ClearBridge Investments

1Q 2021 | Product Commentary

CLEARBRIDGE SUSTAINABILITY LEADERS FUND

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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. (11/02/15)	Expenses Gross	Expenses Net
Excluding sales charges	4.80	66.94	19.53	N/A	17.10	2.33	1.20
Including effects of maximum sales charges	-1.24	57.31	18.12	N/A	15.82	2.33	1.20
Russell 3000 Index	6.35	62.53	16.64	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, 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.

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

- A reflation trade begun in November continued, driving a further rotation to cyclical stocks and resulting in strong relative performance of value versus growth.
- The portfolio's modest overweights to the financials and industrials sectors also had positive impacts on performance, while solar names took a temporary cooling.
- In a hot housing market, many companies held across ClearBridge portfolios are helping make the homes of the future — back deck included — more environmentally responsible spaces.

Market overview and outlook

Expedited COVID-19 vaccine rollouts and another massive stimulus package helped U.S. equities deliver a strong first quarter, overcoming concerns that coronavirus variants would delay reopening and inflation would put the brakes on growth. A reflation trade begun in November continued, driving a further rotation to cyclical stocks and resulting in strong relative performance of value versus growth, with the Russell 3000 Value Index outperforming its growth counterpart by 10 percentage points. The benchmark Russell 3000 Index advanced 6.35%.

The Fund had a strong absolute return but trailed in relative terms amid the sharp cyclical rally. A number of factors helped performance. Fourth-quarter additions CVS Health, Morgan Stanley, Marriot and Resideo Technologies, which we viewed as value stocks at initiation, benefited from the rotation from growth to value in the first quarter.

The portfolio's modest overweights to the financials and industrials sectors also had positive impacts on performance as vaccine acceleration led to optimism for faster global economic growth.

Higher long-term interest rates supported financials such as Bank of America, which has shown both defensive and offensive characteristics in the past year. We believe it continues to be the least risky large bank from a credit standpoint, with conservative underwriting and controlled risk taking, a leading consumer deposit franchise, scale and technology. It is also a leader in its commitments to sustainability, or as it terms it, responsible growth. Disclosure and reporting at all levels form a large part of this commitment, including gender diversity and equality, environmental commitments and support of communities in which it operates. In the first quarter Bank of America announced it is setting a goal of net-zero greenhouse gas (GHG) emissions in its supply chain and operations, and notably also in its financing activities, before 2050.

Higher rates also boosted Charles Schwab, specifically mortgage-backed securities yields, which represent the majority of its investment portfolio. Schwab has also seen stronger organic growth from a stronger economy and equity markets, which has led to more account openings and higher trading activity.

Our exposure to small-cap industrials names was also beneficial. Herman Miller, a manufacturer of sustainable design and ergonomic furniture for home and office — and this year especially, home office use — enjoyed significant retail sales growth in the quarter, as well as good results from international sales. Resideo, which provides smart home solutions around comfort, thermal and security, also had a strong quarter, raising targets and sharing very positive growth expectations.

Lam Research, meanwhile, had another strong quarter. Lam, which manufactures and markets semiconductor processing equipment used to make integrated circuits, is a beneficiary of growing memory spend trends in 2021 and 2022 and a strong leadership position that continues to expand addressable market share.

Solar energy companies, such as SolarEdge Technologies and Enphase Energy, which had outperformed in 2020, took what we believe is a temporary cooling in the first quarter mainly due to concerns surrounding rising interest rates, which could indicate a higher cost of capital. Array Technologies, meanwhile, also announced a secondary offering that weighed on sentiment. However, we believe the long-term fundamentals for renewables are attractive, and our solar stocks in fact raised guidance for 2021. Global commitments to solar and wind continue to grow, and the stocks should benefit from legislative catalysts such as the pending U.S. bill focused on infrastructure, the proposed CLEAN Future Act, which would provide support for material emissions reductions, and the Green Act, which would boost tax credits for renewables, storage and electric vehicles.

