

# CLEARBRIDGE APPRECIATION PORTFOLIOS

## Investment overview

ClearBridge Appreciation Portfolios were designed for investors seeking long-term capital appreciation through investments primarily in a core portfolio of high-quality, large-capitalization companies. By investing in a diversified portfolio of growth and value stocks, the managers believe that they are able to position the portfolios to take advantage of changes in economic and market cycles.

## Investment objective

### Seeks:

Long-term capital appreciation

## Investment philosophy

- The managers seek to provide consistent and competitive risk-adjusted returns through a market cycle by balancing upside participation in good markets, while trying to limit downside risk during difficult markets.
- The managers invest in both growth and value stocks, consisting primarily of large-cap, blue chip companies that tend to have dominant market positions.

### Generally, companies in the portfolio fall into one of the following categories:

- Companies that have assets or earning power that are undervalued or unrecognized by the market, or companies whose stock price has been driven down by cyclical factors.
- Companies with superior demonstrated and expected growth characteristics, and whose stocks are available at reasonable prices due to temporary market-specific or stock-specific reasons.
- Companies the managers believe are well positioned to sustain or increase growth at a faster rate than market expectations.

The managers use a disciplined valuation process that attempts to measure upside potential and downside exposure.

## Portfolio positioning

### Low-volatility, core holding:

- Balance upside participation in good markets, while trying to limit downside risk during difficult markets
- Core equities: manager has the flexibility to take advantage of both growth and value oriented markets
- Typically focused on dominant “blue chips”
- Demonstrates both growth and value characteristics
- Great growth companies at reasonable prices
- The managers may sometimes hold significant cash reserves as a portion of the portfolio while waiting for buying opportunities

## Key differentiators

Clear investment philosophy and objective

- Seeks long-term appreciation of capital.

Disciplined approach to security selection

- Look for high-margin, lower-leverage companies.

- Focus on balance sheet strength and free cash flow measures.

- Use multiple valuation measures to ensure not over-paying for future growth.

- Occasionally incorporate top-down themes to drive areas for security selection.

Performance risk

- De-risk business model at security level.

- Aware of active bets at sector and security level, leveraging ClearBridge Investments risk management team.

## Management team

ClearBridge Investments is a well-established global investment manager focusing on proprietary research and fundamental investing. With over 50 years of experience building portfolios for clients seeking income solutions, high active share or low volatility, long-tenured portfolio managers provide strong leadership in a centralized investment structure.

### Investment management team

Scott Glasser,

*Co-Chief Investment Officer and Managing Director*

- Portfolio Manager

- Industry since 1991

Michael Kagan,

*Managing Director*

- Portfolio Manager

- Industry since 1985

**Risks:** All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met.

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

While most investments are in U.S. companies, investments may also be made in ADRs and other securities of non-U.S. companies in developed and emerging markets, which involve risks in addition to those ordinarily associated with investing in domestic securities, including the potentially negative effects of currency fluctuation, political and economic developments, foreign taxation, and differences in auditing and other financial standards. These risks are magnified in emerging markets.

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

Diversification does not assure a profit or protect against market loss.

## Investment process

# STEP 1

### Define the investment universe

Emphasize domestic large-capitalization stocks, but also consider mid- and small-capitalization companies and ADRs of non-U.S. companies opportunistically.

# STEP 2

### Evaluate stocks using proprietary discipline

Screen for high-quality companies with dominant market positions, proven management teams and/or superior balance sheets across all market sectors.

# STEP 3

### Select securities and construct portfolio

Conduct fundamental research to identify companies with attractive growth characteristics relative to their valuation levels, with a range of 40-60 stocks.

# STEP 4

### Review holdings continuously

- Re-examine a current holding when valuation is realized, fundamentals deteriorate, insiders are selling and/or cyclical shifts alter industry's attractiveness.
- The managers may sometimes hold significant cash reserves as a portion of the portfolio while waiting for buying opportunities or to provide a hedge against possible stock market declines.

### Annualized rates of return - gross and net of fees (%) as of September 30, 2020 - PRELIMINARY

	Sep '20	Q3 '20	YTD	1-year	3-year	5-year	7-year	10-year	15-year
Appreciation (gross)	-2.89	7.64	-1.00	4.97	9.46	11.65	10.38	12.15	9.34
Appreciation (net)	-3.14	6.87	-3.19	1.91	6.28	8.42	7.18	8.91	6.17
S&P 500 Index (USD)	-3.80	8.93	5.57	15.15	12.28	14.15	12.68	13.74	9.19

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Appreciation (gross)	26.79	-2.15	17.64	11.76	-0.02	12.61	31.58	16.35	4.46	12.89
Appreciation (net)	23.16	-5.01	14.25	8.53	-2.94	9.35	27.82	13.00	1.42	9.62
S&P 500 Index (USD)	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://www.leggmason.com) for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.**

**Fees:** Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 3.0% annual wrap fee, which is the maximum anticipated wrap fee for equity and balanced portfolios. Actual fees vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Legg Mason Private Portfolio Group (LMPPG), refer to LMPPG's Form ADV disclosure document. Returns reflect the reinvestment of dividends and other earnings.

