LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason ClearBridge Value Fund

QUICK VIEW

Key performance drivers

- The Fund decreased by 0.45%[1] in May and underperformed its benchmark, the S&P 500 Index, which rose 1.29% in US dollar terms.
- Stock picking contributed in information technology but detracted in consumer staples, energy, healthcare and industrials.
- An overweight to energy hindered, while lack of exposure to telecommunication services helped relative performance.

Views and positioning

- At the end of May, the largest overweight allocations were in financials and materials.
- The largest underweights were in consumer staples, industrials and telecommunication services, with zero exposure to the latter.

Current activity and manager outlook

- Looking ahead, the manager does not foresee a recession.
- In the manager's opinion, interest rates are likely to remain low while lower energy prices could provide a tailwind to most parts of the economy.
- The manager continues to search for attractive absolute valuation levels relative to historic ranges in legacy technology, financials and energy names.

Performance[1] to 31/05/15 (in US dollar terms)	1 Month	3 Months	YTD	1 Year	5 Years
Legg Mason ClearBridge Value Fund	**-0.45%**	**1.39%**	**2.60%**	**10.19%**	**13.19%**
S&P 500 Index	1.29%	0.64%	3.23%	11.81%	16.54%

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

Market Review

US equities advanced during the month despite continued sluggishness in the domestic economy. A second reading on first-quarter gross domestic product (GDP) showed that the economy shrank by 0.7% during the first three months of the year, hurt mainly by a strong dollar, difficult winter conditions and the one-off effect of reduced investment in the energy sector. The GDP revision showed that inventories grew at a slower pace than initially forecast and consumer spending climbed less than expected. May's consumer sentiment reading from the University of Michigan plunged to its lowest level since October while factory production stalled in April. In the manager's opinion, such weakness has likely pushed back the date when the US Federal Reserve will begin to raise interest rates to later in the year. Meanwhile, a continued rebound in oil prices, along with signs of better economic growth in Europe, appears to have quelled deflation fears and re-introduced inflation as a potential risk. This led investors to favour stocks during the month, to the detriment of fixed income especially European sovereign bonds with negative real yields. The yield on the 10-year US Treasury spiked 24 basis points in the first half of May and, at month end, remained near its highest level of the year. In terms of sectors, market leadership swung back over the month to healthcare and technology while energy stocks sold off.

Fund Review

In May, the Fund fell 0.45%[1], underperforming its benchmark (S&P 500 Index), which was up 1.29% in US dollar terms.

Stock selection was responsible for underperformance over the month, while sector allocation was broadly flat.

Stock selection in consumer staples, notably Keurig Green Mountain, had the most detrimental bearing. Stock picking in the energy, healthcare and industrials sectors also weighed on relative performance. Conversely, selection in information technology added value with contributions from Broadcom and NXP Semiconductors. The latter in particular saw its share price rise strongly at the end of the month when industry rival Avago Technologies announced its intention to take over the company.

At a sector level, lack of exposure to telecommunication services, which lagged the benchmark, proved positive. However, this was countered by the negative influence of the Fund's small overweight to the underperforming energy segment.

At the end of the month, the Fund's largest overweight exposures were to the financials and materials sectors. Its largest underweight exposures were to the consumer staples, industrials and telecoms groups. The Fund continued to have no holdings in the latter sector.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason ClearBridge Value Fund

Outlook

In the manager's view, the world is still split between the inflation and reflation scenarios and how to interpret various market developments. For instance, are collapsing government bond yields and commodity prices a sign of weak demand or, on the contrary, are they likely to help support future growth? While the manager is more on the inflationary side, the objective is not to have the Fund depend heavily on one outcome playing out instead of the other (hence the diversified nature of the Fund). Currently, the manager thinks the US market is okay but not great. There appears to be no risk of recession, which typically happens when the economy is overheating, not when it is merely growing at a slow pace. In the manager's opinion, interest rates are likely to remain low, even once the US Federal Reserve has raised interest rates, and lower energy prices could provide a tailwind to most parts of the economy. According to the manager, the real risk lies in the risk-free-rate as it is. It is almost unbelievable that the fed funds remain at the lower bound despite 2.5% gross domestic product (GDP) growth and 5.4% unemployment. As such, the manager feels that the market has not priced a normalisation of interest rates. In the meantime, the manager will continue to search for attractive absolute valuation levels relative to historic ranges in legacy technology, financials and energy names.

This Fund is managed by ClearBridge, LLC

[1] Source: Legg Mason, as of 31 May 2015. 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 -5.42% for 1 Month, -3.68% for 3 Months, -2.53% for YTD, 4.68% for 1 Year and 12.04% for 5 Years. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results.**