

# CLEARBRIDGE LARGE CAP GROWTH PORTFOLIOS

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Portfolio Managers

## Large Cap Growth Portfolios

### Annualized returns net and gross of fees — PRELIMINARY

(%) as of June 30, 2015

	1-mo	QTR	YTD	1-yr	3-yr	5-yr	7-yr	10-yr
Net of fees	-1.35	1.49	4.46	11.64	19.17	17.47	9.59	5.55
"Pure" gross of fees	-1.11	2.23	6.00	14.96	22.70	20.95	12.86	8.71
Russell 1000 Growth Index	-1.76	0.12	3.96	10.56	17.99	18.59	10.50	9.10

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit**

**[www.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors) for the latest performance figures.**

**YTD numbers are not annualized.**

Quarterly and YTD numbers are not annualized. **Past performance is no guarantee of future results.** Please see the GIPS® endnotes for important additional information regarding the portfolio performance and for effects of fees. Management and performance of individual accounts may vary for reasons that include the existence of different implementation and model requirements in different investment programs.

**Fees:** Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance includes the deduction of a 3.0% annual wrap fee, which is the maximum anticipated wrap fee for equity and balanced portfolios. Actual fees may vary. For fee schedules, contact your financial professional, or if you enter into an agreement directly with Legg Mason Private Portfolio Group, LLC (LMPPG), refer to LMPPG's Form ADV disclosure document.

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

## Market overview and outlook

U.S. stocks traded in a tight range during the second quarter, with the major indexes ending slightly higher. The broad S&P 500 Index gained 0.28% for the quarter, the Russell 1000 Growth Index edged 0.12% higher, while the small-cap Russell 2000 Index added 0.42%.

Volatility declined as investors awaited a clear signal from the Federal Reserve on when it will commence raising short-term interest rates. The S&P 500 sustained its longest stretch without a 2% daily move up or down since 2007. That more than six-month stint was snapped on June 29 when the index fell 2.09% following the breakdown of talks between Greece and its creditors. The sharp drop – the largest for the S&P 500 since April 2014 – pared gains for most equity benchmarks.

Such a period of restrained volatility is not atypical, as volume decreases leading into the summer months. However, the sanguine nature of domestic markets compared to Germany, for example, where equity volatility is double that of the U.S., creates fewer opportunities to take advantage of price dislocations for quality growth stocks. In the absence of price swings, we can count on the ability of our portfolio companies to run their businesses effectively. We are confident buy-and-hold investors in this environment, thanks to the initial and ongoing research and stress testing we conduct on our portfolio companies. That confidence is due in large part to the stalwart balance sheets and reliable cash flows supporting companies like Amazon.com and UnitedHealth Group and enabling those stocks to thrive as equities in general struggle to generate top-line growth.

As with stocks, the U.S. economy continued its slow march forward through the second quarter. Employment continued to lead the way, with payrolls increasing by an average of 221,000 per month, and the unemployment rate declining to 5.3%, its lowest level since April 2008. Consumer spending and new and existing home sales showed healthy improvement in May, while consumer confidence bounced back late in the quarter. The CEO of a major retailer we spoke with during the quarter indicated that consumers are now feeling good enough about their finances to expand purchases from basic staples to higher-priced apparel and home furnishings. Offsetting those gains were disappointing reports on GDP growth, with the final revision to first-quarter data showing that the economy contracted by 0.2% in the three months of the year, as well as industrial production.

The mixed domestic economic picture is less of a concern for U.S. multinationals than the ongoing softness in global demand. Spending in the emerging markets, a major demand driver for companies like Coca-Cola and Eaton Corp., remains weak, while the sustained rise in the U.S. dollar makes it more difficult for borrowers to service their dollar-denominated debt. And as we explained last quarter, a strong greenback has caused many of the export-driven large-cap companies we own to lower their earnings estimates for the year. On the bright side, dollar strength could cause the Federal Reserve to maintain its cautious stance on rates. Fed Chair Janet Yellen asserted in June that the committee still needs to see further improvement in labor markets, wages and inflation before tightening policy.

As the global economy muddles along, we have repositioned the portfolio for an expected low-growth environment by trimming positions in some of our select, higher-beta growth stocks and adding to more stable growth companies with dominant franchises and consistent cash flows. We are maintaining our existing exposure to cyclical growth companies, which consist primarily of energy stocks, as we believe that the names we own have the fundamentals to gain share as commodity prices stabilize.

