QS Investors
A LEGG MASON COMPANY

1Q 2019 | Product Commentary

QS GLOBAL EQUITY FUND

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Average annual total returns and fund expenses (%)

as of March 31, 2019

Class C	3-mo	1-yr	5-yr	10-yr	Since Incept. (09/12/00)	Expenses Gross	Expenses Net
Excluding sales charges	11.22	-1.06	6.97	11.31	3.38	2.11	2.05
Including effects of maximum sales charges	10.22	-1.99	6.97	11.31	3.38	2.11	2.05
MSCI World Index	12.48	4.01	6.78	12.38	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 CDSC of 1.0%. 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 in various periods. Returns for less than one year are cumulative. 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.

The **Morgan Stanley Capital International World Index (MSCI World Index)** is a free float-adjusted market-capitalization index that is designed to measure global developed market equity performance. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market environment

The MSCI World Index returned 12.5% in U.S. dollar terms during the first quarter of 2019. All regions had returns over 6%, most in double digits. After the rally in January, equities continued to generate positive returns for the rest of the quarter. Despite worries about China's slowdown at 2018 year end, markets returned to a risk-on sentiment as central bank policies became increasingly accommodative, the U.S. experienced a positive earnings season, and China manufacturing indicators returned to modest growth levels. Across the globe, most individual markets were in positive territory, led by Colombia and China, while the developed markets were led by New Zealand and Belgium. Over the quarter, a rise in oil prices of 32% and a U.S. yield curve inversion in late March did little to stop the positive market environment. Within the U.S., equities had their best first-quarter return since 1998, and the U.S. was tied with Australia, New Zealand & Canada as the top-performing region. Investor optimism continued and most sectors had double-digit returns, led by information technology, industrials and real estate, which returned 20.2%, 17.6% and 17.4%, respectively. The real estate sector in particular benefited from the U.S. Federal Reserve pivot to a dovish stance. The Fed suggested that mixed economic signals justified a revised approach to interest rate hikes, making them unlikely for the rest of 2019. Indeed, economic indicators at quarter end showed manufacturing growth falling to a 21-month low, but services remained strong and inflation has slowed. The main underperformer for the quarter was health care, returning 6.7%, followed by financials ex-banks and banks, with returns of 8.9%, and 9.1%, respectively.

Within Continental Europe, sectors were led by consumer staples, returning 14.0%, and information technology, with a return of 13.6%. Over the quarter, economic indicators weakened across much of the eurozone, prompting the European Central Bank to cut its growth forecasts, cancel an expected rate rise in 2019, and offer cheap rates to banks to boost growth. Manufacturing in Germany continued to contract, on generally weak demand globally, particularly for autos. However, the eurozone jobless rate held steady and consumer sentiment improved.

The U.K. had a wider range of sector returns than other regions, led by its very small information technology sector, which returned 35.8%. U.K. communication services was the only sector to have a decline, with a return of -1.8%. Inventories climbed as manufacturers continued to stockpile raw materials over the quarter, reaching a record high rate in March. The deadline for Brexit was delayed after Parliament voted a third time against Prime Minister May's negotiated deal. While employment levels remain high, new hiring has fallen, and businesses sentiment continued to fall sharply amid uncertainty about trade with Europe and other markets.

Japanese equities lagged all other regions during the quarter, returning 6.8%. In March, manufacturing experienced the largest contraction in nearly three years due to both domestic and export declines, particularly in sales to China and Taiwan. Services held up better, as local orders expanded and overseas sales growth weakened only slightly. Sector returns were widely mixed; information technology returned 16.7%, while consumer discretionary returned 0.9%. The Bank of Japan reiterated its accommodative stance in a nod to the fragility of the current export markets, while stating that the market's economy continues expanding modestly. Business sentiment dropped over the quarter.

The resource-based Australia, Canada & New Zealand region performed in line with the U.S., led by the materials sector in a period of industrial commodity strength. Asia Developed ex-Japan followed closely behind, led by Hong Kong, one of the top-performing markets for the period.

Fund highlights

Though stock selection was mixed at the region level, it was the main driver of negative relative performance this quarter. Selection was strong in the U.K., led by the consumer discretionary and banks sectors, but it was a major detractor in several sectors in the U.S., especially health care and information technology. Selection also detracted in Japan, and it added modest value in the smaller regions of Australia, New Zealand & Canada and developed Asia ex Japan.

The impact of region and sector allocation decisions was minimal this quarter.

At quarter end, the portfolio was attractively valued with a lower 12-month forward P/E than that of the benchmark. The portfolio was well diversified across regions and sectors when compared with the benchmark. At the region level, the largest overweight was to Emerging Markets (not in the benchmark), and the largest underweight was to Continental Europe. Industry group allocations were close to the benchmark, with a modest overweight to consumer discretionary and underweight to utilities.

Outlook

During the first quarter of 2019, global equity markets saw consistent gains despite continuing contraction in manufacturing across a number of countries, including Germany and other eurozone markets, Japan, South Korea and Taiwan. With recent gains, valuations in the U.S. appear stretched, while international markets continue to appear more attractively priced in a slowing global trade environment. We believe that our well-diversified, disciplined strategy is positioned to benefit in this environment.

Top 10 equity holdings (%)	
Apple Inc	3.0
Amazon.com Inc	1.9
Microsoft Corp	1.6
Home Depot Inc/The	1.3
Boeing Co/The	1.3
Lowe's Cos Inc	1.3
UnitedHealth Group Inc	1.2
Alphabet Inc	1.2
Baxter International Inc	1.2
Bank of America Corp	1.1

Sector allocation (%)	
Financials	17.6
Information Technology	16.7
Health Care	12.1
Consumer Discretionary	12.0
Industrials	11.0
Communication Services	7.3
Consumer Staples	7.1
Energy	6.6
Materials	4.2
Real Estate	2.9
Utilities	1.8
Cash/Other	0.7

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.

Disclosures

A **yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates.

Brexit is an abbreviation for "British exit," referring to the UK's decision in a June 23, 2016 referendum to leave the European Union (EU).

The **forward price-to-earnings (forward P/E)** ratio is similar to the price-to-earnings ratio. While a regular P/E ratio is a current stock price over its earnings per share, a forward P/E ratio is a current stock's price over its "predicted" earnings per share.

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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. Potential active and frequent trading may result in higher transaction costs and increased investor liability. Fixed income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the values of fixed income securities fall.

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.

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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.

The QS Investors investment platform comprises QS Investors, LLC, QS Batterymarch Financial Management, Inc. and QS Legg Mason Global Asset Allocation (QS LMGAA).

BEFORE INVESTING, CAREFULLY CONSIDER A FUND'S INVESTMENT OBJECTIVES, RISKS, CHARGES AND EXPENSES. YOU CAN FIND THIS AND OTHER INFORMATION IN EACH PROSPECTUS, AND SUMMARY PROSPECTUS, IF AVAILABLE, AT WWW.LEGGMASONFUNDS.COM. PLEASE READ THE PROSPECTUS CAREFULLY.