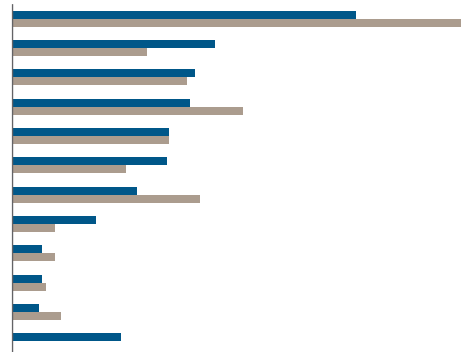
Active share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index.

The investment process may change over time. The characteristics set forth above are intended as a general illustration of some of the criteria the strategy team considers in selecting securities for client portfolios. There is no guarantee that investment objectives will be achieved.

**Past performance is not a guarantee of future results. Please see GIPS® Endnotes for important additional information regarding the portfolio performance shown and for effects of fees.** Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

## Portfolio information<sup>1</sup> as of September 30, 2020

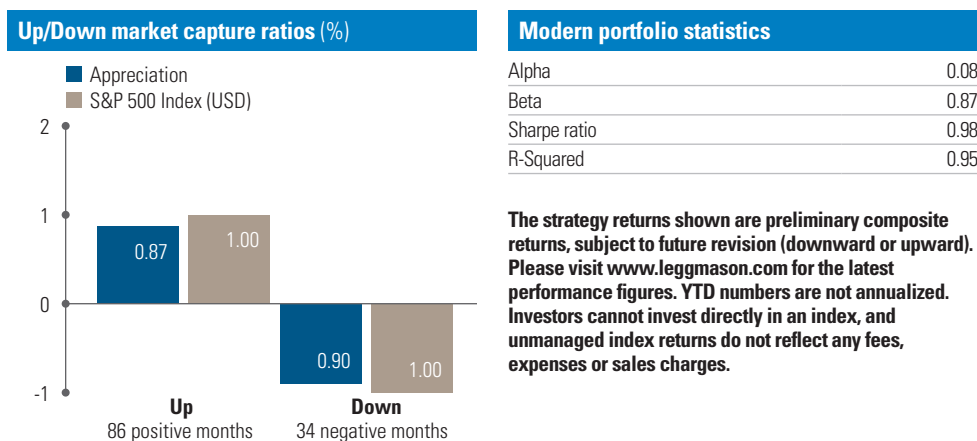
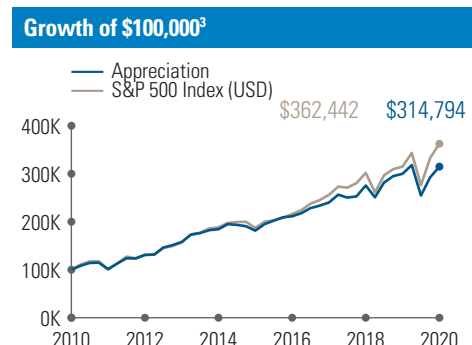
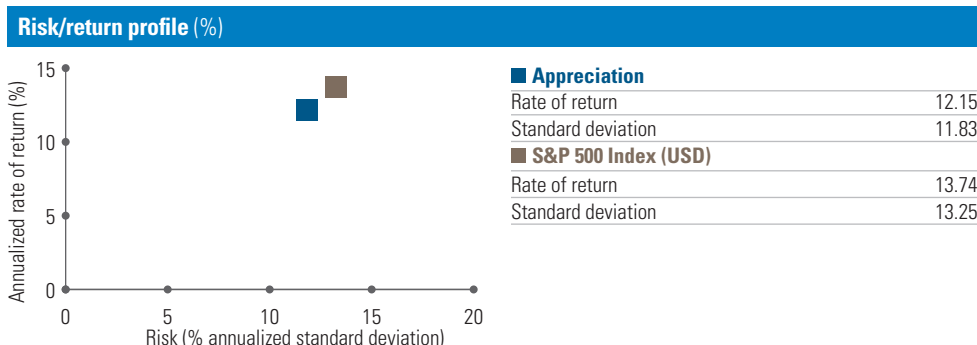
Top ten equity holdings (%)		Sector weightings (%)	
Microsoft Corp	7.28	Information Technology	21.24
Amazon.com Inc	5.03	Industrials	12.51
Alphabet Inc	4.13	Communication Services	11.28
Comcast Corp	3.81	Health Care	10.96
Berkshire Hathaway Inc	3.23	Financials	9.66
United Parcel Service Inc	3.11	Consumer Staples	9.53
Walmart Inc	3.08	Consumer Discretionary	7.69
Visa Inc	2.94	Materials	5.18
Raytheon Technologies Corp	2.81	Real Estate	1.81
Johnson & Johnson	2.78	Energy	1.79
<b>Total</b>	<b>38.20</b>	Utilities	1.63
		Cash	6.71