Our commitment to owning a range of growth companies is a key differentiator from other growth strategies and is now reflected in more significant sector variances for the portfolio compared with our benchmark. Following the annual rebalancing of the Russell indices in late June, energy now represents less than 1% of the Russell 1000 Growth Index, down from 4.5% previously, while health care represents over 18%, up from 14.5%. As a result, our energy overweight has increased, while we now have an underweight to health care. We point out these differences to illustrate that fundamental

views of individual growth companies, rather than formulaic, market cap-based rules, guide our portfolio construction.

An emphasis on quality growth companies proved beneficial to the portfolio during the second quarter, and we believe the fundamental strength of such stocks will enable them to continue to deliver above-average growth over the long term.

## Portfolios' highlights

The ClearBridge Large Cap Growth Portfolios returned 2.23% (gross of fees) for the second quarter, while the benchmark Russell 1000 Growth Index gained 0.12% for the same period. Over the longer term, the Portfolios have outperformed the benchmark for the 1-, 3-, 5- and 7-year periods ended June 30, 2015 (gross of fees).

For the second quarter, on an absolute basis, the greatest contributors to performance were the Portfolios' holdings in the consumer discretionary, energy and information technology (IT) sectors.

Relative to the benchmark, both overall stock selection and sector allocation contributed to performance. In particular, stock selection in the consumer discretionary, industrials, energy and IT sectors drove relative returns. Stock selection in the health care sector was the primary detractor from performance.

In terms of individual stocks, the greatest contributors to quarterly returns included the Portfolios' positions in Amazon.com, YUM! Brands and Walt Disney, in the consumer discretionary sector, Cameron International, in the energy sector, and Microsoft, in the IT sector. The greatest detractors from returns included the Portfolios' positions in Biogen, in the health care sector, LinkedIn, Texas Instruments and Google, in the IT sector, and BlackRock, in the financials sector.

## Top contributors<sup>1</sup>

Top contributors	Contribution to equity return %
Amazon.com, Inc.	0.60
Cameron International Corporation	0.27
Microsoft Corporation	0.25
YUM! Brands, Inc.	0.23
Walt Disney Company	0.23

Source: FactSet.

In terms of individual stocks, the top contributors to Portfolio performance for the quarter included:

Amazon.com (AMZN), in the consumer discretionary sector, is a leading retail e-commerce site that continues to benefit from the migration of commerce from offline to online. Shares responded positively to the company's latest earnings results, which showed robust growth in its Amazon Web Services cloud business, the first quarter they have broken out AWC contribution.

Cameron International (CAM), in the energy sector, provides flow equipment products, systems and services to the oil and gas drilling industry worldwide. Shares were lifted by earnings results that topped expectations, as well as stabilization in commodity prices.

Microsoft (MSFT), in the IT sector, develops software including the Windows family of products, the Microsoft Office system, Servers and Tools, and the Bing search engine. The company also designs video game consoles. The stock responded positively to the rapid expansion of the company's cloud business, Azure, as well as positive data points on Office 365 uptake and the upcoming launch of Windows 10.

YUM! Brands (YUM), in the consumer discretionary sector, operates the KFC, Pizza Hut and Taco Bell fast-food restaurant chains. The stock benefited from first-quarter earnings that topped forecasts on strength in its Taco Bell business in the U.S. and signs of recovery in China.

Walt Disney (DIS), in the consumer discretionary sector, is an entertainment company that conducts operations in media networks, studio entertainment, theme parks and resorts, consumer products, and interactive media. Shares continued to

climb during the quarter on solid execution and strength in its studio business.

## Bottom contributors<sup>1</sup>

Bottom contributors	Contribution to equity return %
Biogen Inc.	-0.15
Texas Instruments Incorporated	-0.15
LinkedIn Corporation Class A	-0.14
BlackRock, Inc.	-0.12
Google Inc. Class C	-0.10

Source: FactSet.

The bottom contributors to Portfolio performance for the quarter included: Biogen (BIIB), in the health care sector, is a biotechnology company that focuses on developing therapies for use in the areas of oncology, neurology and hematology. The company's shares sold off slightly in the quarter on profit taking following a very strong first quarter.

Texas Instruments (TXN), in the IT sector, is a global semiconductor company that designs and supplies analog technologies and digital signal processing (DSP) and microcontroller (MCU) semiconductors. The stock sold off following first-quarter results that missed expectations and a lowered forecast for the current quarter due to softness in its communications and device businesses, as well as the negative impact of a stronger dollar.

LinkedIn (LNKD), in the IT sector, operates the leading social networking website for business and offers career-related services to corporate customers. Shares were pressured by quarterly results that missed forecasts and a lowered outlook for the rest of the year stemming from weak advertising spending and currency effects.

BlackRock (BLK), in the financials sector, provides a broad range of investment management services and products to retail and institutional investors worldwide. Asset managers with large fixed income exposure were sold in the quarter, with the large movement in the Treasury markets.

