

# ClearBridge

## Investments

### **The Anatomy of a Recession: What to Look for and Where We're Headed**

First Quarter 2020

Investment Products: Not FDIC Insured • No Bank Guarantee • May Lose Value

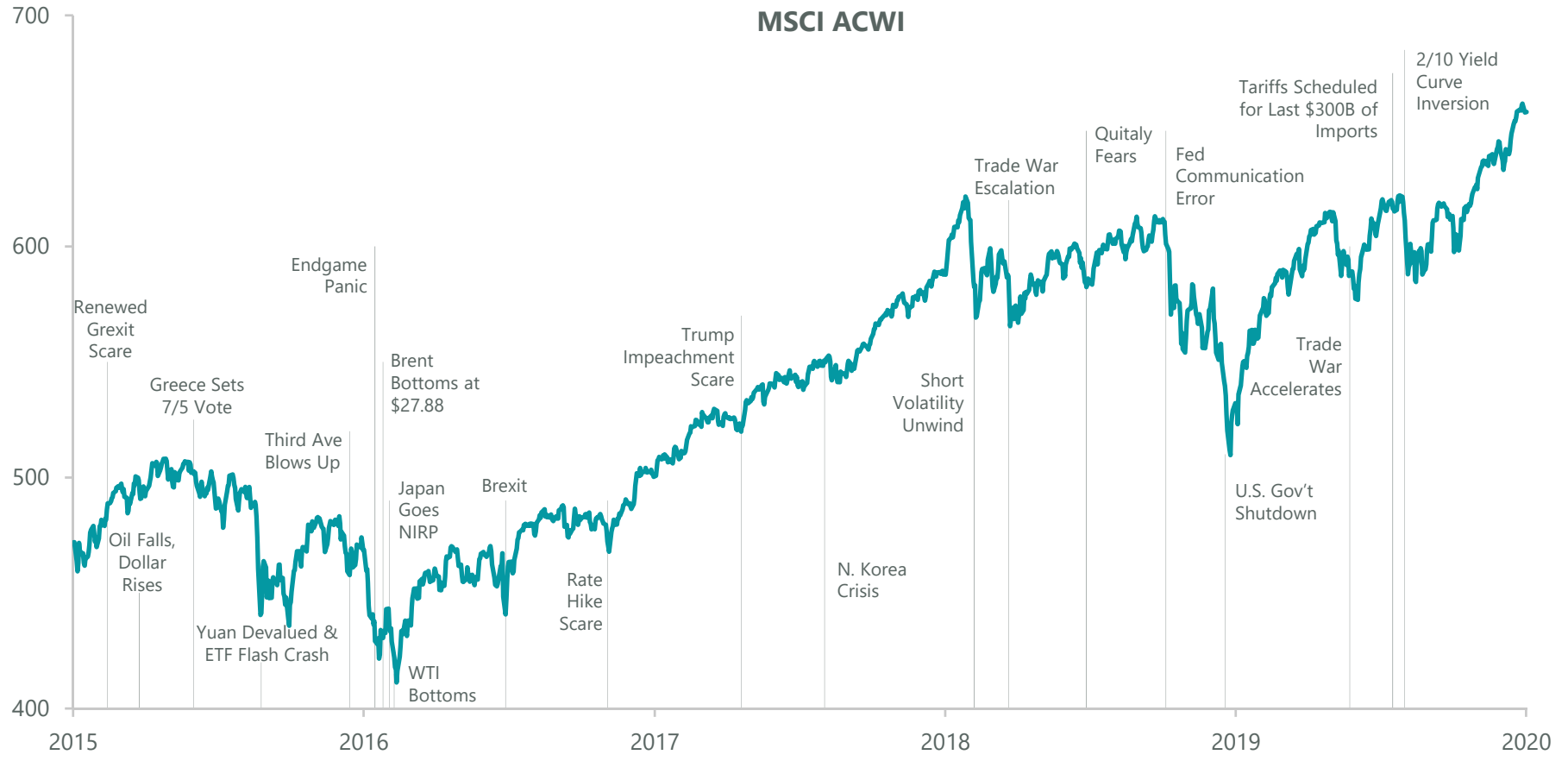
Past performance is no guarantee of future results. Financial term and index definitions are available in the appendix.

# Probabilities vs. Possibilities

The Wall of Worry



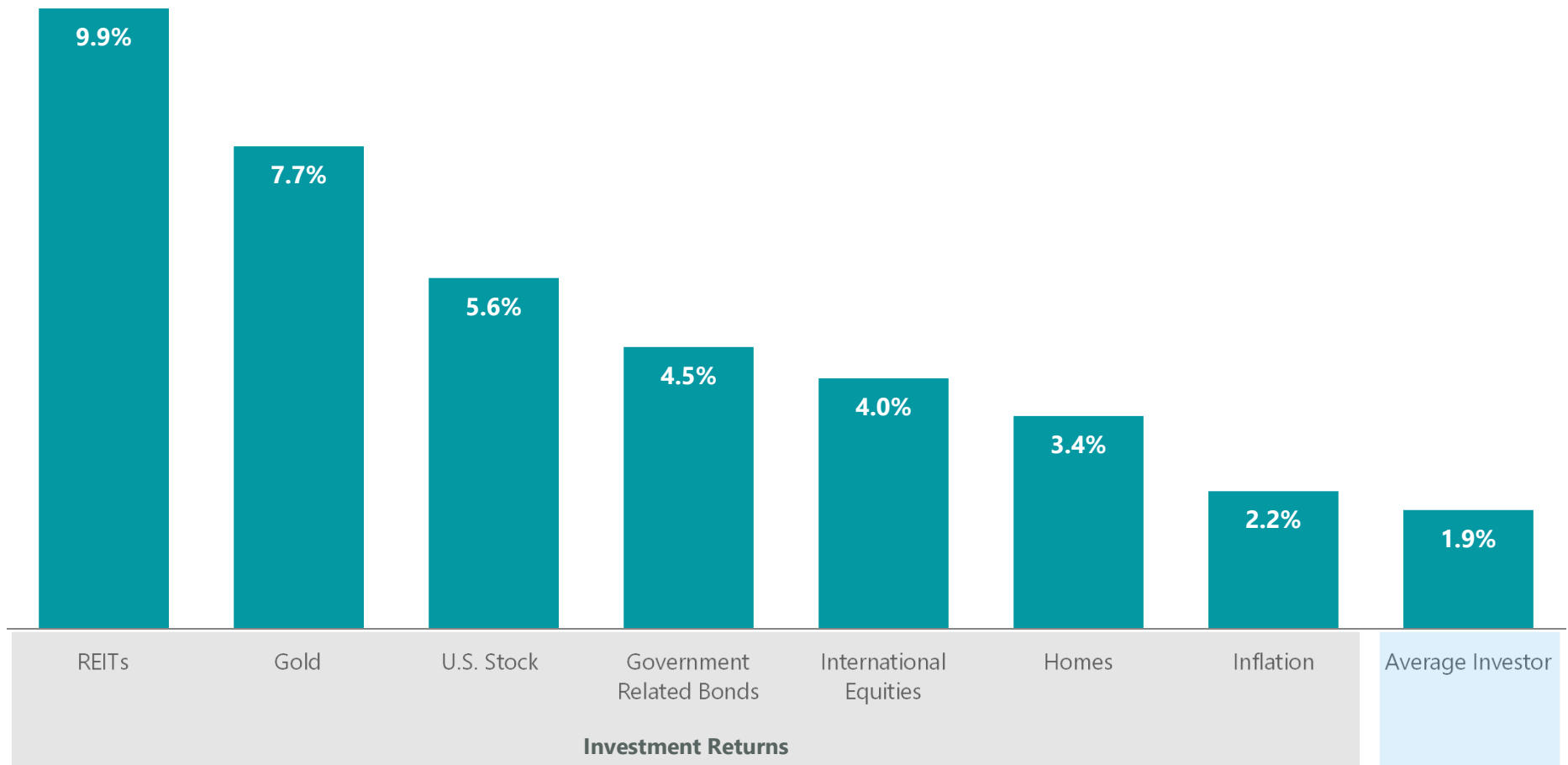
# Panic Attacks



**“The definition of insanity is doing the same thing over and over again and expecting a different result.”**  
 - Attributed to Albert Einstein

# Effects of Panic Attacks on Average Investors

20 Years Annualized Returns (1999-2018)

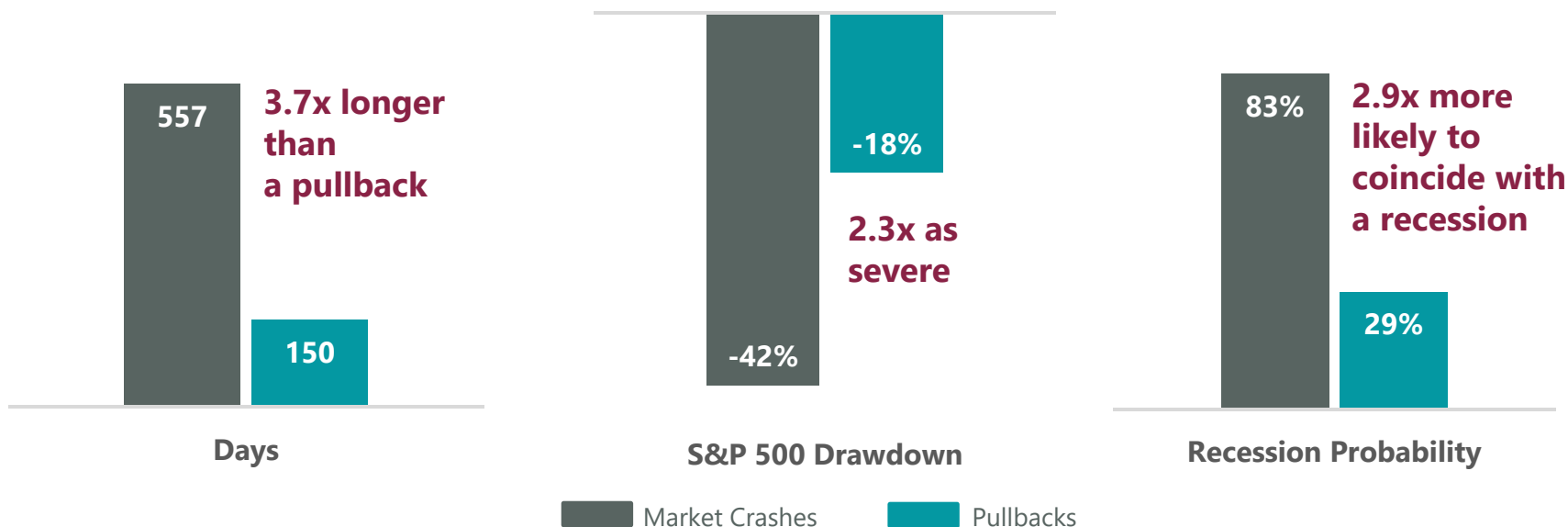


Source: Bloomberg, June 30, 2019. Average asset allocation investor return is based on an analysis by DALBAR, Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Indices shown are as follows: REITs are represented by the NAREIT Equity REIT Index, U.S. Stocks are represented by the S&P 500 Index, International Equities are represented by the MSCI EAFE Index, Government-Related Bonds are represented by the Bloomberg Barclays U.S. Aggregate Bond Index, Homes are represented by U.S. existing home sales median price, Gold is represented by the U.S. dollar spot price of one troy ounce, Inflation is represented by the Consumer Price Index. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance is no guarantee of future results.**

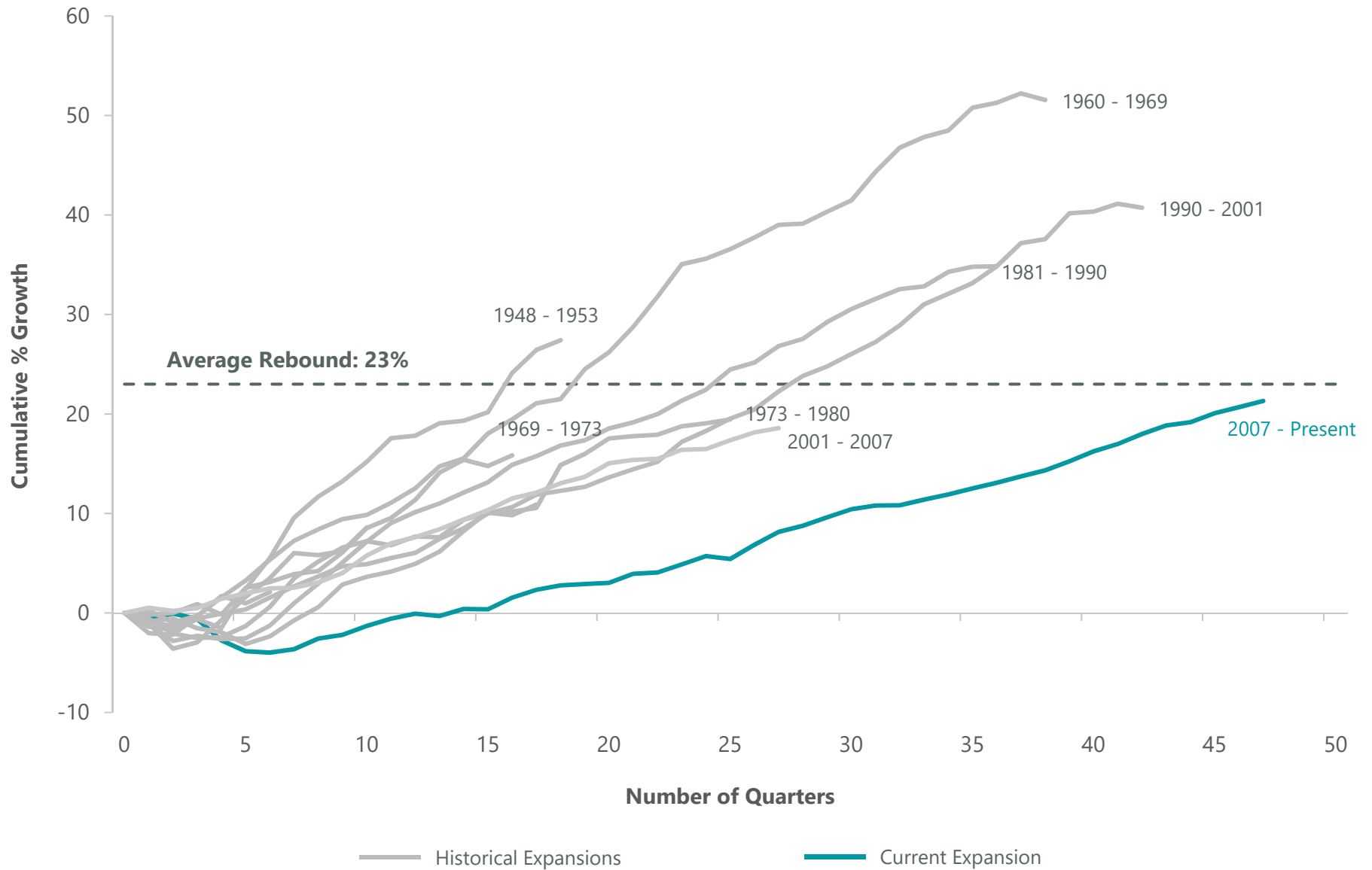
# S&P 500 Market Crashes vs. Pullbacks

Market Crashes				
Peak	Trough	Days	S&P 500	Recession
Nov. 1968	May 1970	543	-36%	Yes
Jan. 1973	Oct. 1974	630	-48%	Yes
Nov. 1980	Aug. 1982	621	-27%	Yes
Aug. 1987	Dec. 1987	101	-34%	No
March 2000	Oct. 2002	929	-49%	Yes
Oct. 2007	March 2009	517	-57%	Yes
<b>Average</b>		<b>557</b>	<b>-42%</b>	<b>83%</b>

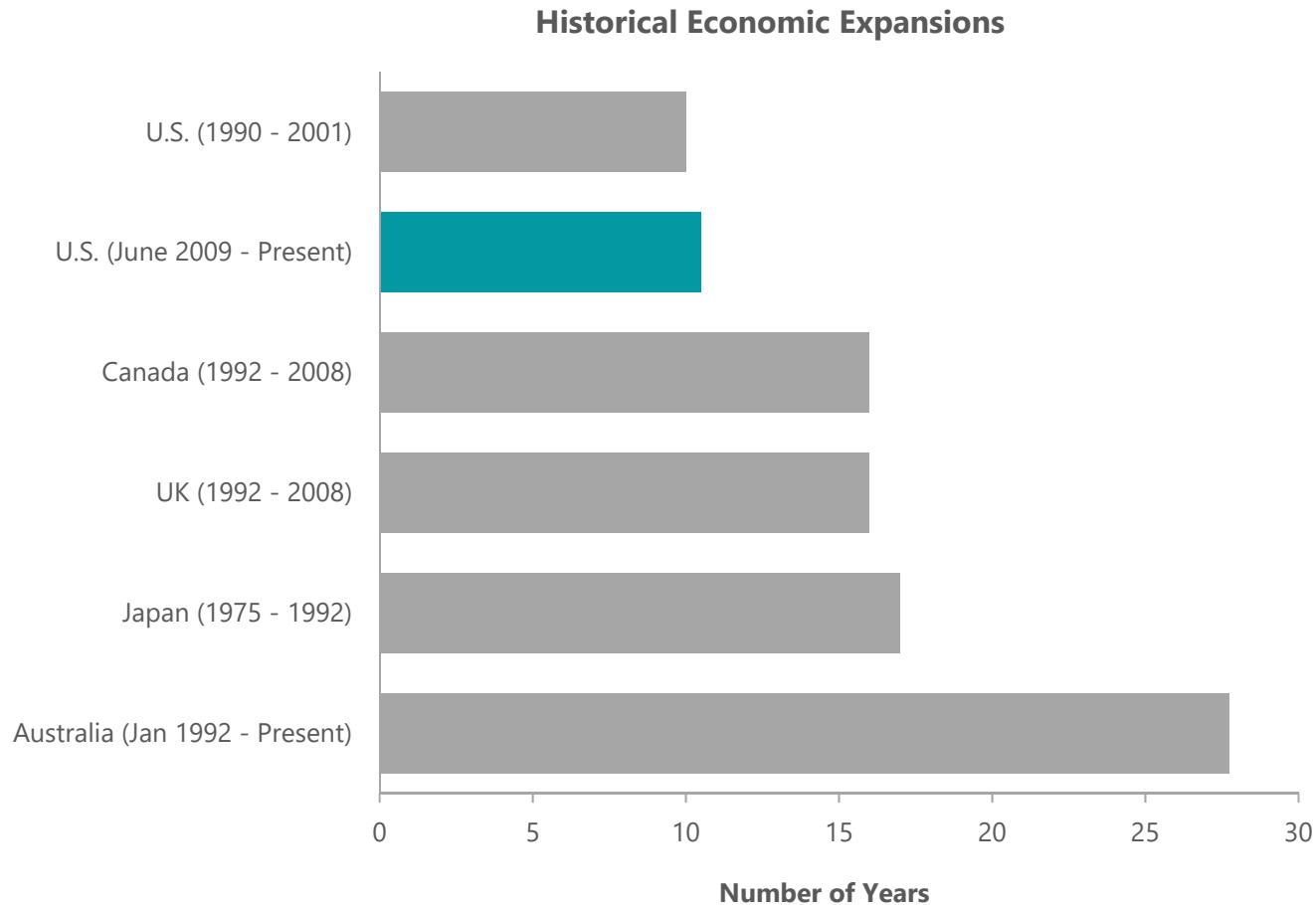
Pullbacks				
Peak	Trough	Days	S&P 500	Recession
Sept. 1976	March 1978	531	-19%	No
Feb. 1980	March 1980	43	-17%	Yes
July 1990	Oct. 1990	87	-20%	Yes
July 1998	Oct. 1998	83	-19%	No
April 2010	July 2010	70	-16%	No
April 2011	Oct. 2011	157	-19%	No
Sept. 2018	Dec. 2018	82	-19%	No
<b>Average</b>		<b>150</b>	<b>-18%</b>	<b>29%</b>



# Strength of Economic Expansions



# Just How Long Can The Cycle Continue?



▶ **Extended economic expansions are more common outside of the U.S.**

# U.S. Recession Risk Indicators

- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019
Financial	Yield Curve	✘	✘	✘
	Credit Spreads	↑	↑	↑
	Money Supply	●	●	●
Inflation	Wage Growth	✘	●	●
	Commodities	●	✘	✘
Consumer	Housing Permits	↑	↑	↑
	Jobless Claims	↑	↑	↑
	Retail Sales	↑	↑	↑
	Job Sentiment	↑	↑	●
Business Activity	ISM New Orders	✘	✘	●
	Profit Margins	●	●	↑
	Truck Shipments	↑	↑	↑
<b>Overall Signal</b>		●	●	●

↑ Expansion      ● Caution      ✘ Recession



# U.S. Recession Risk Indicators

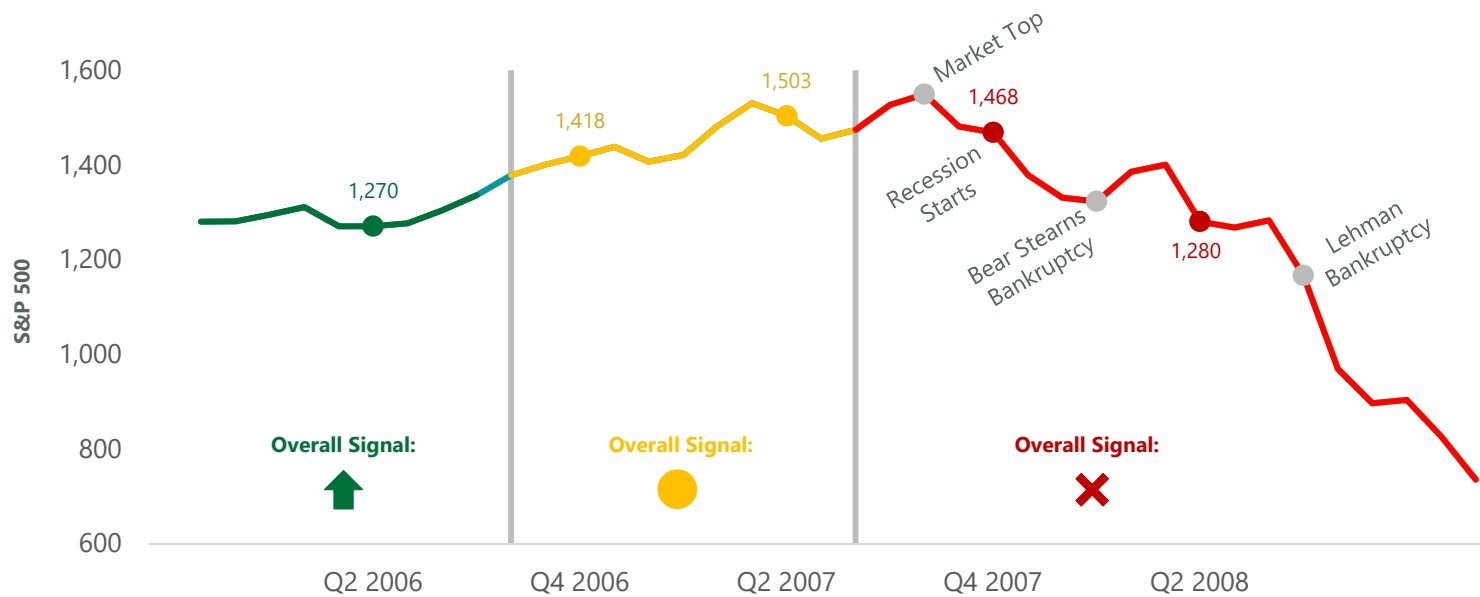
- 12 variables have historically foreshadowed a looming recession
- The overall signal suggests caution

