LEGG MASON
GLOBAL ASSET MANAGEMENT

- **INVESTMENT INVOLVES RISKS. The value of the Fund can be volatile and investors may not get back the amount originally invested. Past performance is not indicative of future results.**
- The Fund is a sub-fund of Legg Mason Global Funds plc, an open-ended umbrella investment company constituted in Ireland. 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.
- Investors will be exposed to equity market, concentration, custody and settlement, US markets and currency risks.
- Securities of smaller companies generally are less liquid and more volatile than those of larger companies; and smaller companies generally are more likely to be adversely affected by poor economic or market conditions.
- In light of the investment style of the Fund, the Fund may face the risk of mis-estimation by the Sub-Investment Manager in its fundamental analysis regarding the companies in which the Fund invests. The performance of the Fund may not closely correlate to specific market indices over time and may include extended periods of underperformance as compared to the broader market.
- Investors should not invest based on this marketing material alone. Offering documents should be read for further details, including the risk factors.

Legg Mason Royce
US Small Cap Opportunity Fund

Fund performance

Cumulative (%)[1]	3-Month	YTD	1-Year	3-Year	5-Year	Since inception
Class A Acc. (USD)	**-24.39**	**-21.35**	**-21.35**	**22.42**	**3.25**	**51.42**
Benchmark: Russell 2000 Index	-20.20	-11.01	-11.01	23.76	24.09	89.82

Rolling 12-month performance (%)[1] – period ending	31.12.18	31.12.17	31.12.16	31.12.15	31.12.14
Class A Acc. (USD)	**-21.35**	**20.82**	**28.83**	**-13.78**	**-2.18**
Benchmark	-11.01	14.65	21.31	-4.41	4.89

Monthly review

What happened in the market? The U.S. stock market ended the year on a negative note, as it fell sharply in December. Signs of moderating global growth, the ongoing trade dispute between the U.S. and China, concerns over future Federal Reserve (Fed) rate hikes, and a partial government shutdown in the U.S. caused investor sentiment to sour and triggered a broad-based decline. At one point, the S&P 500 Index narrowly averted a bear market (a decline of 20% from its peak). All told, the S&P 500 fell 9.03% in December. For the year, the S&P 500 declined 4.38% its worst annual return since 2008. Growth stocks outperformed value stocks during the month, with the Russell 3000 Growth Index and the Russell 3000 Value Index returning -8.83% and -9.78%, 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 -9.11%, -9.92% and -11.88% in December, respectively. For 2018 as a whole, the Russell 1000, Russell Midcap and Russell 2000 indexes returned -4.78%, -9.06% and -11.01%, respectively.

What happened in the Fund? The Fund generated a negative return and underperformed its benchmark, the Russell 2000 Index, year-to-date. In December, stock selection detracted most from the Fund's relative performance. However, sector allocation modestly contributed to results during the month. Industrials and consumer staples hurt performance most in December. In the first sector, stock picks in a number of industries detracted, while in the second ineffective stock selection in food & staples retailing products hurt most. Information technology also detracted most from results, mostly due to stock selection in semiconductors & semiconductor equipment. Consumer discretionary had a neutral impact on results, while the portfolio's cash position was additive in December.

What did the portfolio manager do? Small-cap stocks generally looked very inexpensive at the end of 2018, but we are focused as much on potential drivers of growth as we are on price. As such, we have been diligent and discriminating buyers, looking for what we see as the most promising combination of attractively low valuations and potential earnings growth, especially for companies that the market seems to have all but abandoned. This has resulted in investments in businesses involved in areas such as infrastructure, housing, health care services, and a number of areas within the technology space.

What is the outlook? We are guardedly optimistic about the ongoing health of the U.S. economy and the potentially positive effect that this could have on cyclical industries going forward, especially with stock prices falling to such low levels in December (and into early January). Our view is that the current slowing pace of U.S. growth differs greatly from a recession. We see the former, while increasing numbers of investors seem convinced of the latter. To us, a slower growth rate following peak levels is also part of the typical ebb and flow of any healthy economic cycle. So, while headwinds are undoubtedly present in the form of tariffs, the growing federal budget deficit, anemic global growth, and the risk of recession, we have enough positive information from companies and also on the industry level to indicate that a slower-growth economy seems more likely in 2019 than one that will contract.

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.

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PLEASE REFER TO THE IMPORTANT INFORMATION ON THE FINAL PAGE.

This Fund is managed by Royce & Associates

[1] Source: Legg Mason, as of 31 December 2018. Class A Acc USD performance is net of fees and is calculated on a NAV to NAV basis (USD). Performance for periods greater than one year is cumulative. Performance is based on reinvestment of any income and capital gains distribution derived from securities held in the Fund. Inception date: 9 May 2007. Class A Acc USD calendar year net of fees performance for year-to-date (-21.35%), 2018 (-21.35%), 2017 (20.82%), 2016 (28.83%), 2015 (-13.78%) and 2014 (-2.18%). Benchmark: Russell 2000 Index. **Investment involves risks. Past performance is not indicative of future results.**

IMPORTANT INFORMATION

The mention of any individual securities/funds should neither constitute nor be construed as a recommendation to purchase or sell securities, and the information provided regarding such individual securities/funds is not a sufficient basis upon which to make an investment decision.

The investment in micro-sized, small and mid-sized companies' securities involves special risks. The prices of securities of micro, small and mid-sized companies generally are more volatile than those of larger companies. Equities investments may involve risks, including issuer, industry, market and general economic related risks.

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Exchange rate changes may cause the value of overseas investments to rise or fall. Where the Fund's base currency is not US/ HK Dollars, US/HK Dollar-based investors are exposed to exchange rate fluctuations.

This document has not been reviewed by the Securities and Futures Commission in Hong Kong, the Financial Services Commission in Korea and the Monetary Authority of Macao in Macau.

Issuer: Legg Mason Asset Management Hong Kong Limited ("LMAMHK").

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