

ClearBridge

Investments

Aggressive Growth Strategy



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Key Takeaways

- ▶ Positive momentum carried equities to new highs, with communication services stocks among the best performers.
- ▶ The potential for M&A activity among exploration and production companies was an encouraging sign that quality assets and free cash flow are being appreciated in the energy sector.
- ▶ Political rhetoric over changes to Medicare and continued scrutiny of drug pricing weighed on the health care sector.

Market Overview and Outlook

The U.S. equities market notched record highs as the 2019 rally continued in April. The S&P 500 Index rose 4.05%, the Russell 2000 Index advanced 3.40% while the Russell 3000 Index gained 3.99%. Growth stocks once again outperformed their value counterparts, with the benchmark Russell 3000 Growth Index gaining 4.41% compared to 3.56% for the Russell 3000 Value Index.

An accommodative Federal Reserve and signs a trade deal could be reached between the U.S. and China continued to lay a strong foundation for equities, which began the month with their longest winning streak since October 2017. The communication services and information technology (IT) sectors were among the best performers, with diversified media companies and content programmers like Comcast continuing to rebound.

Oil prices rose 6.3% during the month as more positive sentiment on global growth painted a rosier demand picture and the U.S. announced an end to waivers on Iran sanctions, removing some supply already crimped by U.S. sanctions on Venezuela and conflict in Libya.

Energy was a leading contributor to performance as our expectation of increased consolidation in the sector continued to play out with multiple acquisition offers for portfolio holding Anadarko Petroleum. Following an initial \$65 per share offer from integrated oil major Chevron, Occidental Petroleum stepped in with a \$76 per share bid. While a resolution to the bidding war has not been reached, both companies are drawn to Anadarko's disciplined approach to production, which is focused on maximizing free cash flow, and its attractive asset base across the shale-rich Permian Basin as well as overseas.

Current headwinds facing health care are sentiment-driven and sound fundamentals remain intact across the sector.

Recent political rhetoric over potentially sweeping changes to Medicare and ongoing scrutiny of prescription drug prices, meanwhile, led to a correction in the health care sector. The portfolio's overweight to health care was the primary detractor from performance as managed care provider UnitedHealth Group and our largest biotechnology holdings bore the brunt of the selling. We believe, however, that most of the current headwinds facing health care are sentiment-driven and that sound fundamentals and the opportunity for scientific breakthroughs in the clinic remain intact.

We have always managed the Aggressive Growth Strategy as long-term business owners, taking small positions in promising companies before they are widely followed or when they are working through short-term issues and holding them as they develop into larger franchises. We believe FireEye, a provider of cybersecurity solutions that help organizations prevent, detect and remediate highly sophisticated cyberattacks, is one such company. We recently initiated a position in FireEye, which is cash flow positive and trades at one of the most attractive valuations in the information security industry.

We continue to see solid results across our technology holdings, which maintain strong competitive positions in the markets they serve. Autodesk, a leader in design software, and TE Connectivity, which develops sensors for applications ranging from electric vehicles and self-driving systems to new 5G wireless technology, were strong performers in April. We believe these types of companies are starting to be recognized as market leadership broadens and the mega cap IT and Internet leaders of the last several years come under greater competitive and regulatory scrutiny.

Portfolio Highlights

The ClearBridge Aggressive Growth Strategy outperformed its Russell 3000 Growth Index benchmark in April. On an absolute basis, the Strategy had gains across six of the eight sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the communication services, IT and energy sectors.

Relative to the benchmark, overall stock selection contributed to performance. In particular, stock selection in the energy and communication services sectors and an overweight allocation to communication services drove relative results. On the negative side, an overweight to the health care sector and stock selection in health care detracted the most from performance.

On an individual stock basis, positions in Anadarko Petroleum, Comcast, TE Connectivity, Autodesk and Twitter were the greatest contributors to absolute returns during the month. The largest

detractors included UnitedHealth Group, Vertex Pharmaceuticals, Biogen, Ionis Pharmaceuticals and Amgen.

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