		Recession							
		Current	2007-2009	2001	1990-1991	1981-1982	1980	1973-1975	1969-1970
Financial	Yield Curve	×	×	×	×	×	×	×	×
	Credit Spreads	↑	×	×	×	×	×	↑	●
	Money Supply	●	×	×	×	×	×	×	×
Inflation	Wage Growth	×	×	×	×	×	×	×	×
	Commodities	●	×	×	×	×	●	●	●
Consumer	Housing Permits	↑	×	●	×	×	×	×	×
	Jobless Claims	↑	●	×	×	×	×	↑	×
	Retail Sales	↑	×	×	×	×	×	●	×
	Job Sentiment	↑	×	×	×	×	●	●	●
Business Activity	ISM New Orders	×	×	×	×	×	×	×	×
	Profit Margins	●	×	×	×	×	×	●	×
	Truck Shipments	↑	●	×	×	×	×	n/a	n/a
<b>Overall</b>		●	×	×	×	×	×	●	×

↑ Expansion     
 ● Caution     
 × Recession

# U.S. Recession Dashboard

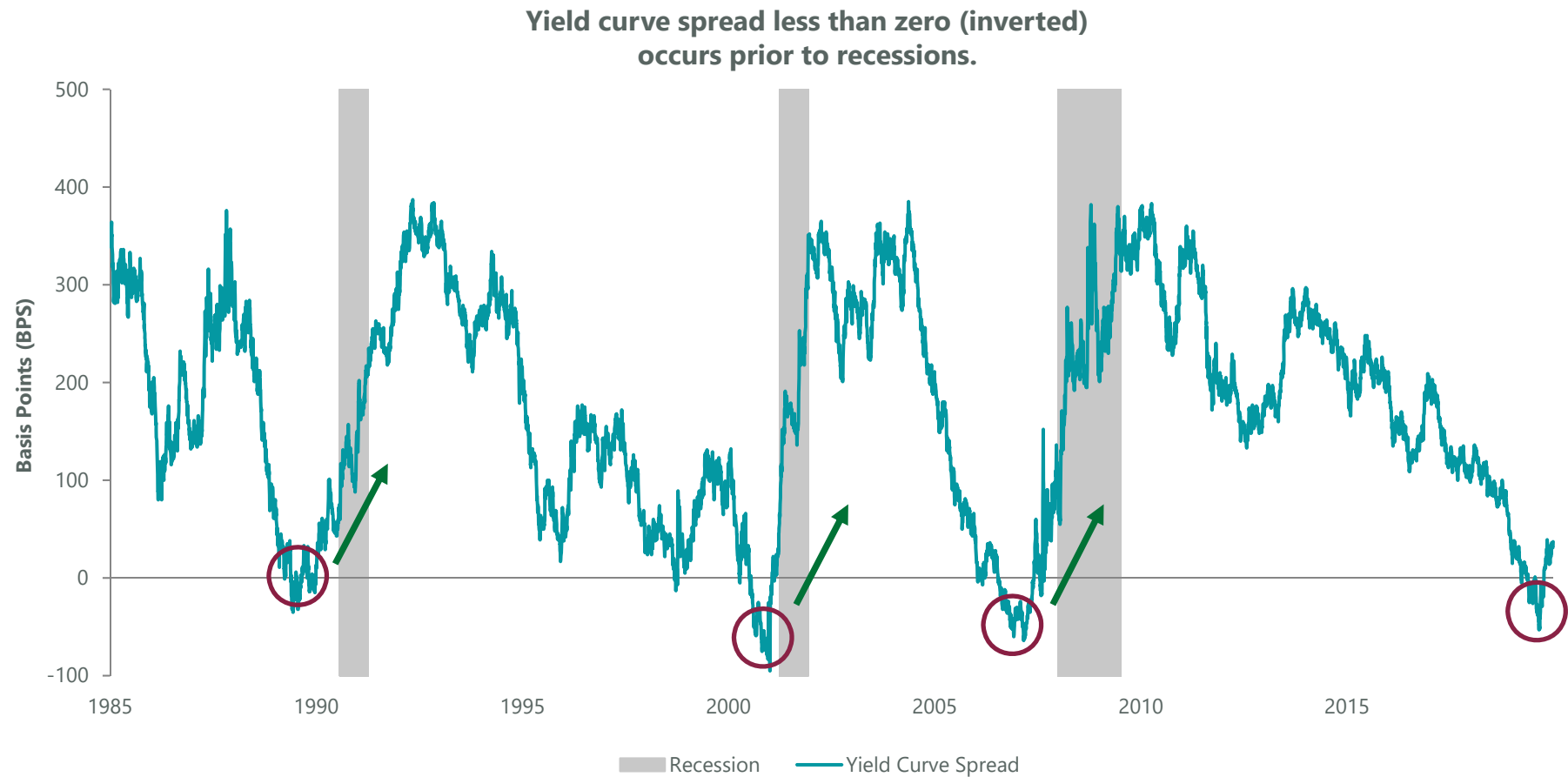
## Case Study: 2006-2009



	Q2 2006	Q4 2006	Q2 2007	Q4 2007	Q2 2008
Financial	Yield Curve	×	×	×	×
	Credit Spreads	↑	↑	↑	×
	Money Supply	×	×	×	×
Inflation	Wage Growth	×	×	×	×
	Commodities	↑	↑	↑	×
Consumer	Housing Permits	●	×	×	×
	Jobless Claims	↑	↑	●	×
	Retail Sales	↑	●	●	×
	Job Sentiment	↑	●	●	×
Business Activity	ISM New Orders	↑	●	●	×
	Profit Margins	●	●	●	×
	Truck Shipments	●	●	●	●

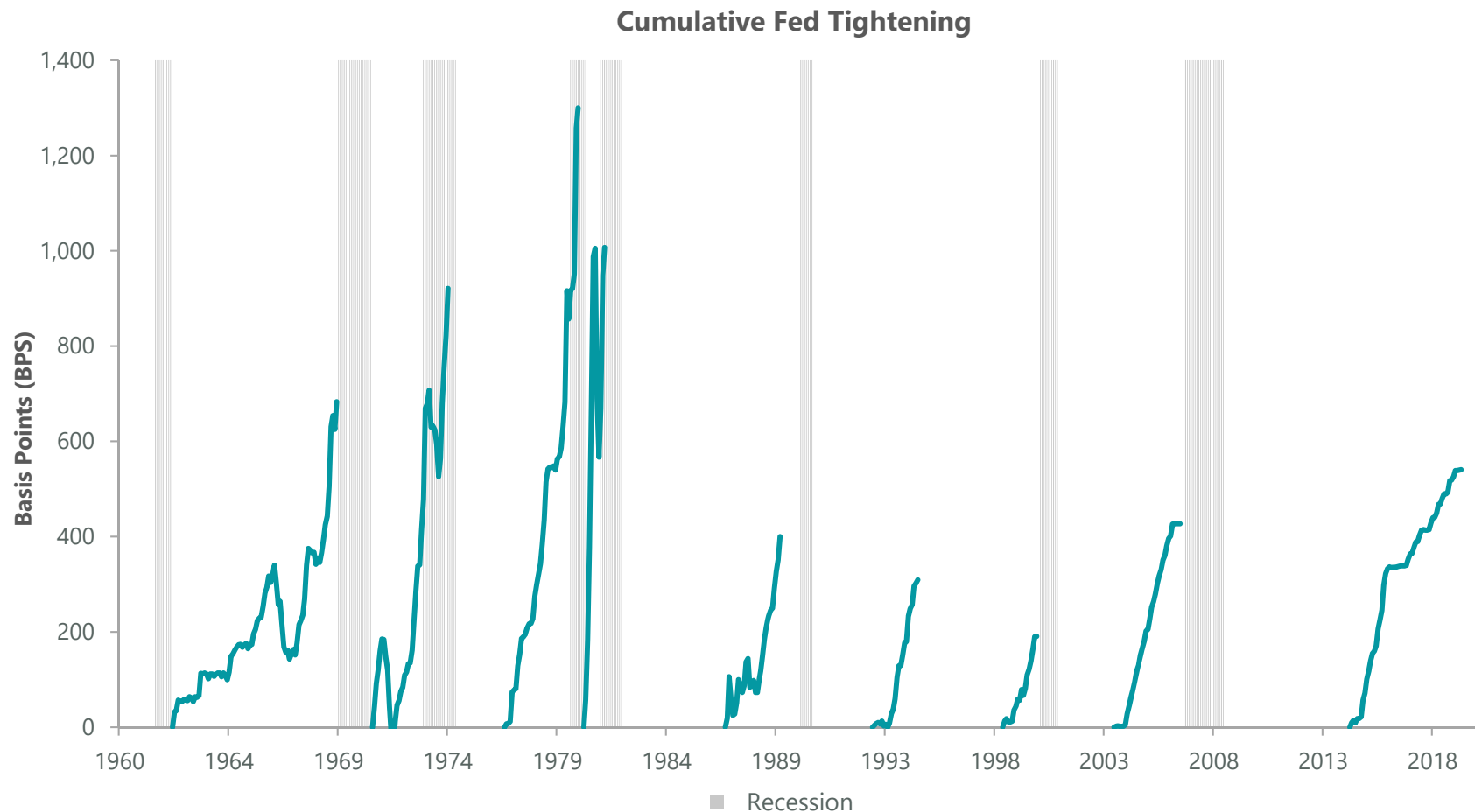
# Yield Curve Spread

10-Year Treasury Bonds Minus 3-Month T Bills



- ▶ **The yield curve typically un-inverts ahead of a recession.**
- ▶ **At the onset of the prior 3 recessions, the yield curve was 68 bps steep on average.**

# Shadow Fed Funds Rate



- ▶ **When considering the impact of QE and forward guidance, Fed policy is much tighter than indicated by the Fed Funds rate alone.**
- ▶ **Since 1950, the average low in ISM Manufacturing has been 40.5 following rate hikes vs. 49.0 without them, suggesting further weakness ahead.**

# Has the Fed Saved the Day?

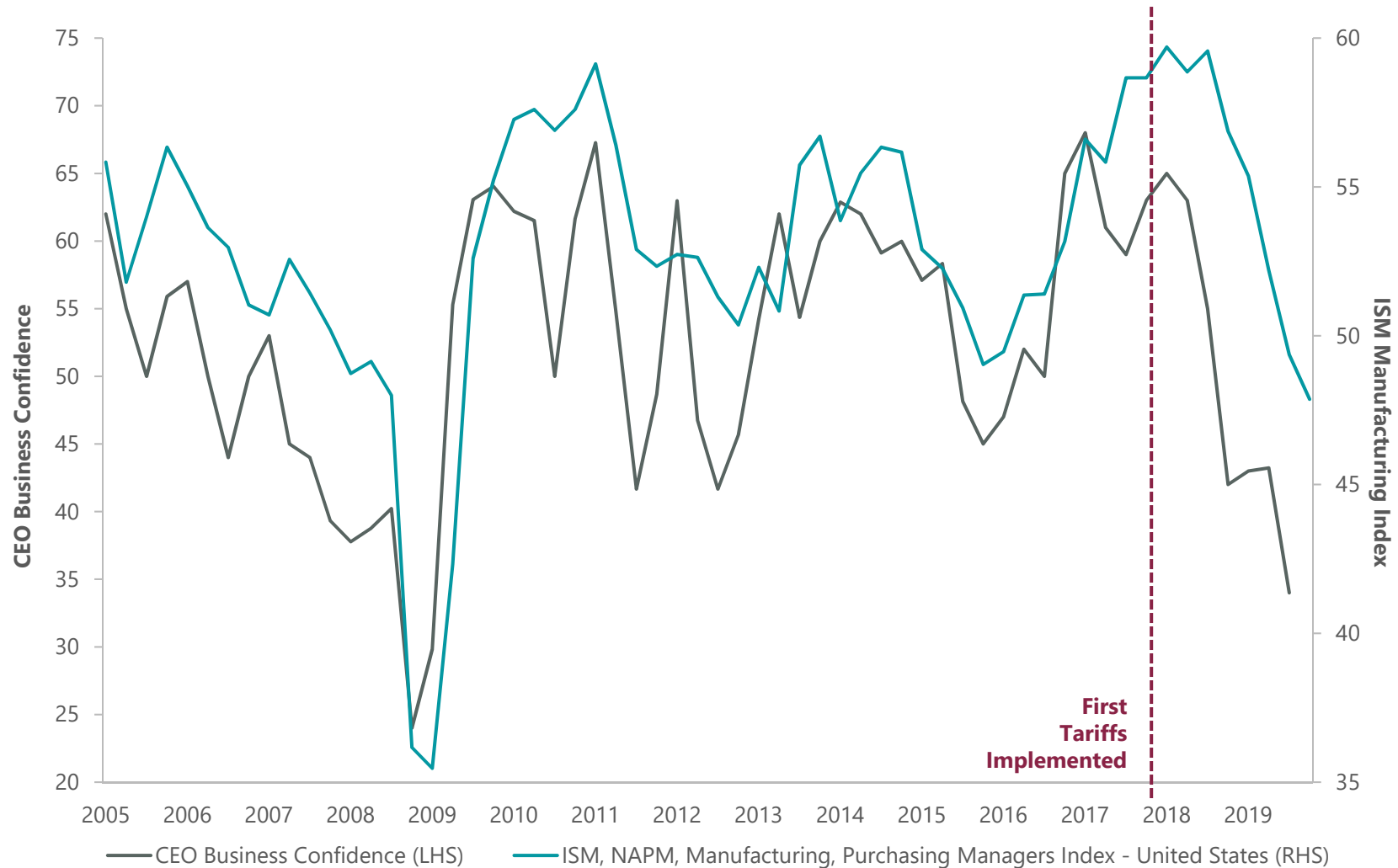
S&P 500 Performance Following Third Fed Rate Cut

	Date of Third Fed Cut	+3 Months	+6 Months	+12 Months	+18 Months
Soft Landing	Jan. 31, 1996	2.9%	0.6%	23.6%	50.0%
	Nov. 17, 1998	7.4%	17.6%	23.8%	27.1%
	<b>Average</b>	<b>5.2%</b>	<b>9.1%</b>	<b>23.7%</b>	<b>38.6%</b>
Recession	March 20, 2001	7.0%	-13.8%	0.8%	-26.0%
	Dec. 11, 2007	-10.6%	-9.6%	-40.9%	-36.1%
	<b>Average</b>	<b>-1.8%</b>	<b>-11.7%</b>	<b>-20.1%</b>	<b>-31.1%</b>

- ▶ **Equity performance in the six months following the Fed's third rate cut can be an important barometer of recessionary risk.**

## **Bear Case: Recession**

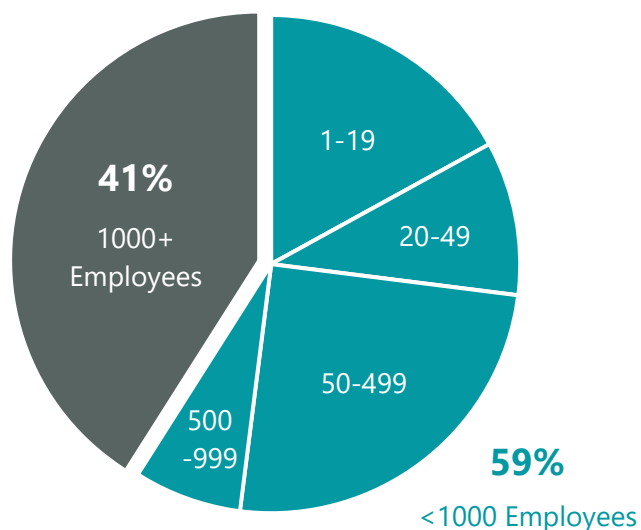
# Trade Wars Have Hurt Business Confidence



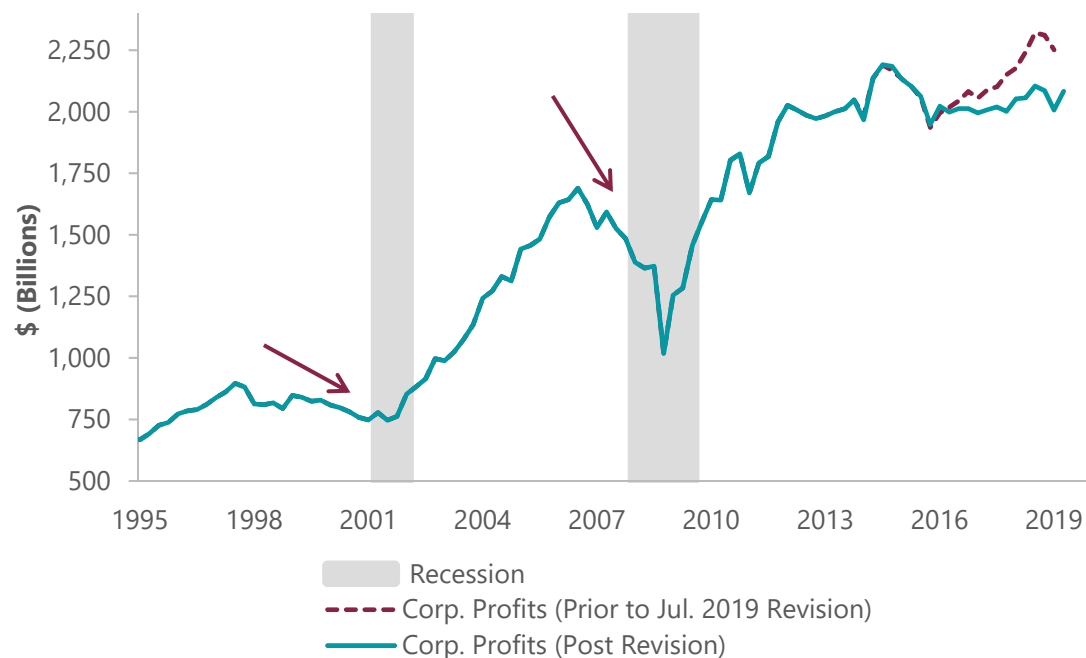
► **Lower business confidence could lead to slower economic growth.**

# Profit Margins Under Pressure

% of Workforce by Employer Size



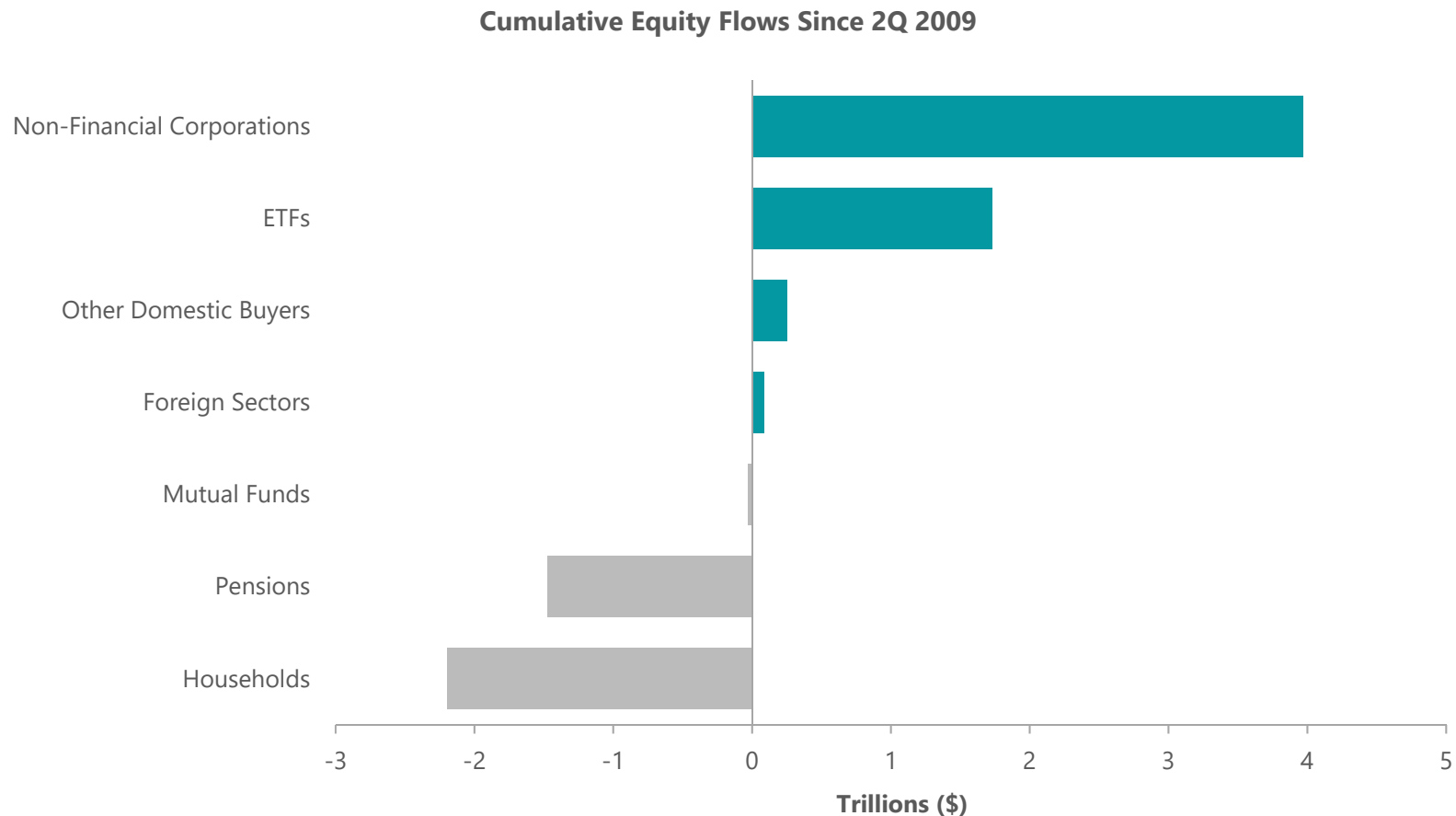
U.S. Corporate Profits



- ▶ **Companies with fewer than 1000 workers employ 59% of the U.S. labor force. The average company in the Russell 2000 employs 3,679 workers.**
- ▶ **July's BEA revisions show that corporate profits have been flat for over 5 years and many small businesses are struggling to combat higher compensation costs.**



# Corporations Have Been the Largest Buyers of Equities

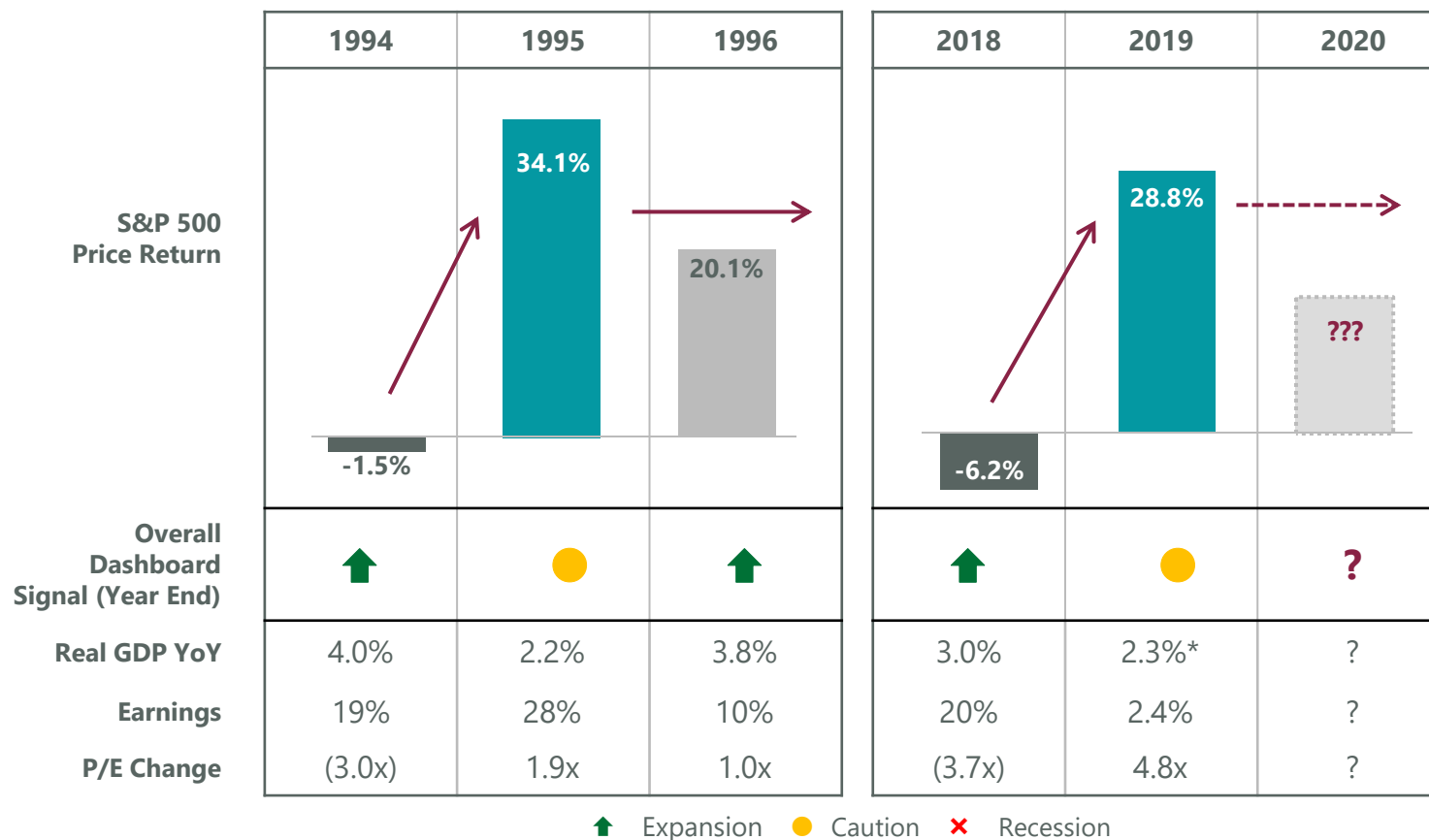


- ▶ **One of the key drivers of the current rally has been corporate buybacks.**
- ▶ **While tax cuts boosted buybacks in 2018 and 2019, a slowing pace of repatriation could dampen share repurchases in the upcoming year.**