Aluminum beverage and food container manufacturer Ball Corp, meanwhile, delivered fourth-quarter operating income slightly lower than consensus, though this was mainly attributable to higher startup costs for large new facilities coming on line in North America. These investments and additional capacity projects will contribute to strong volume growth globally, however. Aluminum cans are infinitely recyclable and offer the best replacement product for single-use plastic beverage containers, in our view. They are more likely to be recycled than single-use plastic and are more energy-efficient in production as well.

Having no exposure to the traditional energy sector was a headwind to relative performance, as higher prospects for economic activity and energy use led to a rebound in oil prices and the energy sector. Holdings in renewable energy, which are categorized in a variety of sectors, continued to make strong contributions.

Portfolio Positioning

We have been able to find new opportunities even as much of the market appears fully valued. While some information technology (IT) companies felt headwinds from higher rates in the quarter, CIO surveys nevertheless indicate that IT budgets will grow in 2021 due to a combination of pent-up demand and increasing confidence in business prospects.

We added to our software-as-a-service (SaaS) exposure with the initiation of SaaS leader salesforce.com, which develops software for customer relationship management (we added Workday, which provides enterprise resource planning applications, last quarter). Saleforce.com is well positioned in the most attractive end markets in software and will benefit from secular drivers such as remote work and the digital transformation. Salesforce.com is a sustainability leader as well, with a commitment to carbon-neutral cloud, toward which it has set a goal of 100% renewable energy for global operations by fiscal year 2022. The company has a strong focus on equality, in terms of equal rights, pay, education and opportunity. As a data company it has been leading on workforce disclosures, and it seeks to have 50% of its U.S. workforce made up of underrepresented groups by 2024.

Also in IT, we added Cisco Systems, which provides IT and networking services in the form of network security, software development and cloud computing. Cisco continues to derive over 50% of its sales from on-premise deployments of its products with enterprise and small and midsize customers, while recurring revenues from software are becoming a larger part of the mix. Return-to-office enterprise spending should offer upside to its core campus business. Cisco was an early technology leader in sustainability over two decades ago, through its Internet-connecting capabilities that supported live concerts in partnership with the United Nations Development Program to raise awareness and funds to fight poverty. Cisco has very strong environmental standards (including driving lower energy consumption in IT departments through new product innovations and a long-standing goal to reduce emissions and reliance on non-renewable energy sources). Its data privacy and supply chain management policies are best-in-class.

Shoals Technologies, another new position, manufactures electric balance of systems (EBOS) components for ground-mounted solar projects, and it has been gaining market share for quality of service and price. The company has been operating primarily in the U.S., but it is planning to expand internationally with its patented technology, and we see attractive secular growth in Shoals' end markets.

Outlook

Unprecedented fiscal stimulus has raised fears of inflation, which have also been expressed in higher interest rates. Further stimulus, including a broadly defined infrastructure bill, would likely add to these fears. At the same time, the pandemic has created pent-up demand for goods and services, while supply chains are still in adjustment. The effects of such large stimulus, higher interest rates, and further policy changes, such as potential tax hikes, are material uncertainties we are actively monitoring.

A rapidly changing market with several large unknowns argues for a diversified portfolio with both growth and value as well as cyclical and defensive exposure. We believe the Fund's quality orientation toward companies with strong balance sheets, high returns, sustainable cash flows and leading ESG profiles continues to be appropriate.

Portfolio Highlights

For the quarter ended March 31, 2021, the ClearBridge Sustainability Leaders Fund — Class A shares had a cumulative return of 4.80%, excluding the effects of sales charges. In comparison, the Fund's unmanaged benchmark, the Russell 3000 Index, returned 6.35%.

On an absolute basis, the Fund had gains in five of 10 sectors in which it was invested (out of 11 sectors total). The main contributors were the financials, industrials, consumer discretionary and health care sectors. The materials and consumer staples sectors were detractors.

On a relative basis, overall stock selection and sector allocation detracted from performance. Stock selection in the materials, communication services, IT and consumer staples sectors detracted the most, while stock selection in the industrials and financials sectors proved beneficial. A lack of energy holdings weighed on relative performance.

