 155,269,261</b> | <b>\$ 164,191,056</b> |
| *Includes undistributed/(overdistributed) net investment income, respectively, of: | \$675,670             | \$(1,188,745)         |

See Notes to Financial Statements.

**Table of Contents****Statement of cash flows**

For the Year Ended December 31, 2015

|   |                    |
|---|--------------------|
| <b>Increase (Decrease) in Cash:</b>   |                    |
| <b>Cash Provided (Used) by Operating Activities:</b>  |                    |
| Net decrease in net assets resulting from operations  | \$ (684,259)       |
| Adjustments to reconcile net decrease in net asset resulting from operations to net cash provided (used) by operating activities: |                    |
| Purchases of portfolio securities   | (20,530,797)       |
| Sales of portfolio securities   | 28,412,386         |
| Return of capital   | 1,257,857          |
| Increase in receivable for securities sold  | (304)              |
| Decrease in dividends and distributions receivable  | 45,433             |
| Decrease in prepaid expenses  | 185                |
| Increase in payable for securities purchased  | 2,177,033          |
| Decrease in investment management fee payable   | (7,265)            |
| Increase in Directors' fees payable   | 2,103              |
| Increase in interest payable  | 200                |
| Increase in accrued expenses  | 13,084             |
| Net realized gain on investments  | (7,231,472)        |
| Change in net unrealized appreciation/depreciation of investments   | 13,994,007         |
| <i>Net Cash Provided by Operating Activities*</i>   | <i>17,448,191</i>  |
| <b>Cash Flows From Financing Activities:</b>  |                    |
| Distributions paid on common stock  | (8,237,536)        |
| <i>Net Cash Used in Financing Activities</i>  | <i>(8,237,536)</i> |
| <b>Net Increase in Cash</b>   | <b>9,210,655</b>   |
| Cash at Beginning of Year   | 1,692,951          |
| Cash at End of Year   | \$ 10,903,606      |

\* Included in operating expenses is cash of \$402,457 paid for interest and commitment fees on borrowings.

See Notes to Financial Statements.

**Table of Contents****Financial highlights****For a share of capital stock outstanding throughout each year ended December 31:**

|   | 2015           | 2014                 | 2013                 | 2012                 | 2011                 |
|---|----------------|----------------------|----------------------|----------------------|----------------------|
| Net asset value, beginning of year <sup>1</sup>                               | \$14.35        | \$11.60              | \$12.16              | \$10.70              | \$11.07              |
| <b>Income (loss) from operations:</b>   |                |                      |                      |                      |                      |
| Net investment income   | 0.38           | 0.58                 | 0.48                 | 0.45                 | 0.45                 |
| Net realized and unrealized gain (loss)                                       | (0.44)         | 2.89                 | (0.32)               | 1.73                 | (0.10)               |
| <b>Total income (loss) from operations</b>                                    | <b>(0.06)</b>  | <b>3.47</b>          | <b>0.16</b>          | <b>2.18</b>          | <b>0.35</b>          |
| <b>Less distributions paid to common stock shareholders from:</b>             |                |                      |                      |                      |                      |
| Net investment income   | (0.72)         | (0.72)               | (0.72)               | (0.72)               | (0.72)               |
| <b>Total distributions</b>  | <b>(0.72)</b>  | <b>(0.72)</b>        | <b>(0.72)</b>        | <b>(0.72)</b>        | <b>(0.72)</b>        |
| Net asset value, end of year  | \$13.57        | \$14.35              | \$11.60              | \$12.16              | \$10.70              |
| Market price, end of year   | \$13.04        | \$12.55              | \$10.06              | \$10.97              | \$9.25               |
| <b>Total return, based on NAV<sup>2,3</sup></b>                               | <b>(0.44)%</b> | <b>30.69%</b>        | <b>0.97%</b>         | <b>20.84%</b>        | <b>4.02%</b>         |
| <b>Total return, based on Market Price<sup>4</sup></b>                        | <b>9.97%</b>   | <b>32.87%</b>        | <b>(2.41)%</b>       | <b>26.85%</b>        | <b>(1.44)%</b>       |
| Net assets, end of year (millions)  | \$155          | \$164                | \$133                | \$139                | \$122                |
| <b>Ratios to average net assets:</b>  |                |                      |                      |                      |                      |
| Gross expenses  | 2.11%          | 1.54%                | 1.59%                | 1.74%                | 1.85%                |
| Net expenses <sup>5,6</sup>   | 2.04           | 1.48                 | 1.53                 | 1.68                 | 1.82                 |
| Net investment income   | 2.75           | 4.41                 | 3.79                 | 3.86                 | 4.13                 |
| <b>Portfolio turnover rate</b>  | <b>11%</b>     | <b>11%</b>           | <b>11%</b>           | <b>43%</b>           | <b>23%</b>           |
| <b>Supplemental data:</b>   |                |                      |                      |                      |                      |
| Loan Outstanding, End of Year (000s)  | \$37,000       | \$37,000             | \$37,000             | \$37,000             | \$37,000             |
| Asset Coverage Ratio for Loan Outstanding <sup>7</sup>                        | 520%           | 544%                 | 459%                 | 476%                 | 431%                 |
| Asset Coverage, per \$1,000 Principal Amount of Loan Outstanding <sup>7</sup> | \$5,196        | \$5,438 <sup>8</sup> | \$4,586 <sup>8</sup> | \$4,759 <sup>8</sup> | \$4,307 <sup>8</sup> |
| Weighted Average Loan (000s)  | \$37,000       | \$37,000             | \$37,000             | \$37,000             | \$43,268             |
| Weighted Average Interest Rate on Loan  | 0.98%          | 0.90%                | 0.93%                | 1.10%                | 0.99%                |

<sup>1</sup> Per share amounts have been calculated using the average shares method.

<sup>2</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.

<sup>3</sup> The total return calculation assumes that distributions are reinvested at NAV. Prior to January 1, 2012, the total return calculation assumed the reinvestment of all distributions in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

<sup>4</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.

<sup>5</sup> Reflects fee waivers and/or expense reimbursements.

<sup>6</sup> LMPFA agreed to a waiver in the amount of 0.05% of the Fund's average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and extends through June 30, 2016.



## Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-CSR

<sup>7</sup> Represents value of net assets plus the loan outstanding at the end of the period divided by the loan outstanding at the end of the period.

<sup>8</sup> Added to conform to current period presentation.

[See Notes to Financial Statements.](#)

14 LMP Real Estate Income Fund Inc. 2015 Annual Report

---

**Table of Contents**

## Notes to financial statements

### 1. Organization and significant accounting policies

LMP Real Estate Income Fund Inc. (the Fund) was incorporated in Maryland and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is high current income and the Fund's secondary objective is capital appreciation.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

**(a) Investment valuation.** Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment's fair value. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (formerly, Legg Mason North American Fund Valuation Committee) (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When

**Table of Contents**

## Notes to financial statements (cont d)

determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

**Table of Contents**

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

| Description                                   | ASSETS                     |   |  | Total                 |
|---|----------------------------|---|--|-----------------------|
|   | Quoted Prices<br>(Level 1) | Other Significant<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |                       |
| Long-term investments :                       |                            |   |  |                       |
| Real estate investment trust common stocks    | \$ 145,520,918             |   |  | \$ 145,520,918        |
| Real estate investment trust preferred stocks | 36,860,063                 |   |  | 36,860,063            |
| <b>Total investments</b>                      | <b>\$ 182,380,981</b>      |   |  | <b>\$ 182,380,981</b> |

See Schedule of Investments for additional detailed categorizations.

**(b) Repurchase agreements.** The Fund may enter into repurchase agreements with institutions that its subadviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. When entering into repurchase agreements, it is the Fund's policy that its custodian or a third party custodian, acting on the Fund's behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

**(c) Foreign currency translation.** Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

---

**Table of Contents**

## Notes to financial statements (cont d)

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

**(d) Concentration risk.** The Fund invests in securities related to the real estate industry and is subject to the risks of real estate markets, including fluctuating property values, changes in interest rates and other mortgage-related risks.

**(e) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(f) Distributions to shareholders.** Distributions from net investment income of the Fund, if any, are declared quarterly and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. The Fund's policy is to pass through to its shareholders substantially all Real Estate Investment Trust ( REIT ) distributions and other income it receives, less operating expenses. The character of REIT distributions received from portfolio securities held by the Fund is generally comprised of investment income, long-term capital gains, and return of capital. The Fund reclassifies amounts within the Statement of Operations primarily based on information provided by REITs after the Fund's fiscal year end. In those instances where such information is not available, the Fund estimates the amounts based on amounts reported by the REITs in the prior year. After all remaining REITs report the actual character of distributions paid during the year, the Fund adjusts estimates previously recorded to actual.

Pursuant to its Managed Distribution Policy, the Fund intends to make regular monthly distributions to shareholders at a fixed rate per common share, which rate may be adjusted from time to time by the Fund's Board of Directors. Under the Fund's Managed Distribution Policy, if, for any monthly distribution, the value of the Fund's net investment income and

**Table of Contents**

net realized capital gain is less than the amount of the distribution, the difference will be distributed from the Fund's net assets (and may constitute a return of capital). The Board of Directors may modify, terminate or suspend the Managed Distribution Policy at any time, including when certain events would make part of the return of capital taxable to shareholders. Any such modification, termination or suspension could have an adverse effect on the market price of the Fund's shares. Distributions to shareholders of the Fund are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

**(g) Cash flow information.** The Fund invests in securities and distributes dividends from net investment income and net realized gains, which are paid in cash and may be reinvested at the discretion of shareholders. These activities are reported in the Statement of Changes in Net Assets and additional information on cash receipts and cash payments are presented in the Statement of Cash Flows.

**(h) Compensating balance arrangements.** The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

**(i) Federal and other taxes.** It is the Fund's policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal or state income tax provision is required in the Fund's financial statements.

Management has analyzed the Fund's tax positions taken on income tax returns for all open tax years and has concluded that as of December 31, 2015, no provision for income tax is required in the Fund's financial statements. The Fund's federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue.

Under the applicable foreign tax laws, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

**(j) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

|     | Undistributed Net<br>Investment<br>Income | Accumulated Net<br>Realized Loss | Paid-in<br>Capital |
|-----|---|----------------------------------|--------------------|
| (a) | \$ 3,976,845                              |                                  | \$ (3,976,845)     |
| (b) | 1,733,692                                 | \$ (1,733,692)                   |                    |

(a) Reclassifications are due to a taxable overdistribution.

(b) Reclassifications are due to foreign currency transactions treated as ordinary income for tax purposes and book/tax differences in the treatment of passive foreign investment companies.