## **Bull Case: Slowdown**

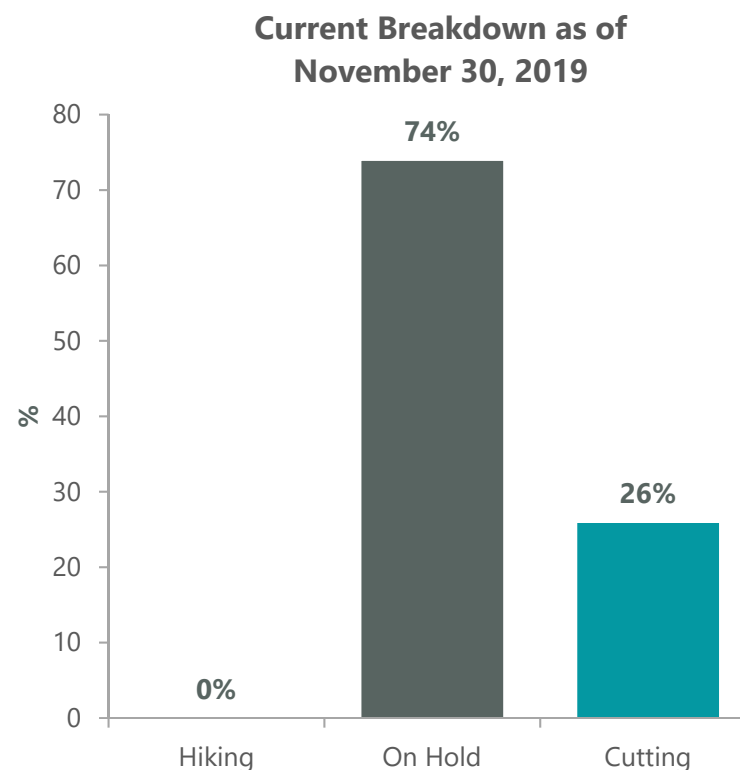
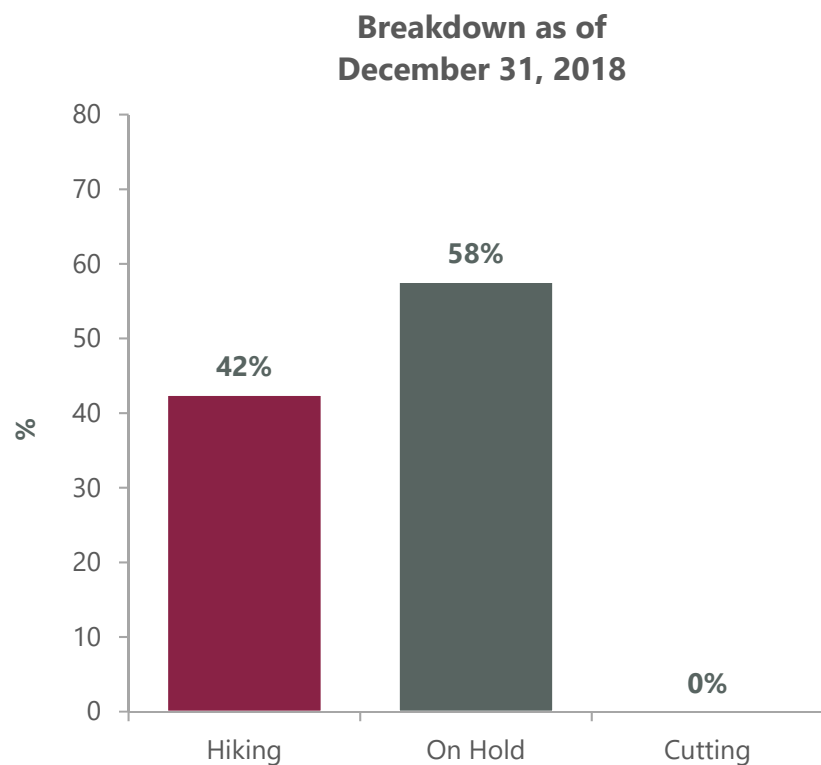
# Historical Perspective: 1994-1996

S&P 500 Annual Returns, Recession Risk Indicators, and Select Economic Data as of December 31



- Weak P/E's dragged the market down in 1994 despite strong earnings and economic growth.
- The market bounced back in 1995, and despite a growth slowdown, a recession was ultimately averted after the Fed cut rates and the market rally continued into 1996.

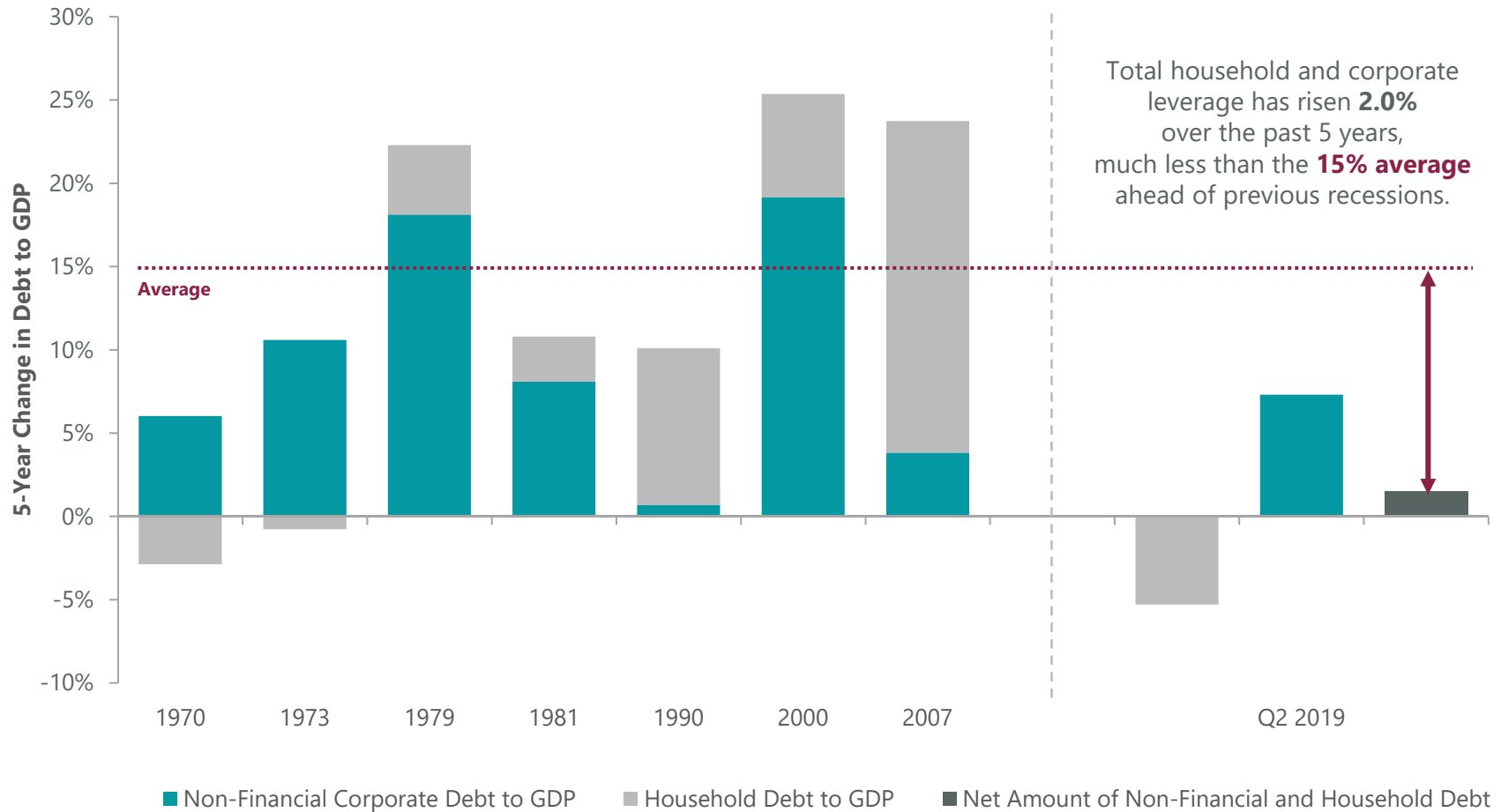
# Global Central Banks Are in Easing Mode



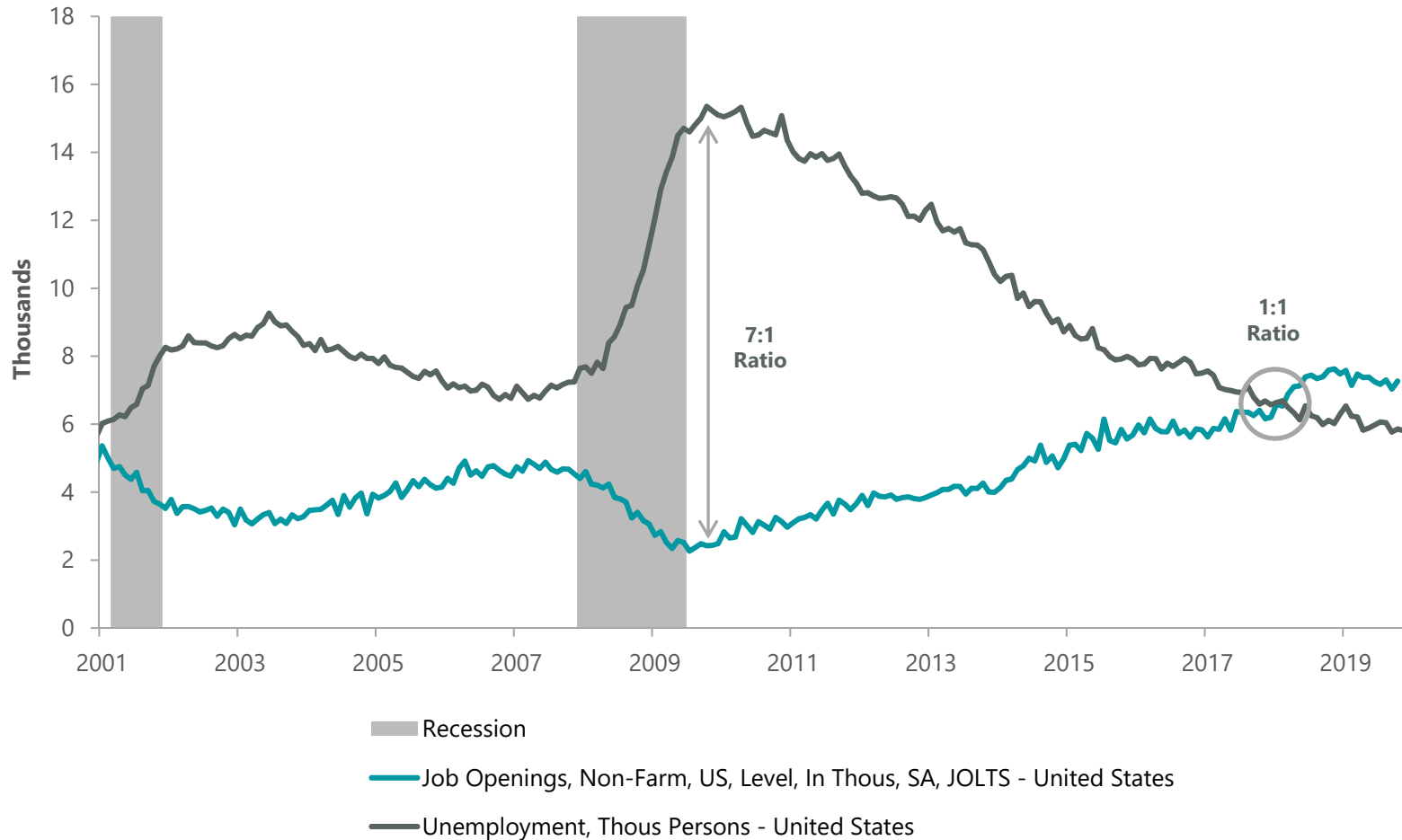
- ▶ **Global central banks have reversed course in 2019, which should help loosen financial conditions.**

# Leverage Does Not Look Recessionary

While Corporations Have Taken on Additional Debt, Households Appear to Have Delevered

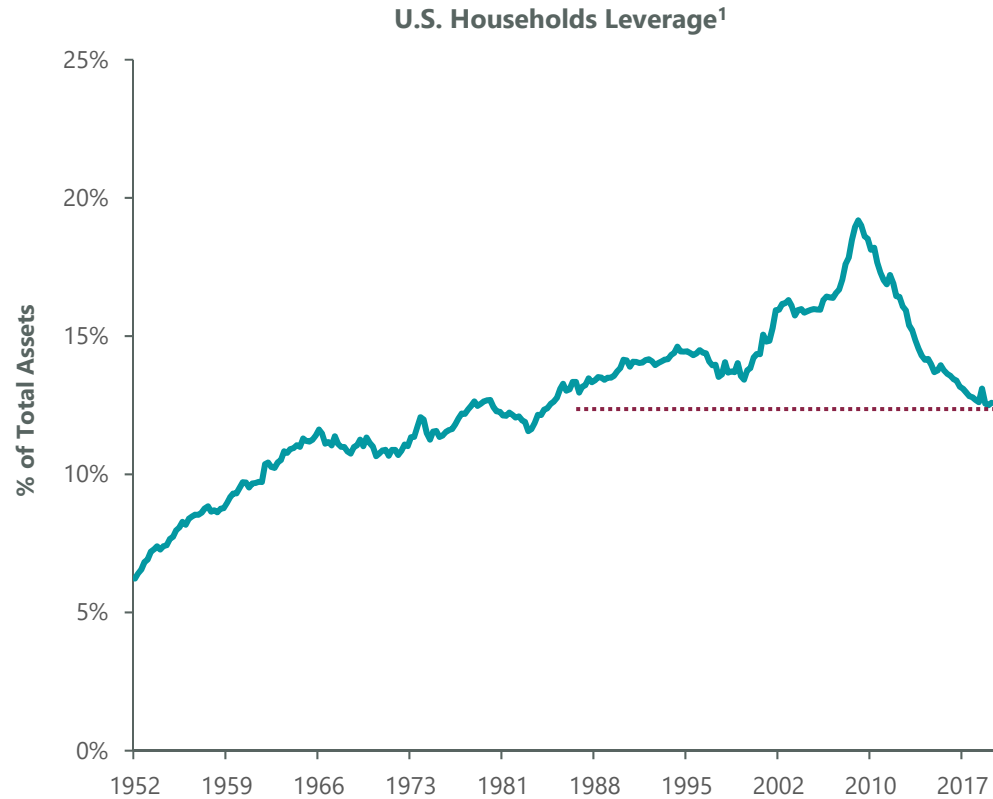
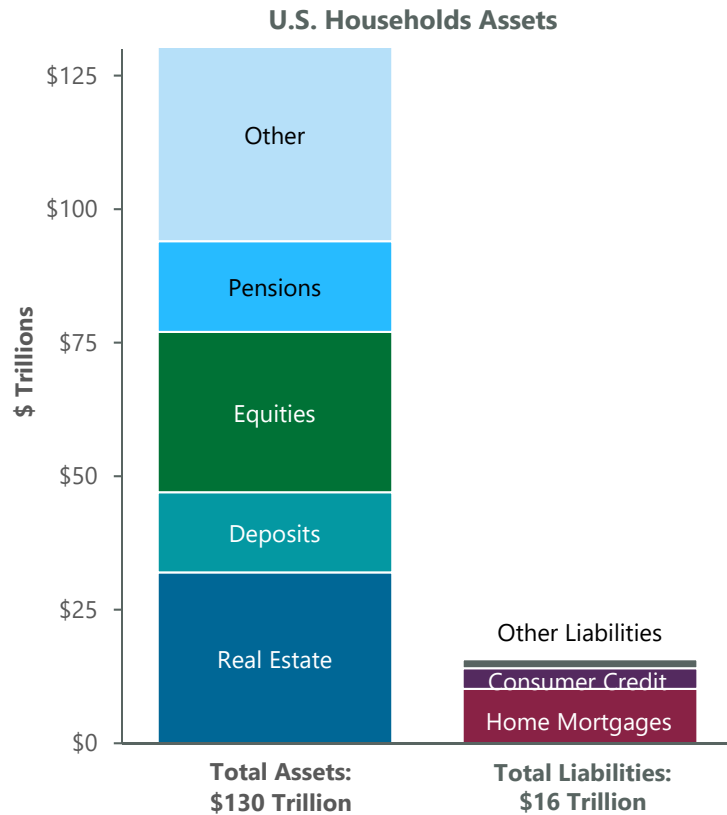


# Job Openings vs. Unemployed



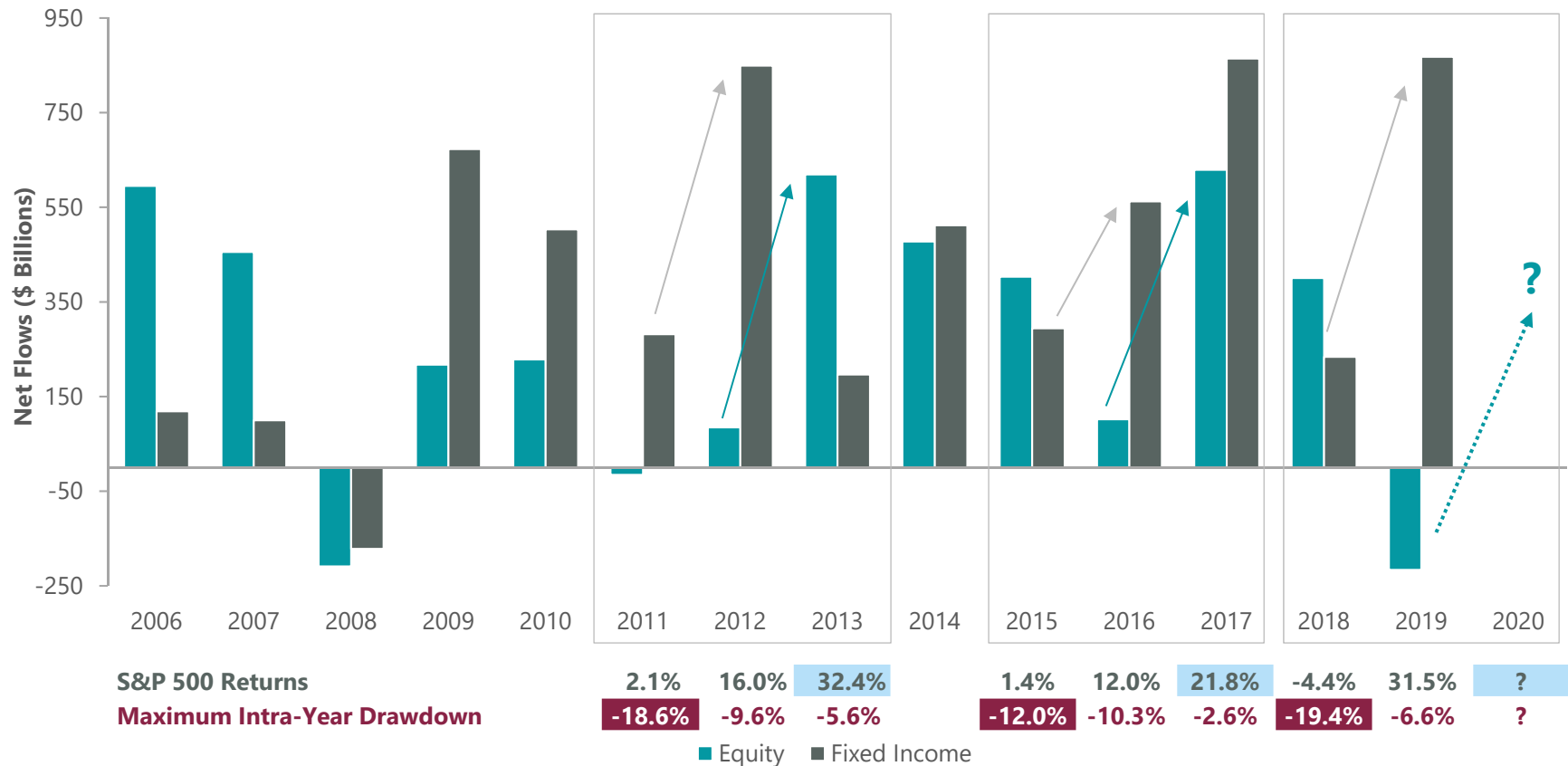
- ▶ **At the peak in 2009, there were seven unemployed people for every job opening.**
- ▶ **Today, the ratio is less than 1:1.**

# Households Assets vs. Liabilities



- ▶ **American households are in a strong financial position with robust balance sheets.**
- ▶ **Household leverage is the lowest it has been since 3Q 1984.**

# Flow Mismatch Could Propel Equities in 2020



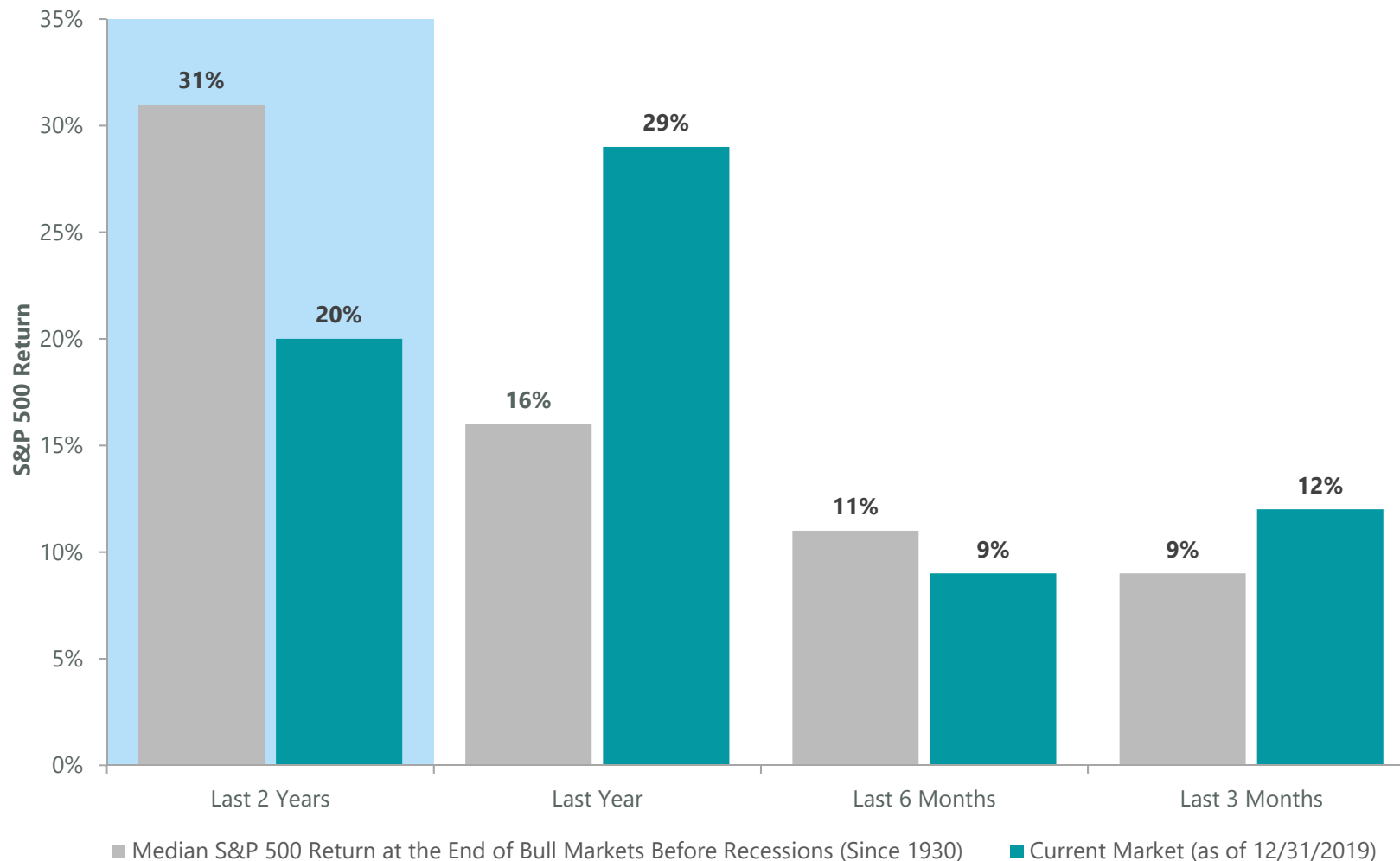
- 1 Following periods of market volatility, investors flee stocks in favor of bonds.
- 2 As the market recovers, the fear of missing out replaces the fear of recession, attracting flows back into equities.