Characteristics		Market capitalization (%)	
Number of Holdings	47	Above \$50B	90.63
Dividend Yield	1.87	\$25 - \$50B	8.87
Forecasted P/E Ratio -1 Year	25.31	\$10 - \$25B	0.50
Price/Book Ratio	7.71	\$3 - \$10B	0.00
Long-Term EPS Growth	10.63	0 - \$3B	0.00
Weighted Median Market Capitalization	209.79		
Weighted Average Market Capitalization	431.59		



## Performance statistics (gross of fees)<sup>2</sup> — Preliminary (based on 10-year period ended September 30, 2020)



### Modern portfolio statistics

Alpha	0.08
Beta	0.87
Sharpe ratio	0.98
R-Squared	0.95

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit [www.leggmason.com](http://www.leggmason.com) for the latest performance figures. YTD numbers are not annualized. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

<sup>1</sup> Source: FactSet. Portfolio characteristics are based on a model portfolio, not an actual client account. The model portfolio is a hypothetical portfolio whereby the portfolio characteristics are based on simulated trading and account activity of a client account invested in this strategy. The model portfolio assumes no withdrawals, contributions or client-imposed restrictions. Portfolio characteristics of individual client accounts may differ from those of the model portfolio as a result of account size, client-imposed restrictions, the timing of client investments, market conditions, contributions, withdrawals and other factors.

<sup>2</sup> Source: Franklin Resources, Inc.

<sup>3</sup> For illustrative purposes only. Assumes no withdrawals or contributions. These statistics are based on gross-of-fees quarterly composite returns, were calculated assuming reinvestment of dividends and income, and take into account both realized and unrealized capital gains and losses.

Period	Total Return (Net, %)	Total Return (*Pure Gross, %)	Benchmark Return (%)	Number of Portfolios	% of Bundled Fee Portfolios in the Composite	Composite Dispersion (%)	Composite 3 Yr. St. Dev. (%)	Benchmark 3 Yr. St. Dev. (%)	Total Composite Assets at End of Period (\$MM)	Percentage of Firm Assets	Total Firm Assets at End of Period (USD million)
2019	23.16	26.79	31.49	645	100	0.47	10.60	12.10	626.9	0.5	128,740.4
2018	-5.01	-2.15	-4.38	568	100	0.24	9.72	10.95	508.7	0.5	106,083.4
2017	14.25	17.64	21.83	604	100	0.40	9.34	10.07	637.4	0.5	119,187.1
2016	8.53	11.76	11.96	688	100	0.35	9.93	10.74	606.2	0.6	100,936.9
2015	-2.94	-0.02	1.38	859	100	0.28	10.46	10.62	619.0	0.7	92,536.4
2014	9.35	12.61	13.69	895	100	0.32	8.16	9.10	715.5	0.7	100,721.5
2013	27.82	31.58	32.39	911	100	1.04	10.75	12.11	688.0	0.8	85,024.7
2012	13.00	16.35	16.00	2,160	100	0.59	12.81	15.30	494.5	0.9	54,624.3
2011	1.42	4.46	2.11	2,081	100	0.58	15.91	18.97	398.1	0.8	50,870.8
2010	9.62	12.89	15.06	2,116	100	0.95	n/a	n/a	378.9	0.7	55,366.5

\*Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs, and are presented as supplemental to the net of fee returns.

**Compliance Statement:**

ClearBridge Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. ClearBridge Investments, LLC has been independently verified for the periods January 1, 1997 - December 31, 2018. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

**Firm Information:**

ClearBridge Investments, LLC ("ClearBridge") is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason"). The investment advisory business now known as ClearBridge was registered in September 2005 to facilitate Legg Mason's acquisition of substantially all the equity asset management businesses known as Citigroup Asset Management. These former businesses serve as the foundation of ClearBridge and its claim of GIPS compliance for institutional accounts through predecessor firms, effective as of January 1997. In June 2008, ClearBridge combined this business with its retail business to form a single GIPS firm. As of April 1, 2013 and January 1, 2016, ClearBridge's affiliates, Global Currents Investment Management, LLC, and ClearBridge, LLC, respectively, have become part of the ClearBridge GIPS firm.

