2Q 2019 | Separately Managed Accounts | Product Commentary

CLEARBRIDGE APPRECIATION PORTFOLIOS

Scott Glasser and Michael Kagan
Portfolio Managers

Appreciation Portfolios

Annualized returns net and gross of fees - PRELIMINARY

(%) as of June 30, 2019

	1-mo	QTR	YTD	1-yr	3-yr	5-yr	7-yr	10-yr
Net of fees	5.28	3.95	15.94	13.36	8.89	6.90	9.97	10.76
"Pure" gross of fees	5.53	4.71	17.62	16.73	12.13	10.09	13.25	14.06
S&P 500 Index	7.05	4.30	18.54	10.42	14.19	10.71	13.98	14.70

The strategy returns are preliminary composite returns, subject to future revision (downward or upward). Please visit www.leggmason.com for the latest performance figures. YTD numbers are not annualized.

Monthly, quarterly and YTD numbers are not annualized. **Past performance is no guarantee of future results.** Please see the GIPS® endnotes for important additional information regarding the portfolio performance and for effects of fees. Management and performance of individual accounts may vary for reasons that include the existence of different implementation and model requirements in different investment programs.

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 may vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Legg Mason Private Portfolio Group, LLC (LMPPG), refer to LMPPG's Form ADV disclosure document.

Returns reflect the reinvestment of dividends and other earnings.

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

The **S&P 500 Index** is a market capitalization-weighted index of 500 widely held common stocks.

Key takeaways

- Stocks recorded strong returns, completing the best first half since 1997, while Treasury yields declined and the inversion of the yield curve indicated real concern about the economy.
- We still feel that the robust U.S. consumer will keep us out of recession in 2019, and the market's technical picture is good.
- In general, companies with strong prospects see them reflected in their stock prices. However, valuations alone have a poor record of forecasting future market returns.

Market overview and outlook

During the second quarter the stock and bond markets sent very different signals about the health of the world economy. Stocks recorded returns of 4.3%, completing the best first half since 1997, up 18.5%. By contrast, the decline in 10-year U.S. Treasury yields from 2.40% to 2.01% and the inversion of the yield curve indicated real concern about the economy. Gold prices echoed bond market worries, spiking from $1,220 to $1,332. Oil prices fell only slightly for the quarter, from $59.3/bbl to $58.5, but prices were volatile, ranging between $51 and $66. Apart from oil and gold, commodity prices were down.

Two themes drove stock performance during the quarter. We saw a safety trade through May caused by economic fears, and then a "Don't fight the Fed" rally in June. The strongest sectors were financials, materials and technology, a bit of an odd mix. Financials stocks were volatile during the quarter, showing strength on first-quarter results, weakness on yield concerns, then a rebound in June. Technology stocks benefited from confidence in continued strong earnings growth, especially in the software sector. Materials stocks with defensive characteristics, such as specialty chemicals and gold, led that group higher. The commodities portion of materials were some of the worst stocks in the market. The weakest sectors were energy and health care. Health care stocks were hurt by polls indicating that President Trump could be vulnerable in the 2020 election, and discussion of "Medicare for All" by some of the most liberal of the Democratic candidates.

U.S. economic data weakened in the second quarter, with the significant caveat being that the most important component, employment, remained excellent. Consumer data continued to be stronger than manufacturing.

Manufacturing was weak worldwide. Two-thirds of the countries that report Purchasing Managers Indexes (PMIs) showed numbers below 50, indicating shrinking manufacturing sectors. The trade dispute with China and President Trump's periodic threats of tariffs with numerous countries made it difficult for producers to make capital investment decisions. Companies questioned their supply chains, uncertain what costs would be. The June U.S. ISM manufacturing reading fell to 51.7, down from the high 50s seen last year. Hurt by the industrial economy, S&P 500 profits are expected to decline in the second quarter and again in the third.

Consumer numbers saw some very modest fraying at the edges. Employment results remained robust. Payroll employment gains were weak in May at 75,000, but they bounced back in June to 224,000. Unemployment claims rose from a 40-year low of 201,000 in early May to 222,000 in late June, but the absolute level is very low. Continued strength in employment will limit Federal Reserve rate cuts going forward. There were sharp declines in the June University of Michigan consumer sentiment survey and the Conference Board's consumer confidence survey, but the absolute results are still very good. Auto sales of 17.1 million were better than expected. Housing starts and permits were down low single digits versus a year ago. We need to wait until the key months of September and October to see if lower rates will stimulate housing sales.

Stock valuations are full. The Buffett Indicator, the market cap of the S&P 500 divided by U.S. GDP, at 1.3:1, is the second highest in history. In general, companies with strong prospects see them reflected in their stock prices. However, valuations alone have a poor record of forecasting future market returns. U.S. bank balance sheets are very strong, and the group is one of the few areas of the market with real valuation support. If the U.S. does not go into recession, banks should outperform. The risk that a Democrat could be elected president next year has hurt health care stocks. Valuations of selected drug and HMO stocks are compelling if a moderate Democrat is elected or if President Trump is re-elected. The several-year decline in consumer staples volumes seems to be easing. Increased inventories at retailers are necessary to support one-day deliveries. Earnings estimates for the group do not yet reflect the improved prospects.