- ▶ The \$1.1T difference between fixed income and equity flows in 2019 is the largest gap in history.
- ▶ There is currently \$3.6 trillion in money market mutual funds today, up 22% year over year.



# Final Stages of Bull Markets Tend to Be Strong

Missing the "Final" Bull Market Run-Up Could Be Quite Painful



▶ **Since 1930, equities have rallied over 30% in the two years leading up to a recession suggesting further potential upside.**

# One Year Outlook

Themes That Will Drive the Market Over the Next 12 Months



**U.S. Presidential  
Agenda**



**International**



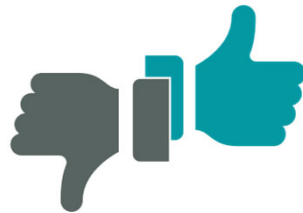
**Currency**



**Negative Rates**



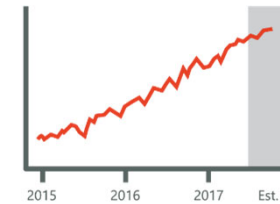
**Debt**



**Sentiment**

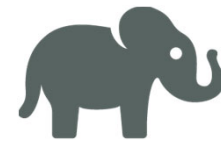


**Volatility**

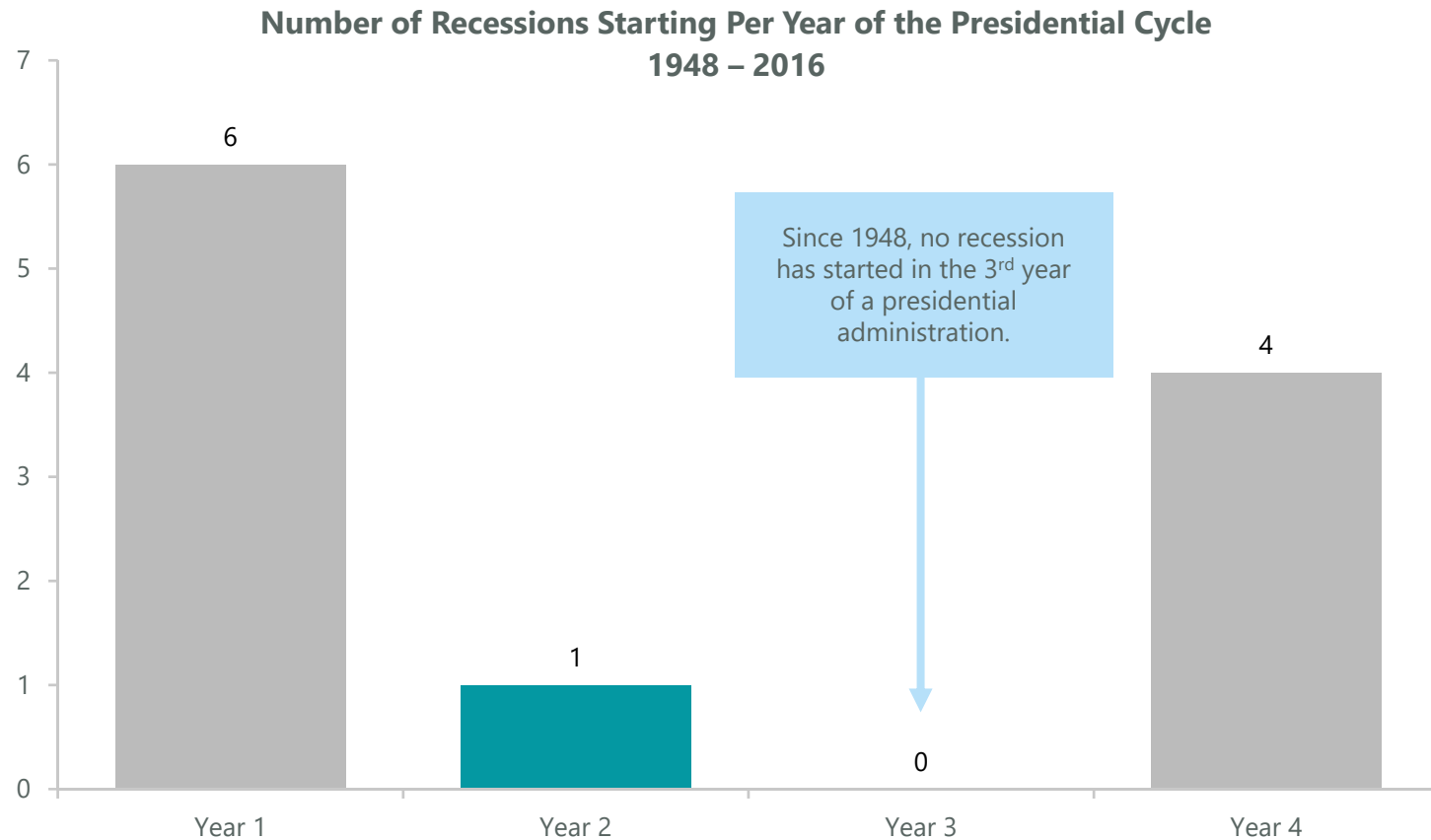


**Valuations**

## U.S. Presidential Agenda



# Presidential Cycle: The Economy



# When It Comes to Re-election, It's All About the Economy

## No Recession in 2 Years Before Election

Year	President	Change in Election Year Unemployment Rate	Recession?	Re-election?	Margin of Victory (Popular Vote)
2012	Obama	-1.6%	No	<b>Yes</b>	3.9%
2004	Bush 43	-0.2%	No	<b>Yes</b>	2.5%
1996	Clinton	-0.6%	No	<b>Yes</b>	8.5%
1984	Reagan	-3.0%	No	<b>Yes</b>	18.2%
1972	Nixon	0.1%	No	<b>Yes</b>	23.2%
1964	Johnson	-0.3%	No	<b>Yes</b>	22.6%
1956	Eisenhower	-1.8%	No	<b>Yes</b>	15.4%

## Recession in 2 Years Before Election

Year	President	Change in Election Year Unemployment Rate	Recession?	Re-election?	Margin of Victory (Popular Vote)
1992	Bush 41	1.4%	Yes	<b>No</b>	-5.6%
1980	Carter	1.7%	Yes	<b>No</b>	-9.7%
1976	Ford	1.7%	Yes	<b>No</b>	-2.1%

- ▶ **Presidents facing re-election tend to win when the economy is strong, and not when conditions worsen ahead of voting day.**

# It Doesn't Pay to Be Bearish Ahead of U.S. Elections

S&P 500 Performance Leading to Election Date

Election	Prior 3 Months	Prior 6 Months	Prior 12 Months
1936	8%	24%	36%
1944	2%	7%	12%
1948	5%	8%	8%
1952	-3%	4%	8%
1956	-3%	-2%	8%
1960	-1%	1%	-4%
1964	3%	6%	15%
1968	6%	5%	12%
1972	7%	7%	21%
1976	0%	1%	16%
1980	7%	22%	26%
1984	5%	7%	5%
1988	2%	7%	10%
1992	-1%	2%	7%
1996	8%	11%	21%
2000	-3%	0%	4%
2004	2%	2%	8%
2008	-19%	-29%	-33%
2012	2%	4%	14%
2016	-2%	4%	2%
<b>Averages</b>	<b>1%</b>	<b>5%</b>	<b>10%</b>
<b>% Times Positive</b>	<b>60%</b>	<b>85%</b>	<b>90%</b>

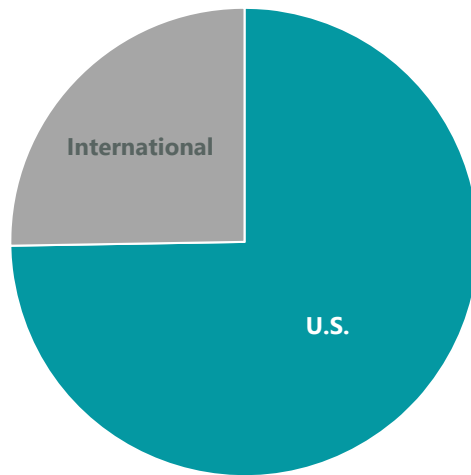
- ▶ **In the last 20 U.S. election cycles, there have been only 2 instances of the markets being down in the 12 months leading to the election results.**

## International



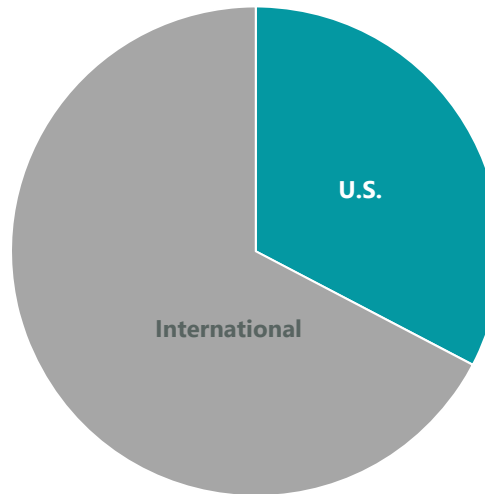
# Home Country Bias

**% Assets**



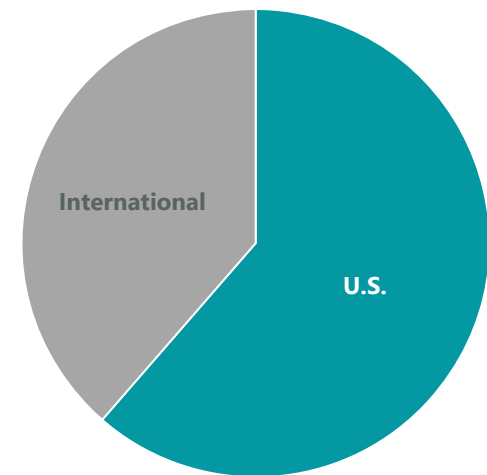
**The U.S. represents 75% of U.S. investor portfolios**

**% GDP**



**The U.S. represents only 33% of Global GDP**

**% Market Cap**

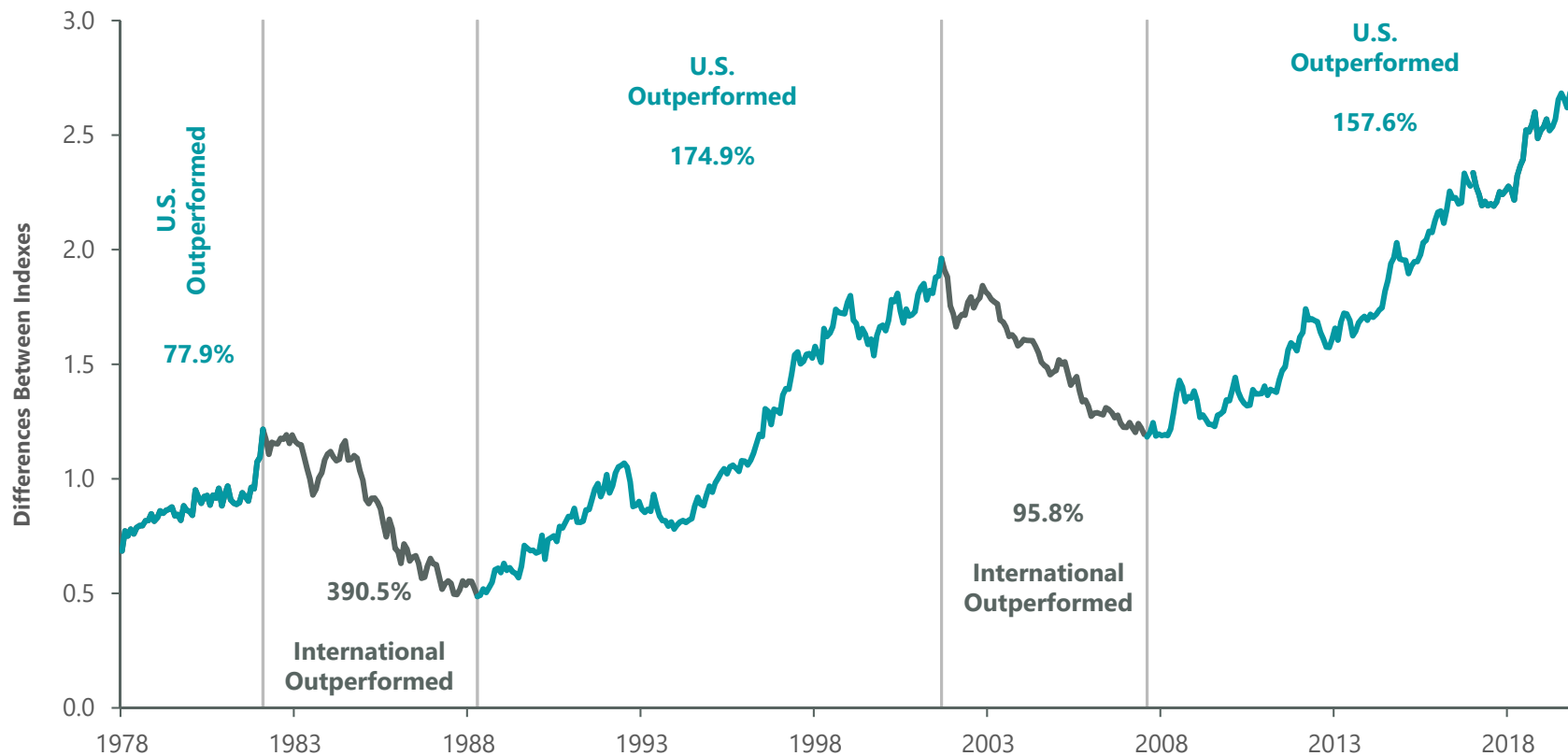


**The U.S. represents 62% of Global Market Cap**

► **Investors tend to over-allocate to their home country.**

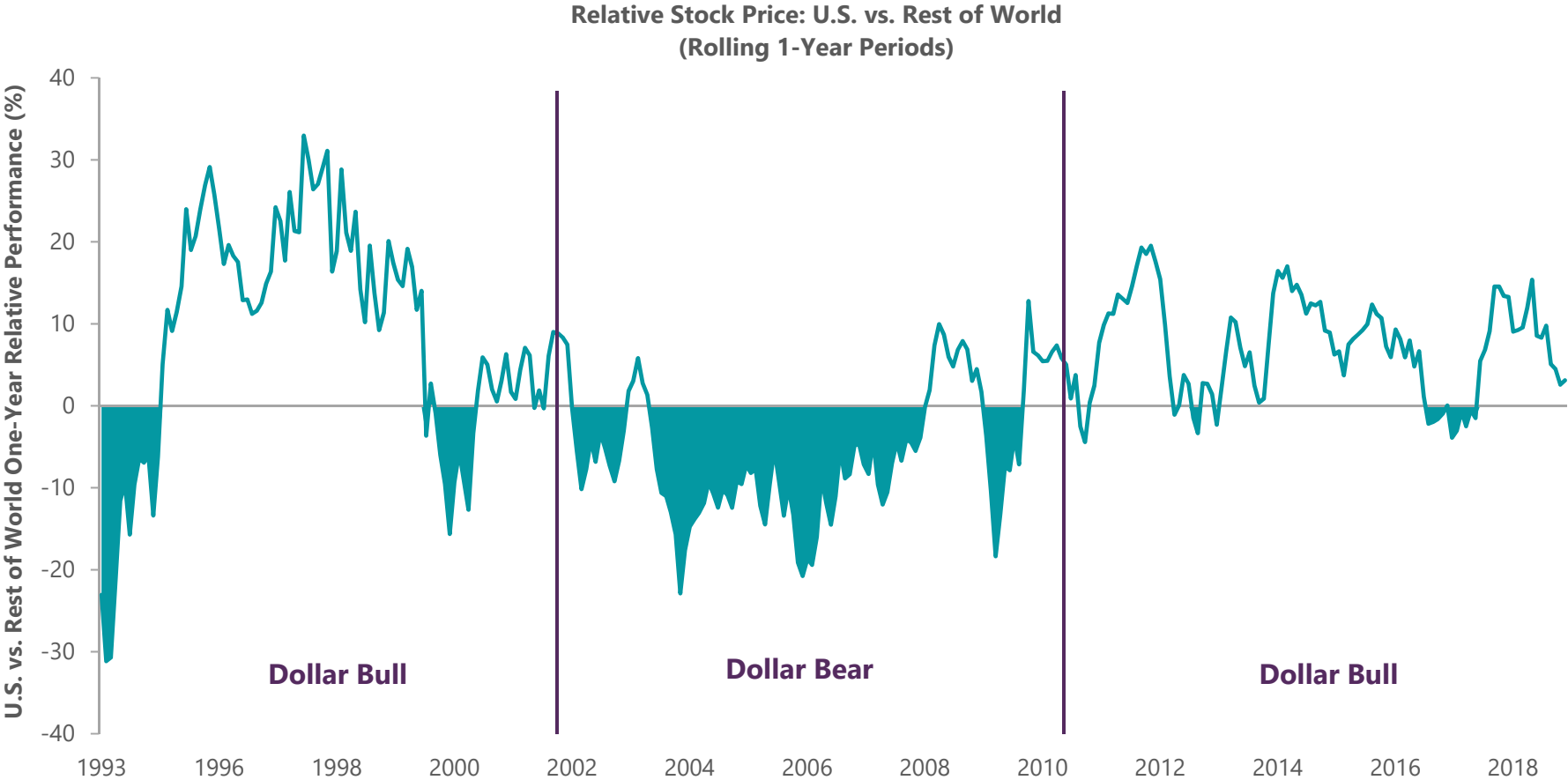


# U.S. vs. International Equity Performance



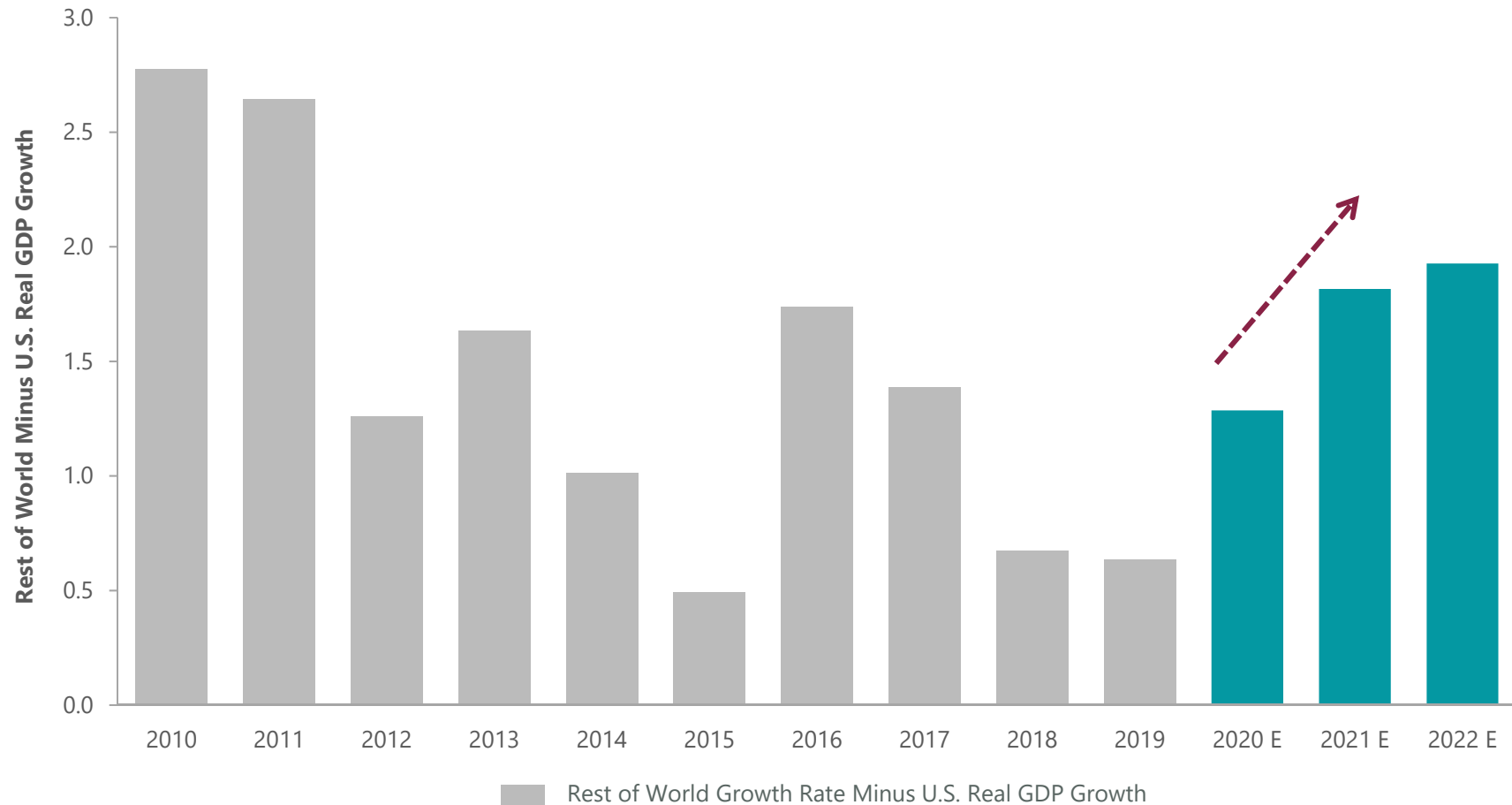
► **Geographic leadership tends to persist for multiple years.**