**Table of Contents****Notes to financial statements (cont d)****2. Investment management agreement and other transactions with affiliates**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager and ClearBridge Investments, LLC ( ClearBridge ) is the Fund's subadviser. LMPFA and ClearBridge are wholly-owned subsidiaries of Legg Mason, Inc. ( Legg Mason ).

LMPFA provides administrative and certain oversight services to the Fund. The Fund pays LMPFA an investment management fee, calculated daily and paid monthly, at an annual rate of 0.90% of the Fund's average daily net assets plus assets attributable to any borrowings used for leverage ( Managed Assets ).

LMPFA delegates to the subadviser the day-to-day portfolio management of the Fund. For its services, LMPFA pays ClearBridge 70% of the net management fee it receives from the Fund.

LMPFA also agreed to a waiver in the amount of 0.05% of the Fund's average daily net assets plus assets attributable to any borrowings used for leverage. The waiver commenced on August 15, 2011 and extends through June 30, 2016.

During periods in which the Fund utilizes financial leverage, the fees which are payable to the investment manager as a percentage of the Fund's assets will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund's assets, including those investments purchased with leverage.

During the year ended December 31, 2015, fees waived and/or expenses reimbursed amounted to \$98,207.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

**3. Investments**

During the year ended December 31, 2015, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

|           |               |
|-----------|---------------|
| Purchases | \$ 20,530,797 |
| Sales     | 28,412,386    |

At December 31, 2015, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

|                                    |                      |
|------------------------------------|----------------------|
| Gross unrealized appreciation      | \$ 42,500,488        |
| Gross unrealized depreciation      | (4,251,092)          |
| <b>Net unrealized appreciation</b> | <b>\$ 38,249,396</b> |

**4. Derivative instruments and hedging activities**

During the year ended December 31, 2015, the Fund did not invest in derivative instruments.

**Table of Contents****5. Loan**

The Fund has a revolving credit agreement with BNP Paribas Prime Brokerage, Inc. ( BNP Paribas ), which allows the Fund to borrow up to an aggregate amount of \$45,000,000 provided that, with approval of BNP Paribas, the Fund may increase the size of the loan to \$75,000,000 upon a five business day notice. The agreement renews daily for a 180-day term unless notice to the contrary is given to the Fund. The Fund pays a commitment fee at an annual rate of 0.50% on the unutilized portion of the loan. The interest on the loan outstanding is calculated at a variable rate based on the three month LIBOR plus any applicable margin. To the extent of the borrowing outstanding, the Fund is required to maintain collateral in a special custody account at the Fund's custodian on behalf of BNP Paribas. The Fund's credit agreement contains customary covenants that, among other things, may limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the credit agreement may be subject to early termination under conditions and may contain other provisions that could limit the Fund's ability to utilize borrowing under the agreement. Interest expense related to the loan for the year ended December 31, 2015 was \$362,100. For the year ended December 31, 2015, the Fund incurred a commitment fee in the amount of \$40,555. For the year ended December 31, 2015, the Fund had an average daily loan balance outstanding of \$37,000,000 and the weighted average interest rate was 0.98%. At December 31, 2015, the Fund had \$37,000,000 of borrowings outstanding per this credit agreement.

**6. Distributions subsequent to December 31, 2015**

The following distributions have been declared by the Fund's Board of Directors and are payable subsequent to the period end of this report:

| Record Date | Payable Date | Amount    |
|-------------|--------------|-----------|
| 01/22/16    | 01/29/16     | \$ 0.0600 |
| 02/19/16    | 02/26/16     | \$ 0.0600 |
| 03/18/16    | 03/25/16     | \$ 0.0600 |
| 04/22/16    | 04/29/16     | \$ 0.0600 |
| 05/20/16    | 05/27/16     | \$ 0.0600 |
| 06/17/16    | 06/24/16     | \$ 0.0600 |

**7. Income tax information and distributions to shareholders**

The tax character of distributions paid during the fiscal years ended December 31, was as follows:

|                                 | 2015         | 2014         |
|---------------------------------|--------------|--------------|
| <b>Distributions paid from:</b> |              |              |
| Ordinary income                 | \$ 8,237,536 | \$ 8,237,536 |



**Table of Contents****Notes to financial statements (cont d)**

As of December 31, 2015, the components of accumulated earnings (losses) on a tax basis were as follows:

|   |                      |
|---|----------------------|
| Capital loss carryforward*                            | \$ (6,501,390)       |
| Other book/tax temporary differences <sup>(a)</sup>   | 675,670              |
| Unrealized appreciation (depreciation) <sup>(b)</sup> | 38,249,396           |
| <b>Total accumulated earnings (losses) net</b>        | <b>\$ 32,423,676</b> |

\* During the taxable year ended December 31, 2015, the Fund utilized \$ 6,522,099 of its capital loss carryforward available from prior years. As of December 31, 2015, the Fund had the following net capital loss carryforwards remaining:

| Year of Expiration | Amount         |
|--------------------|----------------|
| 12/31/2017         | \$ (6,374,989) |
| 12/31/2018         | (126,401)      |
|                    | \$ (6,501,390) |

These amounts will be available to offset any future taxable capital gains.

<sup>(a)</sup> Other book/tax temporary differences are attributable to book/tax differences in the treatment of distributions from real estate investment trusts and book/tax differences in the timing of the deductibility of various expenses.

<sup>(b)</sup> The difference between book-basis and tax-basis unrealized appreciation (depreciation) is attributable to the tax deferral of losses on wash sales.

**8. Reorganization**

On October 23, 2015, the Fund announced that the Fund's Board of Directors approved the conversion of the Fund from a closed-end fund to an open-end fund through a merger with and into ClearBridge Real Estate Opportunities Fund ( CRO ), a series of Legg Mason Funds Trust ( LM Trust ) (the Merger ). LM Trust is newly organized and is registered as an open-end management investment company under the Investment Company Act of 1940, as amended. The Merger will require the approval of the Fund's stockholders. If approved by stockholders of the Fund, the Merger is anticipated to occur during the second quarter of 2016. If the Merger is consummated, stockholders of the Fund will become holders of Class O shares of CRO and will have the ability to redeem their shares at net asset value, subject to certain conditions including the imposition of a redemption fee of 1% for one year after the Merger.

The Fund and CRO have different investment objectives, but similar investment policies and strategies. The Fund's primary investment objective is high current income with capital appreciation as a secondary investment objective. CRO's primary investment objective is total return. CRO is expected to invest in a broader universe of real estate and real estate-related companies.

As previously announced, Bulldog Investors, LLC ( Bulldog ) and the Fund have entered into a Settlement Agreement following a protracted proxy contest pursuant to which Bulldog has agreed to vote in favor of (i) the Merger, (ii) any routine management proposal, including a proposal relating to the election of directors or selection of auditors and (iii) the Board of Director's recommendation on any proposal submitted by a stockholder.

**Table of Contents**

## Report of independent registered public accounting firm

### **The Board of Directors and Shareholders**

#### **LMP Real Estate Income Fund Inc.:**

We have audited the accompanying statement of assets and liabilities of LMP Real Estate Income Fund Inc. (the Fund ), including the schedule of investments, as of December 31, 2015, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2015, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of LMP Real Estate Income Fund Inc. as of December 31, 2015, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

New York, New York

February 22, 2016

## **Table of Contents**

# Board approval of management and

## subadvisory agreements (unaudited)

### **Background**

The Investment Company Act of 1940, as amended (the 1940 Act ), requires that the Board of Directors (the Board ) of LMP Real Estate Income Fund, Inc. (the Fund ), including a majority of its members who are not considered to be interested persons under the 1940 Act (the Independent Directors ) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement ) with the Fund's manager, Legg Mason Partners Fund Advisor, LLC (the Manager ), and the sub-advisory agreement (the Sub-Advisory Agreement ) with the Manager's affiliate, ClearBridge Investments, LLC (formerly, ClearBridge Advisors, LLC) ( ClearBridge or the Sub-Adviser ). At a meeting (the Contract Renewal Meeting ) held in-person on November 11 and 12, 2015, the Board, including the Independent Directors, considered and approved the continuation of the Management Agreement and the Sub-Advisory Agreement for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreement, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information ) about the Manager and the Sub-Adviser, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board's supervision (collectively, the Legg Mason Closed-end Funds ), certain portions of which are discussed below. A presentation made by the Manager and the Sub-Adviser to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreement encompassed the Fund and other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Adviser to the Fund. The Board's evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Boards of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Adviser.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Adviser provides the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreement. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Adviser.

### **Board approval of management agreement and sub-advisory agreement**

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreement, the Board, including the Independent Directors, considered the factors below.

---

**Table of Contents**

**Nature, extent and quality of the services under the management agreement and sub-advisory agreement**

The Board received and considered Contract Renewal Information regarding the nature, extent, and quality of services provided to the Fund by the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund's compliance policies and procedures established pursuant to the 1940 Act.

The Board reviewed the qualifications, backgrounds, and responsibilities of the Fund's senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board's discussions with the Manager and the Sub-Adviser at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager and its affiliates and the financial resources available to the corporate parent of the Manager, Legg Mason, Inc. (Legg Mason), to support its activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board reviewed the responsibilities of the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager's coordination and oversight of the services provided to the Fund by the Sub-Adviser and others. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement (the Delegation Provision), the Manager currently does not provide day-to-day portfolio management services to the Fund; rather, portfolio management services since September 1, 2012 have been provided to the Fund by ClearBridge pursuant to the Sub-Advisory Agreement. From August 15, 2011 to September 1, 2012, the Manager was responsible for day-to-day portfolio management activities. Prior to August 15, 2011, day-to-day portfolio management responsibilities, in accordance with the Delegation Provision, were delegated by the Manager pursuant to the Delegation Provision to AEW Capital Management, L.P. (AEW), an unaffiliated subadviser, pursuant to a separate sub-advisory agreement (the AEW Sub-Advisory Agreement) with the Manager. At the request of the Board, the Manager proposed and implemented a Management Fee waiver (the Management Fee Waiver) of 0.05% for three years, until June 30, 2014, as a result of the elimination of AEW's fees under the AEW Sub-Advisory Agreement, which were paid by the Manager. The Management Fee Waiver has been extended twice for additional one-year periods since the original expiration date by the Manager and currently is scheduled to expire on June 30, 2016.

In reaching its determinations regarding continuation of the Management Agreement and the Sub-Advisory Agreement, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

reputation and the investment style, philosophy and strategy of the Manager and the Sub-Adviser, as well as the resources available to the Manager and the Sub-Adviser.

The Board concluded that, overall, the nature, extent, and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement have been satisfactory under the circumstances.

