ClearBridge Investments
A Legg Mason Company

1Q 2018 | Product Commentary

CLEARBRIDGE VALUE TRUST

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Portfolio Managers

Average annual total returns and fund expenses (%)

as of March 31, 2018

Class C	3-mo	1-yr	5-yr	10-yr	Since Incept. (04/16/82)	Gross	Net
Excluding sales charges	-3.26	5.44	10.31	5.38	11.49	1.77	1.77
Including effects of maximum sales charges	-4.18	4.49	10.31	5.38	11.49	-	-
S&P 500 Index	-0.76	13.99	13.31	9.49	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 C shares have a one-year contingent deferred sales charge (CDSC) of 0.95%. If sales charges were included, performance shown would be lower. 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 and/or reimbursed in various periods. Returns for less than one year are cumulative. Performance for other share classes will vary. 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, 2019 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.

S&P 500 Index is a market capitalization-weighted index of 500 widely held common stocks. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Key takeaways

- Capital spending plans have dramatically increased, as enough confidence returned to businesses to make real investments in the future.
- A higher-rate environment should restore some market diversity as price momentum starts to give some ground to value as a driver of equities.
- The dynamics of indexing and momentum are generating some very attractive price-to-value gaps.

Market overview

In the first quarter, U.S. stocks and valuation multiples started to wobble. The S&P 500 Index fell 0.76%, and its forward price-earnings multiple declined over two multiple points during the quarter to approximately 16x forward earnings. What is the reason for this? The decline in multiple was driven partly by a record quarterly increase in earnings estimates from the tax cut. This increase was not fully reflected in market prices, likely because the market believes the tax cut benefits will be competed away. This will certainly be the reality for the most competitive businesses and industry sectors. But we think the bigger culprit in the valuation compression is rising interest rates. During the quarter, the U.S. 10-year Treasury yield rose from 2.4% to 2.7% — almost touching 3% in mid-February. On this front, the challenge for the markets is that we believe the path of least resistance for interest rates is higher, and the path of least resistance for most asset prices and valuations will accordingly be lower. If so, this shift to higher rates will challenge the hegemony of price momentum, which has dominated markets this cycle.

Fortunately, the most likely context for higher rates is better economic growth, as business investment has finally turned the corner. Capital spending plans dramatically increased in 2017, as enough confidence returned to businesses to make real investments in the future. Unlike share buyback programs, which can be turned off easily, capital spending programs, once they get under way, tend to be sticky. The capital spending momentum will also benefit from the corporate tax cut, which directly incentivizes U.S. business investment. The tax cut is expected to lead to a 5%–6% increase in investment spending in 2018, which will have a decent multiplier effect across the economy. As economic growth proves to be more sustainable, this should spur further investment, and the economy may finally shake off its deflationary shackles as robustness returns to Main Street.

Despite the underlying market volatility, all U.S. economic data remained strong. First-quarter U.S. economic data were healthy across the board. Jobless claims fell to 215,000, the lowest level since 1973. Fourth-quarter GDP was revised upward to 2.9%. Auto sales held steady in January and February at a 16.8 million SAAR, then lifted to 17.2 million in March on the back of increased incentives. The March Consumer Sentiment Index reading of 101.4 was the highest since 2004, while the ISM Purchasing Managers Index reading of 59.3% was one of the highest levels ever.

Fund highlights

During the first quarter of 2018, the ClearBridge Value Trust – Class C shares generated a total return of -3.26%. In comparison, the Fund's unmanaged benchmark, the S&P 500 Index, returned -0.76% and the Lipper Multi-Cap Core Funds category average was -0.75% for the same period.

On an absolute basis, three of the 11 sectors in which the Fund was invested in for the first quarter generated positive returns. The utilities, information technology (IT) and materials sectors contributed the most to absolute returns, while the consumer discretionary sector detracted the most.

Relative Fund underperformance was driven by stock selection effects, which were partially offset by sector allocation. Stock selection in the consumer discretionary, IT and financials sectors detracted the most from relative returns. Meanwhile, stock selection in the utilities and materials sectors contributed to relative performance for the quarter, as did an underweight to the consumer staples sector.

XL Group, Cisco, Microsoft, TransDigm and Allergan were the largest contributors to performance, while the biggest detractors included Wells Fargo, Kinder Morgan, Adient, Synchrony Financial and American International Group.

During the quarter we initiated positions in American International Group, International Business Machines, Melco Resorts and Entertainment, General Motors and Safran. We closed positions in Hartford Financial, ServiceMaster, PulteGroup and XL Group.

Top contributors

XL Group (XL), a property and casualty insurer in the financials sector, was acquired by insurance giant AXA at a 50% premium to the stock price before the merger & acquisition (M&A) speculation surfaced. We took advantage of the low valuation late last year, as the stock suffered an operating loss in 2017 due to large catastrophe losses. We saw value in XL's global leadership in the commercial insurance and reinsurance markets, given its specialty focus and the highly valuable Lloyd's franchise.