We still feel that the robust U.S. consumer will keep us out of recession in 2019, and the market's technical picture is good. The market's advance to all-time highs has been broad. The period after a yield curve inversion usually generates good stock market returns — especially if no recession occurs. However, the deterioration in the worldwide industrial economy must be monitored. The Appreciation strategy of owning large, high-quality stocks is well suited for today's market, seeking to offer upside participation if the economy continues to grow and to preserve capital if global weakness becomes more problematic.

Portfolios' highlights

The ClearBridge Appreciation Portfolios returned 4.71% (gross of fees) for the second quarter, while the benchmark S&P 500 Index returned 4.30% for the same period. Over the longer term, the Portfolios have outperformed the benchmark over the 12-month period ended June 30, 2019 (gross of fees).

On an absolute basis, the Portfolios had gains in seven of the 11 of the sectors in which they were invested during the quarter. The main contributors to the Portfolios' performance were the information technology (IT), financials and communication services sectors. The industrials, energy and utilities sectors detracted.

In relative terms, the Portfolios outperformed their benchmark due to stock selection. In particular, stock selection in the consumer staples, IT and communication services sectors contributed the most to relative performance. Conversely, stock selection in the industrials sector detracted.

On an individual stock basis, the biggest contributors to absolute returns during the quarter included positions in Walt Disney, Microsoft, JPMorgan Chase, Walmart and Waste

Management. The greatest detractors from absolute returns were positions in 3M, Alphabet, United Parcel Service, Raytheon and Bank of New York Mellon.

During the quarter, the Portfolios received shares of Corteva (CTVA) and Dow (DOW) following their spin-off from holding DowDuPont (DWDP), the remaining segment of which is now called DuPont de Nemours (DD) and is held in the Portfolios. Shares of Dow were sold, while shares of Corteva were retained.

Top contributors[1]

	Contribution to equity return %
Walt Disney Company	0.84
Microsoft Corporation	0.73
JPMorgan Chase & Co.	0.36
Walmart Inc.	0.33
Waste Management, Inc.	0.33

Source: FactSet.

In terms of individual stocks, the top contributors to Portfolio performance for the quarter included:

Walt Disney (DIS), in the consumer discretionary sector, is an entertainment company that conducts operations in media networks, studio entertainment, theme parks and resorts, consumer products, and interactive media. Disney shares rose over 12% in one day when the company unveiled its pricing strategy and long-term subscriber/financial expectations for Disney+, its forthcoming streaming service, which will include Disney, Pixar, Marvel, Star Wars, National Geographic and Fox content.

Microsoft (MSFT), in the IT sector, is one of the largest software companies in the world. Microsoft posted an impressive earnings beat and maintained its previous guidance despite an incremental currency drag. The company, which reached a market cap of $1 trillion in April, has been executing well and is seeing continued success with Office 365 and its Azure cloud services platform.

JPMorgan Chase (JPM), in the financials sector, is a large diversified financial services company with significant businesses in retail, wholesale and investment banking. Financials moved in sync with the broad market in the second quarter, showing strength on first-quarter results and as optimism on U.S.-China trade tensions raised expectations for increased business activity and a more accommodative Fed offered potential support to the economy. The Fed's annual stress tests of large banks (Dodd-Frank Act Stress Tests – DFAST) confirmed that banks can weather very challenging economic and market conditions, and CCAR showed that almost every large bank had sufficient capital to increase the amount of capital that will be returned to shareholders over the next year via dividends and share buybacks.

Bottom contributors[2]

	Contribution to equity return %
3M Company	-0.42
Alphabet Inc.	-0.30
United Parcel Service, Inc.	-0.12
Raytheon Company	-0.11
Bank of New York Mellon Corporation	-0.10

Source: FactSet.

The bottom contributors to Portfolio performance for the quarter included:

3M (MMM), in the industrials sector, is a diversified industrial that sells products based on adhesives and films. Shares fell after first-quarter earnings and organic sales growth missed expectations. A planned business unit realignment, coupled with headcount reductions, should help operating margins recover in the coming quarters.

Alphabet (GOOG), in the communication services sector, operates the dominant Web search engine in Google, as well as other online media, advertising, technology and tools. Shares slid as Alphabet reported disappointing revenue performance due to foreign currency pressures and Google ad revenue growing at its slowest pace since 2015. Search growth appears to be slowing down, driven by peaking mobile penetration,

[1] 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. Please see Endnotes for additional information. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors and securities listed, and it should not be used as the sole basis for any investment decision. **Past performance is no guarantee of future results**.

[2] 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. Please see Endnotes for additional information. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors and securities listed, and it should not be used as the sole basis for any investment decision. **Past performance is no guarantee of future results**.

while Cloud growth has slowed as well. A partial offset to these two negatives is that YouTube appears to be growing faster than originally expected. The Department of Justice (DOJ), and Federal Trade Commission (FTC), meanwhile, are reviewing large tech companies for potential abuses of monopoly power. However, Google shares are inexpensive even on the reduced growth expectations, and they appear to reflect no value at all for operations such as Waymo.