At the Contract Renewal Meeting, the Board approved conversion of the Fund from a closed-end fund to an open-end fund through a merger (the Merger) with a newly organized fund ClearBridge Real Estate Opportunities Fund ( CRO ) which will register as an open-end management investment company and will be one series of a series trust. The membership of the Board of Trustees of CRO (the CRO Board ) is identical to the Board. CRO will have different investment objectives but similar investment policies and strategies. CRO 's primary investment objective will be high current income with capital appreciation as a secondary investment objective, and it is expected that CRO will invest in a broader universe of real estate securities. The CRO Board, among other things, has approved an investment management agreement (the CRO Management Agreement ) between CRO and ClearBridge. The Merger is subject to approval by the Fund 's shareholders. In the event that the Fund 's shareholders do not approve the Merger, the Manager and the Sub-Adviser will continue to provide investment advisory and other services to the Fund pursuant to the Management Agreement and the Sub-Advisory Agreement, respectively.

### Fund performance

The Board received and considered performance information and analyses (the Lipper Performance Information ) for the Fund, as well as for a group of funds (the Performance Universe ) selected by Lipper, Inc. ( Lipper ), an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged real estate closed-end funds, as classified by Lipper, regardless of asset size. The Performance Universe consisted of fourteen funds, including the Fund, for the 1-year period ended June 30, 2015; nine funds, including the Fund, for each of the 3- and 5-year periods ended June 30, 2015; and seven funds, including the Fund, for the 10-year period ended June 30, 2015. The Board noted that it had received and discussed with the Manager and the Sub-Adviser information throughout the year at periodic intervals comparing the Fund 's performance against its benchmark and its peer funds as selected by Lipper.

The Lipper Performance Information comparing the Fund 's performance to that of the Performance Universe based on net asset value per share showed, among other things, that the Fund 's performance was ranked tenth among the funds in the Performance Universe for the 1-year period ended June 30, 2015 (first being best in these performance rankings); seventh among the funds in the Performance Universe for the 3-year period ended such

## **Table of Contents**

date; fifth among the funds in the Performance Universe for the 5-year period ended such date; and third among the funds in the Performance Universe for the 10-year period ended such date. The Fund's performance was worse than the Performance Universe median for each of the 1- and 3-year periods ended June 30, 2015 but was at the Performance Universe median for the 5-year period ended such date and was better than the Performance Universe median for the 10-year period ended such date. In addition to the Fund's performance relative to the Performance Universe, the Board considered the Fund's performance in absolute terms and the Fund's performance relative to its benchmark for each of the 1-, 3-, and 5-year periods. On a net asset value basis, the Fund outperformed its benchmark during the 3-year period ended June 30, 2015 but underperformed its benchmark during each of the 1- and 5-year periods ended such date. The Board noted that the current portfolio management team, first as employees of the Manager during the period August 15, 2011 to September 1, 2012 and thereafter as employees of the Sub-Adviser, assumed responsibility for the Fund's portfolio management on August 15, 2011. The Board noted further that the Fund's investment results for each of the 3- and 5-year periods ended June 30, 2015 were attributable in part to AEW, which exercised responsibility for day-to-day management of the Fund's investment portfolio until August 15, 2011. In reviewing the Fund's performance relative to the Performance Universe, the Manager expressed its belief that the Fund's current portfolio management team has delivered competitive returns in a REIT bull market while lowering the Fund's risk profile, especially exposure to a rising interest rate market, by utilizing less leverage than most of the funds in the Performance Universe and reducing the Fund's preferred stock holdings.

Based on the reviews and discussions of Fund performance and considering other relevant factors, including those noted above, the Board concluded, under the circumstances, that continuation of the Management Agreement and the Sub-Advisory Agreement for a period not to exceed one year would be consistent with the interests of the Fund and its shareholders.

### **Management fees and expense ratios**

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fee (the Sub-Advisory Fee) payable to the Sub-Adviser under the Sub-Advisory Agreement in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Adviser. The Board noted that the Sub-Advisory Fee payable to the Sub-Adviser under the Sub-Advisory Agreement is paid by the Manager, not the Fund, and, accordingly, that the retention of the Sub-Adviser does not increase the fees or expenses otherwise incurred by the Fund's shareholders.

Additionally, the Board received and considered information and analyses prepared by Lipper (the Lipper Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Lipper. The comparison was based upon the constituent funds' latest fiscal

---

**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (continued)

years. The Expense Group consisted of the Fund and five other leveraged real estate closed-end funds, as classified by Lipper. The six funds in the Expense Group had average net common share assets ranging from \$140.0 million to \$687.5 million. Four of the Expense Group funds were larger than the Fund and one was smaller.

The Lipper Expense Information, comparing the Management Fee as well as the Fund's actual total expenses to the Fund's Expense Group, showed, among other things, that the Fund's Management Fee on a contractual basis was ranked fourth among the funds in the Expense Group (first being lowest and, therefore, best in these expense component rankings) and was worse (i.e., higher) than the Expense Group median for that expense component. The Fund's actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) was ranked first among the Expense Group funds whether compared on the basis of common share assets only or on the basis of common share and leveraged assets. In each such comparison, the Fund's actual Management Fee was better (i.e., lower) than the Expense Group median for that expense component. The Lipper Expense Information further showed that the Fund's actual total expenses ranked second among the Expense Group funds compared on the basis of common share assets only and ranked first compared on the basis of common share and leveraged assets. In each such comparison, the Fund's actual total expenses were better than the Expense Group median for that expense component. The Board considered that the small number of funds in the Expense Group and the Fund's small size in relation to the other Expense Group funds made meaningful expense comparisons difficult.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients (collectively, institutional clients) generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to institutional clients. Among other things, institutional clients have fewer compliance, administration and other needs than the Fund and the Fund is subject not only to heightened regulatory requirements relative to institutional clients but also to requirements for listing on the New York Stock Exchange (NYSE). The Contract Renewal Information noted further that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund's chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Board noted, in particular, that the investment management fee to be paid by CRO, an open-end

## **Table of Contents**

fund, to ClearBridge under the CRO Management Agreement will be lower than the Management Fee if the Merger is approved by the Fund's shareholders. The Manager, in response to an inquiry from the Board as to the reasons for the fee differential, including the differential between the Management Fee and the proposed CRO investment management fee, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and the services provided to the Legg Mason Open-end Funds and to be provided to CRO. Among other things, the Manager noted, by way of example, that CRO, like the other Legg Mason Open-end Funds, will not use leverage, which must be arranged and managed and requires administrative and compliance efforts, and will not be subject to compliance with the listing requirements of the NYSE. The Board considered the fee comparisons in light of the Manager's explanation of the differentials.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fee were reasonable in light of the nature, extent and overall quality of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement.

### **Manager profitability**

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager's fiscal years ended March 31, 2015 and March 31, 2014. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager's revenue and cost allocation methodologies used in preparing such profitability data. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager had decreased by 2 percent during the period covered by the analysis and remained at a level that the Board did not consider to be excessive in light of judicial guidance and the nature, extent and overall quality of the investment advisory and other services provided to the Fund. The Board noted that the Manager's profitability during the period covered by the analysis reflected the impact of the Management Fee Waiver.

### **Economies of scale**

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund's assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund's investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure, which incorporates no breakpoints reducing the Management Fee at specified increased asset levels, was appropriate under present circumstances.



**Table of Contents**

## Board approval of management and subadvisory agreements (unaudited) (cont d)

### **Other benefits to the manager and the sub-adviser**

The Board considered other benefits received by the Manager, the Sub-Adviser and their affiliates as a result of their relationship with the Fund and did not regard such benefits as excessive.

\* \* \* \* \*

In light of all of the foregoing and other relevant factors, the Board determined, under the circumstances, that continuation of the Management Agreement and the Sub-Advisory Agreement would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year. No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreement, and each Board member attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreement as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreement in private sessions with their independent legal counsel at which no representatives of the Manager or the Sub-Adviser were present.

**Table of Contents****Additional information** (unaudited)**Information about Directors and Officers**

The business and affairs of LMP Real Estate Income Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Jane Trust, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

**Independent Directors:****Robert D. Agdern**

|  |   |
|--|---|
| Year of birth  | 1950  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class III Since 2015  |
| Term of office <sup>1</sup> and length of time served                          | Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University (since 2002); formerly, Deputy General Counsel responsible for western hemisphere matters for BP PLC (1999 to 2001); formerly, Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments (1993 to 1998) (Amoco merged with British Petroleum in 1998 forming BP PLC). |
| Principal occupation(s) during past five years                                 |   |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31  |
| Other board memberships held by Director during past five years                | None  |

**Carol L. Colman**

|  |  |
|--|--|
| Year of birth  | 1946   |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class I Since 2007 |
| Term of office <sup>1</sup> and length of time served                          | President, Colman Consulting Company (consulting)                              |
| Principal occupation(s) during past five years                                 |  |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31   |
| Other board memberships held by Director during past five years                | None   |

**Daniel P. Cronin**

|  |   |
|--|---|
| Year of birth  | 1946  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class II Since 2007         |
| Term of office <sup>1</sup> and length of time served                          | Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004) |
| Principal occupation(s) during past five years                                 |   |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31  |
| Other board memberships held by Director during past five years                | None  |

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Independent Directors cont d**

**Paolo M. Cucchi**

|  |   |
|--|---|
| Year of birth  | 1941  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class II  |
| Term of office <sup>1</sup> and length of time served                          | Since 2002  |
| Principal occupation(s) during past five years                                 | Emeritus Professor of French and Italian (since 2014) and formerly, Professor of French and Italian (2009 to 2014) at Drew University, formerly, Vice President and Dean of College of Liberal Arts at Drew University (1984 to 2009) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31  |
| Other board memberships held by Director during past five years                | None  |

**Leslie H. Gelb**

|  |   |
|--|---|
| Year of birth  | 1937  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class I   |
| Term of office <sup>1</sup> and length of time served                          | Since 2007  |
| Principal occupation(s) during past five years                                 | President Emeritus and Senior Board Fellow (since 2003), The Council on Foreign Relations; formerly, President, (prior to 2003), the Council on Foreign Relations; formerly, Columnist, Deputy Editorial Page Editor and Editor, Op-Ed Page, The New York Times |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31  |
| Other board memberships held by Director during past five years                | Director of two registered investment companies advised by Aberdeen Asset Management Asia Limited (since 1994); Director, Encyclopedia Britannica; Director, Centre Partners IV and V, LP and Affiliates  |

**William R. Hutchinson**

|  |   |
|--|---|
| Year of birth  | 1942  |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class III   |
| Term of office <sup>1</sup> and length of time served                          | Since 2002  |
| Principal occupation(s) during past five years                                 | President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)  |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31  |
| Other board memberships held by Director during past five years                | Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994) |

