LEGG MASON
GLOBAL ASSET MANAGEMENT

Legg Mason Royce
US Small Cap Opportunity Fund

Fund performance

Annualised (%)[1]	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	Since inception
Class A Acc USD	**-5.35**	**14.23**	**14.23**	**-7.47**	**10.96**	**2.72**	**4.71**
Class A Acc USD (Inclusive of sales charge)	-10.08	8.51	8.51	-12.10	9.07	1.67	4.26
Benchmark: Russell 2000 Index	-2.09	14.58	14.58	2.05	12.92	7.05	6.75

Past performance is not a reliable indicator of future results

Monthly review

What happened in the market? The U.S. stock market rallied for a third consecutive month in March, albeit with periods of volatility. The market was supported by positive corporate earnings and hopes for a trade agreement between the U.S. and China. In addition, the Fed appeared to take any interest rate hikes off the table for 2019. These positives were partially offset by signs of weakening global economic data and continued uncertainties surrounding Brexit. All told, the S&P 500 Index gained 1.94% in March, boosting its year-to-date return to 13.65%. Nine of the 11 sectors within the S&P 500 generated positive returns in March. The sectors that produced the best results were real estate, information technology and consumer discretionary. The sectors posting the weakest results were financials, industrials and health care. Growth stocks outperformed value stocks during the month, with the Russell 3000 Growth Index and the Russell 3000 Value Index returning 2.53% and 0.39%, respectively. From a market capitalization perspective, large-, mid- and small-cap stocks, as measured by the Russell 1000, Russell Midcap and Russell 2000 Indexes, returned 1.74%, 0.86% and -2.09% in March, respectively. All returns are in U.S. dollar terms.

What happened in the Fund? The Fund generated a negative return of 5.35%, underperforming its benchmark, the Russell 2000 Index, which fell 2.09%. Ineffective stock selection detracted the most from the Fund's relative results, with sector allocation having a very modest negative impact. Poor stock picking hurt most within information technology and consumer discretionary, particularly in the first sector's semiconductors & semiconductor equipment industry. Health care and industrials also had sizable negative impacts. In industrials, this was mostly due to the laggards in the machinery industry, while in health care the portfolio's holdings in the health care providers & services industry disappointed. Energy was the largest contributor to results, largely due to savvy stock selection and our overweight in oil, gas & consumable fuels. Our underweight in financials also boosted relative results, as the sector lagged the Russell 2000 as a whole in the first quarter.

What did the portfolio manager do? The portfolio manager continued to take advantage of attractive stock prices. In the last few months, many small-cap stocks have reported earnings that are in line with or better than expectations, while others have continued to grapple with performance issues as they tried to execute on turnaround plans. Valuations in several areas continue to look very attractive for long-term investors. For example, the scenario for potentially profitable investments in housing is straightforward: The U.S. has high employment, interest rates remain low, and housing inventory is limited. We also see stock prices among many companies in this industry that reflect none of these fundamental advantages. In addition, the pause in the business cycle for semiconductor capital equipment looks to us as if it's about to come to a sudden halt. The lack of a fast and abrupt drop in sales of electronic goods, autos, and mobile devices could in fact ensure a fast and reasonably robust rebound by the end of 2019. So while small-caps have rallied considerably so far in 2019 (along with the rest of the U.S. market), we see plenty of attractive value in U.S. small-cap stocks.

What is the outlook? We continue to see no signs of a recession, and the reporting season gave us more confidence in another good year for domestic earnings. While headwinds are undoubtedly present in the form of tariffs, anemic global growth, contracting liquidity and the risk of recession, we have enough positive information from companies and on the industry level to indicate that slower growth seems more likely in 2019 than recession. We're hopeful for positive performance moving forward—in particular because down years for U.S. small-caps have often been followed by strong ones.

Investment Aim: The Fund seeks to achieve long-term capital appreciation by investing at least 70% of its Net Asset Value in a diversified portfolio of equity securities issued by small- and micro-cap U.S. companies (market capitalisations of less than US$3 billion). The Sub-Investment Manager attempts to take advantage of what it believes are opportunistic situations for undervalued securities.

PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

IMPORTANT INFORMATION:

This Fund is managed by Royce & Associates

[1] Source: Legg Mason. Performance is calculated on a NAV to NAV basis (in USD terms) with income and dividends reinvested, if any, without initial charges but reflecting annual management fees. Performance for periods above one year is annualised. **Investment involves risks. Past performance is not indicative of future results**. Inception Date: 9 May 2007.