On an individual stock basis, Shoals Technologies, Bank of America, Hartford Financial, Lam Research and Charles Schwab were the largest contributors to absolute performance in the quarter. The main detractors from absolute returns were positions in Apple, Array Technologies, Ball, BioMarin Pharmaceutical and SolarEdge Technologies.

During the first quarter, besides portfolio activity discussed above, we initiated a position in SunOpta in the consumer staples sector.

Top contributors

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

Bank of America (BAC), in the financials sector, is one of the world's leading financial institutions, serving some 66 million consumer and small business clients across the U.S. as well as large corporations, financial institutions and governments globally. Shares were higher in the first quarter on an improving economic outlook and growing optimism that interest rates would rise over time.

Hartford Financial (HIG), in the financials sector, is an investment and insurance company. Shares rose strongly on news Chubb was exploring a possible deal to acquire the insurer.

Lam Research (LRCX), in the information technology sector, is a leading supplier of etch and deposition equipment used in the manufacturing process of semiconductors. Already strong demand for semiconductors bolstered further by Intel's announcement that it would build two new chip factories in the U.S. contributed to a sharp rally in semicap equipment companies, benefiting Lam Research during the quarter.

Bottom contributors

The bottom contributors to Fund performance for the quarter included:

Apple (AAPL), in the IT sector, designs, manufactures and markets personal computers and smartphones and also provides a variety of related software, services and devices. The shares were weak, pressured by a sell-off in high-valuation names and some concerns around low-end Apple smartphone demand.

BioMarin Pharmaceutical (BMRN), in the health care sector, is a biotechnology company producing treatments for rare genetic diseases. Biotechnology companies such as BioMarin have been pressured by the risk of prescription drug pricing controls, while COVID-19 has meant fewer patient visits in the past year. BioMarin also announced delays to its delivery of Hemophilia A gene therapy and vosorotide for dwarfism, both of which programs should eventually be approved.

Array Technologies (ARRY), in the industrials sector, makes mechanical tracking systems platform for industrial-grade solar installations that pivot to capture the most solar exposure as the direction of the sun changes. Array announced a secondary offering that weighed on sentiment, while investors took some gains in solar stocks after a very strong 2020.

Top 10 equity holdings (%)	
Microsoft Corp	6.0
Apple Inc	4.3
Bank of America Corp	3.1
Hartford Financial Services Group Inc/The	2.5
UnitedHealth Group Inc	2.4
Home Depot Inc/The	2.3
TE Connectivity Ltd	2.3
Comcast Corp	2.2
Trane Technologies PLC	2.2
CVS Health Corp	2.2

Sector allocation (%)	
Information Technology	27.2
Financials	14.9
Health Care	13.7
Industrials	12.7
Consumer Discretionary	11.2
Consumer Staples	6.1
Communication Services	5.7
Materials	3.5
Utilities	3.3
Real Estate	1.3
Cash/Other	0.5

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.