**Table of Contents**

**Independent Directors cont d**

**Eileen A. Kamerick**

|  |  |
|--|--|
| Year of birth  | 1958   |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of Nominating and Audit Committees, Class III  |
| Term of office <sup>1</sup> and length of time served                          | Since 2013   |
| Principal occupation(s) during past five years                                 | Executive Vice President and Chief Financial Officer, ConnectWise, Inc. (software and services company) (since 2015) and Adjunct Professor, Washington University in St. Louis and University of Iowa law schools (since 2014); formerly, CFO, Press Ganey Associates (health care informatics company) (2012 to 2014); formerly, Managing Director and CFO, Houlihan Lokey (international investment bank) (2010 to 2012) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31   |
| Other board memberships held by Director during past five years                | Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (since 2003)   |

**Riordan Roett**

|  |  |
|--|--|
| Year of birth  | 1938   |
| Position(s) held with Fund <sup>1</sup>  | Director and Member of the Nominating and Audit Committees, Class II   |
| Term of office <sup>1</sup> and length of time served                          | Since 2007   |
| Principal occupation(s) during past five years                                 | The Sarita and Don Johnston Professor of Political Science and Director of Western Hemisphere Studies, Paul H. Nitze School of Advanced International Studies, The Johns Hopkins University (since 1973) |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 31   |
| Other board memberships held by Director during past five years                | None   |

**Table of Contents****Additional information (unaudited) (cont d)****Information about Directors and Officers****Interested Director and Officer:****Jane Trust, CFA<sup>2</sup>**

|  |  |
|--|--|
| Year of birth  | 1962   |
| Position(s) held with Fund <sup>1</sup>  | Director, Chairman, President and Chief Executive Officer, Class I Since 2015  |
| Term of office <sup>1</sup> and length of time served                          | Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2015); Officer and/or Trustee/Director of 160 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2015); President and Chief Executive Officer of LMPFA (since 2015); formerly, Senior Vice President of LMPFA (2015); formerly, Director of ClearBridge, LLC (formerly, Legg Mason Capital Management, LLC) (2007 to 2014); formerly, Managing Director of Legg Mason Investment Counsel & Trust Co. (2000 to 2007) |
| Principal occupation(s) during past five years                                 |  |
| Number of portfolios in fund complex overseen by Director (including the Fund) | 151  |
| Other board memberships held by Director during past five years                | None   |

**Additional Officers:****Ted P. Becker**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

|   |  |
|---|--|
| Year of birth   | 1951   |
| Position(s) held with Fund <sup>1</sup>               | Chief Compliance Officer   |
| Term of office <sup>1</sup> and length of time served | Since 2006   |
| Principal occupation(s) during past five years        | Director of Global Compliance at Legg Mason (since 2006); Chief Compliance Officer of LMPFA (since 2006); Managing Director of Compliance of Legg Mason & Co. (since 2005); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006) |

**Jenna Bailey**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

|   |  |
|---|--|
| Year of birth   | 1978   |
| Position(s) held with Fund <sup>1</sup>               | Identity Theft Prevention Officer  |
| Term of office <sup>1</sup> and length of time served | Since 2015   |
| Principal occupation(s) during past five years        | Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2015); Compliance Officer of Legg Mason & Co. (since 2013); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Associate Compliance Officer of Legg Mason & Co. (2011 to 2013); formerly, Risk Manager of U.S. Distribution of Legg Mason & Co. (2007 to 2011) |

**Table of Contents**

**Additional Officers cont d**

**Robert I. Frenkel**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2003

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel U.S. Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Thomas C. Mandia**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2006

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of LM Asset Services, LLC ( LMAS ) (since 2002) and Legg Mason Fund Asset Management, Inc. ( LMFAM ) (since 2013) (formerly registered investment advisers)

**Richard F. Sennett**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co.'s Global Fiduciary Platform (since 2011); formerly, Chief Accountant within the SEC's Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC's Division of Investment Management (2002 to 2007)

**Table of Contents**

**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Additional Officers cont d**

**Steven Frank**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1967

Treasurer

Since 2010

Director of Legg Mason & Co. (since 2015); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2010); formerly, Vice President of Legg Mason & Co. and Legg Mason & Co. predecessors (2002 to 2015); formerly, Controller of certain mutual funds associated with Legg Mason & Co. or its affiliates (prior to 2010)

**Jeanne M. Kelly**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1951

Senior Vice President

Since 2007

Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); President and Chief Executive Officer of LMAS and LMFAM (since 2015); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); formerly, Senior Vice President of LMFAM (2013 to 2015)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act ).

<sup>1</sup> The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2016, year 2017 and year 2018, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year to hold office until their successors are duly elected and qualified.

<sup>2</sup> Effective August 1, 2015, Ms. Trust became a Director. In addition, Ms. Trust is an interested person of the Fund as defined in the 1940 Act because Ms. Trust is an officer of LMPFA and certain of its affiliates.

**Table of Contents**

Annual chief executive officer and  
principal financial officer certifications (unaudited)

The Fund's Chief Executive Officer ( CEO ) has submitted to the NYSE the required annual certification and the Fund also has included the Certifications of the Fund's CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

LMP Real Estate Income Fund Inc.

37



**Table of Contents**

## Other shareholder communications regarding accounting

### matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ("CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

---

**Table of Contents**

## Dividend reinvestment plan (unaudited)

Under the Fund's Dividend Reinvestment Plan ( Plan ), a shareholder whose shares of Common Stock are registered in his own name will have all distributions from the Fund reinvested automatically by American Stock Transfer & Trust Company ( AST ), as agent under the Plan, unless the shareholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in street name ) will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the shareholder elects to receive distributions in cash. Investors who own Common Stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to Fund shareholders who do not participate in the Plan will be paid by check mailed directly to the record holder by or under the direction of AST as dividend-paying agent.

If the Fund declares a dividend or capital gains distribution payable either in Common Shares or in cash, shareholders who are not Plan participants will receive cash, and Plan participants will receive the equivalent amount in Common Shares. When the market price of the Common Shares is equal to or exceeds 98% of the net asset value per share of the Common Shares on the Determination Date (as defined below), Plan participants will be issued Common Shares valued at a price equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Determination Date or (b) 95% of the market price per share of the common stock on the Determination Date. The Determination Date is the dividend or capital gains distribution record date or, if that date is not a New York Stock Exchange ( NYSE ) trading day, the immediately preceding trading day.

If 98% of the net asset value per share of the Common Shares exceeds the market price of the Common Shares on the Determination Date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Shares in the open market, on the Exchange or elsewhere, for your account as soon as practicable commencing on the trading day following the Determination Date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the record date for the next succeeding dividend or distribution to be made to the Common Shareholders, except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price rises so that it equals or exceeds 98% of the net asset value per share of the Common Shares at the close of trading on the Exchange on the Determination date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan agent will cease purchasing Common Shares in the open market and the Fund shall issue the remaining Common Shares at a price per share equal to the greater of (a) 98% of the net asset value per share at the close of trading on the Exchange on the Determination date or (b) 95% of the then current market price per share. You may withdraw from the Plan by notifying the Plan Agent in writing at 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at [www.Investpower.com](http://www.Investpower.com) or by calling the Plan Agent at 1-877-366-6441. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or

**Table of Contents**

## Dividend reinvestment plan (unaudited) (cont'd)

distribution record date; otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared dividend or distribution on the Common Shares.

AST will maintain all shareholder accounts in the Plan and will furnish written confirmations of all transactions in each account, including information needed by a shareholder for personal and tax records. The automatic reinvestment of dividends and capital gains distributions will not relieve Plan participants of any income tax that may be payable on the dividends or capital gains distributions. Common Shares in the account of each Plan participant will be held by AST on behalf of the Plan participant, and each shareholder's proxy will include those shares purchased pursuant to the Plan.

Plan participants are subject to no charge for reinvesting dividends and capital gains distributions. AST's fees for handling the reinvestment of dividends and capital gains distributions will be paid by the Fund. No brokerage charges apply with respect to Common Shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in Common Shares or in cash. Each Plan participant will, however, bear a proportionate share of brokerage commissions incurred with respect to open market purchases made in connection with the reinvestment of dividends or capital gains distributions.

Experience under the Plan may indicate that changes to it are desirable. The Fund reserves the right to amend or terminate the Plan as applied to any dividend or capital gains distribution paid subsequent to written notice of the change sent to participants at least 30 days before the record date for the dividend or capital gains distribution. The Plan also may be amended or terminated by AST, with the Fund's prior written consent, on at least 30 days' written notice to Plan participants. Upon any termination, you will be sent a certificate or certificates for the full Common Shares held for you under the Plan and cash for any fractional Common Shares. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your shares on your behalf. The Plan Agent is authorized to deduct brokerage commissions actually incurred for this transaction from the proceeds. All correspondence concerning the Plan should be directed by mail to American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, by logging onto your account and following the directions at [www.Investpower.com](http://www.Investpower.com) or by telephone at 1-888-888-0151.

**Table of Contents**

LMP

**Real Estate Income Fund Inc.**

**Directors**

Robert D. Agdern

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb

William R. Hutchinson

Eileen A. Kamerick

Riordan Roett

Jane Trust\*

*Chairman*

**Officers**

Jane Trust\*

*President and Chief Executive Officer*

Richard F. Sennett

*Principal Financial Officer*

Ted P. Becker

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Prevention Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

## Edgar Filing: LMP REAL ESTATE INCOME FUND INC. - Form N-CSR

Steven Frank

*Treasurer*

Jeanne M. Kelly

*Senior Vice President*

\* Effective August 1, 2015, Ms. Trust became Chairman, President and Chief Executive Officer.

### **LMP Real Estate Income Fund Inc.**

620 Eighth Avenue

49<sup>th</sup> Floor

New York, NY 10018

### **Investment manager**

Legg Mason Partners Fund Advisor, LLC

### **Subadviser**

ClearBridge Investments, LLC

### **Custodian**

State Street Bank and Trust Company

1 Lincoln Street

Boston, MA 02111

### **Transfer agent**

American Stock Transfer & Trust Company 6201 15<sup>th</sup> Avenue

Brooklyn, NY 11219

### **Independent registered public accounting firm**

KPMG LLP

345 Park Avenue

New York, NY 10154

### **Legal counsel**

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, NY 10017

**New York Stock Exchange Symbol**

RIT

**Table of Contents**

## Legg Mason Funds Privacy and Security Notice

### **Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds**

This Privacy and Security Notice (the **Privacy Notice**) addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds and certain closed-end funds managed or sub-advised by Legg Mason or its affiliates. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

### **The Type of Nonpublic Personal Information the Funds Collect About You**

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

Personal information included on applications or other forms;

Account balances, transactions, and mutual fund holdings and positions;

Online account access user IDs, passwords, security challenge question responses; and

Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

### **How the Funds Use Nonpublic Personal Information About You**

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

Employees, agents, and affiliates on a **need to know** basis to enable the Funds to conduct ordinary business or comply with obligations to government regulators;

Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform marketing services solely for the Funds;

The Funds' representatives such as legal counsel, accountants and auditors; and

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust.

