Webcast Q&A

LEGG MASON CLEARBRIDGE
US AGGRESSIVE GROWTH FUND

Although some areas of the market appear overvalued, the manager still sees plenty of undervalued growth stories around. This Q&A is based on a webcast that took place on 20 July 2015 in which Evan Bauman looks at the Fund's approach, positioning and outlook.

KEY POINTS

- **The Fund's biggest sector weightings remain healthcare, energy, technology and media.**
- **While certain areas of the market appear overvalued, the manager sees particularly good value in selective technology and energy stocks.**
- **An uptick in volatility over recent weeks has provided additional opportunities to invest spare cash.**

Q: How is the portfolio positioned?
EB: Our big sector weightings remain healthcare, energy, technology and media. We feel good about what we own and remain relatively neutral on the stock market itself. There are pockets of significant overvaluation in the market where more momentum-oriented areas are trading at 30 to 40 times earnings.

Q: What has worked well for the portfolio?
EB: Over the last six to 12 months, the leaders have really been in the more defensive parts of the portfolio. Healthcare, our single biggest overweight, has continued to be a bright spot, including our exposure to biotech companies like Biogen, Amgen, Valeant, Vertex and UnitedHealth Group.

The other real bright spot has been the media space where we've seen strong performance, both in terms of distribution companies like Comcast and Cablevision, which have been involved in M&A activity, as well as having strong operating results.

Q: What has not worked so well?
EB: The companies that have not worked have been concentrated in the technology space and the energy sector. If you look at the technology sector, the companies that have hurt have really been the storage-related or more tech-hardware type companies such as LED company Cree.Given the balance sheet strength and the ability to aggressively allocate capital and return cash to shareholders, we feel very positive about our tech holdings. We have actually been increasing our weightings in some of those names. Additionally, we've seen increased consolidation within the technology space – we had Broadcom as the target of an acquisition from Avargo.

Q: Where else do you see good value at present?
EB: This also applies to energy; clearly we've seen a retrenchment in the price of the commodities themselves. The stocks sold off over the last month or so, back to levels that they hadn't seen in six months. We believe that our energy stocks, which include asset plays as well as some of the service and drilling companies, remain well positioned to weather the current downturn in commodity prices.

Q: Could you comment on the fund's performance?
EB: We have had periods before where we've trailed the market and, over the last year, performance has been very disappointing. At the same time, we feel increasingly good about what we own relative to the market.

Performance of the strategy has been strong over three to five years, 15 years and 30 years. If you look at the history of this fund coming off periods where we've trailed over a three-year or 12-month period, all short-term periods of underperformance were followed by very strong periods of outperformance.

Q: Could you elaborate on the fund's current level of cash?
EB: There has been an uptick in volatility during recent weeks which has presented additional opportunities to put spare cash to work**.** Last summer, we had a cash balance at around the 15% mark. We've reduced cash selectively and today the cash balance is at around 10%. That is still on the higher end of historical norms but we are becoming more constructive on the companies that we are looking at by the day.

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