ClearBridge Investments
A Legg Mason Company

2Q 2019 | Product Commentary

CLEARBRIDGE MID CAP 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. (08/31/10)	Expenses Gross	Expenses Net
Excluding sales charges	6.28	14.58	9.24	N/A	14.27	1.32	1.20
Including effects of maximum sales charges	0.17	7.99	7.95	N/A	13.51	1.32	1.20
Russell Midcap Growth Index	5.40	13.94	11.10	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 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 Midcap Growth Index** measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.) Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Key takeaways

- Mid-cap growth stocks were the best performers in the market as investors expressed a strong preference for companies able to generate organic growth.
- We were active buyers through a volatile second quarter, participating in a handful of IPOs and establishing several other new positions.
- The portfolio's consumer and industrials exposure drove results during the period.

Overview and outlook

Second-quarter equity market dynamics could best be described as furious, with a myriad of factors driving volatility:

- Early May reports of a China trade deal were dashed. Acrimony broke out with sanctions on both sides (Huawei, rare earths, etc.). At quarter end, negotiators and Presidents Trump and Xi gathered at the Osaka G-20 meeting to work on key differences. Trade anxieties were compounded by the Trump administration's promise of unilateral tariffs on Mexico as a cudgel to slow the flow of Latino immigrants to the U.S.; the Mexican agreement in early June blunted that suggestion.
- Real-time economic statistics in a variety of areas and regions showed deceleration or deterioration, while interest rates collapsed (the 10-year U.S. Treasury

ended the second quarter at 2.0%) and the U.S. yield curve inverted.

- Overhangs from the Department of Justice and the Federal Trade Commission, as well as Congressional hearings on the big Internet platforms, caused a swoon in the higher-growth Internet/software sector.

As one market commentator aptly noted, “Investors are getting chopped up between covering underweights/shorts and flocking back into old favorites.” The stock market continues to be whipped around by factors and baskets; we continue to take advantage of that as active long-term investors focused on business development and crucial portfolio company fundamentals.

Amidst the volatility, investors continued to express a strong preference for the fastest-growing stocks in the market. The benchmark Russell Midcap Growth Index was the best-performing segment of the U.S. equity market for the quarter (+5.40%) and year to date (+26.08%). The benchmark handily outperformed its value counterpart over each period. Strong-performing growth stocks have benefited from multiple expansion on top of upward earnings revisions. As interest rates decline (the 10-year U.S. Treasury yield fell 40 basis points in the second quarter), the present value of a company’s future earnings and cash flows rise.

Growth stocks could remain at a premium through a period of slowing profit growth expectations (which we expect to be reaffirmed during second-quarter earnings season). We continued to be busy over the last three months, seeding the portfolio with a number of new investments.

While growth investors were centered on what turned out to be the less-than-splashy initial public offering (IPO) debuts of Lyft and Uber, we participated in several successful IPOs where we are looking to build a long-term presence. Pinterest, in the communication services sector, is a social platform where users can express their interests and discover ideas through images they “pin” to their pages. The company features attractive demographics as it caters to a primarily female audience age 25-to-49 and a user base that is 75% international. Pinterest is profitable in the U.S. and is looking to better monetize its attractive user base. We also gained shares in the IPOs of online pet food and supplies company Chewy and electronic exchange and trading systems software developer Tradeweb Markets.

The IPOs were among 10 new positions we added during the second quarter. Among the other purchases were semiconductor makers Advanced Micro Devices (AMD) and Marvell Technologies. AMD designs key products in the central processing unit (CPU) and graphics processing unit (GPU) markets, competing directly with Intel. We view its current suite of products in the server market as comparable if not more attractive than Intel’s, while its GPU business also has an attractive growth runway ahead. Marvell, meanwhile, designs chips for a wide variety of uses including storage, memory and wireless communications. Its presence in the 5G and auto markets should lead to solid growth over the next three to four years that is underappreciated by the market. Also within information technology (IT), we added Paylocity, a developer of cloud-based software to handle payroll and human resource functions for small and mid-sized companies.

We added to our overweight position in health care with the purchase of Steris, a UK-based provider of sterilization products and services to hospitals, surgery centers and related medical and life science applications. Its business has high levels of recurring revenue and provides the potential for higher-return health care exposure with low earnings volatility.

Zynga, in the communication services sector, was another significant addition. A new management team has returned the developer of online and social media-based video games to profitability through more disciplined spending. It has also jump-started growth of the company’s existing game catalog through its live services strategy. Zynga’s new game launches provide opportunity for further growth at high incremental margins.

