ClearBridge Investments
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4Q 2017 | Product Commentary

CLEARBRIDGE INTERNATIONAL VALUE FUND

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Average annual total returns and fund expenses (%)

as of December 31, 2017

Class A	3-mo	1-yr	5-yr	10-yr	Since Incept. (02/18/86)	Gross	Net
Excluding sales charges	2.54	23.24	6.44	2.06	5.92	1.44	1.26
Including effects of maximum sales charges	-3.34	16.18	5.19	1.46	5.72	-	-
MSCI AC World Ex US Index	5.00	27.19	6.80	1.84	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, which cannot be terminated prior to December 31, 2019 without Board 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 **MSCI All-Country World Ex US Index** (MSCI ACWI Ex US Index) is a market capitalization-weighted index designed to measure the equity market performance of developed and emerging markets. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Key takeaways

- Asian and emerging markets drove performance for the quarter, led by Japan and China.
- A rotation out of international stocks, due to strength in the U.S., weighed on results, particularly in Europe.
- The wave of liquidity that has lifted global markets is receding, which should lead to a more conducive environment for stock selection in international markets.

Market overview

International equities delivered solid returns during the fourth quarter to cap a strong rebound year for the asset class. The benchmark MSCI All Country World Ex U.S. Index rose by 5.0% for the quarter to finish up 27.19% for 2017. That followed a 4.50% showing in 2016. Emerging markets again outperformed developed markets, with the MSCI Emerging Markets Index advancing 7.44% in the quarter (and 37.28% for the year) compared with a 4.23% gain for the MSCI EAFE Index (+25.03% for the year). Growth stocks led value, with the MSCI All Country World Ex U.S. Growth Index (+5.77%) topping its value counterpart by 155 basis points.

Market leadership moved east during the quarter, with Japan gaining 8.49%, China 7.62% and Hong Kong 6.58%. The United Kingdom added 5.72%, but most of Europe lagged broad international markets, with the Europe ex U.K. region advancing 0.90%. Weakness was centered in the south, with Italy (-2.32%) and Spain (-1.60%) down, while France was up 1.5% and Germany rose 2.78%. Emerging markets in Asia were up 8.36%, while emerging markets in Europe, the Middle East and Africa jumped 11.70% for the quarter.

From a sector standpoint, a rare period of synchronized global economic growth boosted cyclical shares. Materials and energy were the best-performing sectors in the benchmark, while information technology, consumer cyclicals, consumer staples and real estate also outperformed. Defensive shares in the utilities, telecom and health care sectors significantly underperformed.

International stocks trailed the U.S. for the quarter but generally outperformed for the year. Money flows were a major factor contributing to Europe's poor performance, as a strengthening fiscal picture in the U.S., related to passage of tax reform, caused investors to take profits from earlier gains and rotate back into U.S. equities. The likelihood of further interest rate hikes from the U.S. Federal Reserve also diverted capital to what is viewed as a strong U.S. economy with higher-yielding securities.

Europe, which represents a significant overweight in the portfolio, also suffered from a structural standpoint, as growth and momentum factors continued to thrive. The region is mostly bereft of FAANG-like companies and much more exposed to old-economy sectors including financials and materials. European banks and insurance companies were weak during the quarter due to profit taking following a positive re-rating earlier in the year. The European Central Bank (ECB) extended its quantitative easing program to September 2018 despite a jump in inflation to 1.7% from 0.6% a year earlier and the lowest unemployment in the eurozone (8.8%) since 2009 – although it did taper its monthly bond purchase program from €60 billion to €30 billion. Political anxiety also resurfaced as Angela Merkel's CDU/CSU, the Free Democratic Party, and the Greens failed to reach a coalition in Germany, while Catalonia held a regional election which failed to resolve the independence issue.

Despite recent weakness, we believe Europe and emerging markets should benefit longer-term from a global reflationary environment. Economic activity is normalizing, with corporate and government spending accelerating and global yield curves steepening. These factors should contribute to a reversion trade beneficial to international value stocks that have trailed in the recent period of historic monetary accommodation. Commodity markets are also returning to equilibrium, most notably in the areas of industrial metals and energy. Demand for oil is picking up worldwide, while China is moderating its consumption of copper and other metals, which will remove excess supply from that market.

