ClearBridge Investments
A Legg Mason Company

2Q 2019 | Product Commentary

CLEARBRIDGE SUSTAINABILITY LEADERS 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. (11/02/15)	Expenses Gross	Expenses Net
Excluding sales charges	6.57	14.79	N/A	N/A	10.86	3.50	1.20
Including effects of maximum sales charges	0.42	8.18	N/A	N/A	9.08	3.50	1.20
Russell 3000 Index	4.10	8.98	N/A	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. Class A shares have a maximum front-end sales charge of 5.75%. If sales charges were included, performance shown would be lower. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than the original cost. 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. Performance of less than one year is not annualized. All classes of shares may not be available to all investors or through all distribution channels. For the most recent month-end information, please visit* www.leggmasonfunds.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.

Russell 3000 Index is an unmanaged index of the 3,000 largest U.S. companies. Please note an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Key takeaways

- Equities endured a volatile second quarter on the way to finishing at new record highs.
- The portfolio benefited from strong contributions from the technology and industrials sectors.
- Recent research confirms the persistence of a positive relationship between gender diversity and business performance.

Market overview and outlook

Equities endured a volatile second quarter on the way to finishing at 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, while the benchmark Russell 3000 Index rose 4.10%, led by financials, information technology (IT) and materials stocks. Growth stocks maintained their performance edge over value stocks, with the Russell 3000 Growth Index returning 4.50% for the quarter and 21.41% for the year to date, topping its value counterpart by 83 basis points for the quarter and 536 basis points year to date.

The quarter was bookended by positive returns in April and June as investors were cheered by hints of a more accommodative policy turn by the Federal Reserve and optimism that a trade deal between the U.S. and China would be reached. In May trade tensions reappeared and threatened to broaden: the U.S. administration raised tariffs from 10% to 25% on $200 billion worth of Chinese goods and raised the specter of tariffs on imports from Mexico. It also stepped up actions against Huawei, banning the Chinese telecom giant from doing business in the U.S. and effectively barring U.S. suppliers from selling to the company. In June, however, Mexican tariffs were off the table as the Mexican government agreed to contain the flow of migrants, the U.S. and China were back at the negotiating table, and the Fed dropped the word "patient" from its statement and said it would "act as appropriate" to prop up the economy. Risk assets were in vogue again.

Slowing global growth remained a concern in the second quarter, with China's GDP growth rate declining, the euro area economy losing momentum and trade tensions dampening business confidence. Reflecting a more pessimistic outlook, 10-year U.S. Treasury yields dropped to 2.0% and the yield curve inverted.

The portfolio outperformed in 10 of 11 sectors. Relative performance was most notable in the technology sector. SolarEdge Technologies, which makes power inverters and optimizers for solar installations, delivered a solid first-quarter earnings report that drove the shares significantly higher. Solar was the power generation technology with the largest capacity additions globally in 2018 and installed more capacity than all fossil fuels and nuclear together. SolarEdge remains one of the best-positioned component suppliers to the solar industry, with a differentiated product, strong balance sheet and continuing market share gains. Microsoft also made a large contribution to the portfolio's performance, benefiting from continued strong performance in its cloud business. We added a new technology position during the quarter in Keysight Technologies, which provides electronics test and measurement equipment and software to the communications and electronics industries. Keysight has a strong position in the parametric test equipment used in wafer manufacturing, and it's a beneficiary of accelerating 5G growth.

Despite early signs of a manufacturing slowdown, the portfolio also earned solid second-quarter contributions from its industrials holdings, driven by solid fundamentals and strategic activity. Ingersoll-Rand, a manufacturer of climate control and industrial products, announced it was spinning off its industrial business, which will combine with Gardner Denver Holdings. Ingersoll-Rand is a global leader in environmental innovation, from operational excellence and energy efficiency to addressing climate risk and integrating sustainable performance into its long-term strategy. We see the spin-off as a value-creating transaction that will benefit shareholders. Herman Miller, a furniture designer and manufacturer whose rePurpose program of directing customers' used furniture to deserving nonprofits has diverted 27,000 tons of product from landfills, saw strong year-over-year gains in sales and profits, and it raised forward guidance and its quarterly dividend. Meanwhile, we exited our position in WABCO, 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.