United Parcel Service (UPS) is the world's largest package carrier. The stock fell after the company missed first-quarter earnings expectations, partly due to weather. Shares were also weighed down by concerns of a global slowdown as economic data decelerated and interest rates collapsed. Transformation initiatives already under way should support margin improvement in the coming years.

Market capitalization[3]

Market cap breakdown ($)	Portfolio weight	Benchmark weight
Above 50 billion	81.98	69.54
25-50 billion	17.83	15.52
10-25 billion	0.00	12.72
3-10 billion	0.00	2.13
0-3 billion	0.19	0.09
Weighted average market cap ($bil)	**238.27**	**234.27**

Source: FactSet.

Top 10 equity holdings[3]

	Percent of equity
Microsoft Corp	5.72
Walt Disney Co/The	3.87
Comcast Corp	3.75
Berkshire Hathaway Inc	3.48
Cisco Systems Inc	3.41
JPMorgan Chase & Co	3.35
Alphabet Inc	3.28
Waste Management Inc	3.02
Travelers Cos Inc/The	2.86
Johnson & Johnson	2.80
Total number of holdings	**50**

Source: FactSet.

Sector highlights[3]

Average sector weightings and performance (%)

Gross of fees from 03/31/19 to 06/30/19

Sector	Port. weight	Port. return	Bench-mark* weight	Bench-mark* return	Weight diff.	Active contrib.
Information Technology	20.17	8.23	21.42	6.06	-1.25	0.39
Financials	14.59	8.26	13.09	8.00	1.50	0.09
Industrials	12.82	-0.80	9.43	3.57	3.39	-0.60
Communication Services	12.11	7.33	10.29	4.49	1.81	0.35
Health Care	9.70	1.08	14.02	1.38	-4.32	0.09
Consumer Staples	8.59	9.26	7.31	3.72	1.29	0.45
Materials	5.14	9.05	2.68	6.31	2.47	0.19
Energy	4.58	-0.88	5.15	-2.83	-0.58	0.14
Consumer Discretionary	2.81	-0.18	10.25	5.28	-7.45	-0.23
Real Estate	1.65	4.68	3.06	2.46	-1.41	0.07
Utilities	1.56	-0.90	3.30	3.48	-1.75	-0.05
Cash	6.30	0.00	0.00	0.00	6.30	-0.28

*Benchmark: S&P 500 Index.

Source: FactSet.

[3] 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. Please see Endnotes for additional information. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors and securities listed, and it should not be used as the sole basis for any investment decision. **Past performance is no guarantee of future results**.

Important information

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, a 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.

Please refer to www.leggmason.com for more information about the Portfolio, including objective, risks and investment process. The information presented does not constitute and should not be construed as investment advice with respect to any investment discussed. There is no guarantee that investment objectives will be met. An investor cannot invest directly in an index. Investments are not FDIC insured or guaranteed by any government agency. Values may fluctuate due to market conditions and other factors. Past performance is no guarantee of future results.

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

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 both 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.

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 it 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.

Professional money management may not be suitable for all investors.

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 portions of portfolio assets in cash equivalents while waiting for buying opportunities.

Definitions and additional information

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

Buyback is the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

Comprehensive Capital Analysis and Review (CCAR) is a regulatory framework introduced by the Federal Reserve in order to assess large banks and financial institutions.

Conference Board's Consumer Confidence sentiment index is a survey by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

The United States **Department of Justice (DOJ),** is a department of the U.S. government, responsible for the enforcement of law and administration of justice.

Dodd-Frank Act Stress Tests (DFAST) is a bank stress test.

The **Federal Trade Commission**, or FTC, is the federal agency responsible for stopping business practices that are either anticompetitive, or unfair to consumers.

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.

Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

A **health maintenance organization (HMO)** is a network or organization that provides health insurance coverage for a monthly or annual fee.

The **Institute for Supply Management's** composite **PMI Index** (formerly the National Association of Purchasing Managers Index) is based on a survey of purchasing executives who buy the raw materials for manufacturing at more than 350 companies.

The **Michigan Consumer Sentiment Index (MCSI)** is a monthly survey of U.S. consumer confidence levels conducted by the University of Michigan. It is based on telephone surveys that gather information on consumer expectations regarding the overall economy.

The **S&P 500 Index** is an unmanaged index of common stock performance.

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

ClearBridge Appreciation SMA – GIPS® endnotes ($USD) — Ending December 31

Strategy inception date: March 2003; Composite creation date: June 2008

Period	Total return (net)	Total return (*pure gross)	S&P 500 Index return	Number of portfolios	% of bundled fee portfolios in the composite	Composite dispersion	Composite 3 Yr. Standard Deviation	Benchmark 3 Yr. Standard Deviation	Total composite assets at end of period (USD million)	% of firm assets	Total firm assets at end of period (USD million)
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
2009	18.00%	21.50%	26.46%	2,458	100	1.53%	n/a	n/a	392.8	0.7%	53,522.7

*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, 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 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®) 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, 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.

888209-AMXX109356 D3218