We are moving into an environment with less monetary stimulus and less quantitative easing (QE). In other words, the wave of liquidity that lifted equities broadly and somewhat indiscriminately is behind us.

This should enable the skill of stock selection to be more amply rewarded more than just buying the international equity asset class.

Fund highlights

For the quarter ended December 31, 2017, the ClearBridge International Value Fund — Class A shares had a cumulative return of 2.54%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the MSCI All Country World Ex US Index, returned 5.00%, while the Lipper International Multi-Cap Value Funds category average returned 3.28% for the same period.

On an absolute basis, the Fund had gains in nine of the 10 sectors in which it was invested for the fourth quarter. The primary contributors to performance were the consumer discretionary, financials and materials sectors.

In relative terms, stock selection detracted from performance. On the other hand, sector allocation supported overall performance during the quarter. Stock selection in the materials, financials, industrials and health care sectors detracted the most from relative returns during the period. Conversely, strong stock selection in the consumer discretionary sector and an overweight allocation to materials helped relative performance during the period.

On a regional basis, stock selection and an overweight allocation in Europe Ex U.K. were the primary detractors from relative performance. Meanwhile, stock selection in Japan had a positive impact.

On an individual stock basis, positions in Honda Motor, Sony, Rio Tinto, BP and CIMC Enric Holdings were the greatest contributors to absolute returns during the quarter. Europcar Groupe, Sanofi, UniCredit, Cemex and BNP Paribas were the largest detractors from absolute performance.

We initiated a number of new positions in the fourth quarter, with the largest being WPP and BMW, in the consumer discretionary sector, Teva Pharmaceutical and Mylan, in the health care sector, and Infosys, in the IT sector. We also closed positions in Bridgestone, in the consumer discretionary sector, Safran, in the industrials sector, and Sanofi, in the health care sector.

Top 10 equity holdings (%)	
Banco Santander SA	2.5
Honda Motor Co Ltd	2.4
Hitachi Ltd	2.2
BNP Paribas SA	2.2
Rio Tinto Ltd	2.1
BP PLC	2.1
thyssenkrupp AG	2.0
UBS Group AG	2.0
WPP PLC	1.9
China Construction Bank Corp	1.9

Sector allocation (%)	
Financials	26.6
Materials	16.2
Industrials	14.8
Consumer Discretionary	12.7
Information Technology	8.1
Health Care	6.7
Energy	5.7
Consumer Staples	4.4
Real Estate	1.8
Telecommunication Services	1.5
Utilities	0.0
Cash/Other	1.6

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.

Category Average Returns' Source: Lipper Inc. **Past performance is no guarantee of future results.** Lipper returns are based on the three-month period ended December 31, 2017, and they are calculated among 147 funds in the Lipper International Multi-Cap Value peer group, including reinvestment of dividends and capital gains, if any, and excluding sales charges.

A **basis point (bp, or bps)** is equal to 1/100th of 1%, or 0.01%.

CDU/CSU is a free Democratic Party; the Christian Democratic Union of Germany (CDU) and Christian Social Union in Bavaria (CSU).

European Central Bank (ECB) is the central bank responsible for the monetary system of the European Union (EU) and the euro currency.

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.

MSCI All-Country World Index ex-US (MSCI ACWI ex-US) is a market capitalization-weighted index designed to measure the equity market performance of developed and emerging markets.

MSCI All Country World ex-U.S. Growth Index captures large- and mid-cap securities with overall growth style characteristics across 22 Developed Markets (DM) countries and 24 Emerging Markets (EM) countries.

MSCI EAFE Index is a free float-adjusted market-capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI EAFE Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

Quantitative easing (QE) refers to a monetary policy implemented by the Federal Reserve in which it increases the excess reserves of the banking system (supply of money) through the direct purchase of U.S. Treasury securities.

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What should I know before investing?

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. These risks are magnified in emerging markets. To the extent the Fund invests in fixed income, these securities are subject to various risks, including but not limited to, credit, inflation, income, prepayment and interest rates risks. As interest rates rise, the value of fixed income securities falls. Active management does not ensure gains or protect against market declines.

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.

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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