We also bade farewell to several investments, including WABCO Holdings, after the supplier of electronic truck parts, brakes and safety systems announced it was being acquired by German truck parts maker ZF in an all-cash transaction; and Alliance Data Systems, as the private label credit card marketing solutions provider is being hurt by worsening credit quality for its core credit card customers while corporate actions it has undertaken have failed to act as a beneficial catalyst for the stock.

The current market environment is a tricky one to navigate, with many crosscurrents. We are clearly closer to the end than the beginning of an economic cycle; however, most market indicators remain in positive or neutral territory despite signs of slowing down. Manufacturing activity is an area we are watching closely, as well as trade developments between the U.S. and China, and credit conditions. Consumer health, on the other hand, remains fairly robust, and consumer spending is the largest driver of the U.S. economy. As always, we will strive to outperform our benchmark and peer group by holding high-quality growth companies that should be able to thrive, even in a slower economic environment, while maintaining a long-term investment horizon.

Fund highlights

For the quarter ended June 30, 2019, the ClearBridge Mid Cap Growth Fund — Class A shares had a cumulative return of 6.28%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell Midcap Growth Index, returned 5.40%.

On an absolute basis, the Fund had gains across nine of the 10 sectors in which it was invested during the quarter (out of 11 sectors total). The primary contributors to performance were the consumer discretionary, industrials and health care sectors.

In relative terms, the Fund's outperformance was driven by stock selection. Specifically, stock selection in the consumer discretionary, industrials, consumer staples and materials sectors drove results. Meanwhile, stock selection in the IT and energy sectors and an underweight to financials had negative impacts on relative performance.

The biggest contributors to absolute returns during the second quarter included MercadoLibre, Atlassian, Aspen Technology, Mettler-Toledo International and SBA Communications. Positions in Palo Alto Networks, Arista Networks, Core Laboratories, Jones Lang LaSalle and Advance Auto Parts were the greatest detractors from absolute returns.

In addition to the transactions mentioned above, we also initiated positions in Keysight Technologies, in the IT sector, and RBC Bearings, in the industrials sector, and closed a position in Marriott International, in the consumer discretionary sector.

Top contributors

MercadoLibre (MELI), in the consumer discretionary sector, is the leading e-commerce vendor serving Latin American markets. The stock benefited from a better macro backdrop in emerging markets and also very solid first-quarter results that beat forecasts on very strong payment volumes.

Atlassian (TEAM), in the IT sector, makes software that allows collaboration among corporate teams, and it has been rapidly expanding its reach from its core software development and IT segments into sales, marketing and other enterprise functions. The stock shrugged off seasonally weaker billings and lower earnings guidance to move higher, as it maintained solid customer and revenue growth.

Aspen Technology (AZPN), in the IT sector, develops software to optimize manufacturing operations and supply chain functions for petrochemical companies, refineries and other industrial companies. Solid quarterly results and robust bookings led to better-than-expected earnings that spurred shares higher.

Top detractors

Palo Alto Networks (PANW), in the IT sector, is a provider of enterprise security solutions, including next-generation firewalls and threat detection software. The shares were weak, after a strong move higher in the previous quarter.

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 continued depressed spending on offshore and non-U.S. energy production.

Advance Auto Parts (AAP), in the consumer discretionary sector, operates auto parts and services stores under several brand names across the country. The shares trended lower for the quarter despite solid earnings results and progress in the company's efforts to improve long-term margins and earnings per share.

Top 10 equity holdings (%)	
SBA Communications Corp	3.9
Atlassian Corp PLC	3.7
Mettler-Toledo International Inc	3.4
Aspen Technology Inc	3.3
Workday Inc	3.3
Expedia Group Inc	3.1
Ross Stores Inc	3.1
ServiceNow Inc	3.0
MercadoLibre Inc	2.9
Splunk Inc	2.8

Sector allocation (%)	
Information Technology	29.9
Health Care	17.5
Consumer Discretionary	17.4
Industrials	14.2
Real Estate	5.9
Communication Services	4.7
Financials	4.1
Consumer Staples	2.9
Materials	2.7
Energy	0.7
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.

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.

Earnings per share (EPS) is a company's profit divided by its number of common outstanding shares.

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.

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

The Group of 20, or G20, is a group of finance ministers and central bank governors from 19 of the world's largest economies, including those of many developing nations, along with the European Union.

An **initial public offering (IPO)** is the process of offering shares in a private corporation to the public for the first time.

The **Russell 2000 Index** is comprised of the 2,000 smallest companies in the Russell 3000 Index.

The **Russell Midcap Growth Index** measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company’s assets and liabilities.)

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

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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. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. 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. 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.

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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