1Q 2021 | Product Commentary

CLEARBRIDGE MID CAP GROWTH FUND

Jeffrey Russell, CFA, Brian Angerame, Matthew Lilling, CFA, and Aram Green
Portfolio Managers

Average annual total returns and fund expenses (%)

as of March 31, 2021

Class A	3-mo	1-yr	5-yr	10-yr	Since Incept. (08/31/10)	Expenses Gross	Expenses Net
Excluding sales charges	3.77	84.30	18.92	14.34	16.46	1.43	1.20
Including effects of maximum sales charges	-2.21	73.67	17.52	13.66	15.81	1.43	1.20
Russell Midcap Growth Index	-0.57	68.61	18.39	14.11	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, 2022 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

- The Fund outperformed through a rotation out of growth stocks as our preference for sturdy fundamentals and value-creating management teams provided ballast amid rising speculation in lower-quality names.
- Recent results reflect the work done over the last several quarters to maintain diversified exposure to mid-cap growth companies while paying close attention to risk.
- We established nine new positions during the quarter across software, health care and companies geared for a reopening of the economy.

Market overview

A rotation in market leadership that commenced last September continued to gain strength in the first quarter, with efforts to reflate the economy through fiscal and monetary stimulus helping the S&P 500 Index gain 6.2%. The benchmark Russell Midcap Growth Index declined 0.6% as investors expressed a preference for more attractively priced and cyclical plays over long-duration growth assets. The historic advantage mid-cap growth stocks had enjoyed through the depths of the COVID-19 pandemic has evaporated, thanks in large part to the reopening trade that has predominated since "Vaccine Monday" last November. Over the trailing 12 months, the Russell Midcap Value Index is up 73.8%, compared to a gain of 68.6% for the Russell Midcap Growth Index.

From a sector standpoint, real estate (+22.3%) and energy (+19.6%) were the best performers in the benchmark but account for de minimis exposure. Among sectors with broader representation, the cyclical consumer discretionary (+6.8%), materials (+1.1%) and industrials (+0.6%) sectors also outperformed. Meanwhile, the information technology (IT, -3.3%) and communication services (-4.1%) sectors, which thrived in the work-from-home and e-commerce boom during the pandemic, and health care (-0.9%) underperformed.

The first quarter brought wild market action and volatility. After robust equity returns during 2020, investor expectations pivoted to a strong U.S. economy during 2021, powered by fiscal stimulus and "easy comps" for a lot of businesses.

As daily temperatures have started to rise due to the arrival of spring, so too has the 10-year Treasury yield. The benchmark yield has moved up 83 basis points since year end and 124 bps off the August 2020 bottom. While those moves are relatively modest compared with past decades, they are meaningful off a low base. They also reflect heightened awareness that costs have risen, in some cases meaningfully (logistics, commodities), as economic recovery continues. Whether an acceleration of inflation back to Federal Reserve targets or beyond is in the offing remains to be seen. Certainly the increase is flattering the economics of select businesses (i.e., yield-curve-sensitive earners, such as some financials) while compressing the valuation on more open-end high-growth businesses.

The ClearBridge Mid Cap Growth Fund outperformed in the first quarter, as our preference for sturdy fundamentals and value-creating management teams provided ballast amid rising speculation in newly public risk assets favored on online message boards. The work our team has done over the last several quarters to maintain a high-quality, diversified portfolio while paying close attention to risk has contributed to this resilience through the latest market rotation.

Indicative of our focus on targeting dynamic growth companies across the mid-cap universe, the top 10 individual contributors for the first quarter were spread across seven sectors. United Rentals, in the industrials sector, benefited from improving equipment utilization and, as the largest domestic construction equipment rental company, stands to benefit should the Biden administration's infrastructure plan advance out of Congress. Information security provider Fortinet, in the IT sector, was another significant contributor, as many now remote-based enterprises doing more work in the cloud need enhanced threat protection from data breaches and cyberattacks. The Fund also saw contributions from the reopening trade through Expedia, in the consumer discretionary sector, as travelers resumed booking vacations, as well as Performance Food Group, in consumer staples, a supplier to the restaurant industry that is starting to find its footing as vaccination progress eases dining restrictions.

We also seek to promote consistent performance by applying discipline and diligence in managing the construction of the portfolio. Fourth-quarter 2020 earnings and 2021 guidance (when provided) have been strong, invariably. We have been parsing which companies have come through the challenges of 2020 much stronger, versus those enjoying a cyclical recovery. We trimmed back several of our big winners from 2020 (ServiceNow, MercadoLibre), and we have been vetting growth companies with more reasonable valuations.

