2Q 2019 | Product Commentary

CLEARBRIDGE AGGRESSIVE GROWTH 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. (10/24/83)	Expenses Gross	Expenses Net
Excluding sales charges	1.80	-1.96	4.12	13.69	11.42	1.12	1.12
Including effects of maximum sales charges	-4.05	-7.59	2.89	13.01	11.23	1.12	1.12
Russell 3000 Growth Index	4.50	10.60	13.02	16.13	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 have a maximum front-end sales charge of 5.75%. 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 in various periods. Returns for less than one year are cumulative. For the most recent month-end information, please visit www.leggmason.com.*

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.

The **Russell 3000 Growth Index** measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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

Key takeaways

- Equities touched new highs, with performance broadening across the market to include more cyclical and undervalued areas.
- Two major acquisitions in the energy and health care sectors could be the catalysts to drive a change in market leadership away from mega-cap momentum stocks.
- Our technology and health care exposures were performance headwinds, but the long-term outlook for both groups remains encouraging.

Market overview and outlook

Equities endured a roller coaster ride during the second quarter, with mega-cap growth stocks leading the U.S. market to new record highs. The S&P 500 Index gained 4.30% during the quarter and is up 18.54% year to date, its best first-half showing since 1997. Meanwhile, the Russell 3000 Index added 4.10%, while the small-cap Russell 2000 Index rose 2.10%. Growth once again outperformed value, with the benchmark Russell 3000 Growth Index advancing 4.50% for the quarter to post a first-half return of 21.41%, topping its value counterpart by 82 basis points (bps) for the quarter and 536 bps year to date.

The U.S. Federal Reserve jump-started the latest up leg for equity markets, as June remarks by Fed Chairman Jerome Powell took a decidedly dovish tone that hinted at future interest rate cuts. Both stocks and bonds rallied on the news,

with the 10-year U.S. Treasury yield retreating 40 basis points to finish the second quarter at 2.0%. A suddenly accommodative Fed helped offset volatility caused by heightened trade tensions between the U.S. and China and increasing signs of a slowing global economy.

The portfolio lagged the benchmark for the second quarter, hurt primarily by our exposures in the information technology (IT) and health care sectors. The market has become increasingly concentrated in mega-cap IT stocks, namely the FAANGs and Microsoft, which constitute over 25% of the Russell 3000 Growth Index. Avoiding this momentum trade in favor of undervalued companies in IT, health care, media and energy has detracted meaningfully from relative performance over the last several years.

We have been calling for a rotation in market leadership, and we have seen signs emerge over the last several quarters. As we wrote at the end of 2018:

"We believe conditions are setting up for our portfolio companies to monetize assets that have been depressed for some time, either through accretive mergers and acquisitions (M&A), increasing share buybacks or through the rerating higher of under-owned and undervalued stocks and sectors."

Cyclically oriented industrial and energy stocks were among the best performers in a first quarter that saw broader market participation, while financials (+8.39%) and materials (+7.04%) both outperformed IT (+6.48%) in the second quarter. But the real evidence came with the announcement of two significant acquisitions of portfolio holdings this quarter in the energy and health care sectors that support our thesis that M&A will be a primary catalyst of leadership change.

In May, Anadarko Petroleum agreed to be acquired by Occidental Petroleum, which outbid Chevron for the exploration & production (E&P) company. Anadarko, which we have owned since 2003, is being acquired at a significant premium to where its shares were trading prior to the announcement of deal talks. Both companies were attracted to Anadarko's disciplined execution which, in a period of accelerating U.S. shale production, has been focused on generating free cash flow, reducing debt through asset sales and returning capital to shareholders. Anadarko also maintains an attractive asset base in the shale-rich Permian Basin.