NOT PART OF THE ANNUAL REPORT



**Table of Contents**

## Legg Mason Funds Privacy and Security Notice (cont d)

Except as otherwise permitted by applicable law, companies acting on the Funds' behalf are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

### **Keeping You Informed of the Funds' Privacy and Security Practices**

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

### **The Funds' Security Practices**

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your non-public personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, or if you have questions about the Funds' privacy practices, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at [www.leggmason.com](http://www.leggmason.com), or contact the Fund at 1-888-777-0102.

**NOT PART OF THE ANNUAL REPORT**

**Table of Contents**

LMP Real Estate Income Fund Inc.

LMP Real Estate Income Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase, at market prices, shares of its stock.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C., and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) on the Fund's website at [www.lmcef.com](http://www.lmcef.com) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of LMP Real Estate Income Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

American Stock

Transfer & Trust Company

6201 15th Avenue

Brooklyn, NY 11219

FD02709 2/16 SR16-2711

**Table of Contents**

**ITEM 2 CODE OF ETHICS.**

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

**ITEM 3 AUDIT COMMITTEE FINANCIAL EXPERT.**

The Board of Directors of the registrant has determined that Eileen A. Kamerick, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

**ITEM 4 PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

a) Audit Fees. The aggregate fees billed in the last two fiscal years ending December 31, 2014 and December 31, 2015 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$54,300 in December 31, 2014 and \$54,800 in December 31, 2015.

b) Audit-Related Fees. The aggregate fees billed in the Reporting period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in December 31, 2014 and \$0 in December 31, 2015.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$4,550 in December 31, 2014 and \$4,600 in December 31, 2015. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

d) All Other Fees. There were no other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item 4 for the LMP Real Estate Income Fund Inc..

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA) and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to LMP Real Estate Income Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all

audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

---

**Table of Contents**

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund ( Covered Service Providers ) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the LMP Real Estate Income Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for 2014 and 2015; Tax Fees were 100% and 100% for 2014 and 2015; and Other Fees were 100% and 100% for 2014 and 2015.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to LMP Real Estate Income Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to LMP Real Estate Income Fund Inc. during the reporting period were \$0 in 2015.

(h) Yes. LMP Real Estate Income Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the LMP Real Estate Income Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

**ITEM 5 AUDIT COMMITTEE OF LISTED REGISTRANTS.**

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Robert D. Agdern

William R. Hutchinson

Paolo M. Cucchi

Daniel P. Cronin

Carol L. Colman

Leslie H. Gelb

Eileen A. Kamerick

Dr. Riordan Roett

b) Not applicable

**Table of Contents**

**ITEM 6 SCHEDULE OF INVESTMENTS.**

Included herein under Item 1.

**ITEM 7 DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END  
MANAGEMENT INVESTMENT COMPANIES.**

**Proxy Voting Guidelines and Procedures**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) delegates the responsibility for voting proxies for the fund to the subadviser through its contracts with the subadviser. The subadviser will use its own proxy voting policies and procedures to vote proxies. Accordingly, LMPFA does not expect to have proxy-voting responsibility for the fund. Should LMPFA become responsible for voting proxies for any reason, such as the inability of the subadviser to provide investment advisory services, LMPFA shall utilize the proxy voting guidelines established by the most recent subadviser to vote proxies until a new subadviser is retained.

The subadviser's Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund's portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-777-0102, (2) on the fund's website at <http://www.lmcef.com> and (3) on the SEC's website at <http://www.sec.gov>.

**PROXY VOTING GUIDELINES & PROCEDURES SUMMARY**

**Concerning ClearBridge Investments LLC**

( ClearBridge )

**I. TYPES OF ACCOUNTS FOR WHICH CLEARBRIDGE VOTES PROXIES**

ClearBridge votes proxies for each client that has specifically authorized us to vote them in the investment management contract or otherwise and votes proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves the responsibility to vote proxies to the plan trustees or other named fiduciary. These policies and procedures are intended to fulfill applicable requirements imposed on ClearBridge by the Investment Advisers Act of 1940, as amended, the Investment Company Act of 1940, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations adopted under these laws.

**II. GENERAL GUIDELINES**

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the accounts we manage and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values.

### **III. HOW CLEARBRIDGE VOTES**

Section V of these policies and procedures sets forth certain stated positions. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Section V that we consider in voting on such issue, we consider those factors and vote on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that we consider in voting on such issue, we vote on a case-by-case basis in accordance with the general principles set forth above. We may utilize an external service provider to provide us with information and/or a recommendation with regard to proxy votes but we are not required to follow any such recommendations. The use of an external service provider does not relieve us of our responsibility for the proxy vote.



## **Table of Contents**

For routine matters, we usually vote according to our policy or the external service provider's recommendation, although we are not obligated to do so and an individual portfolio manager may vote contrary to our policy or the recommendation of the external service provider. If a matter is non-routine, *e.g.*, management's recommendation is different than that of the external service provider and ClearBridge is a significant holder or it is a significant holding for ClearBridge, the issues will be highlighted to the appropriate investment teams and their views solicited by members of the Proxy Committee. Different investment teams may vote differently on the same issue, depending upon their assessment of clients' best interests.

ClearBridge's proxy voting process is overseen and coordinated by its Proxy Committee.

## **IV. CONFLICTS OF INTEREST**

In furtherance of ClearBridge's goal to vote proxies in the best interests of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge's interests and those of its clients before voting proxies on behalf of such clients.

### **A. Procedures for Identifying Conflicts of Interest**

**ClearBridge relies on the following to seek to identify conflicts of interest with respect to proxy voting:**

1. ClearBridge's employees are periodically reminded of their obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships or personal or business relationships relating to another Legg Mason business unit, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge's General Counsel/Chief Compliance Officer.
2. ClearBridge's finance area maintains and provides to ClearBridge Compliance and proxy voting personnel an up-to-date list of all client relationships that have historically accounted for or are projected to account for greater than 1% of ClearBridge's net revenues.
3. As a general matter, ClearBridge takes the position that relationships between a non-ClearBridge Legg Mason unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-ClearBridge Legg Mason affiliate) do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer because ClearBridge operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between ClearBridge and certain other Legg Mason business units. As noted above, ClearBridge employees are under an obligation to bring such conflicts of interest, including conflicts of interest which may arise because of an attempt by another Legg Mason business unit or non-ClearBridge Legg Mason officer or employee to influence proxy voting by ClearBridge to the attention of ClearBridge Compliance.
- 4.

A list of issuers with respect to which ClearBridge has a potential conflict of interest in voting proxies on behalf of client accounts will be maintained by ClearBridge proxy voting personnel. ClearBridge will not vote proxies relating to such issuers until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described in Section IV below.

**Table of Contents**

**B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest**

1. ClearBridge maintains a Proxy Committee which, among other things, reviews and addresses conflicts of interest brought to its attention. The Proxy Committee is comprised of such ClearBridge personnel (and others, at ClearBridge's request), as are designated from time to time. The current members of the Proxy Committee are set forth in the Proxy Committee's Terms of Reference.

2. All conflicts of interest identified pursuant to the procedures outlined in Section IV. A. must be brought to the attention of the Proxy Committee for resolution. A proxy issue that will be voted in accordance with a stated ClearBridge position on such issue or in accordance with the recommendation of an independent third party generally is not brought to the attention of the Proxy Committee for a conflict of interest review because ClearBridge's position is that any conflict of interest issues are resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party.

3. The Proxy Committee will determine whether a conflict of interest is material. A conflict of interest will be considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, ClearBridge's decision-making in voting the proxy. All materiality determinations will be based on an assessment of the particular facts and circumstances. A written record of all materiality determinations made by the Proxy Committee will be maintained.

4. If it is determined by the Proxy Committee that a conflict of interest is not material, ClearBridge may vote proxies notwithstanding the existence of the conflict.

5. If it is determined by the Proxy Committee that a conflict of interest is material, the Proxy Committee will determine an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination shall be based on the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc. Such methods may include:

disclosing the conflict to clients and obtaining their consent before voting;

suggesting to clients that they engage another party to vote the proxy on their behalf;

in the case of a conflict of interest resulting from a particular employee's personal relationships, removing such employee from the decision-making process with respect to such proxy vote; or

such other method as is deemed appropriate given the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc.\*

## **Table of Contents**

A written record of the method used to resolve a material conflict of interest shall be maintained.

### **C. Third Party Proxy Voting Firm - Conflicts of Interest**

With respect to a third party proxy voting firm described herein, the Proxy Committee will periodically review and assess such firm's policies, procedures and practices with respect to the disclosure and handling of conflicts of interest.

## **V. VOTING POLICY**

These are policy guidelines that can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account holding the shares being voted. There may be occasions when different investment teams vote differently on the same issue. A ClearBridge investment team (*e.g.*, ClearBridge's Social Awareness Investment team) may adopt proxy voting policies that supplement these policies and procedures. In addition, in the case of Taft-Hartley clients, ClearBridge will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services (ISS) PVS Proxy Voting Guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

\* Especially in the case of an apparent, as opposed to actual, conflict of interest, the Proxy Committee may resolve such conflict of interest by satisfying itself that ClearBridge's proposed vote on a proxy issue is in the best interest of client accounts and is not being influenced by the conflict of interest.

### **A. Election of Directors**

#### 1. Voting on Director Nominees in Uncontested Elections.

##### a. We withhold our vote from a director nominee who:

attended less than 75 percent of the company's board and committee meetings without a valid excuse (illness, service to the nation/local government, work on behalf of the company);

were members of the company's board when such board failed to act on a shareholder proposal that received approval of a majority of shares cast for the previous two consecutive years;

received more than 50 percent withheld votes of the shares cast at the previous board election, and the company has failed to address the issue as to why;

is an insider where: (1) such person serves on any of the audit, compensation or nominating committees of the company's board, (2) the company's board performs the functions typically performed by a company's audit, compensation and nominating committees, or (3) the full board is less than a majority independent (unless the director nominee is also the company CEO, in which case we will vote FOR);

**Table of Contents**

is a member of the company's audit committee, when excessive non-audit fees were paid to the auditor, or there are chronic control issues and an absence of established effective control mechanisms.

- b. We vote for all other director nominees.

