2Q 2019 | Product Commentary

BRANDYWINEGLOBAL - ALTERNATIVE CREDIT FUND*

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Portfolio Managers

Average annual total returns and fund expenses (%)

as of June 30, 2019

Class A	3-mo	1-yr	5-yr	10-yr	Since Incept. (12/02/13)	Expenses Gross	Expenses Net
Excluding sales charges	2.10	3.25	2.38	N/A	3.96	1.66	1.66
Including effects of maximum sales charges	-2.23	-1.14	1.49	N/A	3.15	1.66	1.66
FTSE 3 month U.S. Treasury Bill Index	0.61	2.30	0.84	N/A	N/A	-	-

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than the original cost. Class A shares reflect the deduction of a maximum front-end sales charge of 4.25%. If sales charges were included, performance shown would be lower. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived and/or reimbursed in various periods. Returns for less than one year are cumulative. Performance for other share classes will vary. For the most recent month-end information, please visit www.leggmason.com.*

Effective September 1, 2017, the Fund changed its security pricing methodology to now use the mean value of the bid and ask prices (of underlying fund holdings) to calculate the NAV. Funds may show a one-time increase of the NAV, which is due to this change in pricing methodology.

Gross expenses are the Fund's total annual operating expenses for the share class(es) shown. **Net expenses** are the Fund's total annual operating expenses for the share classes indicated and would reflect contractual fee waivers and/or reimbursements, where these reductions reduce the Fund's gross expenses. These arrangements cannot be terminated prior to December 31, 2020 without the Board's consent. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the numbers shown in the table above.

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. **Index definitions are in Definitions section.**

Market review

Global bond markets rallied during the second quarter as investors sought safety amid growing geopolitical tensions and trade concerns and in anticipation of policy easing from developed market central banks. Although the Fed refrained from cutting rates at its June meeting, its new dovish shift helped sustain the broad rally. The U.S. economy appeared to remain on sound footing, evidenced by a healthy increase in May retail spending. However, trade tensions, slowing capex, weak job growth, and persistently low inflation give the Fed ammunition to begin easing; accordingly, market expectations for a rate cut increased overwhelmingly during the quarter. The Bank of England also echoed the sentiment on growing challenges to global growth, while Mario Draghi of the European Central Bank (ECB) surprised markets and sent government bond yields lower by suggesting there was room to expand the bank's stimulus. While the U.S. and China failed to resolve their trade differences, Mexico managed to circumvent the U.S. tariff threat, which drove bonos and the peso. Other emerging market government bonds also rallied during the quarter, given the increased prospects for a near-term U.S. rate cut.

Risk assets, including credit markets, also produced notable returns for the quarter. Despite sustaining some losses in May, most corporate credit sectors recovered or nearly recouped those declines to close the quarter. As central banks turned dovish and developed market sovereign yields fell, some into negative territory, the resulting search for yield supported both U.S. and European credit markets across quality segments.

*Prior to December 29, 2017, this fund was known as Legg Mason BW Alternative Credit Fund.

Generally, U.S. corporate credit outpaced European corporate bonds while investment grade generated higher returns for the quarter than lower-quality segments. Emerging market credit also produced positive returns. U.S. mortgage rates fell, lending support to the real estate market, while tighter supply and renewed risk appetite helped commercial mortgage-backed securities.

Positioning

Reduction of U.S. RMBS positioning ahead of the hurricane season reflected the largest change to Fund positioning. Proceeds were invested in longer-dated European sovereign debt, including Portuguese and Spanish long bonds. Egyptian t-bill maturities were partially rolled out by one month as June maturities came due. In addition to reducing U.S. RMBS exposure, low-cost CMBS protection was added to hedge current CMBS positioning. Corporate credit exposure remains low, given current valuations and the late stage of the credit cycle. Most positions mature within three years, and they include telecom, technology, and select oil and gas exposures, with substantial liquidity allowing for refinancing and liability management of shorter-dated maturities. Currency exposure is primarily to the U.S. dollar with some exposure to the Egyptian pound, with European fixed income exposures hedged back to U.S. dollars.

Market outlook

Our research suggests structured credit provides the best value proposition against a backdrop of not only low developed market rates but also elevated valuations in corporate credit at a late point in the economic cycle. In the context of inverted developed market sovereign yield curves and a challenging global growth backdrop, the margin of safety in structured credit, including CMBS and RMBS, warrants the largest allocation of capital within the portfolio. Developed market sovereign duration in markets including Portuguese and Spanish long-end government bonds provides support against a slow global growth backdrop. The value proposition of corporate credit is not compelling outside of a few idiosyncratic investments, including senior unsecured debt issued by a major U.S. telecom operation involved in the consolidation of the industry, when compared to structured credit.