The health care sector was negatively impacted by political rhetoric about changes to Medicare, which hurt managed care companies such as holding UnitedHealth, and scrutiny of prescription drug prices, which weighed down pharmaceutical companies BioMarin and Alexion. These concerns created an attractive entry point to a new position in Merck, a global health care company that delivers innovative health solutions through its medicines, vaccines, biologic therapies and animal health products. Merck has outmaneuvered competitors in the promising field of immuno-oncology, and we expect Merck's Keytruda to be the dominant product in immuno-oncology based on exceptional Phase III data, especially in lung cancer. Merck is also the sole U.S. supplier of measles vaccines, which have seen increased demand as the U.S. has been undergoing its largest outbreak in 25 years. We funded the Merck position with the proceeds of the sale of Biogen, which discontinued clinical trials for its Alzheimer's treatment aducanumab in April due to lack of efficacy, diminishing its ability to grow at competitive rates.

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.

We continue to integrate sector-specific Environmental, Social and Governance (ESG) considerations into our fundamental research process. We believe this integration not only helps us identify companies with sustainable business models that are suitable as long-term investments, but also helps us make an impact through the active and intentional selection of public equities with best-in-class ESG practices.

Fund highlights

For the quarter ended June 30, 2019, the ClearBridge Sustainability Leaders Fund — Class A shares had a cumulative return of 6.57%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell 3000 Index, returned 4.10%.

On an absolute basis, the Fund had gains in all 10 sectors in which it was invested (out of 11 sectors total). The primary contributors were the IT, industrials and financials sectors. The real estate and health care sectors were the main laggards.

On a relative basis, overall stock selection and sector allocation contributed positively to performance. Stock selection in the IT, utilities and industrials sectors helped relative results the most. Conversely, stock selection in the financials sector was detrimental. In terms of sector allocation, a lack of energy exposure proved beneficial.

On an individual stock basis, Microsoft, SolarEdge Technologies, Walt Disney, Trex and Ecolab were the largest contributors to absolute performance in the quarter. The main detractors from absolute returns were positions in Alphabet, Lyft, UnitedHealth, Jones Lang LaSalle and Charles Schwab.

In addition to portfolio changes outlined above, during the quarter we exited our position in Cott, in the consumer staples sector.

Top contributors

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. Microsoft continues to invest in controls around data security and customer privacy, while being one of the largest corporate buyers of green power.

SolarEdge Technologies (SEDG), in the IT sector, makes power inverters and optimizers for solar installations. SolarEdge delivered a solid first-quarter earnings report that drove the shares significantly higher. Solar was the power generation technology with the largest capacity additions globally in 2018 and installed more capacity than all fossil fuels and nuclear together. SolarEdge remains one of the best-positioned component suppliers to the solar industry, with a differentiated product, strong balance sheet and continuing market share gains.

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.

Bottom contributors

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, 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 DOJ and 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.

Lyft (LYFT), in the industrials sector, is the second-largest public company in the mobility-as-a-service industry. Lyft traded poorly after its IPO in March, but there has been no change to its long-term fundamental outlook. Revenue almost doubled in its first quarter, however, and while costs remain high at present, the company's opportunity represents a very large addressable market and enormous growth potential over time. This ride-share company leads on offsetting carbon emissions and reducing the climate impact relative to its industry.

UnitedHealth (UNH), in the health care sector, is a diversified health care company offering medical and pharmacy benefit services and operating related technology and financial businesses. Shares fell on continued negative sentiment toward the health care sector, driven by political rhetoric about fundamental changes to the private insurance market, which we view as a remote possibility. It remains the dominant quality player in managed care and a steady generator of free cash flow, continues to execute crisply, and is well-positioned across several health care services areas.

ESG highlights

It has been three years since we published our last commentary on gender in the workplace, and we are encouraged to find new evidence of the benefits of gender diversity as well as the progress made toward it both in society at large and within our portfolio holdings. Though much work remains to be done, we see ample evidence of the value of the efforts made by research groups and governments. In our own role as an active shareholder, we continue to work to further improve gender parity in the workplace through active ownership of leaders in gender diversity and engagement with companies we own.

Value of Gender Parity Is Becoming Clearer

Recent research confirms the persistence of a positive relationship between diversity and business performance. In its 2015 study, *Why Diversity Matters,* McKinsey found that companies in the top quartile for gender diversity on executive teams were 15% more likely to have above-average profitability than those in the fourth quartile. Expanded and updated data show this likelihood has increased to 21%, with these companies also 27% more likely to have superior value creation. Another study found that companies with higher scores for board and management diversity saw consistently higher future returns on equity than those with lower scores.[1]

Gender Diversity in the Workplace Is Improving

Recent statistics on gender in the workplace show some progress is being made. In leadership, female directors have made strides. In 2018, on average, boards had 2.6 female directors, compared with 1.7 a decade earlier, and 40% of new board directors were women, a new high since 1998 and a notable increase from 36% in 2017.