2. Chairman and CEO is the Same Person.

We vote on a case-by-case basis on shareholder proposals that would require the positions of the Chairman and CEO to be held by different persons. We would generally vote FOR such a proposal unless there are compelling reasons to vote against the proposal, including:

Designation of a lead director

Majority of independent directors (supermajority)

All independent key committees

Size of the company (based on market capitalization)

Established governance guidelines

Company performance

3. Majority of Independent Directors

- a. We vote for shareholder proposals that request that the board be comprised of a majority of independent directors. Generally that would require that the director have no connection to the company other than the board seat. In determining whether an independent director is truly independent (e.g. when voting on a slate of director candidates), we consider certain factors including, but not necessarily limited to, the following: whether the director or his/her company provided professional services to the company or its affiliates either currently or in the past year; whether the director has any transactional relationship with the company; whether the director is a significant customer or supplier of the company; whether the director is employed by a foundation or university that received significant grants or endowments from the company or its affiliates; and whether there are interlocking directorships.

- b. We vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

4. Stock Ownership Requirements

We vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.



**Table of Contents**

5. Term of Office

We vote against shareholder proposals to limit the tenure of independent directors.

6. Director and Officer Indemnification and Liability Protection

- a. Subject to subparagraphs 2, 3, and 4 below, we vote for proposals concerning director and officer indemnification and liability protection.
- b. We vote for proposals to limit and against proposals to eliminate entirely director and officer liability for monetary damages for violating the duty of care.
- c. We vote against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.
- d. We vote for only those proposals that provide such expanded coverage noted in subparagraph 3 above in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, *and* (2) if only the director's legal expenses would be covered.

7. Director Qualifications

- a. We vote case-by-case on proposals that establish or amend director qualifications. Considerations include how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.
- b. We vote against shareholder proposals requiring two candidates per board seat.

**B. Proxy Contests**

1. Voting for Director Nominees in Contested Elections

We vote on a case-by-case basis in contested elections of directors. Considerations include: chronology of events leading up to the proxy contest; qualifications of director nominees (incumbents and dissidents); for incumbents, whether the board is comprised of a majority of outside directors; whether key committees (i.e.: nominating, audit, compensation) comprise solely of independent outsiders; discussion with the respective portfolio manager(s).



**Table of Contents**

2. Reimburse Proxy Solicitation Expenses
  
3. We vote on a case-by-case basis on proposals to provide full reimbursement for dissidents waging a proxy contest. Considerations include: identity of persons who will pay solicitation expenses; cost of solicitation; percentage that will be paid to proxy solicitation firms.

**C. Auditors**

1. Ratifying Auditors

We vote for proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position or there is reason to believe the independent auditor has not followed the highest level of ethical conduct. Specifically, we will vote to ratify auditors if the auditors only provide the company audit services and such other audit-related and non-audit services the provision of which will not cause such auditors to lose their independence under applicable laws, rules and regulations.

2. Financial Statements and Director and Auditor Reports

We generally vote for management proposals seeking approval of financial accounts and reports and the discharge of management and supervisory board members, unless there is concern about the past actions of the company's auditors or directors.

3. Remuneration of Auditors

We vote for proposals to authorize the board or an audit committee of the board to determine the remuneration of auditors, unless there is evidence of excessive compensation relative to the size and nature of the company.

4. Indemnification of Auditors

We vote against proposals to indemnify auditors.

**D. Proxy Contest Defenses**

1. Board Structure: Staggered vs. Annual Elections

- a. We vote against proposals to classify the board.

- b. We vote for proposals to repeal classified boards and to elect all directors annually.

**Table of Contents**

2. Shareholder Ability to Remove Directors

- a. We vote against proposals that provide that directors may be removed *only* for cause.
- b. We vote for proposals to restore shareholder ability to remove directors with or without cause.
- c. We vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies.
- d. We vote for proposals that permit shareholders to elect directors to fill board vacancies.

3. Cumulative Voting

- a. If plurality voting is in place for uncontested director elections, we vote for proposals to permit or restore cumulative voting.
- b. If majority voting is in place for uncontested director elections, we vote against cumulative voting.
- c. If plurality voting is in place for uncontested director elections, and proposals to adopt both cumulative voting and majority voting are on the same slate, we vote for majority voting and against cumulative voting.

4. Majority Voting

We vote for non-binding and/or binding resolutions requesting that the board amend a company's by-laws to stipulate that directors need to be elected with an affirmative majority of the votes cast, provided that it does not conflict with the state law where the company is incorporated. In addition, all resolutions need to provide for a carve-out for a plurality vote standard when there are more nominees than board seats (i.e. contested election). In addition, ClearBridge strongly encourages companies to adopt a post-election director resignation policy setting guidelines for the company to follow to promptly address situations involving holdover directors.

5. Shareholder Ability to Call Special Meetings

- a. We vote against proposals to restrict or prohibit shareholder ability to call special meetings.

- b. We vote for proposals that provide shareholders with the ability to call special meetings, taking into account a minimum ownership threshold of 10 percent (and investor ownership structure, depending on bylaws).

**Table of Contents**

6. Shareholder Ability to Act by Written Consent

- a. We vote against proposals to restrict or prohibit shareholder ability to take action by written consent.
- b. We vote for proposals to allow or make easier shareholder action by written consent.

7. Shareholder Ability to Alter the Size of the Board

- a. We vote for proposals that seek to fix the size of the board.
- b. We vote against proposals that give management the ability to alter the size of the board without shareholder approval.

8. Advance Notice Proposals

We vote on advance notice proposals on a case-by-case basis, giving support to those proposals which allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible.

9. Amendment of By-Laws

- a. We vote against proposals giving the board exclusive authority to amend the by-laws.
- b. We vote for proposals giving the board the ability to amend the by-laws in addition to shareholders.

10. Article Amendments (not otherwise covered by ClearBridge Proxy Voting Policies and Procedures).

We review on a case-by-case basis all proposals seeking amendments to the articles of association.

We vote for article amendments if:

shareholder rights are protected;

there is negligible or positive impact on shareholder value;

management provides adequate reasons for the amendments; and

the company is required to do so by law (if applicable).



**Table of Contents**

**E. Tender Offer Defenses**

1. Poison Pills

- a. We vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
- b. We vote on a case-by-case basis on shareholder proposals to redeem a company's poison pill. Considerations include: when the plan was originally adopted; financial condition of the company; terms of the poison pill.
- c. We vote on a case-by-case basis on management proposals to ratify a poison pill. Considerations include: sunset provision - poison pill is submitted to shareholders for ratification or rejection every 2 to 3 years; shareholder redemption feature - 10% of the shares may call a special meeting or seek a written consent to vote on rescinding the rights plan.

2. Fair Price Provisions

- a. We vote for fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.
- b. We vote for shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.

3. Greenmail

- a. We vote for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.
- b. We vote on a case-by-case basis on anti-greenmail proposals when they are bundled with other charter or bylaw amendments.

4. Unequal Voting Rights

- a. We vote against dual class exchange offers.

- b. We vote against dual class re-capitalization.
- 
- 5. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws

**Table of Contents**

- a. We vote against management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.
- b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.

6. Supermajority Shareholder Vote Requirement to Approve Mergers

- a. We vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.
- b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

7. White Squire Placements

We vote for shareholder proposals to require approval of blank check preferred stock issues.

**F. Miscellaneous Governance Provisions**

1. Confidential Voting

- a. We vote for shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: in the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.
- b. We vote for management proposals to adopt confidential voting subject to the proviso for contested elections set forth in sub-paragraph A.1 above.

2. Equal Access

We vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.



**Table of Contents**

3. Bundled Proposals

We vote on a case-by-case basis on bundled or conditioned proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests and therefore not in the best interests of the beneficial owners of accounts, we vote against the proposals. If the combined effect is positive, we support such proposals.

4. Shareholder Advisory Committees

We vote on a case-by-case basis on proposals to establish a shareholder advisory committee. Considerations include: rationale and cost to the firm to form such a committee. We generally vote against such proposals if the board and key nominating committees are comprised solely of independent/outside directors.

5. Other Business

We vote for proposals that seek to bring forth other business matters.

6. Adjourn Meeting

We vote on a case-by-case basis on proposals that seek to adjourn a shareholder meeting in order to solicit additional votes.

7. Lack of Information

We vote against proposals if a company fails to provide shareholders with adequate information upon which to base their voting decision.

**G. Capital Structure**

1. Common Stock Authorization

- a. We vote on a case-by-case basis on proposals to increase the number of shares of common stock authorized for issue, except as described in paragraph 2 below.
- b. Subject to paragraph 3, below we vote for the approval requesting increases in authorized shares if the company meets certain criteria:

Company has already issued a certain percentage (i.e. greater than 50%) of the company's allotment.

The proposed increase is reasonable (i.e. less than 150% of current inventory) based on an analysis of the company's historical stock management or future growth outlook of the company.

**Table of Contents**

- c. We vote on a case-by-case basis, based on the input of affected portfolio managers, if holding is greater than 1% of an account.

2. Stock Distributions: Splits and Dividends

We vote on a case-by-case basis on management proposals to increase common share authorization for a stock split, provided that the split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the split.

3. Reverse Stock Splits

We vote for management proposals to implement a reverse stock split, provided that the reverse split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the reverse split.

- a. Blank Check Preferred Stock
- b. We vote against proposals to create, authorize or increase the number of shares with regard to blank check preferred stock with unspecified voting, conversion, dividend distribution and other rights.
- c. We vote for proposals to create declared blank check preferred stock (stock that cannot be used as a takeover defense).
- d. We vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.
- e. We vote for proposals requiring a shareholder vote for blank check preferred stock issues.

4. Adjust Par Value of Common Stock

We vote for management proposals to reduce the par value of common stock.

5. Preemptive Rights

- a. We vote on a case-by-case basis for shareholder proposals seeking to establish them and consider the following factors:

Size of the Company.

15



**Table of Contents**

Characteristics of the size of the holding (holder owning more than 1% of the outstanding shares).

Percentage of the rights offering (rule of thumb less than 5%).

- b. We vote on a case-by-case basis for shareholder proposals seeking the elimination of pre-emptive rights.

6. Debt Restructuring

We vote on a case-by-case basis for proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. Generally, we approve proposals that facilitate debt restructuring.

7. Share Repurchase Programs

We vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

8. Dual-Class Stock

We vote for proposals to create a new class of nonvoting or sub voting common stock if:

It is intended for financing purposes with minimal or no dilution to current shareholders

It is not designed to preserve the voting power of an insider or significant shareholder

9. Issue Stock for Use with Rights Plan

- 10. We vote against proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

11. Debt Issuance Requests

When evaluating a debt issuance request, the issuing company's present financial situation is examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. A gearing level up to 100 percent is considered acceptable.



