2Q 2019 | Product Commentary

QS INTERNATIONAL EQUITY FUND

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Average annual total returns and fund expenses (%)

as of June 30, 2019

Class C	3-mo	1-yr	5-yr	10-yr	Since Incept. (02/17/95)	Expenses Gross	Expenses Net
Excluding sales charges	1.00	-4.08	1.39	5.29	3.67	1.98	1.98
Including effects of maximum sales charges	0.00	-5.02	1.39	5.29	3.67	1.98	1.98
MSCI EAFE Index	3.68	1.08	2.25	6.90	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 reflect a maximum one-year contingent deferred sales charge (CDSC) of up to 1.0%. 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. For the most recent month-end information, please visit www.leggmason.com/individualinvestors.*

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 **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI EAFE Index includes 22 developed market country indices. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market environment

The MSCI EAFE Index returned 3.7% in U.S. dollar terms during the second quarter of 2019. However, global equity markets were quite volatile. The quarter started with a strong rally in April, only to sharply decline in May and rebound dramatically in June. The risk-on/risk-off theme that has dominated financial markets over the past few years was also pervasive during the quarter, as most risky assets appreciated dramatically in April and June but exhibited dismal performance during May. Although risk assets posted generally positive returns for the quarter, gold (typically considered a flight-to-quality asset) rose 9.3%, propped up by the weaker U.S. dollar, a dovish U.S. Federal Reserve and geopolitical concerns. The shifts in investor sentiment were propelled by the perception of a number of risks, including an escalation in the U.S.-China trade tariff war, uncertainty around Brexit, an inversion of the yield curve in the U.S., and soft global growth. These risks overshadowed several sources of investor optimism, which included a pivot to accommodative monetary policies by major central banks, positive economic data and a post-G20 meeting “tariff freeze” agreement between the U.S. and China.

Continental Europe outperformed other major regions, returning 5.7%. The top-performing sectors were consumer discretionary, information technology and industrials, returning 10.0%, 9.5% and 8.7% respectively. Real estate, energy and banks were the bottom performers, with -6.0%, -2.1% and -0.2% returns. The European Central Bank (ECB) announced that it will likely keep interest rates unchanged until mid-2020, did not rule out future interest rate cuts, and hinted at potential bond purchases if inflation rises. European economic data were mixed.

The U.K. underperformed other regions, with a 0.9% return for the quarter and a wider range of sector returns: information technology sector was the top performer, returning 8.9%, and real estate the worst one, with a -5.3% return. While the postponement of Brexit to October 31, 2019 initially led to improved business sentiment and business expansion, uncertainty and fear over a no-deal Brexit continues to impact business activity and equity markets. The resignation of Theresa May as leader of the Conservative party and therefore as prime minister added to this uncertainty amid negotiations within the Conservative party to select their new leader and prime minister for the U.K.

Japanese equities also underperformed other major regions during the quarter, returning 1.0%, primarily as a result of weakness in May. U.S.-China trade tensions have a direct impact on the Japanese market, as Japanese companies supply many of the electronic components for Huawei. Economic data were mixed for the quarter, with GDP beating consensus expectations. The Bank of Japan left monetary policy unchanged.

The resource-based Australia, Canada & New Zealand region was the top performer in the index, with a 5.9% return. Asia Developed ex-Japan had a more modest return of 2.5%.

Fund highlights

The Fund's Class C Shares underperformed (excluding sales charges) the benchmark for the second quarter of 2019. Stock selection overall was weak across regions, most notably in continental Europe, led down by selection in consumer staples. Stock selection was also notably weak in the U.K. and Australia, New Zealand & Canada. From a region and sector allocation perspective, a small allocation to Emerging Markets, which are not included in the benchmark and underperformed developed markets this quarter, also detracted from relative return.

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. At the region level, the largest overweight was to Emerging Markets (not in the benchmark), and the largest underweight was to Australia, New Zealand & Canada. Real estate was the largest sector overweight, while consumer staples was the largest underweight.

Outlook

Growth expectations have remained low, and as a result, central banks continue to hint toward more expansionary policies. The U.S. Fed "dot plot" shows that seven policymakers are forecasting a 50-basis-points cut by year end. In Europe, the ECB will likely keep interest rates unchanged until mid-2020, but it has not ruled out cuts. There is renewed optimism after the U.S. and China meeting at the G20 summit; the U.S. and China agreed to a cease-fire on the trade war, as the U.S. will ease restrictions on Huawei and it indefinitely postponed tariff increases on Chinese goods. While interest rate differentials and political uncertainty are still cause for concern, we believe that our well-diversified, disciplined strategy is positioned to benefit in this environment.

Definitions and additional terms

Brexit is an abbreviation for "British exit," referring to the U.K.'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.

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

The **Group of 20, or G20,** is a group of finance ministers and central bank governors from 19 of the world's largest economies, including those of many developing nations, along with the European Union.

Top 10 equity holdings (%)	
Roche Holding AG	2.1
Nestle SA	2.0
Royal Dutch Shell PLC	1.9
Novartis AG	1.4
Diageo PLC	1.3
Toyota Motor Corp	1.3
Rio Tinto PLC	1.3
Allianz SE	1.3
Novo Nordisk A/S	1.2
ASML Holding NV	1.0

Sector allocation (%)	
Financials	18.7
Industrials	13.9
Consumer Discretionary	11.3
Health Care	10.3
Consumer Staples	10.3
Materials	7.5
Information Technology	6.7
Energy	6.1
Communication Services	5.9
Real Estate	5.1
Utilities	3.7
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.

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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. Potential active and frequent trading may result in higher transaction costs and increased investor liability. The Fund is more susceptible to any economic, business, political, regulatory or other developments that adversely affect issuers in the financial services industry than a fund that does not concentrate its investments in the financial services industry. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance.

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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.

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.