The Anadarko deal, following on the heels of Canadian driller Encana's February acquisition of Newfield Exploration, further consolidates the E&P sector, which demonstrates that during a period of range-bound commodity prices the industry needs to shrink to remain efficient. The stocks of energy companies have been disconnected from crude oil prices since 2016, but we believe a leaner E&P industry has a greater chance of being valued in line with fundamentals. Oil services stocks have also lagged due to depressed capital spending on offshore and international production. The potential for consolidation here, as well as the likelihood of an equipment refresh cycle in the second half of the year, could help monetize the value of the services companies we own. Companies with strong balance sheets and business models stand to gain share in the downturn and emerge in a stronger competitive position on the other side of the cycle.

Health care, which represents the portfolio's second-largest overweight, has faced performance headwinds similar to energy over the last several years. The seemingly constant threat of prescription drug pricing reform, as well as the potential for a major overhaul of the health care system, has caused investors to largely stay away from the biopharmaceutical companies that constitute the bulk of our exposure. Innovative, mid-cap biotechnology holdings Ionis Pharmaceuticals and Agios Pharmaceuticals bore the brunt of negative investor sentiment in the second quarter. The threat of generic competition for leading branded treatments has also weighed on valuations, causing companies generating billions of dollars of cash flow, developing breakthrough treatments, and possessing compelling product pipelines to trade at historically low multiples. As we wrote in May:

"We remain convinced that Allergan maintains one of the most attractively priced businesses in the biopharmaceutical industry and that pipeline treatments nearing commercial approval are not being properly discounted by the market."

We have stated repeatedly that such dislocations from fundamentals could not continue indefinitely and that investors would eventually find ways to extract value from these stocks.

The announcement of a proposed acquisition of Allergan by rival drug maker AbbVie late in the quarter is one such way this monetization will happen. Allergan shares climbed 40% following the news, but they are still trading at less than half their previous high. It will take some time, but we think the deal can be accretive to AbbVie and has the best chance of realizing the brand value of Botox and other leading treatment franchises of the combined company. The deal, which represents the 30th health care acquisition in the more than 35-year history of the Aggressive Growth Fund, validates our approach as engaged long-term shareholders and the consistency of our process of identifying companies which we

view as dramatically mispriced in the public markets and helping managements realize their value over time.

Another encouraging sign of broadening leadership has been the media industry. After being under a cloud of uncertainty over "cord cutting" and bidding wars for premium content assets, the media names we own have been strong performers year to date. Comcast continues to execute and is beginning to realize the synergies of its greater global scale from the acquisition of Sky. Discovery is also being more recognized for its earnings power and the value of its programming assets.

The portfolio's IT holdings were a significant detractor during the quarter, hurt by trade restrictions placed on Chinese telecom equipment maker Huawei, as well as a slowdown in cloud and storage demand. Broadcom, a major supplier of chips to Huawei and rival smartphone maker Apple, missed earnings forecasts and sharply reduced guidance due to the Huawei ban. Western Digital, meanwhile, suffered a power outage during the quarter that impacted production of NAND flash memory. While the outage will hamper near-term results, it should act to balance an oversupplied market and help stabilize pricing, a move that should help both Western and Seagate Technology. The Trump administration's lifting of the ban on selling to Huawei in late June, meanwhile, has caused suppliers like Broadcom to rally. We continue to favor these companies, which have more of a focus on enterprise customers than the consumer-oriented FAANG stocks, and we believe they possess valuable intellectual property similar to that enjoyed by our holdings in the biotechnology industry.

Our outlook remains favorable for undervalued growth companies with strong competitive positions and healthy free cash flow generation. We choose to own a select group of multi-cap companies with unique assets that have historically been monetized through operational execution or consolidation. In contrast, the leading positions in our benchmark trade in excess of $500 billion in market cap. While disappointed with our recent results relative to the benchmark, we have noted the historically attractive valuations we continue to see across the areas of the market we favor. We are confident that over the next three to five years, our emphasis on owning companies that are driving disruption, innovation and delivering durable growth will be amply rewarded.

Fund highlights

For the quarter ended June 30, 2019, the ClearBridge Aggressive Growth Fund — Class A shares had a cumulative return of 1.80%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell 3000 Growth Index, returned 4.50%. On an absolute basis, the Fund had gains across five of the eight sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the communication services and industrials sectors.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in the IT and health care sectors and overweight allocations to health care and energy hurt relative results the most. On the positive side, stock selection in the energy and industrials sectors aided performance.

