

# CLEARBRIDGE SMALL CAP PORTFOLIOS

## Investment overview

ClearBridge Small Cap Portfolios systematically and actively seek investments in small-cap equities that offer the potential for long-term capital appreciation.

## Investment objective

Long-term capital appreciation

## Investment philosophy

- Valuation Driven Process: markets are not always efficient. Our process seeks investment opportunities where the price of the stock and the value of the corporation differ.
- Team Based: exploit behavioral errors. Our cognitively diverse team looks to improve the questions we ask and the assumptions we make about each investment.
- Diversification: in pursuit of the goal of building a resilient portfolio.

## Portfolio positioning

- Designed for investors seeking long-term capital appreciation
- The strategy seeks to offer a high active share investment approach to its stock selection
- Invests in stocks of small-cap companies whose market price appears attractive in relation to manager's assessment of their intrinsic value

## Key differentiators

- Repeatable, proprietary process designed to form explicit variant perceptions relative to expectations embedded in the stock price
- Team-driven approach that leverages cognitive diversity in order to improve the questions we ask and assumptions we make
- Diversification across a multitude of vectors (sectors, industries, economic drivers, quantitative characteristics, etc.) with the goal of building a resilient portfolio, one that can outperform in a variety of market conditions

## 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

Albert Grosman

*Managing Director*

- Portfolio Manager
- Industry since 1993

Brian Lund, CFA

*Director*

- Portfolio Manager
- Industry since 1999

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

Substantial investments may be made in speculative and/or small-cap and mid-cap companies which involve a higher degree of risk and volatility than investments in larger, more established companies. In addition, because the investments may be concentrated in a limited number of industries and companies, the portfolios may involve heightened risk. The investment process may change over time.

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.

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

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

## Investment process

# STEP 1

### Generate ideas

- Source ideas systematically using a variety of quantitative and qualitative tools

# STEP 2

### Analyze Securities

- Analyze industry structure and competitive position
- Evaluate management, ROIC versus the cost of capital, and free cash flow potential
- Understand the expectations embedded in the current stock price
- Develop a range of potential future values using multiple valuation approaches

# STEP 3

### Make Decisions, seeking to balance risk and return

- Select stocks based on impact to the portfolio's overall risk-adjusted returns
- Weight positions based on the risk of capital impairment, diversification characteristics that a position brings to the portfolio, potential for value appreciation
- Actively manage weights based on 3- to 5-year return potential

## Performance

Annualized rates of return — gross and net of fees (%) as of December 31, 2018 — PRELIMINARY				Since Inception: 11/30/2015			
	Dec '18	Q4 '18	YTD	1-year	2-year	3-year	Since Inception
Small Cap (gross)	-13.08	-19.55	-8.19	-8.19	2.17	11.42	9.95
Small Cap (net)	-13.33	-20.19	-10.90	-10.90	-0.81	8.19	6.76
Russell 2000 Index	-11.88	-20.20	-11.01	-11.01	1.00	7.36	6.31
S&P 500 Index	-9.03	-13.52	-4.38	-4.38	7.93	9.26	8.31

Calendar-year total returns - gross and net of fees (%) ending December 31			
	2018	2017	2016
Small Cap (gross)	-8.19	13.69	32.51
Small Cap (net)	-10.90	10.41	28.73
Russell 2000 Index	-11.01	14.65	21.31
S&P 500 Index	-4.38	21.83	11.96

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

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

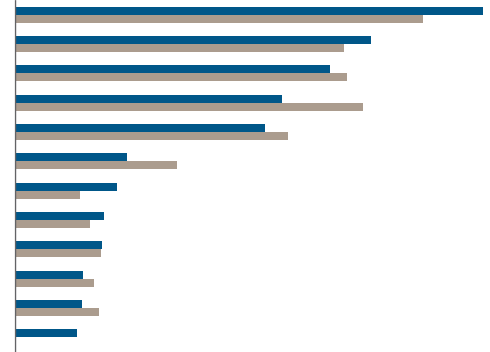
The investment process may change over time. The characteristics set forth above are intended as a general illustration of some of the criteria the strategy team considers in selecting securities for client portfolios. There is no guarantee that investment objectives will be achieved.

**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. Separately Managed Accounts (SMAs) are investment services provided by Legg Mason Private Portfolio Group, LLC (LMPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by one or more of the following Legg Mason-affiliated subadvisors: ClearBridge Investments, LLC and Western Asset Management Company. Management is implemented by LMPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

## Portfolio information<sup>1</sup> as of December 31, 2018

Top ten equity holdings (%)	
Amarin Corp PLC	3.47
Gray Television Inc	2.71
Aaron's Inc	2.51
Black Hills Corp	2.39
Cadence Bancorp	2.38
First Interstate BancSystem Inc	2.18
Murphy USA Inc	1.96
HealthEquity Inc	1.94
Sprouts Farmers Market Inc	1.90
Encompass Health Corp	1.77
<b>Total</b>	<b>23.21</b>

Sector weightings (%)		
	Portfolio	BM
Financials	20.90	18.24
Information Technology	15.90	14.71
Industrials	14.07	14.83
Health Care	11.91	15.56
Consumer Discretionary	11.15	12.17
Real Estate	4.98	7.24
Consumer Staples	4.55	2.88
Communication Services	3.95	3.32
Utilities	3.85	3.83
Energy	3.01	3.52
Materials	2.99	3.71
Cash	2.74	0.00