Google (GOOG), in the IT sector, is the dominant Web search engine, and through its subsidiary YouTube, the largest display advertiser on the Internet. Google's Android also has the largest market share in smartphone operating systems. Fears of disintermediation in mobile search growth from apps, as well as further monetary penalty risk from the EU, weighed on shares in the quarter.

<sup>1</sup> Holdings, sector weightings, market capitalization and portfolio characteristics are based on a representative portfolio within the composite and are subject to change at any time. Holdings, sector weightings, market capitalization and portfolio characteristics of individual client portfolios in the program may differ, sometimes significantly, from those shown. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the sectors and securities listed, and it should not be used as the sole basis for any investment decision.

## Market capitalization<sup>2</sup>

Market cap breakdown (\$)	Portfolio weight	Benchmark weight
Above 50 billion	68.48	55.49
25-50 billion	12.80	15.94
10-25 billion	14.21	16.34
3-10 billion	4.51	12.02
0-3 billion	0.00	0.21
<b>Weighted average market cap (\$bil)</b>	<b>121.88</b>	<b>125.62</b>

Source: FactSet.

## Top 10 holdings<sup>2</sup>

Top 10 holdings	Benchmark weight
CVS Health Corp	3.65
Google Inc	3.63
Amazon.com Inc	3.59
Biogen Inc	3.33
Celgene Corp	3.30
Visa Inc	3.19
Home Depot Inc/The	3.00
Schlumberger Ltd	2.98
Walt Disney Co/The	2.91
UnitedHealth Group Inc	2.86
<b>Total number of holdings</b>	<b>47</b>

Source: FactSet.

## Sector highlights<sup>2</sup>

Average sector weightings and performance (%)						
Gross of fees from 3/31/15 to 06/30/15						
Sector	Port. Weight	Port. return	Bench-mark*	Bench-mark*	Weight diff.	Active contrib
Information Technology	30.38	1.49	28.65	0.25	1.73	0.37
Health Care	18.13	0.74	14.49	3.97	3.65	-0.44
Consumer Discretionary	16.35	7.99	18.94	2.91	-2.59	0.72
Industrials	10.92	-0.10	11.52	-5.04	-0.60	0.59
Consumer Staples	7.45	0.16	10.42	-1.92	-2.97	0.23
Financials	6.71	-1.28	5.33	-2.25	1.38	0.03
Energy	6.19	9.05	4.52	0.07	1.67	0.57
Materials	1.77	-4.85	3.96	-0.49	-2.19	-0.05
Telecomm Service	0.00	0.00	2.10	-3.06	-2.10	0.07
Utilities	0.00	0.00	0.08	-12.44	-0.08	0.01
Cash	2.11	0.00	0.00	0.00	2.11	-0.01

\*Benchmark: Russell 1000 Growth Index.

Source: FactSet.

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## Important information

All opinions and data included in this market commentary are as of the date indicated and are subject to change. The opinions and views expressed herein are those of the portfolio managers specified and may differ from those of other managers or the firm as a whole, and they are not intended to be relied upon as a prediction or forecast of actual future events or performance, or a guarantee of future results, or investment advice. Discussion of individual securities is intended to inform shareholders as to the basis (in whole or in part) for previously made decisions by a portfolio manager to buy, sell or hold a security in a portfolio. The information contained should not be used as the sole basis to make any investment decisions. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Securities referenced should not be construed as a solicitation or recommendation or be used as the sole basis for any investment decision.

Please refer to [www.leggmason.com/individualinvestors](http://www.leggmason.com/individualinvestors) for more information about the Portfolio, including objective, risks and investment process. The information presented does not constitute and should not be construed as investment advice with respect to any investment discussed. There is no guarantee that investment objectives will be met. An investor cannot invest directly in an index. Investments are not FDIC insured or guaranteed by any government agency. Values may fluctuate due to market conditions and other factors.

Past performance is no guarantee of future results.

## Risks

All investments involve risk, including loss of principal, and there is no guarantee that investment objectives will be met.

Investments may also be made in ADRs and other securities of non-U.S. companies in developed and emerging markets, which involve risks in addition to those ordinarily associated with investing in domestic securities, including the potentially negative effects of currency fluctuation, political and economic developments, foreign taxation, and differences in auditing and other financial standards. These risks are magnified in emerging markets.

## Definitions and additional information

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

**The Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

**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 Russell 1000 Growth Index** measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared with the difference between a company's assets and liabilities.)

**The Russell 2000 Index** is an unmanaged list of common stocks that is frequently used as a general performance measure of U.S. stocks of small and/or midsize companies.