## **Table of Contents**

We vote for debt issuances for companies when the gearing level is between zero and 100 percent.

We view on a case-by-case basis proposals where the issuance of debt will result in the gearing level being greater than 100 percent. Any proposed debt issuance is compared to industry and market standards.

### 12. Financing Plans

We generally vote for the adopting of financing plans if we believe they are in the best economic interests of shareholders.

## **H. Executive and Director Compensation**

In general, we vote for executive and director compensation plans, with the view that viable compensation programs reward the creation of stockholder wealth by having high payout sensitivity to increases in shareholder value. Certain factors, however, such as repricing underwater stock options without shareholder approval, would cause us to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary.

### 1. OBRA-Related Compensation Proposals

#### a. Amendments that Place a Cap on Annual Grant or Amend Administrative Features

We vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Internal Revenue Code.

#### b. Amendments to Added Performance-Based Goals

We vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of the Internal Revenue Code.

#### c. Amendments to Increase Shares and Retain Tax Deductions Under OBRA

We vote for amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) the Internal Revenue Code.

#### d. Approval of Cash or Cash-and-Stock Bonus Plans

We vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of the Internal Revenue Code.

Expensing of Options

We vote for proposals to expense stock options on financial statements.

**Table of Contents**

2. Index Stock Options

We vote on a case by case basis with respect to proposals seeking to index stock options. Considerations include whether the issuer expenses stock options on its financial statements and whether the issuer's compensation committee is comprised solely of independent directors.

3. Shareholder Proposals to Limit Executive and Director Pay

- a. We vote on a case-by-case basis on all shareholder proposals that seek additional disclosure of executive and director pay information. Considerations include: cost and form of disclosure. We vote for such proposals if additional disclosure is relevant to shareholder's needs and would not put the company at a competitive disadvantage relative to its industry.
- b. We vote on a case-by-case basis on all other shareholder proposals that seek to limit executive and director pay.

We have a policy of voting to reasonably limit the level of options and other equity-based compensation arrangements available to management to reasonably limit shareholder dilution and management compensation. For options and equity-based compensation arrangements, we vote FOR proposals or amendments that would result in the available awards being less than 10% of fully diluted outstanding shares (i.e. if the combined total of shares, common share equivalents and options available to be awarded under all current and proposed compensation plans is less than 10% of fully diluted shares). In the event the available awards exceed the 10% threshold, we would also consider the % relative to the common practice of its specific industry (e.g. technology firms). Other considerations would include, without limitation, the following:

Compensation committee comprised of independent outside directors

Maximum award limits

Repricing without shareholder approval prohibited

3-year average burn rate for company

Plan administrator has authority to accelerate the vesting of awards

Shares under the plan subject to performance criteria

4. Golden Parachutes

- a. We vote for shareholder proposals to have golden parachutes submitted for shareholder ratification.
- b. We vote on a case-by-case basis on all proposals to ratify or cancel golden parachutes.

**Table of Contents**

Considerations include: the amount should not exceed 3 times average base salary plus guaranteed benefits; golden parachute should be less attractive than an ongoing employment opportunity with the firm.

5. Golden Coffins

- a. We vote for shareholder proposals that request a company not to make any death benefit payments to senior executives' estates or beneficiaries, or pay premiums in respect to any life insurance policy covering a senior executive's life (golden coffin). We carve out benefits provided under a plan, policy or arrangement applicable to a broader group of employees, such as offering group universal life insurance.
- b. We vote for shareholder proposals that request shareholder approval of survivor benefits for future agreements that, following the death of a senior executive, would obligate the company to make payments or awards not earned.

6. Anti Tax Gross-up Policy

- a. We vote for proposals that ask a company to adopt a policy whereby it will not make, or promise to make, any tax gross-up payment to its senior executives, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy; we also vote for proposals that ask management to put gross-up payments to a shareholder vote.
- b. We vote against proposals where a company will make, or promise to make, any tax gross-up payment to its senior executives without a shareholder vote, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy.

7. Employee Stock Ownership Plans (ESOPs)

We vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is excessive (i.e., generally greater than five percent of outstanding shares).

8. Employee Stock Purchase Plans

- a. We vote for qualified plans where all of the following apply:

The purchase price is at least 85 percent of fair market value



**Table of Contents**

The offering period is 27 months or less

The number of shares allocated to the plan is five percent or less of outstanding shares  
If the above do not apply, we vote on a case-by-case basis.

- b. We vote for non-qualified plans where all of the following apply:

All employees of the company are eligible to participate (excluding 5 percent or more beneficial owners)

There are limits on employee contribution (ex: fixed dollar amount)

There is a company matching contribution with a maximum of 25 percent of an employee's contribution

There is no discount on the stock price on purchase date (since there is a company match)  
If the above do not apply, we vote against the non-qualified employee stock purchase plan.

9. 401(k) Employee Benefit Plans

We vote for proposals to implement a 401(k) savings plan for employees.

10. Stock Compensation Plans

- a. We vote for stock compensation plans which provide a dollar-for-dollar cash for stock exchange.
- b. We vote on a case-by-case basis for stock compensation plans which do not provide a dollar-for-dollar cash for stock exchange using a quantitative model.

11. Directors Retirement Plans

- a. We vote against retirement plans for non-employee directors.

- b. We vote for shareholder proposals to eliminate retirement plans for non-employee directors.

**Table of Contents**

12. Management Proposals to Reprice Options

We vote on a case-by-case basis on management proposals seeking approval to reprice options. Considerations include the following:

Historic trading patterns

Rationale for the repricing

Value-for-value exchange

Option vesting

Term of the option

Exercise price

Participation

13. Shareholder Proposals Recording Executive and Director Pay

- a. We vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.
- b. We vote against shareholder proposals requiring director fees be paid in stock only.
- c. We vote for shareholder proposals to put option repricing to a shareholder vote.
- d. We vote for shareholder proposals that call for a non-binding advisory vote on executive pay ( say-on-pay ). Company boards would adopt a policy giving shareholders the opportunity at each annual meeting to vote on an advisory resolution to ratify the compensation of the named executive officers set forth in the proxy statement s summary compensation table.
- e. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

14. We vote on a case-by-case basis for all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook. Management Proposals On Executive Compensation
  - a. For non-binding advisory votes on executive officer compensation, when management and the external service provider agree, we vote for the proposal. When management and the external service provider disagree, the proposal becomes a refer item. In the case of a Refer item, the factors under consideration will include the following:

Company performance over the last 1-, 3- and 5-year periods on a total shareholder return basis

**Table of Contents**

Performance metrics for short- and long-term incentive programs

CEO pay relative to company performance (is there a misalignment)

Tax gross-ups to senior executives

Change-in-control arrangements

Presence of a clawback provision, ownership guidelines, or stock holding requirements for senior executives

- b. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

15. Stock Retention / Holding Period of Equity Awards

We vote on a case-by-case basis on shareholder proposals asking companies to adopt policies requiring senior executives to retain all or a significant (>50 percent) portion of their shares acquired through equity compensation plans, either:

While employed and/or for one to two years following the termination of their employment;  
or

For a substantial period following the lapse of all other vesting requirements for the award,  
with ratable release of a portion of the shares annually during the lock-up period

The following factors will be taken into consideration:

Whether the company has any holding period, retention ratio, or named executive officer ownership requirements currently in place

Actual stock ownership of the company's named executive officers

Policies aimed at mitigating risk taking by senior executives

Pay practices at the company that we deem problematic

**I. State/Country of Incorporation**

1. Voting on State Takeover Statutes

22

**Table of Contents**

a. We vote for proposals to opt out of state freeze-out provisions

b. We vote for proposals to opt out of state disgorgement provisions.

2. Voting on Re-incorporation Proposals

We vote on a case-by-case basis on proposals to change a company's state or country of incorporation. Considerations include: reasons for re-incorporation (i.e. financial, restructuring, etc); advantages/benefits for change (i.e. lower taxes); compare the differences in state/country laws governing the corporation.

3. Control Share Acquisition Provisions

a. We vote against proposals to amend the charter to include control share acquisition provisions.

b. We vote for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.

c. We vote for proposals to restore voting rights to the control shares.

d. We vote for proposals to opt out of control share cashout statutes.

**J. Mergers and Corporate Restructuring**

1. Mergers and Acquisitions

We vote on a case-by-case basis on mergers and acquisitions. Considerations include: benefits/advantages of the combined companies (i.e. economies of scale, operating synergies, increase in market power/share, etc ); offer price (premium or discount); change in the capital structure; impact on shareholder rights.

2. Corporate Restructuring

We vote on a case-by-case basis on corporate restructuring proposals involving minority squeeze outs and leveraged buyouts. Considerations include: offer price, other alternatives/offers considered and review of fairness opinions.

## **Table of Contents**

### 3. Spin-offs

We vote on a case-by-case basis on spin-offs. Considerations include the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

### 4. Asset Sales

We vote on a case-by-case basis on asset sales. Considerations include the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

### 5. Liquidations

We vote on a case-by-case basis on liquidations after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

### 6. Appraisal Rights

We vote for proposals to restore, or provide shareholders with, rights of appraisal.

### 7. Changing Corporate Name

We vote for proposals to change the corporate name, unless the proposed name change bears a negative connotation.

### 8. Conversion of Securities

We vote on a case-by-case basis on proposals regarding conversion of securities. Considerations include the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

### 9. Stakeholder Provisions

We vote against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

## **K. Social and Environmental Issues**

1. In general we vote on a case-by-case basis on shareholder social and environmental proposals, on the basis that their impact on share value may be difficult to quantify. In most cases, however, we vote for disclosure reports that seek additional information, particularly when it appears the company has not adequately addressed shareholders' social and environmental concerns. In determining our vote on



shareholder social and environmental proposals, we also analyze the following factors:

- a. whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;

**Table of Contents**

- b. the percentage of sales, assets and earnings affected;
  - c. the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
  - d. whether the issues presented should be dealt with through government or company-specific action;
  - e. whether the company has already responded in some appropriate manner to the request embodied in a proposal;
  - f. whether the company's analysis and voting recommendation to shareholders is persuasive;
  - g. what other companies have done in response to the issue;
  - h. whether the proposal itself is well framed and reasonable;
  - i. whether implementation of the proposal would achieve the objectives sought in the proposal; and
  - j. whether the subject of the proposal is best left to the discretion of the board.
2. Among the social and environmental issues to which we apply this analysis are the following:
- a. Energy Efficiency and Resource Utilization
  - b. Environmental Impact and Climate Change
  - c. Human Rights and Impact on Communities of Corporate Activities
  - d. Equal Employment Opportunity and Non Discrimination
  - e. ILO Standards and Child/Slave Labor



**Table of Contents**

- f. Product Integrity and Marketing
- g. Sustainability Reporting
- h. Board Representation
- i. Animal Welfare

**L. Miscellaneous**

1. Charitable Contributions

We vote against proposals to eliminate, direct or otherwise restrict charitable contributions.