Definitions:

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

An **asset-backed security (ABS)** is a financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities. For investors, asset-backed securities are an alternative to investing in corporate debt.

BAML/ICE High Yield Credit Index tracks the performance of below-investment-grade but not in default U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and it includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

Bloomberg Barclays Global Aggregate Bond Index is an unmanaged index of global investment-grade fixed income securities.

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security that is secured by loans on commercial property. A CMBS can provide liquidity to real estate investors and to commercial lenders.

A **credit default swap (CDS)** is a financial derivative or contract that allows an investor to "swap" or offset his or her credit risk with that of another investor.

Duration is an estimated measure of the price sensitivity of a bond to a change in interest rates.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

FTSE 3-Month U.S. Treasury Bill Index represents monthly return equivalents of yield averages of the last 3-month Treasury bill issues.

An **investment grade** is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

A **mortgage-backed security (MBS)** is a type of asset-backed security that is secured by a mortgage or collection of mortgages. This security must also be grouped in one of the top two ratings as determined by an accredited credit rating agency, and usually pays periodic payments that are similar to coupon payments.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

The yield curve shows the relationship between yields and maturity dates for a similar class of bonds.

Top 10 fixed income holdings (%)	
UNITED STATES TREASURY FLOATIN 2.2970% Mat 01/31/2021	7.9
PORTUGAL OBRIGACOES DO TESOURO 4.1000% Mat 02/15/2045	2.6
EGYPT TREASURY BILLS 0.0000% Mat 07/16/2019	2.5
JPMBB COMMERCIAL MORTGAGE SECU 5.3716% Mat 11/01/2045	2.3
SPAIN GOVERNMENT BOND 2.9000% Mat 10/31/2046	2.3
WELLS FARGO RE-REMIC TRUST 201 0.0000% Mat 05/01/2045	2.1
MORGAN STANLEY CAPITAL I TRUST 4.1930% Mat 09/01/2047	2.0
SLM STUDENT LOAN TRUST 2004-5 0.0890% Mat 10/25/2039	1.9
COMM 2014-CCRE15 MORTGAGE TRUS 4.8491% Mat 02/01/2047	1.8
Sprint Corp. 7.2500% Mat 09/15/2021	1.8

Top countries (%)	
United States	71.1
Spain	9.7
United Kingdom	4.8
Egypt	3.4
Portugal	2.8
Brazil	0.9

Currency allocation (%)	
US Dollar	92.3
Egyptian Pound	7.2
Euro	0.3
British Pound	0.1

Sector allocation - Notional exposure (%)	
MBS Non- Agency CMBS	23.9
MBS Agency CMBS	16.9
Government Sovereign	16.9
Prime MBS - Non-U.S.	12.0
MBS Non-Prime	7.1
Prime MBS - U.S.	6.5
Asset-Backed Securities	3.4
Leveraged Loans	2.4
Corporate Bond - HY	2.3
Corporate Bond - IG	0.9
Currency Forward P/L	-0.0
Credit Default Swap (% Notional)	-1.4
Cash & Equivalents	7.4

Percentages are based on total portfolio as of month end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

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- A broad mix of equities, fixed income, alternatives and cash strategies invested worldwide
- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
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What should I know before investing?

Fixed income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. High-yield bonds are subject to greater price volatility, illiquidity and possibility of default. Asset-backed, mortgage-backed or mortgage-related securities are subject to prepayment and extension risks. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Equity securities are subject to price fluctuation and possible loss of principal. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. **The Fund may use derivatives to a significant extent, which could result in substantial losses and greater volatility in the Fund's net assets.** Leverage may increase volatility and possibility of loss. Active and frequent trading may increase a shareholder's tax liability and transaction costs, which could detract from fund performance. As a non-diversified fund, the Fund is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund, which may magnify the Fund's losses from events affecting a particular issuer. The manager's investment style may become out of favor and/or the manager's selection process may prove incorrect, which may have a negative impact on the Fund's performance. Active management does not ensure gains or protect against market declines. A general rise in interest rates may lead to increased portfolio volatility.

BEFORE INVESTING, CAREFULLY CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES. YOU CAN FIND THIS AND OTHER INFORMATION IN EACH PROSPECTUS, AND SUMMARY PROSPECTUS, IF AVAILABLE, AT WWW.LEGGMASONFUNDS.COM. PLEASE READ THE PROSPECTUS CAREFULLY.