Environmental, Social and Governance (ESG) highlights

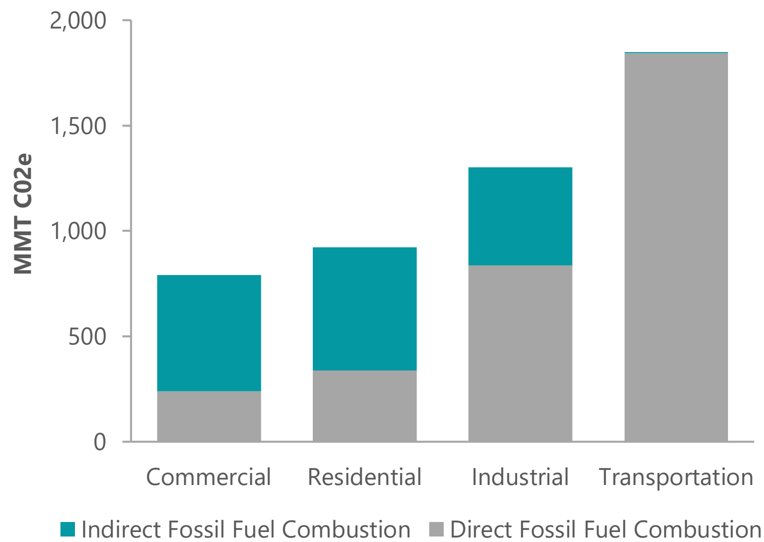
We are in the midst of a booming real estate market: prices for many houses are growing the fastest in over a decade, thanks to millennial household formation (which was increasing before the pandemic), a pandemic-driven acceleration of the exodus from urban centers and a healthier banking system after the global financial crisis. New home sales are elevated even given the winter's typical seasonal lull (Exhibit 1). Despite a recent pickup in long-term bond rates, 30-year fixed mortgage rates are near historic lows, suggesting the growth could continue. Stimulus money and lifestyle changes engendered by people spending substantially more time at home during the pandemic have also meant more home remodeling.

Exhibit 1: New Privately-Owned Houses Sold

Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Residential Sales, March 23, 2021.

As many people move into new single-family houses or apartment homes, or refresh the existing housing supply, now is a good time to reflect on how green the building and renovation processes can be, as the residential sector contributes a meaningful amount to national carbon emissions (Exhibit 2). A wide range of ClearBridge portfolio companies are working to improve the sustainability profile of tomorrow's homes, which should help reduce costs over the long term as well. Home builders, residential REITs, roofers and insulators, smart-home enablers and others across ClearBridge portfolios, are helping make the homes of the future — back deck included — more environmentally responsible spaces.

Exhibit 2: End-Use Sector Emissions of CO^2 from Fossil Fuel Combustion (2019)



Source: U.S. Environmental Protection Agency.

Home builders are beginning to take steps toward building more environmentally friendly homes and disclosing the impact of their own operations. In many cases, the price sensitivity of new home buyers discourages the incorporation of green building in new homes. Home builder Lennar, for example, included solar panels in every home it built in California for several years prior to the California Energy Commission making solar standard as part of new construction, although this has not been without consumer pushback.

ClearBridge holding Century Communities, which makes single and attached homes, recognizes home builders can be a laggard industry in sustainability disclosures. The company finds that consumers in the past have not been willing to pay a price premium for green features on homes and apartments, even though they say they want them. This has led the industry to generally build to the lowest common regulatory standard, as additional green building practices were dilutive to returns.

Driven by top-down recognition of the strategic importance of green building as well as by demographic changes in home buyers (younger buyers value green features more than older buyers do), Century Communities is taking steps to be a leader in green building by publishing its first ESG report. Disclosing

the company's Scope 1, 2 and 3 carbon emissions for the first time, the report represents a strategic commitment to increased disclosure and better sustainability practices with the ultimate goal of Century Communities becoming an ESG leader in the home-building space. We applaud this step toward clear,
tangible results.

While home builders face some structural challenges in improving green building (with some exceptions), residential REITs, which take on longer-term responsibilities in owning and operating the properties, are in this way more incentivized to make sustainability gains.

ClearBridge holding American Homes 4 Rent builds, acquires and leases more than 52,000 single-family rental homes across 22 states. The company designs homes with resource-efficient fixtures and appliances. To help residents conserve water, it installs high-efficiency toilets and plumbing fixtures in all development properties and in renovations of existing homes. In arid states such as Arizona and Nevada, it installs smart, water-efficient irrigation features in its landscape design.

There's More Than Just Bricks in the Wall

Roofer and insulator Owens Corning, also a ClearBridge holding, is helping make the building sector more sustainable. The company operates across 33 countries and has positive environmental impact primarily through its insulation business. In the EU, for example, buildings are responsible for 40% of energy consumption and 36% of GHG emissions. New buildings consume only half of the energy of those built over 20 years ago, according to the company. But as 85% of the buildings in the EU are older than 20 years, and 85%–95% of them are expected to still be standing in 2050, there is need for a massive renovation. Roughly 35 million buildings in the EU will need to be renovated by 2030, according to the company.