On an individual stock basis, positions in Anadarko Petroleum, TE Connectivity, Allergan, Comcast and L3 Technologies were the greatest contributors to absolute returns during the quarter. The largest detractors included Ionis Pharmaceuticals, Core Laboratories, Encana, Agios Pharmaceuticals and World Wrestling Entertainment.

During the quarter, we closed a position in Weatherford International, in the energy sector, after the company announced a restructuring of its business due to liquidity and financing constraints. New management led by CEO Mark McCollum had been pursuing a turnaround plan, selling non-core business units and other assets while working to reduce debt. Since the stock had traded down substantially, we believed this to be a high risk/reward situation. We stated previously that the probabilities of success through both improved operational execution and other restructuring options were not being properly discounted, but we underestimated the length and depth of the down cycle in the oil services business.

Top contributors

TE Connectivity (TEL), in the IT sector, produces a range of wired and wireless technologies used in the automotive, energy, aerospace, industrial, communications, medical and consumer electronic markets. The stock finished a volatile quarter higher, supported by solid earnings results that topped expectations on stabilizing results in China and its industrial segment.

Comcast (CMCSA), in the communication services sector, is a global media company with two primary units – cable and NBCUniversal, which encompasses both studio operations and theme parks. Shares continued to move higher on solid broadband subscriber metrics and positive contributions from its recently acquired Sky division.

L3 Technologies (LLL), in the industrials sector, is a developer of aircraft communications, electronics and reconnaissance systems for global government and commercial markets. The closure of its merger with Harris, a new defense contract, and a solid quarter for defense stocks helped lift the shares.

Bottom contributors

The bottom contributors to Fund performance for the quarter included:

Ionis Pharmaceuticals (IONS), in the health care sector, is a biotechnology company developing genetic-based treatments for rare diseases. The overhang of political rhetoric on prescription drug pricing and fears of new competition for its RNA therapies weighed on the stock.

Core Laboratories (CLB), in the energy sector, provides petroleum reservoir description and management and production enhancement services to oil and gas producers. The stock fell on oil price weakness and a continued slump in capital spending on offshore and overseas energy production.

World Wrestling Entertainment Inc. (WWE), in the communication services sector, is a media and entertainment company that produces content and licenses and sells consumer products featuring its WWE and related brands. Shares fell following first-quarter results that missed both profit and revenue forecasts due to declining television ratings and weak attendance at live events.

Top 10 equity holdings (%)	
Comcast Corp	8.3
UnitedHealth Group Inc	7.1
Biogen Inc	6.7
Seagate Technology PLC	4.8
Allergan PLC	4.2
Autodesk Inc	4.1
Broadcom Inc	4.0
Discovery Inc	3.9
TE Connectivity Ltd	3.7
Vertex Pharmaceuticals Inc	3.5

Sector allocation (%)	
Communication Services	29.5
Health Care	28.9
Information Technology	26.0
Energy	6.5
Industrials	5.4
Financials	1.8
Materials	1.1
Consumer Discretionary	0.8
Utilities	0.0
Real Estate	0.0
Consumer Staples	0.0
Cash/Other	0.2

Percentages are based on total portfolio as of quarter 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.

Definitions and additional terms:

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

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

FAANG is an acronym for the five most popular and best-performing tech stocks in the market, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google.

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.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Russell 2000 Index is composed of the 2,000 smallest companies in the Russell 3000 Index.

Russell 3000 Index is an unmanaged index of the 3,000 largest U.S. companies.

Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

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Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. The Fund may be significantly overweight or underweight certain companies, industries or market sectors, which may cause the Fund's performance to be more sensitive to developments affecting those companies, industries or sectors. Short selling is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short.

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Portfolio holdings and sector allocations may not be representative of the portfolio manager's current or future investment and are subject to change at any time.

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