2. Political Contributions

In general, we vote on a case-by-case basis on shareholder proposals pertaining to political contributions. In determining our vote on political contribution proposals we consider, among other things, the following:

Does the company have a political contributions policy publicly available

How extensive is the disclosure on these documents

What oversight mechanisms the company has in place for approving/reviewing political contributions and expenditures

Does the company provide information on its trade association expenditures

Total amount of political expenditure by the company in recent history

3. Operational Items

- a. We vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.

- b. We vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.

**Table of Contents**

- c. We vote for by-law or charter changes that are of a housekeeping nature (updates or corrections).
- d. We vote for management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable.
- e. We vote against shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.
- f. We vote against proposals to approve other business when it appears as voting item.

4. Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

the opening of the shareholder meeting

that the meeting has been convened under local regulatory requirements

the presence of a quorum

the agenda for the shareholder meeting

the election of the chair of the meeting

regulatory filings

the allowance of questions

the publication of minutes

the closing of the shareholder meeting

We generally vote for these and similar routine management proposals.

5. Allocation of Income and Dividends

We generally vote for management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and unusually small or large.

6. Stock (Scrip) Dividend Alternatives

- a. We vote for most stock (scrip) dividend proposals.

**Table of Contents**

- b. We vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

ClearBridge has determined that registered investment companies, particularly closed end investment companies, raise special policy issues making specific voting guidelines frequently inapplicable. To the extent that ClearBridge has proxy voting authority with respect to shares of registered investment companies, ClearBridge shall vote such shares in the best interest of client accounts and subject to the general fiduciary principles set forth herein without regard to the specific voting guidelines set forth in Section V. A. through L.

The voting policy guidelines set forth in Section V may be changed from time to time by ClearBridge in its sole discretion.

**VI. OTHER CONSIDERATIONS**

In certain situations, ClearBridge may determine not to vote proxies on behalf of a client because ClearBridge believes that the expected benefit to the client of voting shares is outweighed by countervailing considerations. Examples of situations in which ClearBridge may determine not to vote proxies on behalf of a client include:

**A. Share Blocking**

Proxy voting in certain countries requires share blocking. This means that shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (e.g. one week) with a designated depository. During the blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to client accounts by the designated depository. In deciding whether to vote shares subject to share blocking, ClearBridge will consider and weigh, based on the particular facts and circumstances, the expected benefit to clients of voting in relation to the detriment to clients of not being able to sell such shares during the applicable period.

**B Securities on Loan**

Certain clients of ClearBridge, such as an institutional client or a mutual fund for which ClearBridge acts as a sub-adviser, may engage in securities lending with respect to the securities in their accounts. ClearBridge typically does not direct or oversee such securities lending activities. To the extent feasible and practical under the circumstances, ClearBridge will request that the client recall shares that are on loan so that such shares can be voted if ClearBridge believes that the expected benefit to the client of voting such shares outweighs the detriment to the client of recalling such shares (e.g., foregone income). The ability to timely recall shares for proxy voting purposes typically is not entirely within the control of ClearBridge and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time for such shares to be voted may not be possible due to applicable proxy voting record dates and administrative



**Table of Contents**

ITEM 8 PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1):

| <b>NAME AND ADDRESS</b>  | <b>LENGTH OF<br/>TIME SERVED</b> | <b>PRINCIPAL OCCUPATION(S) DURING<br/>PAST 5 YEARS</b>  |
|--|----------------------------------|---|
| Mark McAllister<br>ClearBridge Investments, LLC<br>620 Eighth Avenue<br>New York, NY 10018 | Since 2011                       | Co-portfolio manager of the fund; Managing Director and Senior Portfolio Manager of ClearBridge; Mr. McAllister has 26 years of investment industry experience. |
| John Baldi<br>ClearBridge Investments, LLC<br>620 Eighth Avenue<br>New York, NY 10018      | Since 2011                       | Co-portfolio manager of the fund; Director and Senior Research Analyst of ClearBridge; Mr. Baldi has fifteen years of related investment industry experience.   |

**Table of Contents****(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL**

The following tables set forth certain additional information with respect to the fund's portfolio manager for the fund. Unless noted otherwise, all information is provided as of December 31, 2015.

**Other Accounts Managed by Portfolio Managers**

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

| <b>Name of PM</b> | <b>Type of Account</b> | <b>Number of<br/>Accounts<br/>Managed</b> | <b>Total Assets<br/>Managed</b> | <b>Number of<br/>Accounts<br/>Managed for<br/>which Advisory<br/>Fee<br/>is Performance-<br/>Based</b> | <b>Assets<br/>Managed for<br/>which Advisory<br/>Fee<br/>is Performance-<br/>Based</b> |
|-------------------|------------------------|---|---------------------------------|--|--|
| Mark McAllister   | Other Registered       |   |                                 |  |  |
|                   | Investment Companies   | 2   | \$1.1 billion                   | None   | None   |
|                   | Other Pooled Vehicles  | 4   | \$1.2 billion                   | None   | None   |
|                   | Other Accounts         | 2,293                                     | \$570 million                   | None   | None   |
| John Baldi        | Other Registered       |   |                                 |  |  |
|                   | Investment Companies   | None                                      | None                            | None   | None   |
|                   | Other Pooled Vehicles  | None                                      | None                            | None   | None   |
|                   | Other Accounts         | None                                      | None                            | None   | None   |

**(a)(3): Portfolio Manager Compensation**

The portfolio managers participate in a competitive compensation program that is designed to attract and retain outstanding investment professionals and closely align the interests of its investment professionals with those of its clients and overall firm results. The total compensation program includes a significant incentive component that rewards high performance standards, integrity, and collaboration consistent with the firm's values. Portfolio manager compensation is reviewed and modified each year as appropriate to reflect changes in the market and to ensure the continued alignment with the goals stated above. The portfolio managers and other investment professionals receive a combination of base compensation and discretionary compensation, comprising a cash incentive award and deferred incentive plans described below.

**Table of Contents**

*Base salary compensation.* Base salary is fixed and primarily determined based on market factors and the experience and responsibilities of the investment professional within the firm.

*Discretionary compensation.* In addition to base compensation managers may receive discretionary compensation.

Discretionary compensation can include:

Cash Incentive Award

Deferred Incentive Plan (CDIP) a mandatory program that typically defers 15% of discretionary year-end compensation into managed products. For portfolio managers, one-third of this deferral tracks the performance of their primary managed product, one-third tracks the performance of a composite portfolio of the firm's new products and one-third can be elected to track the performance of one or more of managed funds. Consequently, portfolio managers can have two-thirds of their CDIP award tracking the performance of their primary managed product.

For centralized research analysts, two-thirds of their deferral is elected to track the performance of one or more of managed funds, while one-third tracks the performance of the new product composite.

The manager then makes a company investment in the proprietary managed funds equal to the deferral amounts by fund. This investment is a company asset held on the balance sheet and paid out to the employees in shares subject to vesting requirements.

Legg Mason Restricted Stock Deferral a mandatory program that typically defers 5% of discretionary year-end compensation into Legg Mason restricted stock. The award is paid out to employees in shares subject to vesting requirements.

Legg Mason Restricted Stock and Stock Option Grants a discretionary program that may be utilized as part of the total compensation program. These special grants reward and recognize significant contributions to our clients, shareholders and the firm and aid in retaining key talent.

Several factors are considered when determining discretionary compensation for portfolio managers. These include but are not limited to:

*Investment performance.* A portfolio manager's compensation is linked to the pre-tax investment performance of the fund/accounts managed by the portfolio manager. Investment performance is calculated for 1-, 3-, and 5-year periods measured against the applicable product benchmark (*e.g.*, a securities index and, with respect to a fund, the benchmark set forth in the fund's Prospectus) and relative to applicable industry peer groups. The greatest weight is generally placed on 3- and 5-year performance.

Appropriate risk positioning that is consistent with the investment philosophy and the Investment Committee/CIO approach to generation of alpha;

Overall firm profitability and performance;

Amount and nature of assets managed by the portfolio manager;

Contributions for asset retention, gathering and client satisfaction;

Contribution to mentoring, coaching and/or supervising;

Contribution and communication of investment ideas in the Investment Committee meetings and on a day to day basis;

Market compensation survey research by independent third parties

**Table of Contents**

*Potential Conflicts of Interest*

Potential conflicts of interest may arise when the fund's portfolio managers also have day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the fund's portfolio managers.

The subadviser and the fund have adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for the subadviser and the individuals that each employs. For example, the subadviser seeks to minimize the effects of competing interests for the time and attention of portfolio managers by assigning portfolio managers to manage funds and accounts that share a similar investment style. The subadviser has also adopted trade allocation procedures that are designed to facilitate the fair allocation of investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the subadviser and the fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear. These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Investment Opportunities.* If a portfolio manager identifies an investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity. The subadviser has adopted policies and procedures to ensure that all accounts, including the fund, are treated equitably.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

*Selection of Broker/Dealers.* In addition to executing trades, some broker/dealers provide brokerage and research services (as those terms are defined in Section 28(e) of the 1934 Act), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. For this reason, the subadviser has formed a brokerage committee that reviews, among other things, the allocation of brokerage to broker/dealers, best execution and soft dollar usage.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the manager's management fee (and the percentage paid to the subadviser) differs among funds and/or accounts (such as where certain funds or accounts pay

---

**Table of Contents**

higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the manager and/or its affiliates have interests. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

**(a)(4): *Portfolio Manager Securities Ownership***

The table below identifies the dollar range of securities beneficially owned by the portfolio manager as of December 31, 2015.

| <b>Portfolio Manager</b> | <b>Dollar Range of<br/>Portfolio Securities Beneficially<br/>Owned</b> |
|--------------------------|--|
| Mark McAllister          | \$100,001-\$500,000  |
| John Baldi               | None   |

**Table of Contents**

**ITEM 9 PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.**

Not Applicable.

**ITEM 10 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not Applicable.

**ITEM 11 CONTROLS AND PROCEDURES.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.
  
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting.

**ITEM 12 EXHIBITS.**

(a) (1) Code of Ethics attached hereto.  
Exhibit 99.CODE ETH

(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.  
Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.  
Exhibit 99.906CERT

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

**LMP Real Estate Income Fund Inc.**

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: February 26, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Jane Trust  
Jane Trust  
Chief Executive Officer

Date: February 26, 2016

By: /s/ Richard F. Sennett  
Richard F. Sennett  
Principal Financial Officer

Date: February 26, 2016