Properly insulated homes lower energy intensity and thus the overall carbon footprint of a home. According to Owens Corning, insulation intensity of new homes is on the rise, driven in part by state and municipal rules requiring certain levels of insulation, but also by consumer preference for reducing energy consumption and being greener in the home. The company is helping meet this demand with insulation products that are lighter weight yet deliver stronger performance than higher-weight/higher-density products. The insight that greater density does not necessarily mean better performance has allowed the company to reduce shipping weight and fuel.

Owens Corning's roofing business also features shingles that use a highly reflective granule technology to reflect the sun, keep roofs cooler and lower air conditioning energy demand. Its composites business also counts wind turbines as a major end use, another positive for sustainability goals.

As part of its 2030 Sustainability Goals, Owens Corning is also looking to grow a circular economy model in which virgin raw materials, waste, energy and emissions are minimized through intelligent design, renewable and recycled input and energy-efficient production.

Smart thermostat maker and ClearBridge holding Resideo Technologies is also helping homes become more sustainable through behind-the-wall innovation. Resideo makes behind-the-wall components and front-facing controls whose purpose is to drive water and energy conservation or improve air quality. Resideo's smart thermostats help provide the right temperature using the lowest energy consumption; its components and controls for boilers, furnaces and heat pumps help energy conservation; and its leak and freeze detectors aid in water conservation. Currently, of Resideo's 150-million-homes installed base, only 6 million are conservation-advantaged "connected homes." The company's goal is to grow this mix, while also launching predictive tools for its professional installer customer (a plumber might get an alert once a pipe starts leaking, rather than waiting for the call once a basement is flooded) and working closer with utilities to make the grid smarter and more efficient. Resideo's smart thermostat, meanwhile, is built into home builder Lennar's new line of Connected Homes.

Home Expansion Offering Green Opportunities

Just as the new home market has been hopping amid low interest rates and the greater need for space, the market for home improvement has also been robust for similar reasons. Decks have been perfect places for safe social gatherings during the pandemic, and ClearBridge portfolio holding Trex has been meeting demand with its composite decking made from recycled wood fibers and plastic waste.

Trex's high-performance decking portfolio is made using more than 95% recycled content. Trex uses locally sourced reclaimed wood that would otherwise end up in landfills and so avoids cutting down trees to make its products. The recycled plastic film it uses comes from a variety of sources, including industrial shrink wrap, agricultural plastic sheeting and household plastic such as grocery and shopping bags. With the average 500-square foot composite Trex deck containing 140,000 recycled plastic bags, Trex is one of the largest plastic bag recyclers in the U.S. The company has also innovated ways of recycling dirtier plastics more likely to end up in landfills.

Trex has seen already strong demand get stronger during the pandemic; the company was sold out during much of 2020, and it began expanding capacity across the U.S. to meet heightened demand. With lumber prices soaring amid the strong housing market, Trex's composite decks are increasingly gaining share, especially in price-sensitive areas of the market, which bodes well for both the environment and shareholders.

Sustainability Is Growing in Prominence in the Building Sector

We are encouraged by the increasing number of companies working to build the home of tomorrow more sustainably, which will typically provide an improved return on investment. In addition, the sustainably built home covers expansive geographies and diverse demographics. This is particularly important in the context of climate change, as homes that use water and energy efficiently can also prove more resilient amid volatile energy and water availability and prices. As the EPA notes, homes that maintain habitable conditions in extreme heat, power outages and strong storms are crucial to protecting their inhabitants. If they can be built using sustainable resources by companies actively looking to reduce carbon emissions, all the better.

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.

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

Environmental Protection Agency (EPA) is an agency in the United States Federal Government who is responsible for creating standards and laws promoting the health of individuals and the environment.

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.

Real Estate Investment Trusts (REITs) invest in real estate or loans secured by real estate and issue shares in such investments, which can be illiquid.

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

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