# Dollar Regimes Coincide With Global Equity Leadership



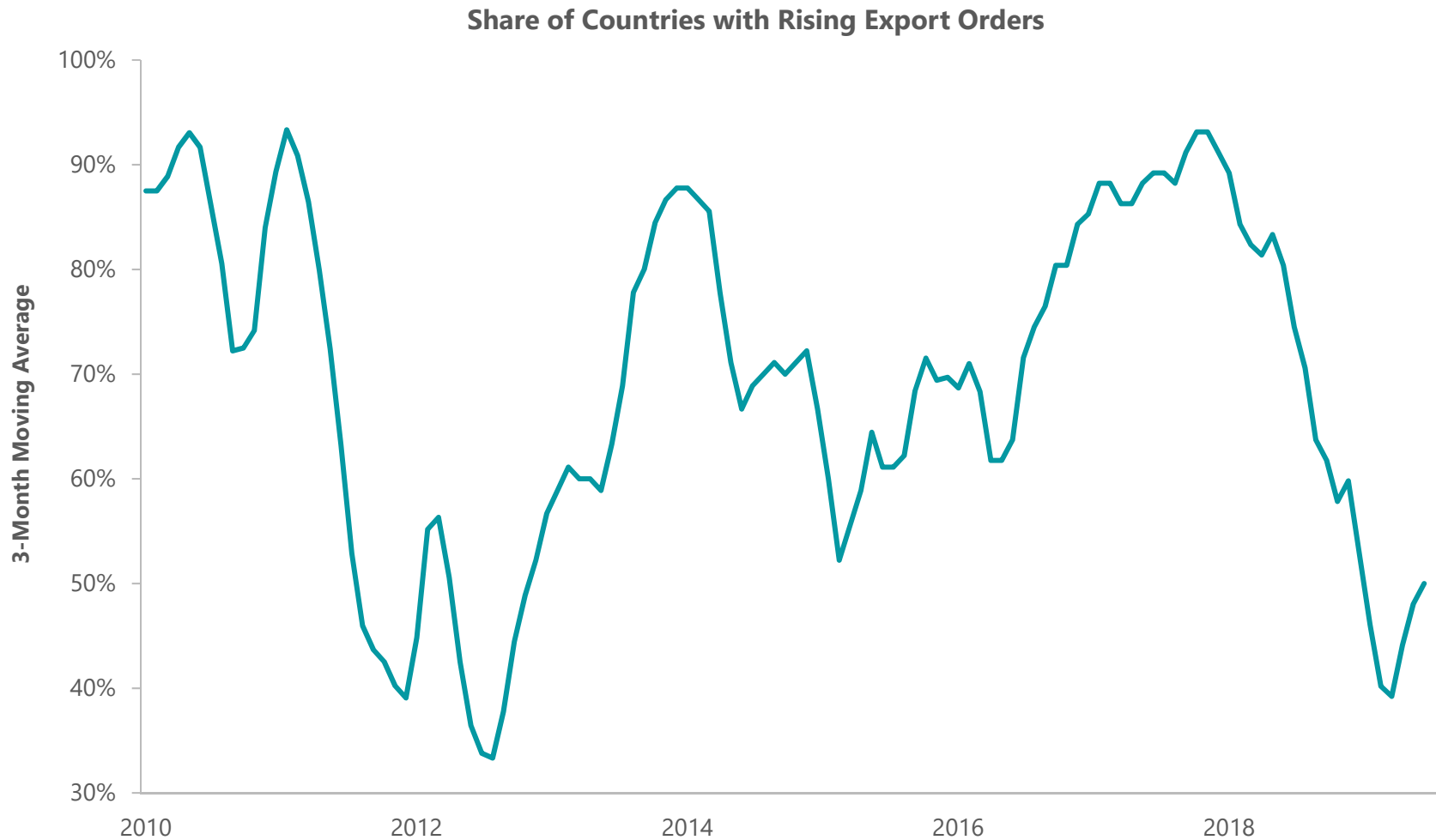
- ▶ **Periods of sustained dollar strength have aligned with U.S. equity outperformance.**
- ▶ **Dollar weakness could lead to a shift in global equity market leadership.**

# Global Growth Expected to Inflect Higher



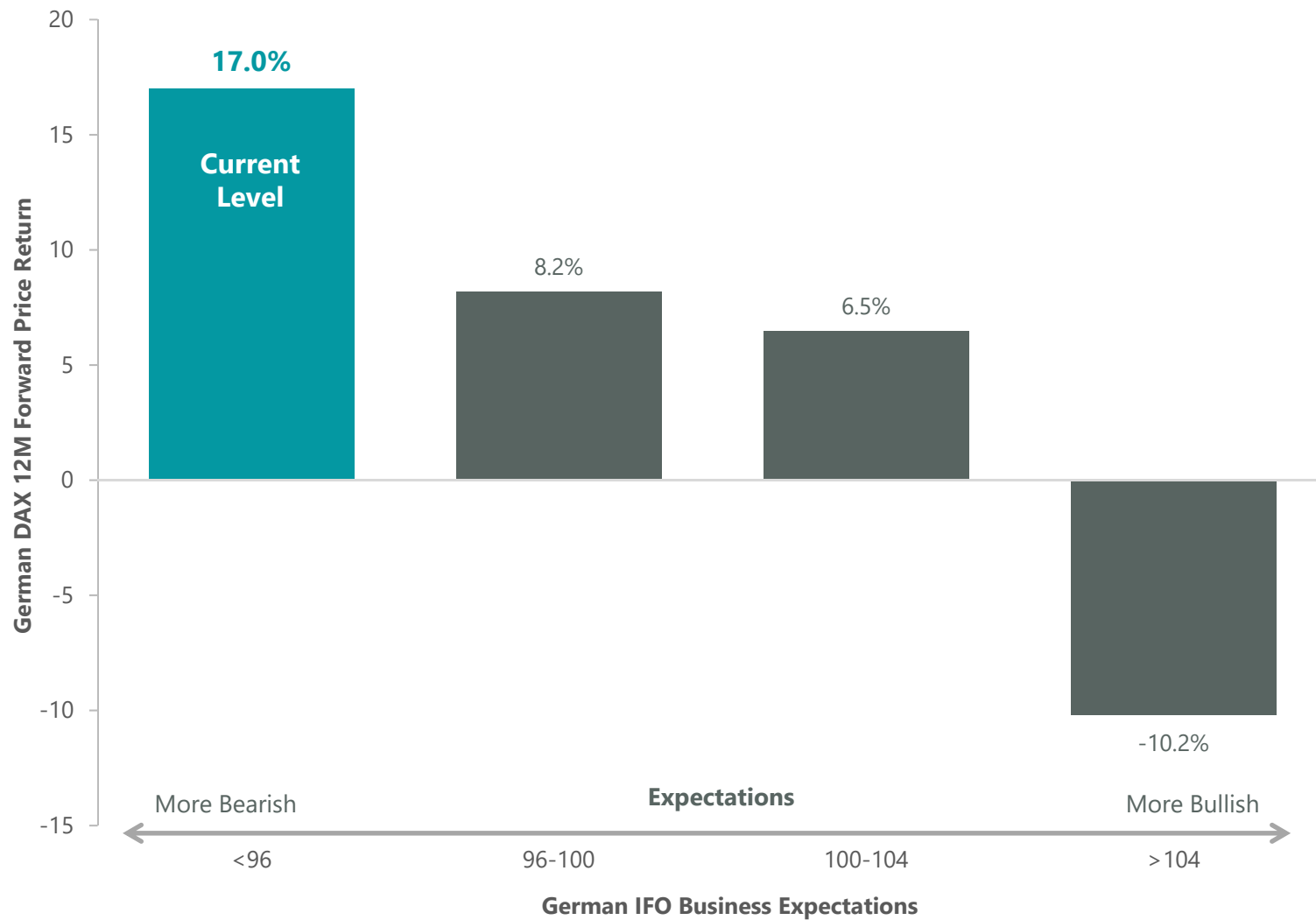
- ▶ **An uptick in global growth could lead to better relative performance for international stocks.**

# Global Growth Rebounding?



- ▶ **It appears that global growth may be on the rebound. Rising export orders typically lead to an acceleration in global GDP.**

# IFO Expectations vs. DAX

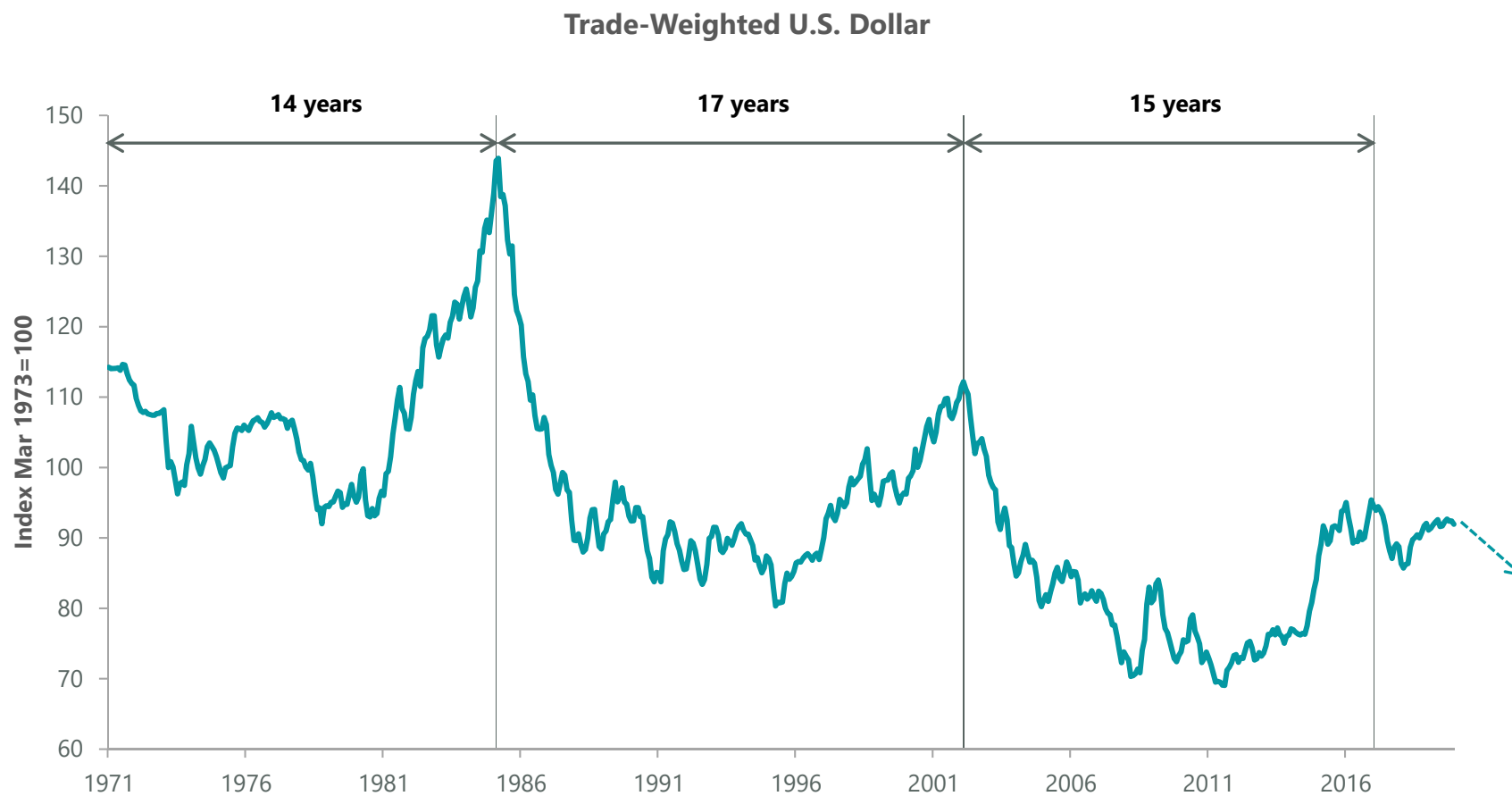


► When IFO expectations are at current levels, returns tend to be above average.

## Currency

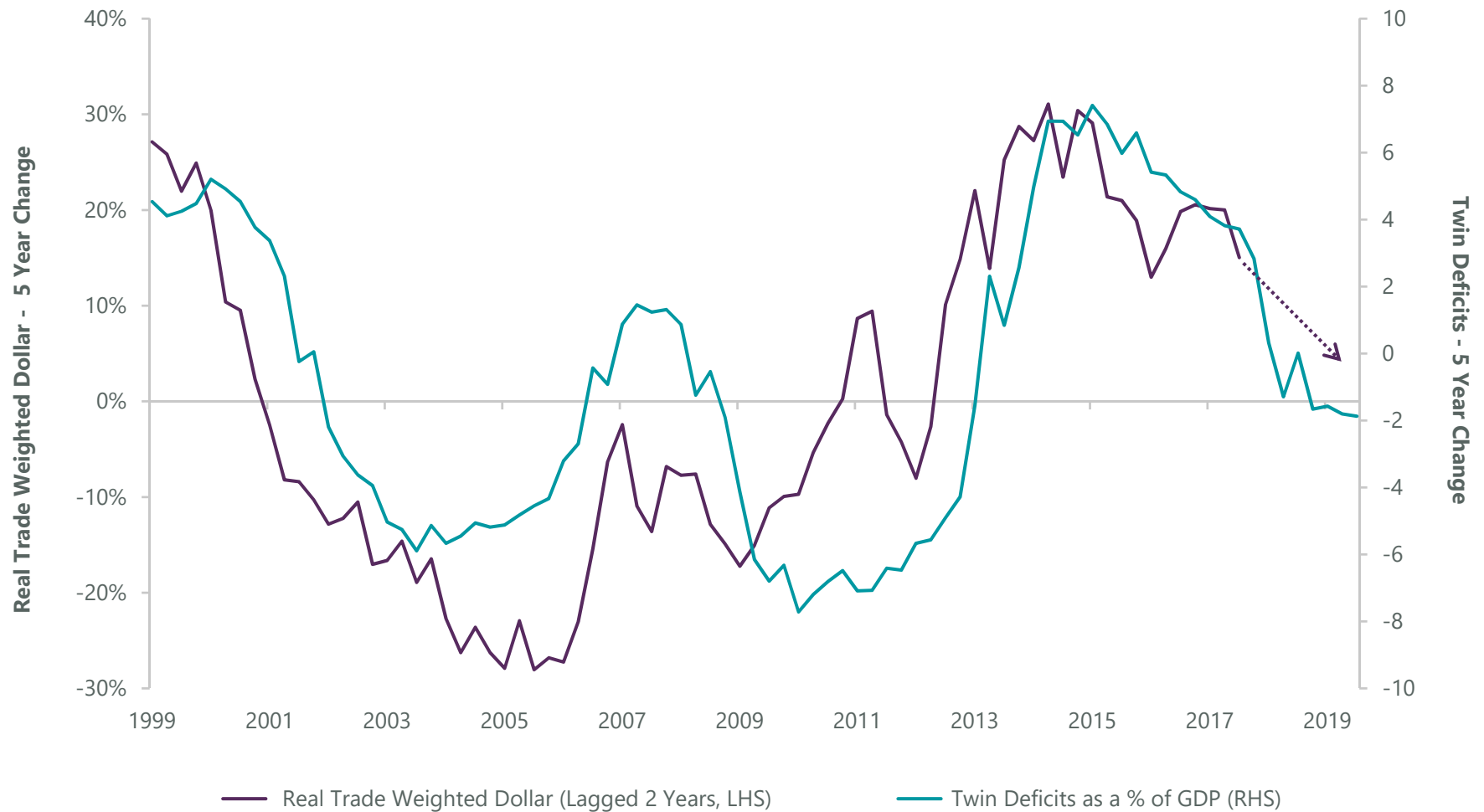


# U.S. Dollar Cycle



- ▶ **U.S. dollar cycles typically last approximately 15 years.**
- ▶ **The dollar's peak in 2016 may have started a longer downtrend.**

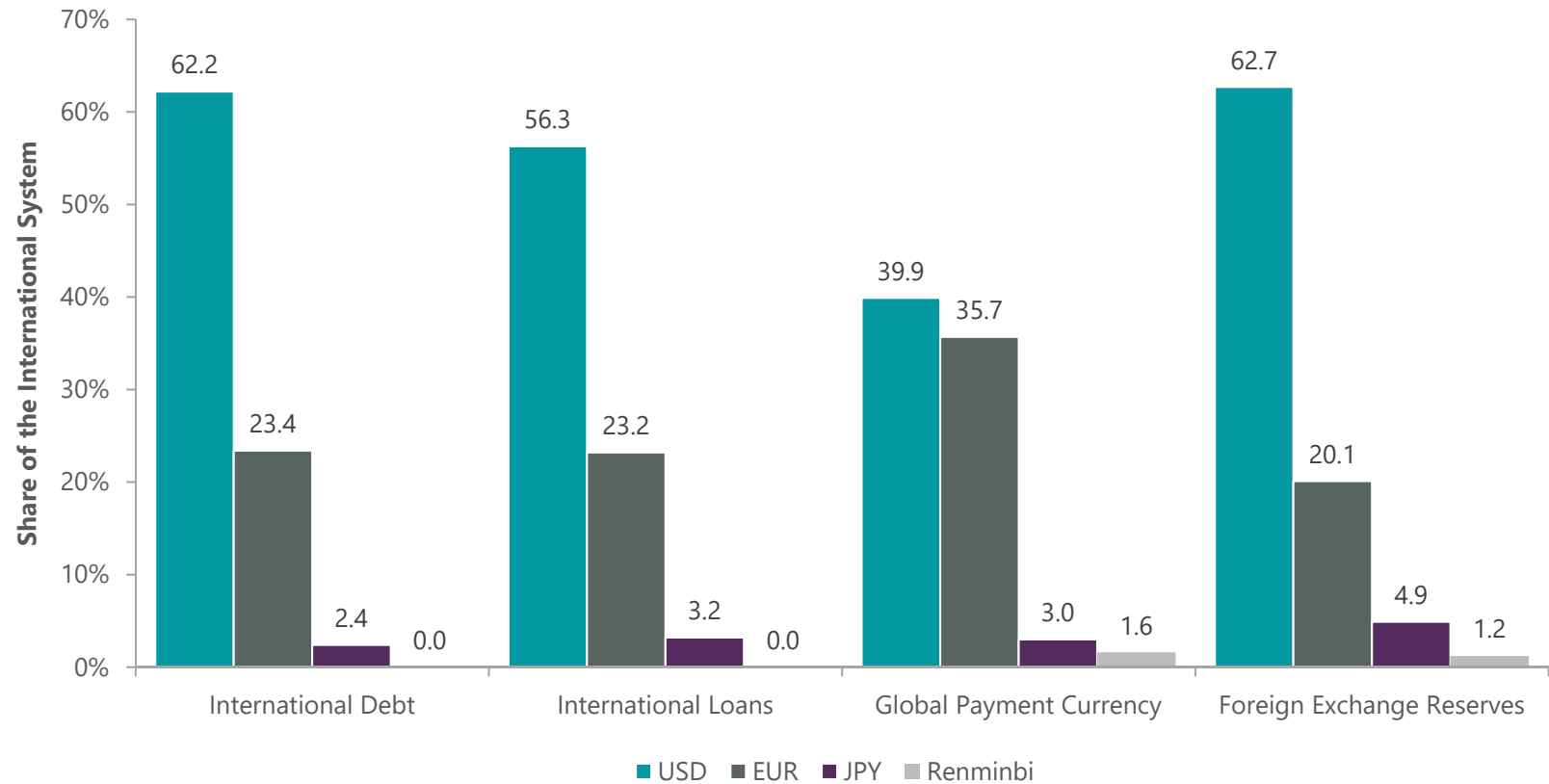
# Twin Deficits: Budget and Trade



► **Twin deficits show the dollar should modestly weaken over the next several years.**



# The U.S. Dollar Dominates the International Monetary System

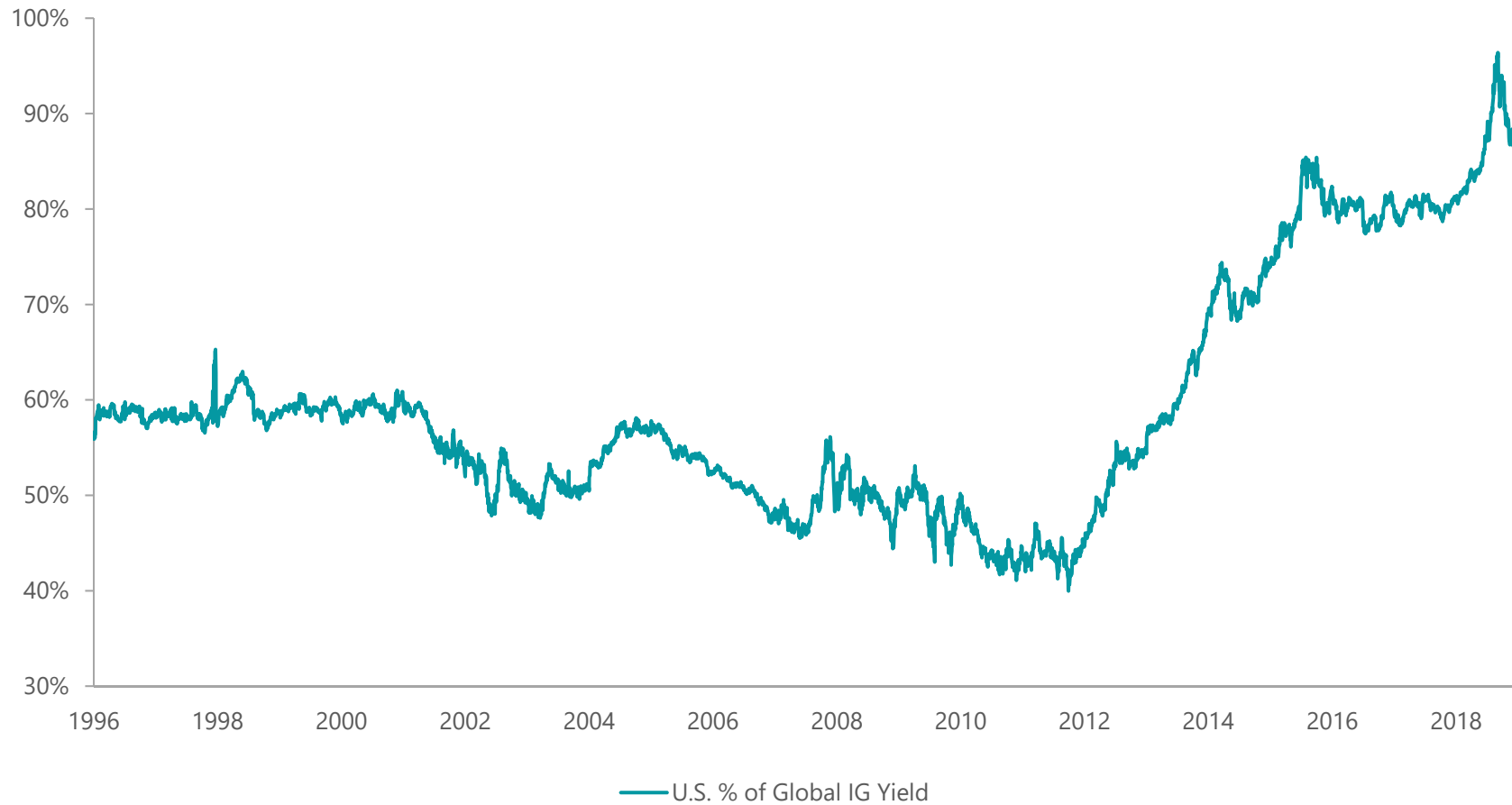


▶ The greenback is firmly entrenched as the world's reserve currency.