In terms of gender pay, one study shows the U.S. adjusted pay gap has narrowed since 2016, from 5.3% in 2016 to 4.6% in 2018. But progress has been slow, and using optimistic estimates, the same study predicts the U.S. pay gap will not close until 2035. Using conservative estimates, it will not close until 2070.

But There Is More Work to Be Done

The range of estimates for achieving gender equality in the workplace underscores just how much work is needed to achieve even a modest improvement. Equileap, an organization providing data and insight on gender issues in the workplace, has offered a valuable step forward by developing a scoring and ranking system to show companies' commitment to gender equality.

Equileap's scoring system uses 19 data clusters divided into four categories that measure a) gender balance in the overall leadership, management and workforce of a company, b) equal compensation and work life balance, c) policies promoting gender equality, and d) commitment to women's empowerment, transparency and accountability. The latest scoring is one indication of the lengths we need to go, but we are encouraged by the robustness, and more importantly the repeatability, of the scoring system, which will help enable the year-to-year tracking necessary for making improvements.

International Markets Making Gains

Efforts to make further gains toward gender equality in the workplace are now taking different forms in different markets around the world. In Europe, there is a trend toward requiring transparency in gender pay data and addressing significant disparities. France recently passed legislation dictating that companies with 50 workers or more publicly assess their gender pay parity. The methodology for measuring pay gaps involved five weighted indicators that take into account the percentage pay gap (factoring in age, type of job and all forms of remuneration), proportions of men and women receiving pay raises and promotions, the granting of pay raises after maternity leaves if such raises were given in the interim, and the proportion of men and women among the most highly paid employees in the company. If a company scores below a certain level three years in a row, it may have to pay a penalty of 1% of the company's annual payroll.

Mandatory gender pay gap reporting also applies in the U.K. and is being considered in Ireland. In Portugal, as of February 2019, employers with more than 250 employees must assess male and female salaries annually and justify or correct salary differences.

Japan, meanwhile, is suffering from labor shortages, which have brought to light the large number of women absent from management levels of the workforce and who are necessary to help solve Japan's productivity woes. The Japanese government has responded with labor reform policies that dramatically improve parental leave benefits and aim to fix daycare shortages in order to get mothers into the workforce. Policies are also designed to increase the labor participation rate by encouraging the inclusion of female workers and provide safety net programs (for both elder care and childcare). While the gender pay gap remains, the female labor participation rate has grown in the past six years, from 48% in 2012 to 52% in 2018.

At the same time, one study found regulatory support alone is not enough to generate positive effects of diversity; there must also be strong cultural support of working women. Japan still has a historical patriarchal work culture that restricts

[1] Source: Bank of America, The She-conomy, March 2019.

normative acceptance of working women and likely limits the benefit for firms of increased regulatory support for gender parity in the workplace.

ClearBridge holding Shiseido, a Japan-based cosmetics and beauty care provider, is an outlier, however, and is well ahead of its peers in having women exceptionally represented as directors, board members and corporate officers. In meetings with Shiseido in Japan and in our New York office, we have discussed Shiseido's ESG goals and its communication of them to the markets. We believe Shiseido is interested in improving women's social status, and it embraces the UN's Women's Empowerment Principles. Aware of gender pay issues, the company has changed its pay methodology from a seniority status approach, common in Japan, to performance-based pay. In general, Shiseido has gone above the Japanese corporate governance code, and we expect that effort to continue as it further improves its gender policies.

Creating Gender Parity Through Ownership and Engagement

Trends toward gender parity are affecting our international investments and should soon have a larger impact in the U.S., both through exposure of U.S. companies to these trends abroad and through potential similar developments domestically.

While the U.S. may be behind other countries in its regulatory support for parental paid leave — it is the only developed country to not mandate paid family leave — some companies are making progress on their own. ClearBridge holding Etsy, the e-commerce services company brokering handmade and vintage items such as clothing and housewares, supports parents regardless of their gender with a 26-week gender-blind parental leave policy that is available to all Etsy employees globally. The company also established hiring and training guidelines to help create gender equity in the workplace; both the board of directors and the executive team are at least 50% women, 55% of Etsy employees are women (as of December 2017), and Etsy's engineering team is almost a third women. Etsy's business itself empowers women around the world as well: 87% of sellers on its platform, versus 33% of small business owners who are women in the U.S.

