

Legg Mason ClearBridge US Aggressive Growth Fund

QUICK VIEW

Key performance drivers

- The Legg Mason ClearBridge US Aggressive Growth Fund rose 4.12%¹ in US dollar terms in August, underperforming its benchmark, the Russell 3000 Growth Index, which was up 4.66%.
- The Fund has significantly outperformed its benchmark for the year to date.
- Selection in the information technology sector proved detrimental.
- Investments within the consumer discretionary sector also hurt.
- Stock picking in energy added value.
- Overall, investments in healthcare were beneficial.
- The Fund's cash position weighed on relative performance.
- An overweight in healthcare and lack of exposure to telecoms was positive.

Views and positioning

- At the end of August, the Fund's largest overweight allocations continued to be in the healthcare and energy sectors.
- Its largest underweight exposures remained in consumer discretionary, industrials and financials.
- The Fund maintained its lack of exposure to companies in the utilities, telecommunication services and consumer staples sectors.

Current activity and manager outlook

- In terms of activity, the manager added to existing positions in Cree and Nuance Communications.
- The manager continues to expect the merger and acquisition environment to be robust, as companies starved for growth seek to find it through accretive acquisitions.
- The manager, as it always has, seeks to invest where it finds growth in earnings and cash flow, as well as good management teams and solid balance sheets.

Performance ¹ to 31/08/2014	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason ClearBridge US Aggressive Growth Fund	4.12%	8.35%	15.13%	30.90%	19.95%
Russell 3000 Growth Index	4.66%	5.01%	8.82%	25.56%	17.86%

Past performance is no guide to future returns and may not be repeated.

Market Review

After falling in July, US equities rebounded strongly in August amid a backdrop of geopolitical issues, with the S&P 500 Index up 4.00% and the Russell 3000 Growth Index up 4.66% in US dollar terms. Economic data released during the month was encouraging, notably growth figures, which were revised upwards amid stronger business expenditure and exports. According to the US Department of Commerce, the US economy grew at an annual rate of 4.2% in the second quarter of the year, compared to the earlier 4.0% figure. Nonetheless, growth in consumer spending, accounting for over two-thirds of US economic activity, remained at 2.5%.

In the markets, areas hit the most in July (following Janet Yellen's comments that certain parts of the market were overvalued) rebounded most strongly in August e.g. small caps and biotechs. Growth stocks outperformed value over the month. At a sector level, healthcare led the field, while telecommunication services (telecoms) and energy were the laggards.

Fund Review

The Legg Mason ClearBridge US Aggressive Growth Fund rose 4.12%¹ in US dollar terms in August, underperforming its benchmark, the Russell 3000 Growth Index, which was up 4.66%. However, the Fund has significantly outperformed its benchmark year to date.

Both stock selection and sector allocation hindered relative returns over the month.

As in the previous month, selection in the information technology sector proved detrimental in August, particularly Nuance Communications and Cree, which both released slightly lacklustre earnings. Investments within the consumer discretionary sector also hurt, notably cable and media stocks such as Cablevision Systems, also on disappointing short-term news. Conversely, stock picking in energy (Anadarko Petroleum and Weatherford International) added value. A number of the Fund's positions in healthcare, notably larger holdings such as Amgen and UnitedHealth, did well.

From a sector perspective, the Fund's cash position weighed on relative performance although this was countered to some degree by the positive impact of an overweight in healthcare, the best-performing sector in August, and lack of exposure to telecoms, the only sector to register negative returns over the month.

At the end of August, the Fund's largest active overweight allocations continued to be in the healthcare and energy sectors, while its largest underweight exposures included the industrials, financials and consumer discretionary segments (although the Fund still has a significant exposure to cable and media companies within this space). The manager maintained the Fund's lack of exposure to companies in the utilities, telecoms and consumer staples sectors.

In terms of activity, the manager added to existing positions in Cree and Nuance Communications on valuation grounds.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

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Outlook

Looking ahead, the manager continues to expect the merger and acquisition environment to be robust, as companies starved for growth seek to find it through accretive acquisitions. Although interest rates remain at historically low levels, cues from the US Federal Reserve about a rising-rate environment may be helping to pull forward deals. So far, the Fund has seen increased levels of takeovers, both on the acquisition side (e.g. Comcast and Time Warner Cable) and the target side (e.g. Forest Laboratories and Actavis).

In the manager's opinion, large segments of the market (such as utilities and telecoms) appear expensive, while healthcare, energy, media and some parts of information technology continue to offer the best combination of attractive valuations, solid fundamentals and the potential for consolidation.

The market this year, as expected by the manager, is proving much more challenging, against a backdrop of disappointingly subdued economic recovery. Nonetheless, the manager continues to see compelling opportunities. Due to the manager's bottom-up, fundamental-driven stock selection process, the Fund tends to look very different to the benchmark index. The manager, as it always has, seeks to invest where it finds growth in earnings and cash flow, as well as good management teams and solid balance sheets.

This Fund is managed by ClearBridge Investments

¹ Source: Legg Mason, as of 31 August 2014. Class A Acc USD performance is net of fees and is calculated on a NAV to NAV basis (USD), with any income and dividends reinvested, if any, without any initial charges but reflecting annual management fees. Performance figures inclusive of sales charge is -1.09% for 1 Month, 2.94% for 3 Months, 9.37% for YTD, 24.36% for 1 Year and 18.73% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**

IMPORTANT INFORMATION

The Fund may invest in certain types of derivative instruments for efficient portfolio management purposes. Please refer to the prospectus for more information.

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