## Negative Rates



# U.S. Reigns Over Global Yield Landscape



- ▶ **Over 85% of global investment grade yield exists in U.S. government and corporate bonds.**

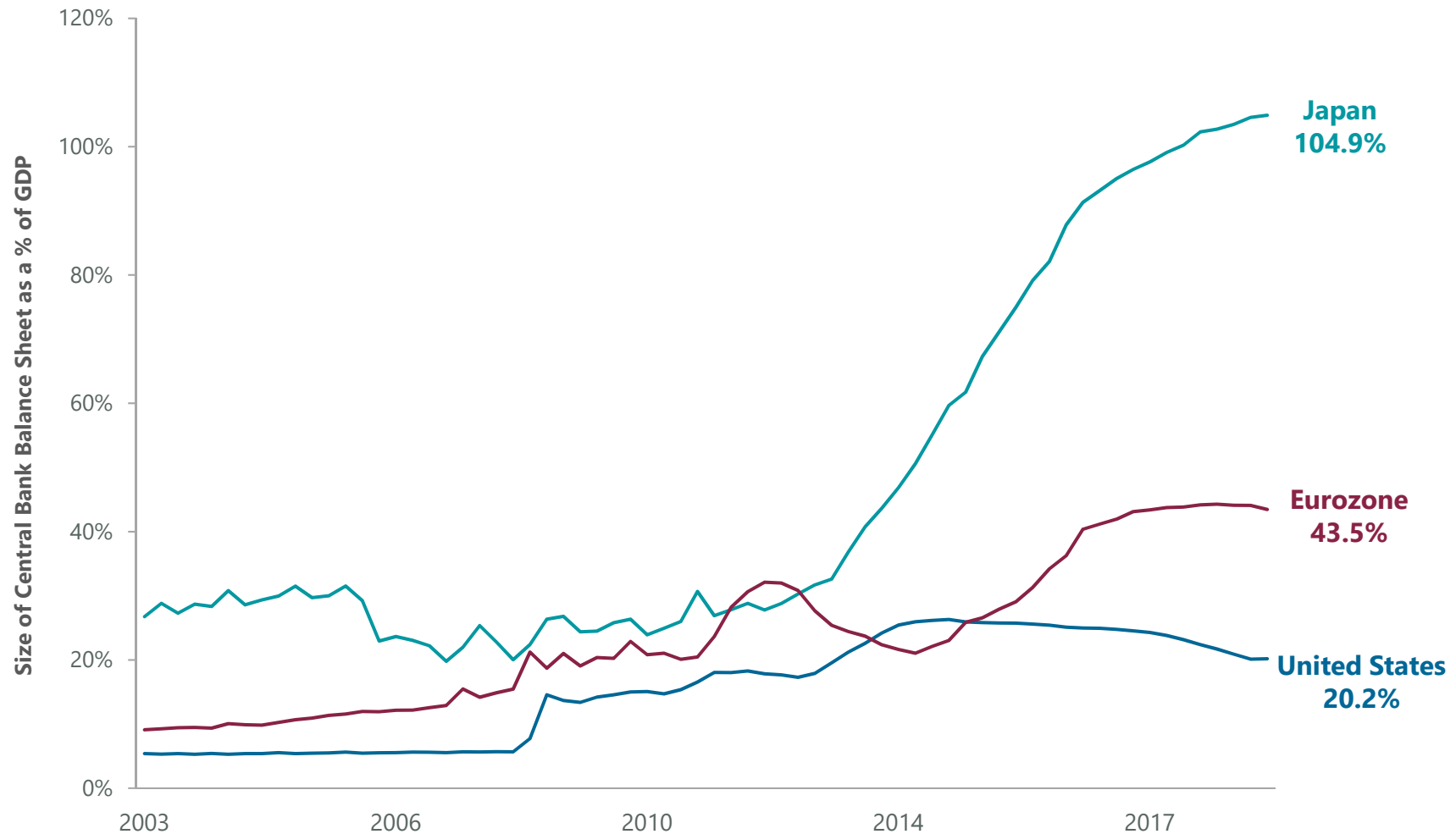
# The Fed Lacks Rate Cut Ammunition

## Total Decline in Fed Funds Rate Around Past Recessions

Recession	Total Rate Cuts
December 1969 – November 1970	-8.3%
November 1973 – March 1975	-8.1%
January 1980 – July 1980	-11.0%
July 1981 – November 1982	-11.5%
July 1990 – March 1991	-3.0%
March 2001 – November 2001	-4.8%
December 2007 – June 2009	-5.0%
<b>Average</b>	<b>-7.4%</b>

- ▶ **Over the last 7 recessions, the Fed has needed to lower short-term rates by 7.4%, on average, to jump-start the economy.**
- ▶ **The Fed Funds rate peaked at 2.5%, which may cause the Fed to pursue other forms of stimulus.**

# U.S. Has More Room for QE

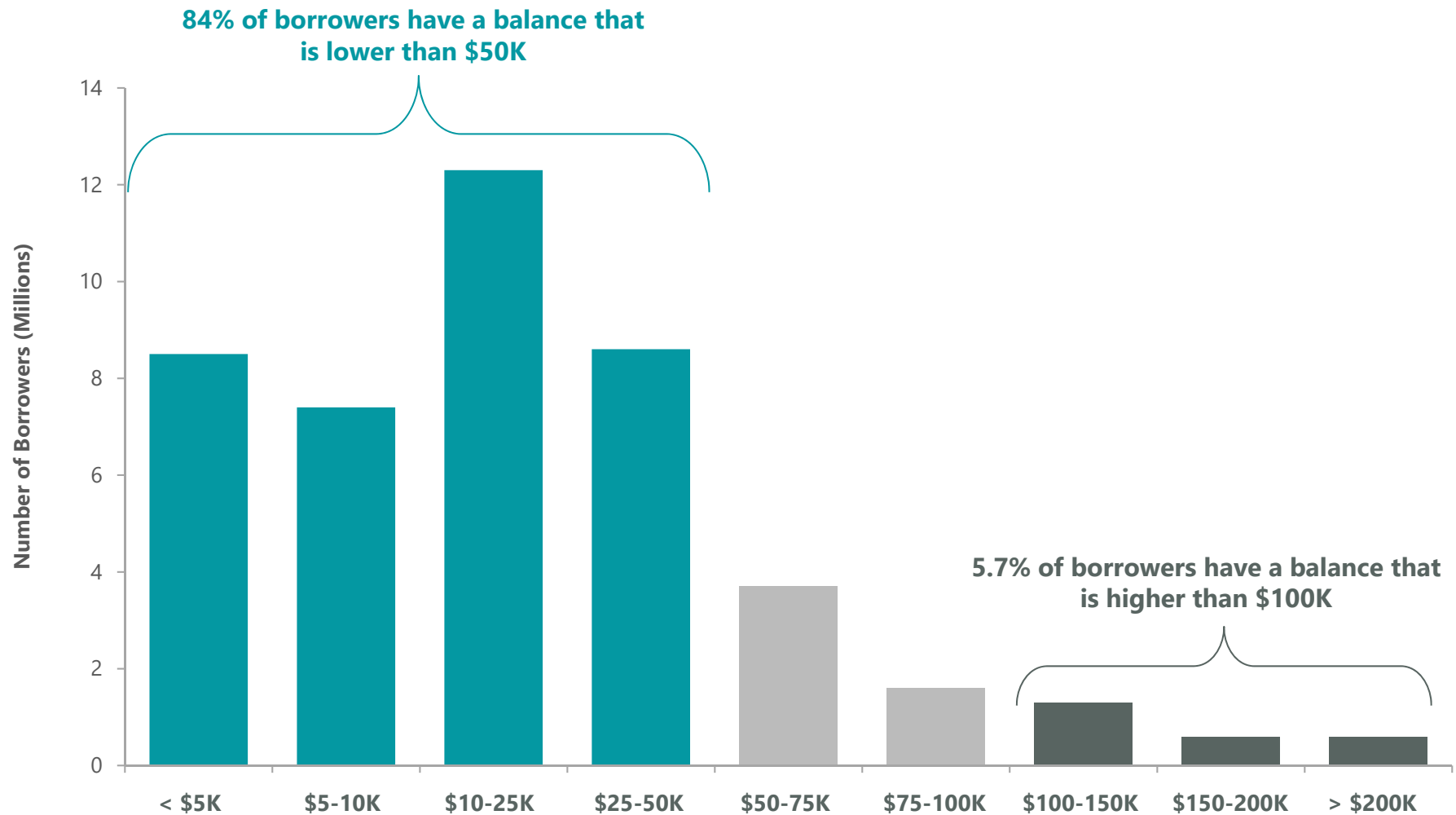


- ▶ **The Fed's smaller balance sheet as a % of GDP affords policymakers greater flexibility if the economy rolls over.**

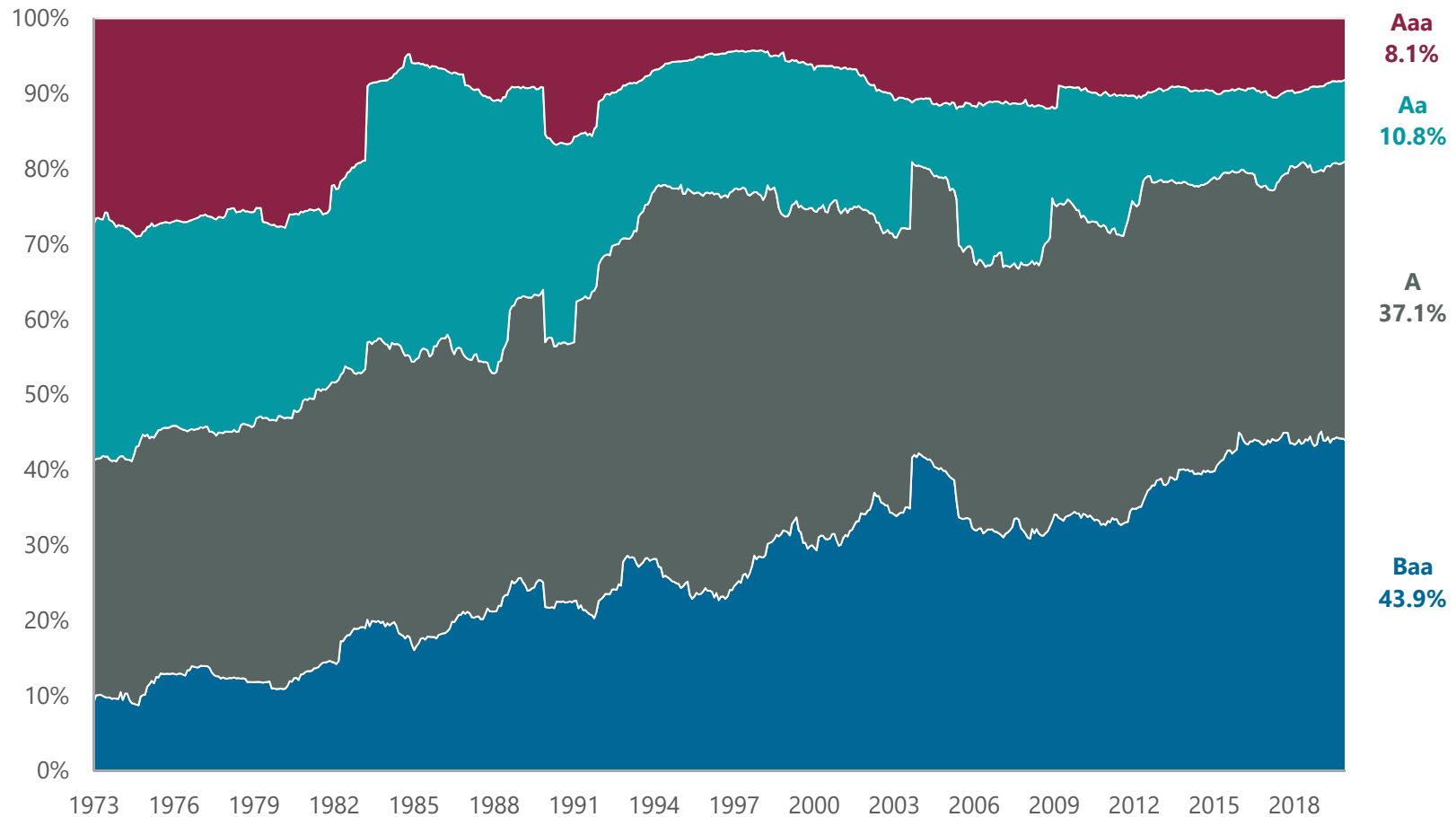
**Debt**



# The Student Debt Crisis in Context



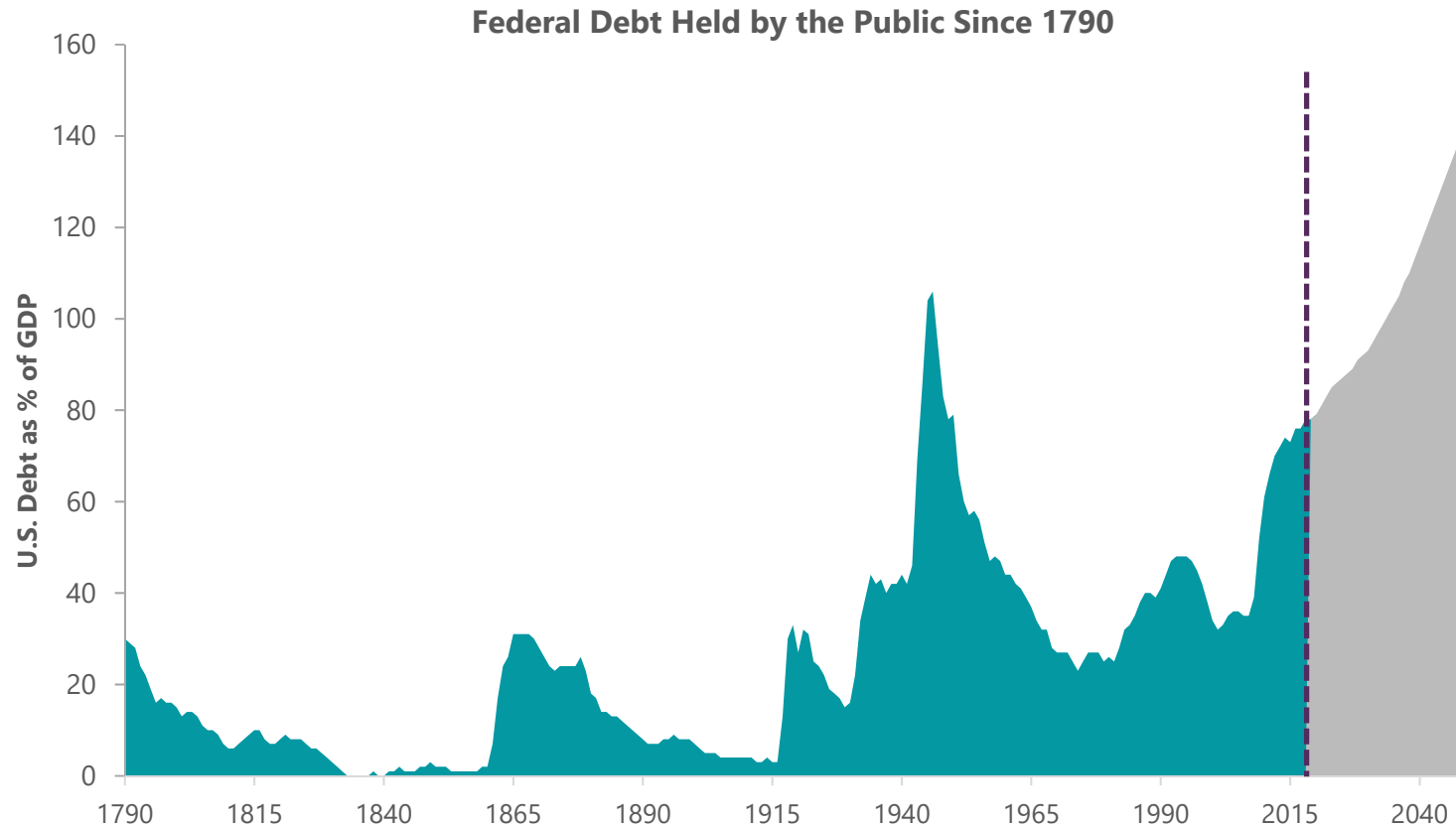
# U.S. Credit Quality Deterioration



► In 1973, only 9% of credits were rated Baa versus 44% today.

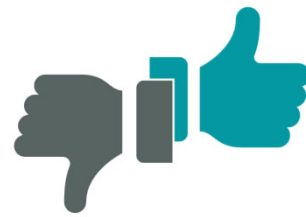


# U.S. Debt Levels Set to Rise Higher



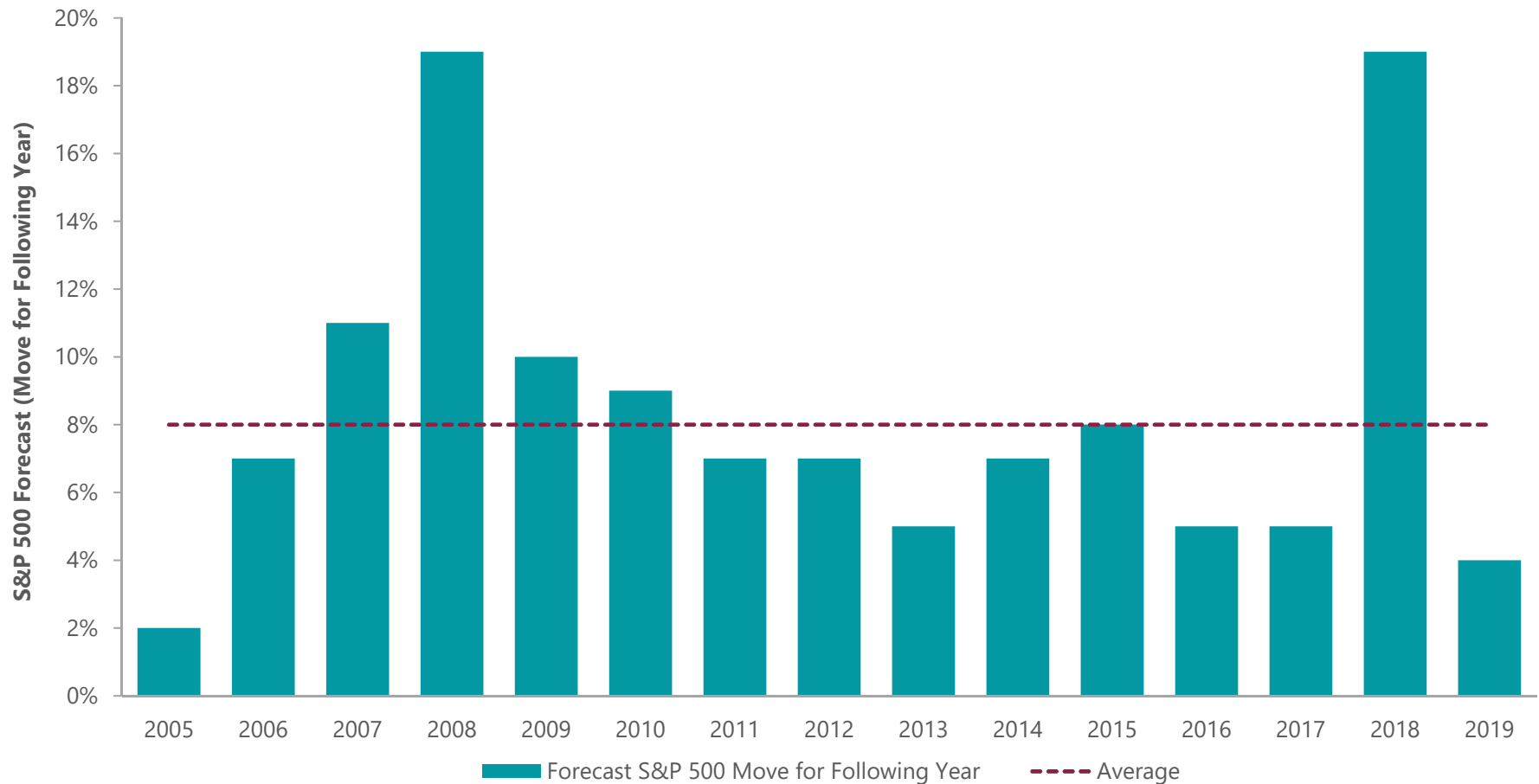
▶ **Barring a change in spending, U.S. debt levels will grow substantially in the coming decades.**