ClearBridge is working to further improve gender parity in the workplace through both active ownership of leaders in gender diversity and through engagement with companies we own on specific gender-related topics. For example, while finance has been slow to embrace gender parity in investment roles, ClearBridge holding Bank of America is a representative financial services company that has made notable strides in addressing gender diversity representation and support, as well as the gender pay gap. Our financials analyst engaged with management recently on the topic of gender diversity and other sustainability matters. In this discussion, management addressed the company's commitment to diversity and inclusion of its workforce, including that 51% of global employees and 42% of global management are female. Bank of America explained that it is focused on driving sustainable "Responsible Growth" by enacting policies and practices to support its diverse workforce, such as investing in their Women Leadership Council for senior executives and employee networks for women at all levels to support recruitment, development, networking and culture. The company was named the 2019 Catalyst Award winner by Catalyst, a global nonprofit working with CEOs and companies to help build workplaces that work for women.

We also promote gender diversity leaders especially in areas where this has historically been lacking, such as in smaller companies. ClearBridge is a top shareholder of Agios, a small biotech company that develops small-molecule anti-cancer therapeutics targeting cancer cell metabolism. With a female CEO and above-average gender representation on the board versus industry peers, Agios is a leader in achieving gender diversity among biotechnology firms. It is far above average for companies of similar market cap size and with similar tenures as public companies, and scores better than many more mature, large-cap biotech companies that have had more time and resources to improve their diversity.

Engagements are a critical part of our approach to ESG investing, and engagements on gender can have a material effect on our own ESG rating for a company. One of our information technology analysts reached out to the management of an infrastructure software holding and addressed allegations of gender pay disparity. The discussion was less transparent than anticipated, given the company's previous history of open dialogue. Because of the company's unwillingness to discuss the basis of the allegations, the analyst downgraded the company's ESG rating and has committed to monitoring and engaging management on this issue.

We also combine proxy voting with engagement to encourage stronger gender diversity measures in our holdings. For example, our media analyst and several portfolio managers have met with Discovery Communications over the past few years and discussed gender diversity and the representation of women on the board of directors. As the top shareowner of the stock, ClearBridge portfolio managers voted 100% of the firm's shares in previous years in support of a shareholder proposal to request the board to adopt a policy for improving board diversity. This engagement process was in line with the company's long-standing commitment to support its female workforce: 55% of its managers and 47% of its executives are women. In addition, the company offers work flexibility, advancement mentoring, family support policies and up to 22 weeks of paid maternity leave, which is among the highest of publicly traded companies in the U.S.

We are encouraged by the progress toward gender parity in which we have participated through our active ownership of leaders in gender diversity such as Shiseido, Etsy, Bank of America, Agios, Discovery Communications and others, and through engagement with the companies we own across geographies, market caps and sectors. While there are still milestones ahead, our long-term ownership approach affords us several avenues to make gains as we continue to work with our portfolio companies to close the gender gap, and to drive the returns gender diversity has proven to spur.

Top 10 equity holdings (%)	
Microsoft Corp	5.9
Apple Inc	3.8
Alphabet Inc	3.6
Automatic Data Processing Inc	3.2
Costco Wholesale Corp	3.1
Ecolab Inc	3.1
Danaher Corp	3.1
Walt Disney Co/The	2.9
NIKE Inc	2.7
Visa Inc	2.6

Sector allocation (%)	
Information Technology	22.4
Financials	14.7
Industrials	13.4
Health Care	12.7
Consumer Discretionary	7.5
Consumer Staples	7.3
Communication Services	6.5
Utilities	5.1
Real Estate	3.5
Materials	3.1
Energy	0.0
Cash/Other	3.8

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.

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

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

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

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

Russell 3000 Growth Index is a market capitalization weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above average growth.

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

U.S. Treasurys are backed by the full faith and credit of the United States government and offer return of principal value if held to maturity. The U.S. government guarantees the principal and interest payments on U.S. Treasurys when the securities are held to maturity.

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

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- Over a century of experience in identifying opportunities and delivering astute 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. As a non-diversified fund, the Fund is permitted to invest a higher percentage of its assets in any one issuer than a diversified fund, which may magnify the Fund's losses from events affecting a particular issuer.