Cisco Systems (CSCO), in the IT sector, is the largest seller of routers and bridges that carry Internet traffic. Cisco is transitioning its business from hardware to software and from up-front licenses to subscriptions, and the market continues to be enthusiastic on the prospects for accelerating earnings per share growth in 2018. Cisco delivered a clean earnings beat for the fourth quarter, and it raised guidance. The company should benefit from an improving corporate spending environment as it ramps up sales of its new switching platform, the Catalyst 9000.

Microsoft (MSFT), in the IT sector, saw shares rise, as investors continue to appreciate the company's growth trajectory, especially its strong position in the rapidly growing market of cloud services. The company posted an earnings beat for the fourth quarter, driven by strong growth in cloud services such as Office 365 and Azure.

Top detractors

Wells Fargo (WFC), in the financials sector, continues to suffer from a customer and regulatory backlash to its past infractions relating to aggressive sales incentive practices. Nevertheless, we feel the company has great national franchises in retail, commercial and mortgage banking that will enable it to regain its positive business momentum and premium valuation.

Kinder Morgan (KMI), in the energy sector, has suffered from the disconnect between oil prices, which have firmed, and energy stock prices, which have struggled as interest rates have risen, despite a supportive macro demand environment, strong fundamentals and, in Kinder Morgan's case, continued increases in distributable cash flow.

Adient (ADNT), in the consumer discretionary sector, reported a poor first fiscal quarter in 2018, with earnings below consensus and lowered guidance for 2018. The company faces headwinds in its seat structures/mechanisms and metals business, although these should be transitory. Adient also announced the formation of Adient Aerospace, a joint venture with Boeing, which should be a good opportunity once it begins to produce revenue.

Outlook

We continue to believe the biggest risk in the current market is rising liquidity risk: asset prices require more growth and long-term cash flow to justify rising prices, extending their duration, while the marginal buyer is increasingly acting on short-term price momentum. This creates a classic duration mismatch, which should close violently when price momentum reverses. The match that could ignite this reversal is an increase in interest rates, and a subsequent rise in volatility. Some of these concerns began to play out in late January. Our focus on names with attractive prospects for long-term value has led us to a portfolio differentiated from market capitalization-weighted indexes like its benchmark, the S&P 500. We believe that following a disciplined valuation process allows us to potentially exploit a behavioral advantage, by thinking mathematically and probabilistically rather than emotionally, even in periods of rapid market gains, and especially during periods of market volatility.

Despite headwinds to value, our major portfolio construction goal is to balance out the downside from any given active bet, like value, with a balancing exposure. Our diversification goal is to achieve a material valuation advantage versus the index without sacrificing diversifying characteristics like quality and growth. The resulting diversification helps mitigate downside volatility, even when such a core driver like value is out of favor. We think our advantage versus the index should widen further if higher interest rates continue to put pressure on momentum, restoring more balance to value.

Top 10 equity holdings (%)	
Alphabet Inc	5.3
Allergan PLC	4.1
Microsoft Corp	4.1
Oracle Corp	3.7
Wells Fargo & Co	3.3
Alexion Pharmaceuticals Inc	3.0
American International Group Inc	2.9
Kinder Morgan Inc/DE	2.9
Cisco Systems Inc	2.9
Synchrony Financial	2.8

Sector allocation (%)	
Information Technology	19.5
Financials	18.6
Health Care	15.2
Industrials	11.6
Consumer Discretionary	10.6
Energy	9.7
Utilities	4.4
Real Estate	3.9
Consumer Staples	3.0
Materials	1.9
Telecommunication Services	0.0
Cash/Other	1.5

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.

Definitions and additional terms:

Please note that an investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Category average returns' Source: Lipper Inc. **Past performance is no guarantee of future results.** Lipper returns are based on the three-month period ended March 31, 2018, and they are calculated among 799 funds in the Lipper Multi-Cap Core peer group, including reinvestment of dividends and capital gains, if any, and excluding sales charges.

Consumer sentiment is a statistical measurement and economic indicator of the overall health of the economy as determined by consumer opinion.

Duration is an estimated measure of the price sensitivity of a bond to a change in interest rates.

Forward earnings are an estimate of a next period's earnings of a company.

Forward price to earnings (forward P/E) is a measure of the price-to-earnings (P/E) ratio using forecasted earnings for the P/E calculation.

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

Institute for Supply Management (ISM), formerly known as the National Association for Purchasing Management, is an association representing more than 48,000 purchasing and supply management professionals. It conducts regular surveys of purchasing and supply managers to determine industry trends.

Price-to-value gap is the discrepancy between the price of a company's shares traded in the market and what we estimate to be its intrinsic value based on our probabilistic bottom-up analysis.

Seasonally adjusted annual rate (SAAR) is a rate adjustment used for economic or business data that attempts to remove the seasonal variations in the data.

S&P 500 Index is an unmanaged index of common stock performance.

U.S. Treasuries are direct debt obligations issued by the U.S. government and backed by its "full faith and credit." The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity.

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ClearBridge Investments
EnTrustPermal
Martin Currie
QS Investors
RARE Infrastructure
Royce & Associates
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- A broad mix of equities, fixed income, alternatives and cash strategies invested worldwide
- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
- 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. 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. 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. Because this Fund expects to hold a concentrated portfolio of securities, and invests in certain regions or industries, it has increased vulnerability to market volatility.