## Sentiment

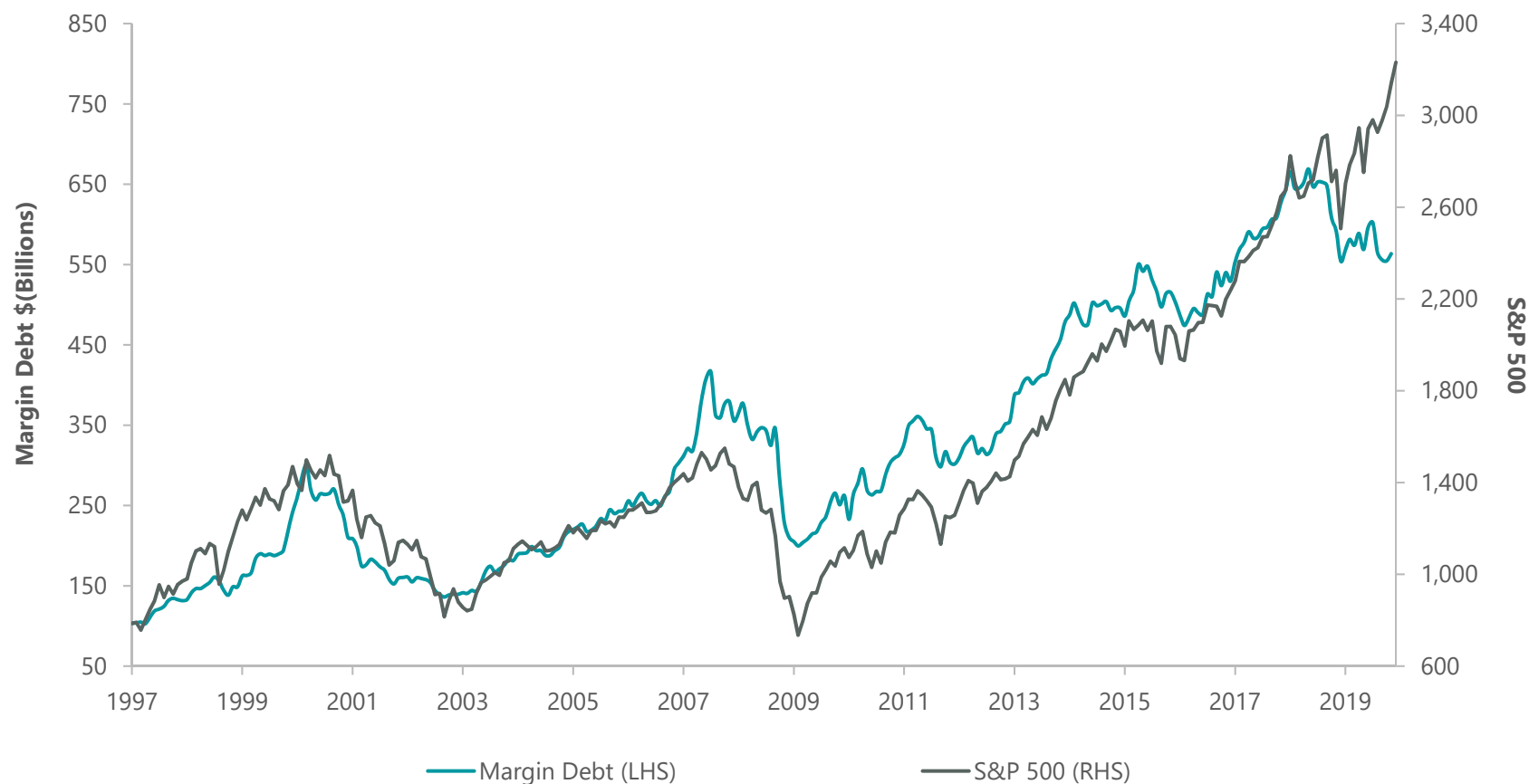


# Year-Ahead Expectations Are Lowest in 14 Years

Stocks Have a Low Hurdle to Clear with Muted Wall Street Expectations for 2020

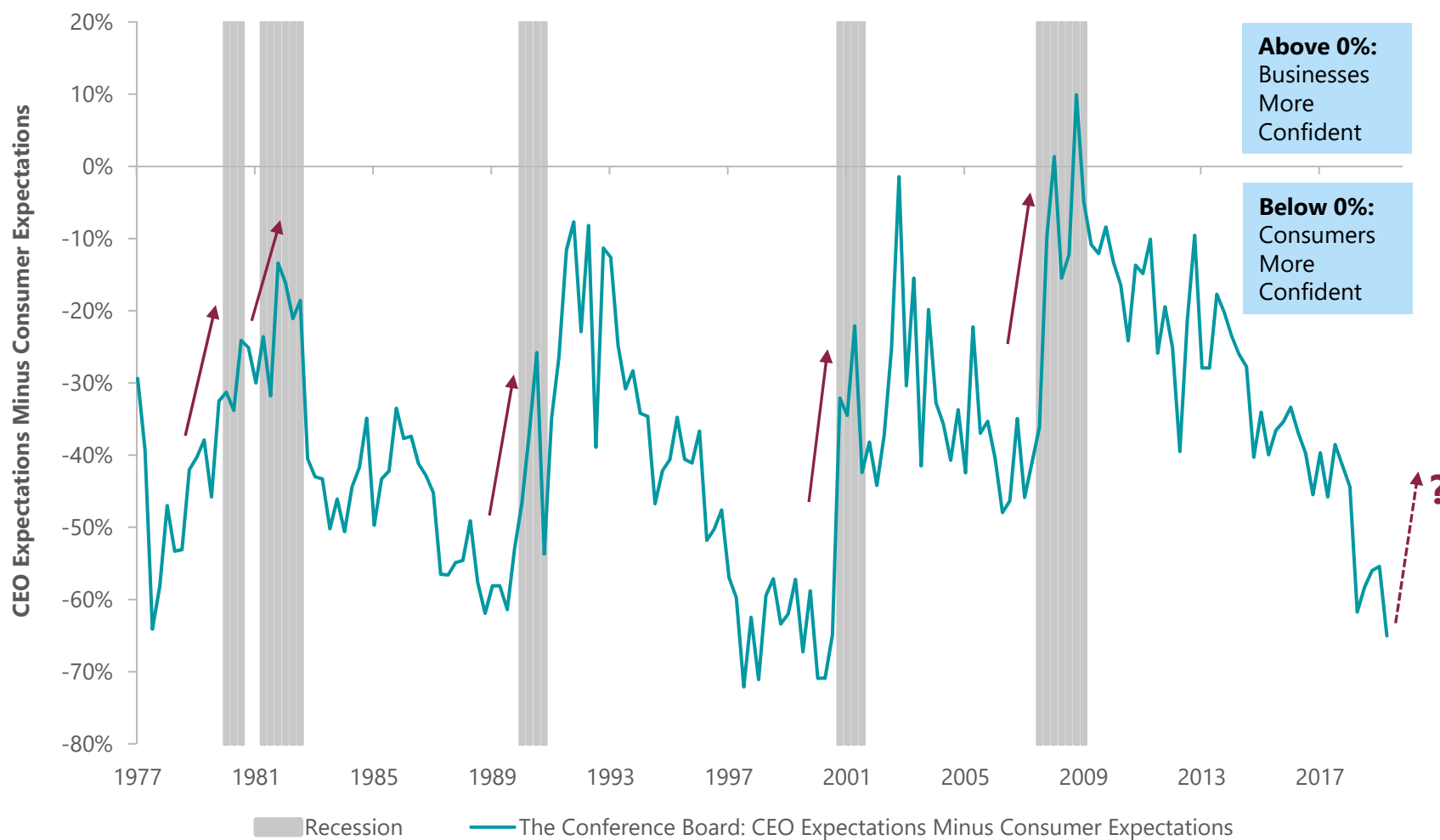


# Equity Speculators Remain on the Sideline



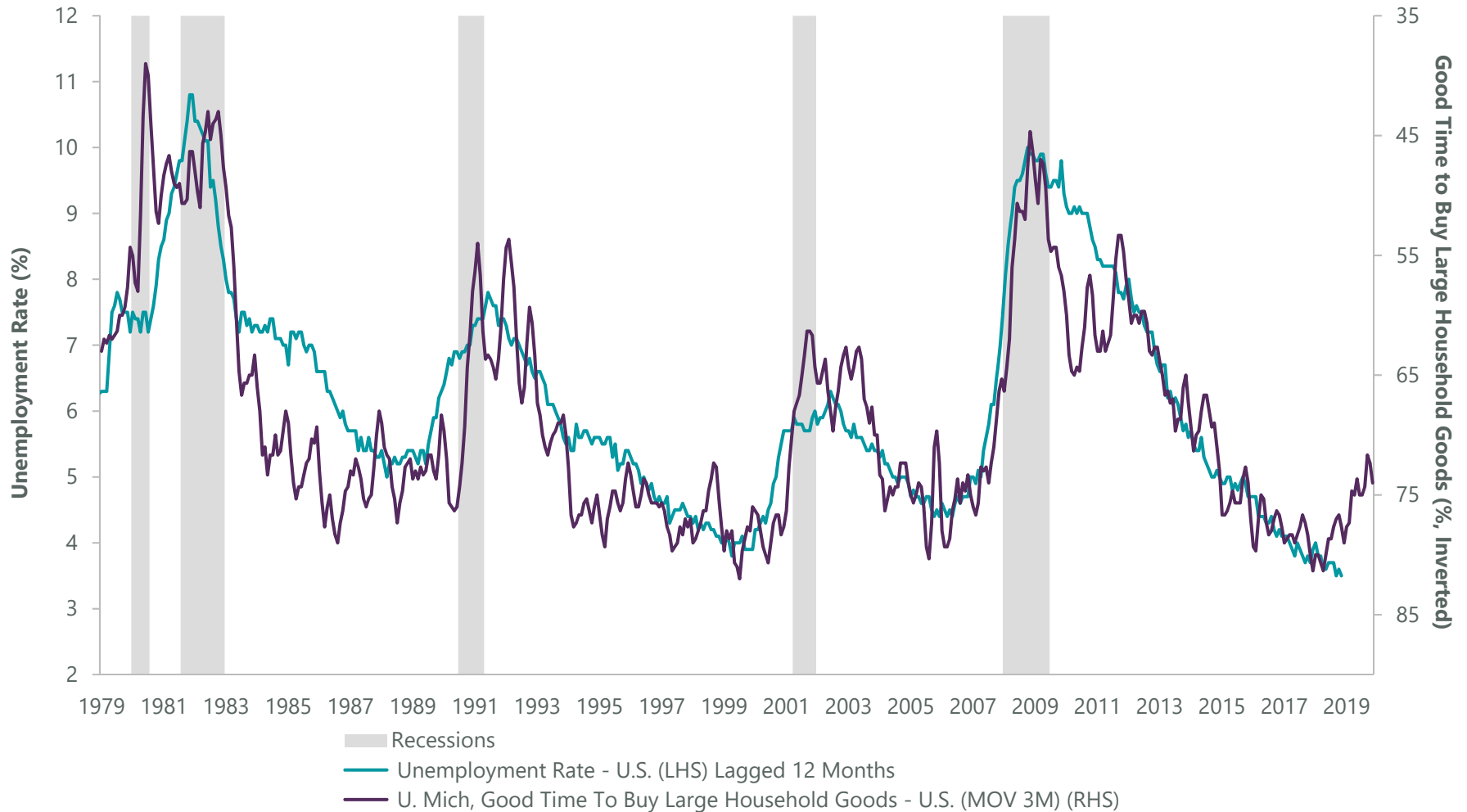
- ▶ **Declining purchases on margin suggest the market is not frothy despite its recent rally.**
- ▶ **The closing of this gap should help propel equities higher in 2020.**

# Large Confidence Gaps Suggest Potential Trouble



- ▶ **Historically, large discrepancies between consumer and business confidence has been a signal of a maturing economic cycle.**
- ▶ **A narrowing of this gap could suggest recessionary risks are rising.**

# Consumer Hesitancy on Large Purchases Concerning



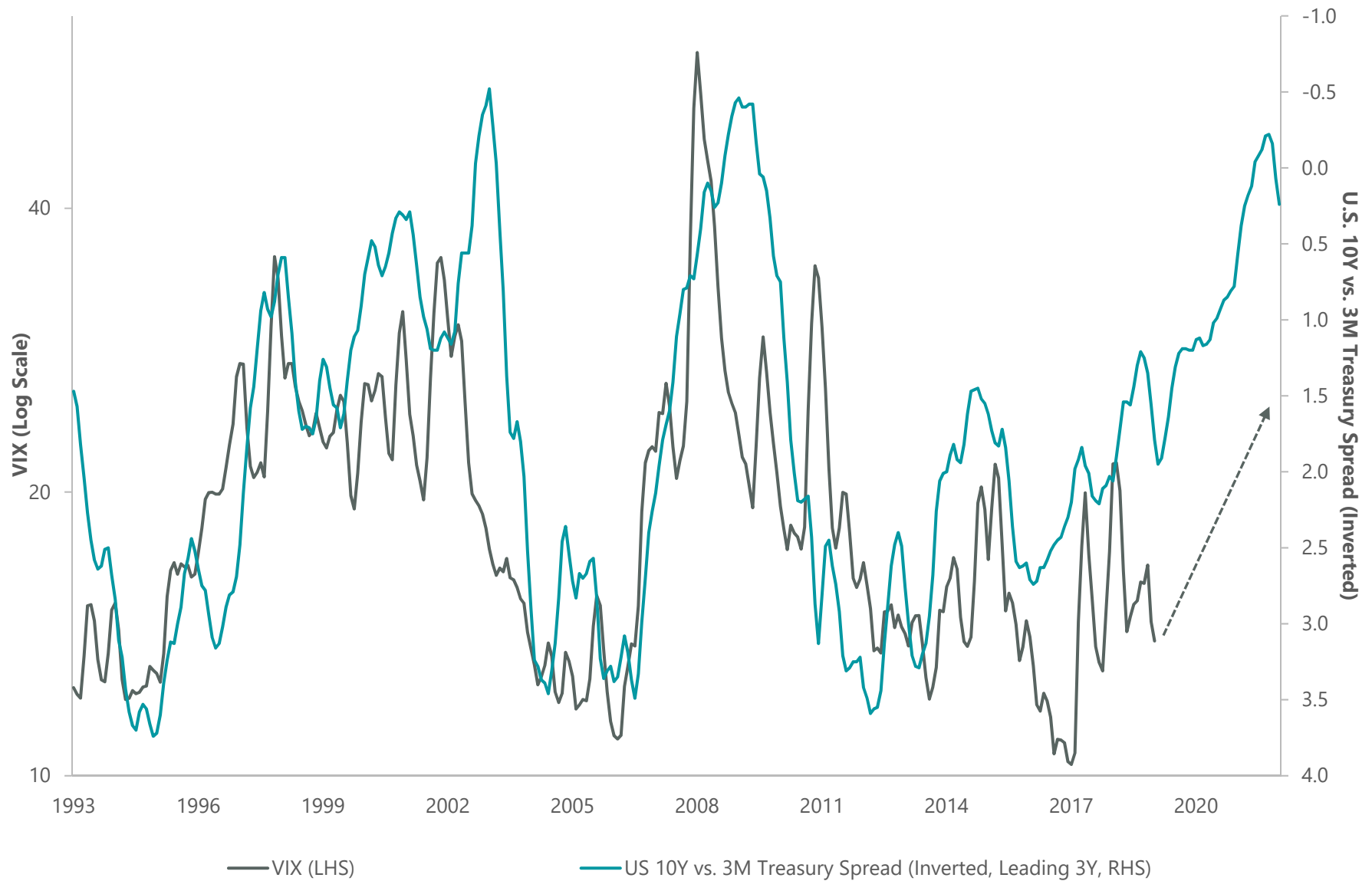
▶ **A drop in consumer appetite for large ticket items typically precedes rising unemployment and recessions.**

## Volatility



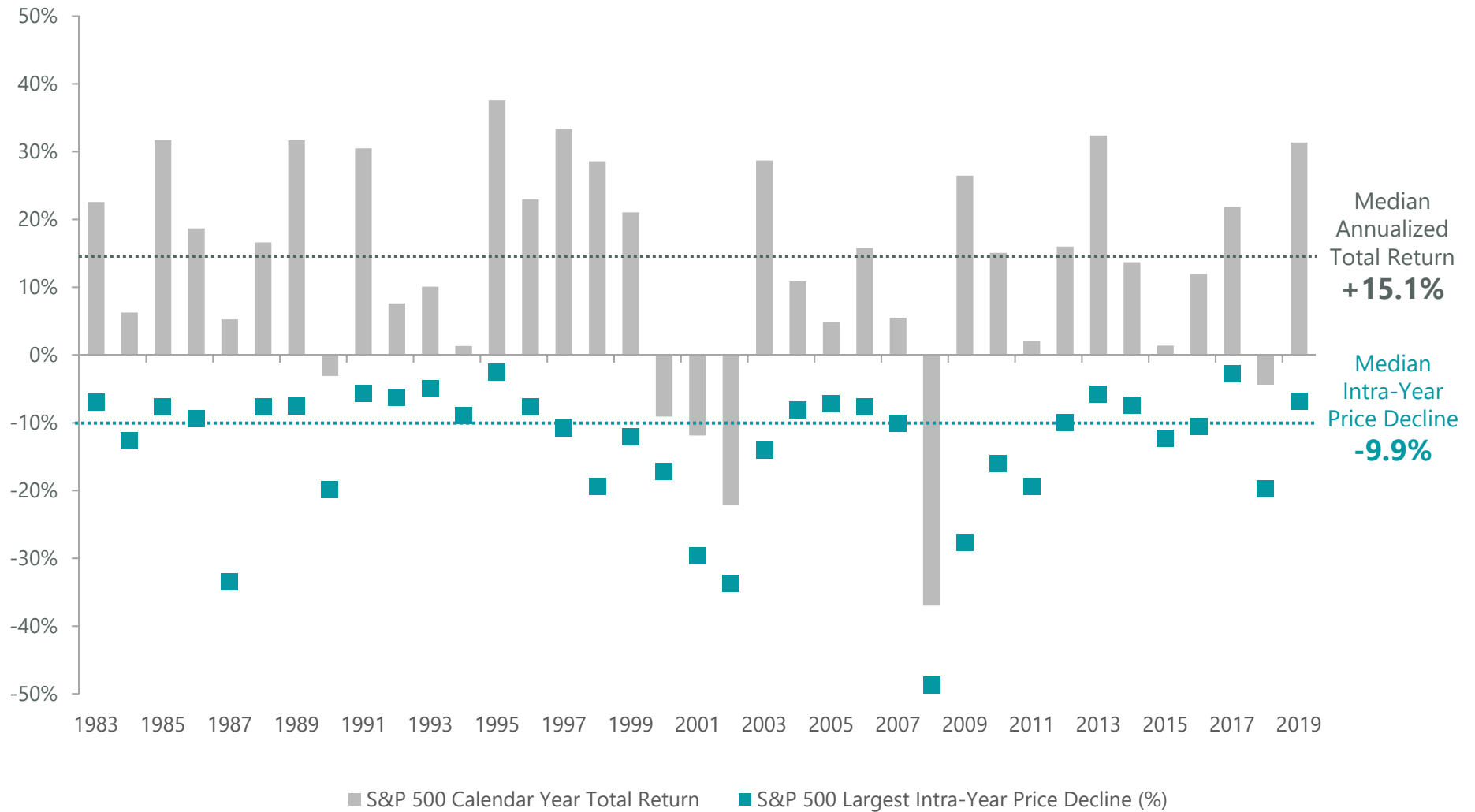
# Volatility Usually Follows the Yield Curve

The Yield Curve Flattening Points to a Higher VIX





# Volatility Does Not Equal a Financial Loss Unless You Sell



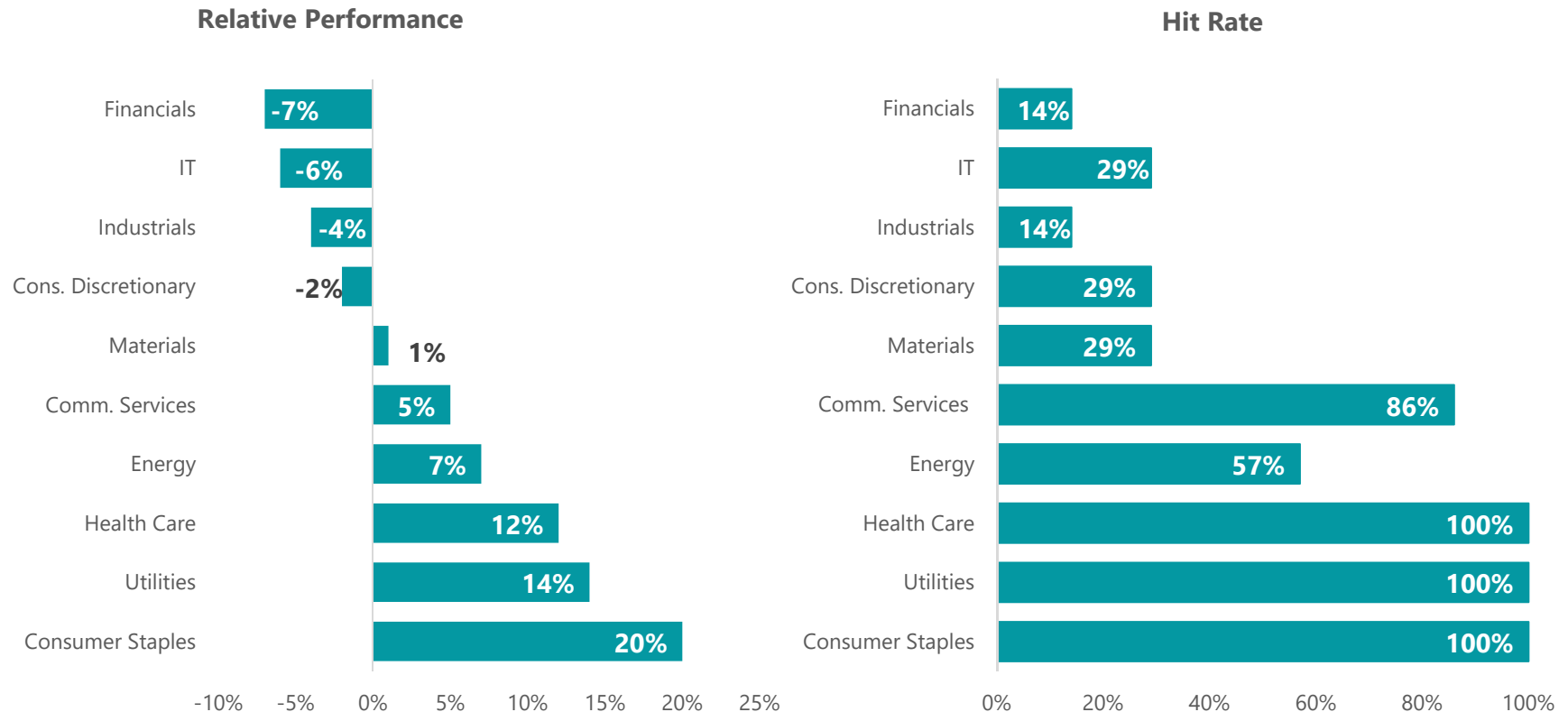
# Missing the Best Days Can Drastically Reduce Returns

Decade	Cumulative		Annualized	
	Price Return	Excluding 10 Best Days Per Decade	Price Return	Excluding 10 Best Days Per Decade
1930	-42%	-79%	-5%	-15%
1940	35%	-14%	3%	-2%
1950	257%	167%	14%	11%
1960	54%	14%	4%	1%
1970	17%	-20%	2%	-2%
1980	227%	108%	13%	8%
1990	316%	186%	15%	12%
2000	-24%	-62%	-3%	-10%
2010	190%	95%	11%	7%
<b>Average Since 1930</b>	<b>114%</b>	<b>44%</b>	<b>6%</b>	<b>1%</b>

► **Investors that missed the 10 best days in a given decade would have seen 70% lower returns over the course of that decade on average.**

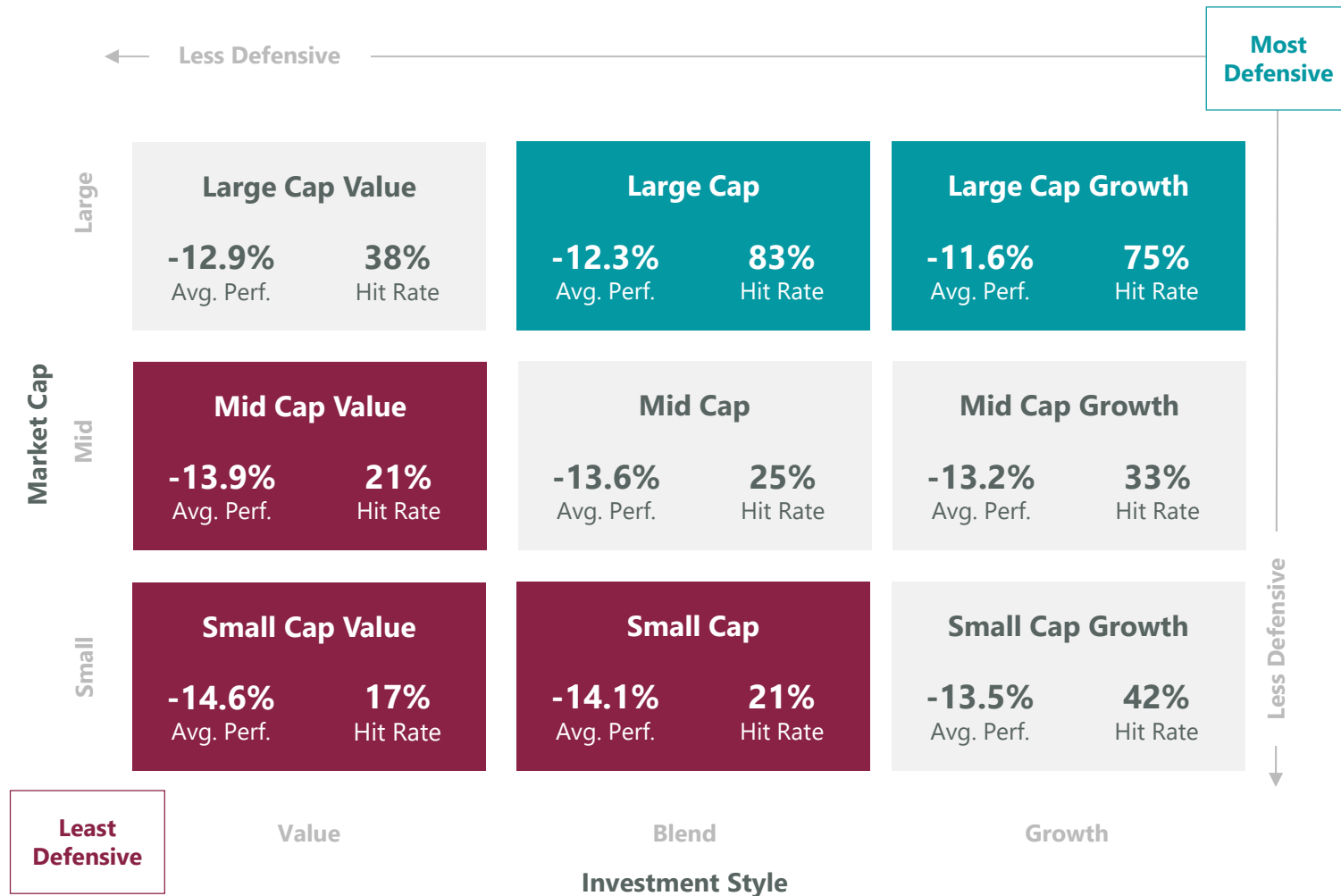
# Which Equities Do Well During Periods of Market Volatility?