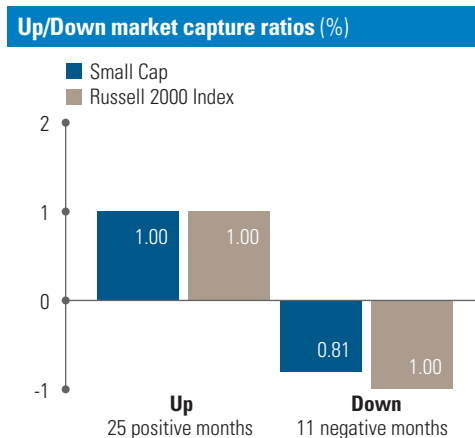
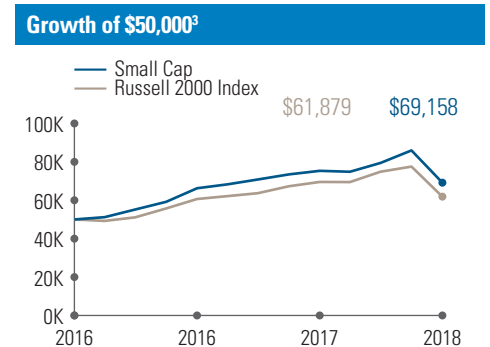
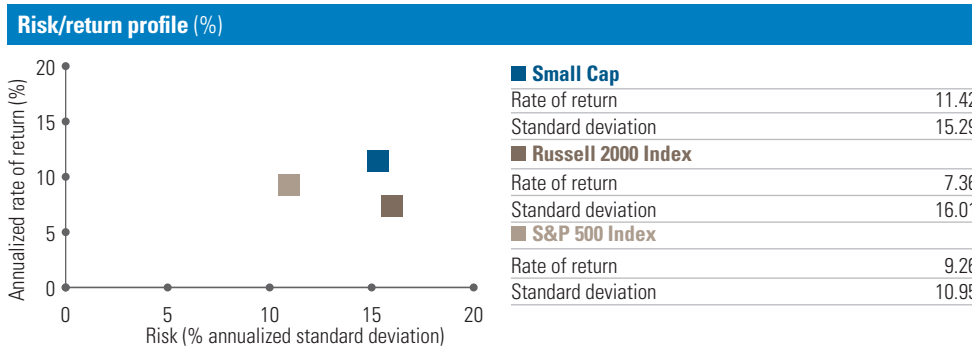


Characteristics		
	Portfolio	BM
Number of Holdings	77	2032
Dividend Yield	1.38	1.58
Forecasted P/E Ratio -1 Year	11.56	14.35
Price/Book Ratio	2.39	2.68
Long-Term EPS Growth	14.17	15.03
Weighted Median Market Capitalization	2.05	1.79
Weighted Average Market Capitalization	2.22	1.99

Market capitalization (%)		
	Portfolio	BM
Above \$50B	0.00	0.00
\$25 - \$50B	0.00	0.00
\$10 - \$25B	0.00	0.00
\$3 - \$10B	23.96	21.49
0 - \$3B	76.04	78.51



## Performance statistics (gross of fees)<sup>2</sup>— Preliminary (based on 3-year period ended December 31, 2018)



Modern portfolio statistics	
Alpha	4.30
Beta	0.92
Sharpe ratio	0.72
R-Squared	0.93

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: Legg Mason.

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

Period	Total Return (Net, %)	Total Return (*Pure Gross, %)	Benchmark Return (%)	Number of Portfolios	% of Bundled Fee Portfolios in the Composite	Composite Dispersion (%)	Composite 3 Yr. St. Dev. (%)	Benchmark 3 Yr. St. Dev. (%)	Total Composite Assets at End of Period (\$MM)	Percentage of Firm Assets	Total Firm Assets at End of Period (USD million)
2017	10.41	13.69	14.65	<5	100	n/m	n/a	n/a	0.1	0.0	119,187.1
2016	28.73	32.51	21.31	6	100	n/m	n/a	n/a	1.1	0.0	100,936.9
Nov - Dec 2015	-2.86	-2.37	-1.93	<5	100	n/m	n/a	n/a	0.1	0.0	92,536.4

\*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.

n/m - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

**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, 2017. The verification reports are available upon request.

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

**Firm Information:**

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 Small Cap SMA composite consists of discretionary wrap accounts with an account minimum of \$25,000. Accounts within the composite will generally invest in equity securities of U.S. companies that are within or below the market capitalization range of the Russell 2000 Index and that trade at significant discounts to the Investment Manager's assessment of intrinsic value. The strategy is designed for long-term investors who can tolerate the greater risks associated with small capitalization stocks. Under normal circumstances, the strategy will hold a portfolio of securities issued by small capitalization companies. These may include, but are not limited to, common stock, preferred stock, convertible securities, non-U.S. securities, ADR's, ETF's, and money market instruments. Clients should be aware of the possibility of high portfolio turnover, as the length of time a security is held is not generally a consideration with investment decisions. The strategy is implemented by Legg Mason Private Portfolio Group, LLC (LMPPG). LMPPG claims compliance with the Global Investment Performance Standards (GIPS®) and has been independently verified for the periods January 1, 2013 - December 31, 2017. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. The main risks of this strategy are General Investment Risk, Small 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. 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. The three-year annualized ex-post standard deviation is not available because the composite does not have 36 months of data. A list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not necessarily indicative of future results.

**Benchmark Information:**

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe.

The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks.

**The investment strategies described herein are those of Legg Mason Private Portfolio Group, LLC (LMPPG). 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 LMPPG materials are preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Advisor.**

**Terms and definitions:**

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

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

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

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

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

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

**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.**

www.leggmason.com

©2019 Legg Mason Investor Services, LLC. Member FINRA, SIPC. Legg Mason Investor Services, LLC and ClearBridge Investments, LLC are subsidiaries of Legg Mason, Inc. 3P 846369 AMXX300376 SMA CBI