Portfolio positioning

We established nine new positions during the quarter, largely financed through trims in existing holdings.

Software continues to play a key role in digital transformation across the economy, and we increased our exposure to this area with three names. HubSpot develops marketing automation software and is seeing strong uptake post-pandemic from small businesses that are far behind in digitally enabling their marketing, sales and related processes. HubSpot's initial marketing product facilitates publishing of content to attract customers and nurture leads, but the company has seen growth accelerate as it makes progress selling a full suite of service and sales products to help with inbound customer support and converting leads. Five9 is a cloud-based contact center as a service software provider that is replacing aging on-premise legacy solutions that dominate the installed base. Companies are being forced to modernize, and cloud penetration is still low; Five9 is positioned to benefit and should see further growth driven by its cross-selling add-on modules and an AI product that generates high revenue. Qualtrics is a leading customer experience software vendor that aggregates experience data to allow companies to derive insights and improve experiences for customers. The growing importance of customer experience increases the need for software solutions, and Qualtrics is expanding internationally and creating new use cases to focus on employees and brands.

Compass also falls in the software camp. The real estate technology company and brokerage is disrupting the traditional residential broker market with tools that improve operational efficiency for brokers. Their tools have first-mover advantage in the industry and are attracting top brokers from the best markets, resulting in significant market share gains in a short period of time.

We added two new positions in health care. Teladoc is a leading play on telemedicine, a hyper-growth market with significant opportunity for increases in utilization accelerated by the COVID-19 environment. The company is well-positioned for this evolution in treatment after years of work building out its network of doctors and payors. Its recent merger with Livongo expands the company's customer base and increases the number of products to cross-sell, such as holistic, chronic disease and second opinion services. International expansion is another significant opportunity. Teleflex is a diversified medical device company with leading market share in several low-cost consumable niche categories, creating high-margin recurring revenue streams with steady growth and pricing. Its unique UroLift product has the potential to accelerate growth of the company with its strong positioning as the only minimally invasive product to treat BPH in the prostate gland with no side effects, a treatment area with a large total addressable market.

New purchase Lyft, the No. 2 U.S. rideshare operator, is exclusively focused on the secular growth opportunity in the rideshare market and stands to be a direct economic reopening beneficiary. The company made tremendous progress on margins during 2020 and improved its ability to meet long-term targets. Lyft is also leveraged to the eventual transition to autonomous driving.

We also participated in two IPOs during the quarter: Petco Health and Wellness, the leading pet retailer in the U.S., and Bumble, which runs a popular social media dating app. Petco is benefiting from the secular trend of higher pet ownership. The company has taken steps to become a multi-channel retailer, combining online sales with traffic driving services to its stores, like vet clinics and grooming, that should drive above-market growth. Bumble is a women-first dating app founded in 2014 and is the second-highest grossing dating app globally. The company will benefit from a near doubling of industry spend in the next five years plus company-specific initiatives in international expansion, improved app payer conversion, and higher average revenue per user premium tier upgrades.

The Fund closed out of insurer Progressive after recent appreciation moved it out of our mid-cap range. We also exited biotechnology firm BioMarin Pharmaceutical after a number of its clinical catalysts had played out, while RealPage, a provider of software to the residential rental market, was sold ahead of its acquisition by private equity firm Thoma Bravo.

Outlook

The changes in Washington have brought a return to more normal policymaking at an overall lower decibel count but with a greater penchant for opening the fiscal purse strings. The $1.9 trillion American Rescue Plan combined with speculated multi-trillion policy initiatives for infrastructure and green spending has caused concern about high deficits, in turn starting the conversation on corporate and individual tax increases. As legendary Illinois Republican Senator Everett Dirksen (apocryphally) once stated, "a billion here, a billion there and pretty soon you're talking real money."

Tightening monetary conditions (due to higher interest rates) and eventual tax increases are eventually contractionary. Of course there's a short-term offset from the present fiscal spending. These evolving policy arcs and the supporting tactics to finance them (i.e., drug pricing) bear watching, and they may well cap equity returns until better defined.

The bottom-up fundamental work we have completed on target mid-cap growth companies, with the support of our analysts, helps us identify which stocks and sectors are getting expensive, which other areas are more attractive, and where we should be participating. We believe this bottom-up approach positions us for whatever policy regime is in the offing, balancing exposure to above-average and underappreciated growers and providing access to companies operating in large addressable markets.