During the Last Seven Major Market Drawdowns, Some Sectors Held Up Better than Others



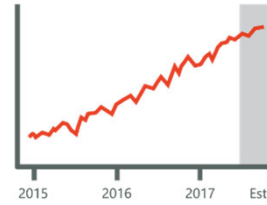
► **During periods of market turmoil, defensive sectors such as Staples, Utilities, and Health Care have historically tended to deliver better relative performance.**

# Typical Market Leadership in a Downturn



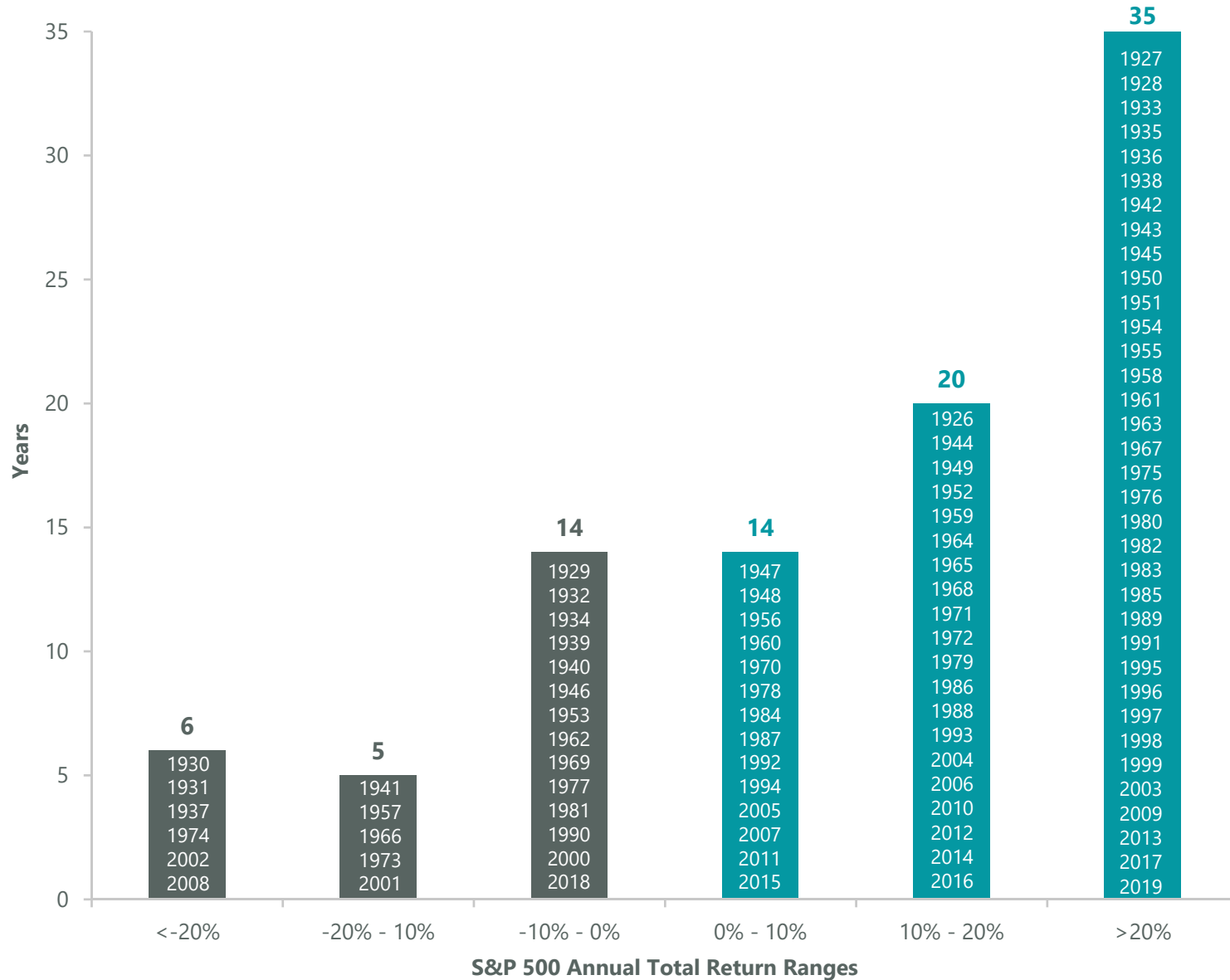
Note: Average performance: average performance during selloffs of 5% or more, Hit Rate: Hit rate of outperformance during 5%+ selloffs, 2005 – present. Benchmarks used: Large Value: S&P 500 Value, Large Blend: S&P 500, Large Growth: S&P 500 Growth; Mid Value: S&P 400 Value, Mid Blend: S&P 400, Mid Growth: S&P 400 Growth; Small Value: S&P 600 Value, Small Blend: S&P 600, Small Growth: S&P 600 Growth. Outperformance frequency calculated relative to S&P 1500 index. Source: S&P, Bloomberg. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

## Valuations

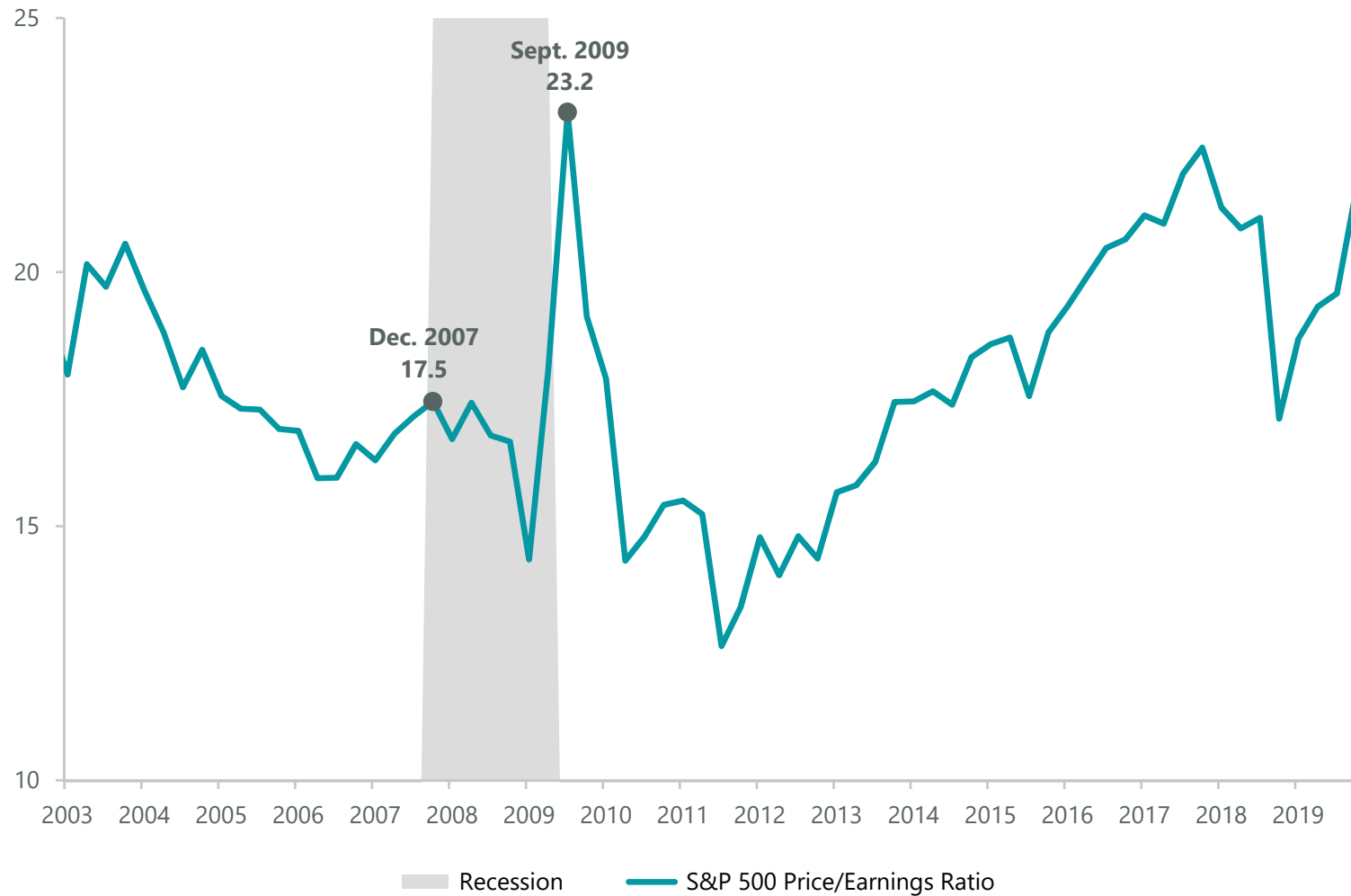


# Market Annual Returns

Distribution of S&P 500 Total Returns Since 1926



# Price/Earnings Is Not The Only Indicator To Watch



# Valuations Not Stretched Relative to Past Market Peaks

S&P 500 Peak Date Before Recession	Trailing P/E at Peak	5-Year Average	% Premium
May 1946	21.9	12.3	77.4%
Jan. 1953	11.1	8.1	36.4%
Aug. 1956	14.0	11.2	25.5%
Aug. 1959	17.8	14.0	27.4%
Nov. 1968	19.0	17.6	8.3%
Jan. 1973	18.7	17.3	8.4%
Feb. 1980	7.9	9.5	-17.0%
June 1990	17.3	15.1	14.3%
March 2000	30.5	24.0	27.0%
Oct. 2007	19.9	21.3	-6.4%
<b>Median</b>	<b>18.2</b>	<b>14.5</b>	<b>24.5%</b>
<b>Current</b>	<b>24.3</b>	<b>22.7</b>	<b>6.8%</b>

- ▶ **Traditionally, the S&P 500 will trade at a substantial premium to its 5-year average at market peaks.**
- ▶ **Today, the market trades at a slight discount suggesting further upside.**



# Earnings Price Yield

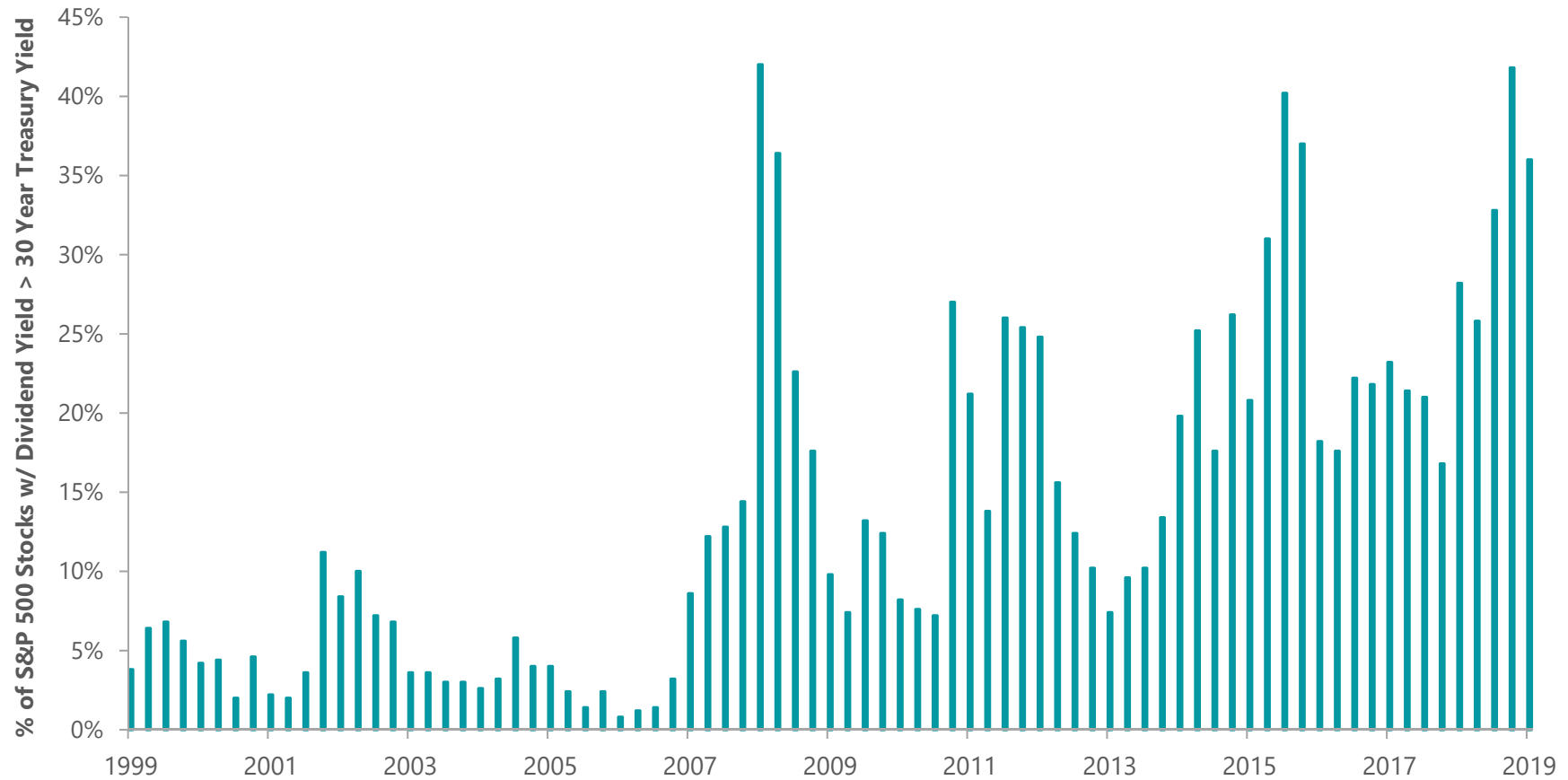
## S&P 500 Minus Yield to Maturity of 10-Year Treasury

### Valuations at Equity Market Peaks Ahead of Recessions

Date	Earnings Yield	10-Year Treasury Yield	Spread	Length of Economic Expansion (Years)
Nov. 1968	5.6%	5.8%	-0.2%	8.8
Jan. 1973	5.2%	6.5%	-1.3%	3.0
Feb. 1980	12.6%	12.7%	-0.1%	4.8
Nov. 1980	11.0%	12.7%	-1.8%	1.0
July 1990	6.0%	8.3%	-2.3%	7.7
March 2000	3.2%	6.0%	-2.8%	10.0
Oct. 2007	5.5%	4.5%	1.1%	6.1
<b>Average</b>	-	-	<b>-1.1%</b>	<b>5.9</b>
Current	4.1%	1.9%	2.2%	10.5

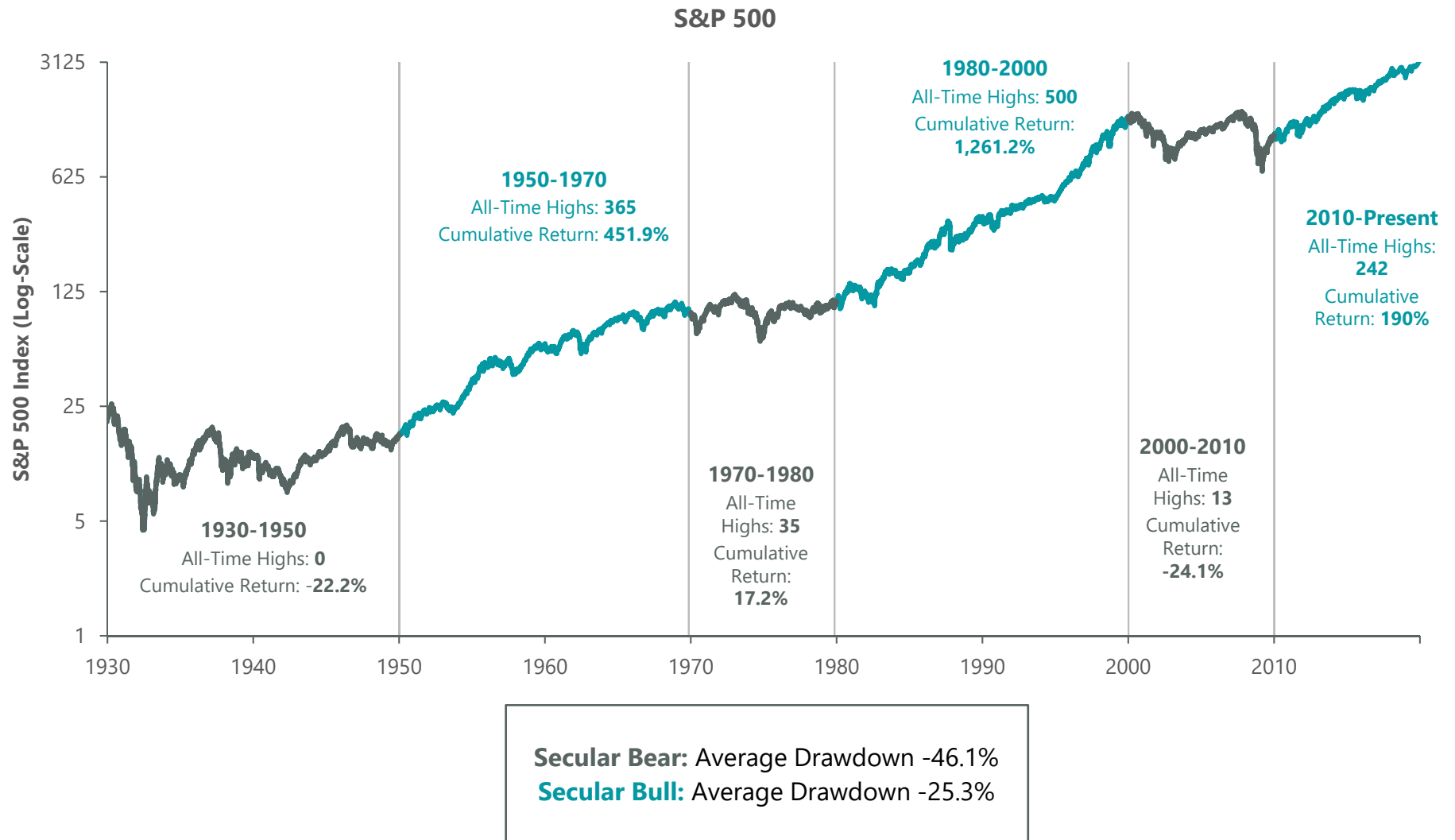
- ▶ **Compared to the longest US economic expansions, the current valuation of stocks compared to bonds appears attractive.**

# Dividend Paying Equities Attractive





► **36% of S&P stocks now have a dividend yield greater than the 30-year Treasury.**

# New Secular Bull Market?



# Biographies

Name and Position	Industry Experience	ClearBridge Tenure	Education, Experience and Professional Designations
 <p><b>Jeffrey Schulze CFA</b> Director, Investment Strategist</p>	14 years	<ul style="list-style-type: none"> <li>• Joined ClearBridge in 2014</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the CFA Institute</li> <li>• Lord Abbett &amp; Co., LLC – Portfolio Specialist</li> <li>• BS in Finance from Rutgers University</li> </ul>
 <p><b>Josh Jamner CFA</b> Vice President, Investment Strategy Analyst</p>	10 years	<ul style="list-style-type: none"> <li>• Joined ClearBridge in 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Member of the CFA Institute</li> <li>• RBC Capital Markets - Assistant Vice President, Associate Strategist - U.S. Equity</li> <li>• Bessemer Trust - Assistant Vice President, Client Portfolio Analyst</li> <li>• BA in Government from Colby College</li> </ul>

# Glossary of Terms

**BEA:** Bureau of Economic Analysis

**GDP:** Gross Domestic Product

**P/E Ratio:** Price/Earnings ratio

**PMI:** Purchasing Manager's Index

**Quantitative easing (QE):** Monetary policy implemented by a central bank in which it increases the excess reserves of the banking system through the direct purchase of debt securities.

**Yield Curve:** Comparison of interest rates at a point in time of bonds with equal credit quality but different maturity dates.

**YoY:** Year Over Year

**U.S. Treasuries:** Direct debt obligations issued and backed by the "full faith and credit" of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasuries when the securities are held to maturity. Unlike U.S. Treasury securities, debt securities issued by the federal agencies and instrumentalities and related investments may or may not be backed by the full faith and credit of the U.S. government. Even when the U.S. government guarantees principal and interest payments on securities, this guarantee does not apply to losses resulting from declines in the market value of these securities.

**S&P 500 Index:** Unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S.

**Shibor:** Shanghai Interbank Offered Rate

# Additional Important Information

Past performance is no guarantee of future results.

©2020 Legg Mason Investor Services, LLC, member FINRA, SIPC. "Anatomy of a Recession" is a trademark of ClearBridge Investments, LLC. Legg Mason Investor Services, LLC and ClearBridge Investments, LLC are subsidiaries of Legg Mason, Inc.

All opinions and data included in this presentation are as of January 2020 unless noted otherwise and are subject to change. The opinions and views expressed herein are of the presenter and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments nor its information providers are responsible for any damages or losses arising from any use of this information.

All investments involve risk, including loss of principal. Equity securities are subject to price fluctuation and possible loss of principal. Fixed-income securities involve interest rate, credit, inflation, and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed-income securities falls. An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges.

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, 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.

923354-CBAX539422

**This material is approved for distribution in those countries and to those recipients listed below. Note: this material may not be available in all regions listed.**

**All investors and eligible counterparties in Europe, the UK, Switzerland:** In Europe (excluding UK and Switzerland), this financial promotion is issued by Legg Mason Investments (Ireland) Limited, registered office 6th Floor, Building Three, Number One Ballsbridge, 126 Pembroke Road, Ballsbridge, Dublin 4, D04 EP27. Registered in Ireland, Company No. 271887. Authorized and regulated by the Central Bank of Ireland.

**All Qualified Investors in Switzerland:** In Switzerland, this financial promotion is issued by Legg Mason Investments (Switzerland) GmbH, authorised by the Swiss Financial Market Supervisory Authority FINMA. Investors in Switzerland: The representative in Switzerland is FIRST INDEPENDENT FUND SERVICES LTD., Klausstrasse 33, 8008 Zurich, Switzerland and the paying agent in Switzerland is NPB Neue Privat Bank AG, Limmatquai 1, 8024 Zurich, Switzerland. Copies of the Articles of Association, the Prospectus, the Key Investor Information

documents and the annual and semi-annual reports of the Company may be obtained free of charge from the representative in Switzerland.

**All investors in the UK:** In the UK this financial promotion is issued by Legg Mason Investments (Europe) Limited, registered office 201 Bishopsgate, London EC2M 3AB. Registered in England and Wales, Company No. 1732037. Authorized and regulated by the Financial Conduct Authority. Client Services +44 (0)207 070 7444

**All Investors in Hong Kong and Singapore:** This material is provided by Legg Mason Asset Management Hong Kong Limited in Hong Kong and Legg Mason Asset Management Singapore Pte. Limited (Registration Number (UEN): 200007942R) in Singapore.

**This material has not been reviewed by any regulatory authority in Hong Kong or Singapore.**

**All Investors in the People's Republic of China ("PRC"):** This material is provided by Legg Mason Asset Management Hong Kong Limited to intended recipients in the PRC. The content of this document is only for Press or the PRC investors investing in the QDII Product offered by PRC's commercial bank in accordance with the regulation of China Banking Regulatory Commission. Investors should read the offering document prior to any subscription. Please seek advice from PRC's commercial banks and/or other professional advisors, if necessary. Please note that Legg Mason and its affiliates are the Managers of the offshore funds invested by QDII Products only. Legg Mason and its affiliates are not authorized by any regulatory authority to conduct business or investment activities in China.

**This material has not been reviewed by any regulatory authority in the PRC.**

**Distributors and existing investors in Korea and Distributors in Taiwan:** This material is provided by Legg Mason Asset Management Hong Kong Limited to eligible recipients in Korea and by Legg Mason Investments (Taiwan) Limited (Registration Number: (98) Jin Guan Tou Gu Xin Zi Di 001; Address: Suite E, 55F, Taipei 101 Tower, 7, Xin Yi Road, Section 5, Taipei 110, Taiwan, R.O.C.; Tel: (886) 2-8722 1666) in Taiwan. Legg Mason Investments (Taiwan) Limited operates and manages its business independently.

This material has not been reviewed by any regulatory authority in Korea or Taiwan.

**All Investors in the Americas:** This material is provided by Legg Mason Investor Services LLC, a U.S. registered Broker-Dealer, which includes Legg Mason Americas International. Legg Mason Investor Services, LLC, Member FINRA/SIPC, and all entities mentioned are subsidiaries of Legg Mason, Inc.

**All Investors in Australia:** This material is issued by Legg Mason Asset Management Australia Limited (ABN 76 004 835 839, AFSL 204827) ("Legg Mason"). The contents are proprietary and confidential and intended solely for the use of Legg Mason and the clients or prospective clients to whom it has been delivered. It is not to be reproduced or distributed to any other person except to the client's professional advisers.