**Composite Information:**

The ClearBridge Appreciation SMA composite consists of discretionary wrap accounts with an account minimum of US \$25,000. Accounts within the composite are invested primarily in large capitalization companies, but may also invest in mid and small capitalization companies. The managers seek to create a diversified portfolio with investments in companies believed to have superior demonstrated or expected growth characteristics at reasonable prices. The strategy is implemented by Legg Mason Private Portfolio Group, LLC (LMPPG). LMPPG claims compliance with the Global Investment Performance Standards (GIPS®). LMPPG has been independently verified for the periods January 1, 2013 - December 31, 2018. LMPPG is a wholly-owned subsidiary of Legg Mason, Inc and together with its sub-advisers, including ClearBridge, provides investment services primarily in investment programs sponsored by Sponsor Firms. To obtain a compliant presentation and/or the firm's list of composite descriptions, please contact info@clearbridge.com. The main risks of this strategy are General Investment Risk, Small Cap Risk, Mid Cap Risk and Non-U.S. Investment Risk.

**Input and Calculation Data:**

The fee schedule currently in effect is 3.00% on all assets. Net of fee composite returns are calculated by reducing each monthly composite pure gross rate of return by the highest "bundled" fee charged (3.00% annually, prorated to a monthly ratio. The "bundled" fee includes transaction costs, investment management, custodial, and other administrative fees. Effective January 1, 2013, the number of portfolios reflects a change from prior periods due to an aggregation of accounts as reported by one sponsor. As of January 2014, the internal dispersion of annual returns is measured by the asset-weighted standard deviation of portfolio returns included in the composite for the entire year. For prior years, the equal-weighted standard deviation was used. The composite employed a 10% significant cash flow policy which was discontinued in January 2012. A list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not necessarily indicative of future results.

**Benchmark Information:**

The S&P 500® Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. Benchmark returns are not covered by the report of independent verifiers.

**These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.**

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**Terms and definitions:**

**Dividend yield** is determined by dividing a stock's annual dividends per share by the current market price per share. Dividend yield is a financial ratio that shows how much a company pays out in dividends.

**P/E (Year 1)** is the previous day's closing price of the stock divided by the consensus earnings per share (EPS) of fiscal year 1 (FY1) provided by I/B/E/S. Forecasts are inherently limited and should not be relied upon as indicators of future performance.

The **price-to-book ratio (P/B)** is a stock's price divided by the stock's per share book value. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of a common stock.

**Weighted median market capitalization** represents the value at which half the portfolio's market capitalization weight falls above and half falls below.

**Weighted average market capitalization** represents the average value of the companies held in the portfolio. When that figure is weighted, the impact of each company's capitalization on the overall average is proportional to the total market value of its shares.

**Market capitalization** measures the number of outstanding common shares of a given corporation multiplied by the latest price per share.

**Standard deviation** measures the risk or volatility of an investment's return over a particular time period; the greater the number, the greater the risk.

The **up capture ratio** measures the manager's overall performance to the benchmark's overall performance, considering only quarters that are positive in the benchmark. An up capture ratio of more than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark's positive quarters.

The **down capture ratio** is the ratio of the manager's overall performance to the benchmark's overall performance, considering only quarters that are negative in the benchmark. A down capture ratio of less than 1.0 indicates a manager who outperforms the relative benchmark in the benchmark's negative quarters and protects more of a portfolio's value during down markets.

**Alpha** is a measure of performance vs. a benchmark on a risk-adjusted basis. A positive alpha of 1.0 means the portfolio has outperformed its benchmark index by 1%. Correspondingly, a similar negative alpha would indicate an underperformance of 1%. Alpha is a measure of the difference between actual returns and expected performance measuring sensitivity to index movements.

**Beta** measures the sensitivity of an investment to the movement of its benchmark. A beta higher than 1.0 indicates the investment has been more volatile than the benchmark and a beta of less than 1.0 indicates that the investment has been less volatile than the benchmark.

**Sharpe ratio** is a risk-adjusted measure, calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe ratio, the better a portfolio's historical risk-adjusted performance.

**R-squared** measures the strength of the linear relationship between a fund and its benchmark. R-squared at 1.00 implies perfect linear relationship and zero implies no relationship exists.

**Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.**

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