Fund highlights

For the quarter ended March 31, 2021, the ClearBridge Mid Cap Growth Fund — Class A shares had a cumulative return of 3.77%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell Midcap Growth Index, declined 0.57%.

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), with the consumer discretionary, health care and communication services sectors the leading contributors.

In relative terms, outperformance was primarily driven by stock selection. Specifically, stock selection in the communication services, health care, IT, industrials, consumer staples and financials sectors and an overweight to the consumer discretionary sector drove results. Conversely, stock selection in the real estate sector detracted from relative performance.

The leading contributors to absolute returns during the first quarter included United Rentals, Fortinet, Expedia, Pinterest and Burlington Stores. Positions in Splunk, Copart, Datadog, Atlassian and CoStar Group were the greatest detractors from absolute returns.

In addition to the portfolio activity mentioned above, we closed a position in DoorDash in the consumer discretionary sector.

Top contributors

The leading individual contributors for the quarter included:

Fortinet (FTNT), in the IT sector, provides network security appliances and unified threat management solutions to enterprises, service providers, and government entities worldwide. The stock was boosted by strong fourth-quarter results with better-than-expected revenues, billings and profitability that continued solid trends from the previous quarter. The company is bullish on the outlook for security spending due to the boom in remote work, the latest high-profile data breaches, and the rollout of 5G.

Pinterest (PINS), 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 shares finished a volatile quarter higher on news of acquisition interest from Microsoft, which is attracted to its large user base of e-commerce consumers and positive brand safe reputation compared with other social media platforms, as well as earnings and revenues that topped forecasts.

Burlington Stores (BURL), in the consumer discretionary sector, is an apparel and accessories retailer that offers a wide variety of products at discount prices. The shares jumped on strong fourth-quarter results that blew past forecasts and plans to double its new stores target.

Bottom contributors

The bottom individual contributors for the quarter included:

Splunk (SPLK), in the IT sector, is a maker of data monitoring, analysis and security software applications for enterprises. The stock has been under pressure for several quarters, falling sharply late last year after the company lowered guidance due to several large contracts being delayed, and the negative sentiment remained, despite solid execution during the first quarter, as the market was not appreciative of its poor communication of weak results. Splunk remains one of the fastest growing software-as-a-service businesses, and we believe its transition to the cloud should be completed by the end of the year, leading to better results as revenue comes in more in line with bookings growth.

Copart (CPRT), in the industrials sector, is a provider of online car auctions for used and salvage vehicles. The higher-multiple quality grower was caught up in the group that sold off during the cyclical and value-based ramp-up in the market during the quarter. The stock has since fully recovered from the drawdown, and we continue to like its leadership in the used car and salvage industry.

CoStar Group (CSGP), in the real estate sector, provides information and services to the commercial, hospitality and residential segments of real estate, including the operation of apartments.com. The stock was hurt by the company's failed acquisition of rival CoreLogic.

Top 10 equity holdings (%)	
Pinterest Inc	3.7
Burlington Stores Inc	2.7
Mettler-Toledo International Inc	2.7
Fortinet Inc	2.6
Marvell Technology Group Ltd	2.5
IDEXX Laboratories Inc	2.5
Atlassian Corp PLC	2.4
United Rentals Inc	2.4
Aspen Technology Inc	2.2
Catalent Inc	2.1

Sector allocation (%)	
Information Technology	32.2
Health Care	17.9
Consumer Discretionary	14.0
Industrials	13.6
Communication Services	7.3
Financials	2.8
Consumer Staples	2.6
Materials	2.6
Real Estate	2.4
Energy	0.6
Cash/Other	4.0

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.

Bps stands for "basis points." A basis point is one one-hundredth of one percent (1/100% or 0.01%).

Coronavirus disease (COVID-19; C-19) was discovered in 2019 and has not been previously identified in humans.

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 **Russell Midcap Index** is a complete subset of both the Russell 1000 and the Russell 3000. The Russell Midcap Index is used by institutional portfolio managers. The range of market caps covered in this 800-member index goes from about $1 billion on the low end to approximately $20 billion.
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.)

leggmason.com

1-800-822-5544

At Franklin Templeton, everything we do has a single focus: to deliver better client outcomes.

- We have deep expertise across equity, fixed income, alternatives, multi-asset solutions and cash strategies.
- We offer an unmatched range of specialist investment managers, consisting of more than 1,300 investment professionals.
- We have over 70 years of experience in identifying opportunities and delivering investment solutions to clients.

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.