**The S&P 500 Index** is a capitalization-weighted, composite index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charge.

Separately Managed Accounts (SMAs) are investment services provided by Legg Mason Private Portfolio Group, LLC (LMPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by one or more of the following Legg Mason-affiliated sub-advisors: ClearBridge Investments, LLC and Western Asset Management Company. Management is implemented by LMPPG, the designated sub-advisor or, in the case of certain programs, the program sponsor or its designee.

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FN1512814 525866-AMXX109361

ClearBridge Large Cap Growth SMA – GIPS® endnotes (\$USD) — Ending December 31

Inception date: January 2006; Composite creation date: June 2008

Period	Total return (net)	Total return (pure gross)	Russell 1000		% of bundled portfolios in the composite	Composite dispersion	Composite 3 Yr. Standard Deviation	Benchmark 3 Yr. Standard Deviation	Total composite assets at end of period		Total firm assets at end of period
			Growth Index return	Number of portfolios					(USD million)	% of firm assets	
2014	11.28%	14.59%	13.05%	452	100	0.13%	10.25%	9.73%	825.9	0.8%	100,721.5
2013	34.88%	38.83%	33.48%	359	100	0.71%	12.61%	12.35%	715.1	0.8%	85,024.7
2012	17.79%	21.27%	15.26%	2,864	100	0.43%	16.28%	15.88%	545.2	1.0%	54,624.3
2011	-1.84%	1.12%	2.64%	2,708	100	0.42%	18.66%	18.01%	385.9	0.8%	50,870.8
2010	7.29%	10.49%	16.71%	3,264	100	0.72%	n/a	n/a	481.3	0.9%	55,366.5
2009	32.49%	36.37%	37.21%	4,129	100	1.98%	n/a	n/a	573.0	1.1%	53,522.7
2008	-39.53%	-37.63%	-38.44%	4,113	100	1.08%	n/a	n/a	435.3	0.9%	50,614.9
2007	0.97%	4.00%	11.81%	6,280	100	1.15%	n/a	n/a	1,043.0	2.2%	47,112.0
2006	5.01%	8.15%	9.07%	7,741	100	0.89%	n/a	n/a	1,271.0	2.4%	54,077.6
2005	2.39%	5.46%	5.26%	10,465	100	0.96%	n/a	n/a	n/a	n/a	n/a

**COMPLIANCE STATEMENT:** ClearBridge Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. ClearBridge Investments, LLC has been independently verified for the periods January 1, 1997 - December 31, 2013. The verification reports are available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

**FIRM INFORMATION:** ClearBridge Investments, LLC ("ClearBridge") is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason"). The investment advisory business now known as ClearBridge was registered in September 2005 to facilitate Legg Mason's acquisition of substantially all the equity asset management businesses known as Citigroup Asset Management. These former businesses serve as the foundation of ClearBridge and its claim of GIPS compliance for institutional accounts through predecessor firms, effective as of January 1997. In June 2008, ClearBridge combined this business with its retail business to form a single GIPS firm. On April 1, 2013, ClearBridge's affiliate, Global Currents Investment Management, LLC, was merged into ClearBridge.

**COMPOSITE INFORMATION:** The ClearBridge Large Cap Growth SMA composite consists of discretionary wrap accounts with an account minimum of US \$25,000. Accounts within the composite seek consistent growth of capital while minimizing volatility. Investments are primarily made in U.S. companies, with an objective of outperforming the Russell

1000 Growth Index. The main risks of this strategy are General Investment Risk and Non-U.S. Investment Risk. Prior to June 2008, the minimum was \$5,000.

**INPUT AND CALCULATION DATA:** The fee schedule currently in effect is 3.00% on all assets. Net of fee composite returns are calculated by reducing each monthly composite pure gross rate of return by the highest "bundled" fee charged (3.00%) annually, prorated to a monthly ratio. The "bundled" fee includes transaction costs, investment management, custodial, and other administrative fees. Pure gross returns shown do not reflect the deduction of "bundled" fees and are presented as supplemental information to net returns. As of January 2014, the internal dispersion of annual returns is measured by the asset-weighted standard deviation of portfolio returns included in the composite for the entire year. For prior years, the equal-weighted standard deviation was used. The composite employed a 10% significant cash flow policy which was discontinued in January 2012. Data prior to January 2006 is presented as non-compliant information. Total firm assets for years ending 2006 and 2007 represent the CBI-Retail firm. Effective January 1, 2013, the number of portfolios reflects a change from prior periods due to an aggregation of accounts as reported by one sponsor. A list of composite descriptions is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Past performance is not necessarily indicative of future results.

**BENCHMARK INFORMATION:** The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.