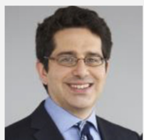
- **INVESTMENT INVOLVES RISKS. The value of the Fund can be volatile and investors may not get back the amount originally invested. Past performance is not indicative of future results.**
- Legg Mason ClearBridge Tactical Dividend Income Fund is a sub-fund of Legg Mason Global Funds plc, an open-ended umbrella investment company constituted in Ireland. The Fund's primary aim is to provide a high level of income with a secondary aim of generating long-term capital appreciation. The Fund seeks to achieve its objective by investing in a diversified portfolio of equity and equity-related securities including energy-oriented income producing companies and real estate investment trusts. The Fund may invest in issuers of any market capitalisation.
- Investors will be exposed to equity market, debt securities, credit, custody and settlement, liquidity and currency risks.
- The Fund may invest in emerging markets which involve special risks, including liquidity, volatility, currency, political, economic, legal and regulatory 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.
- Investments in Master Limited Partnerships and/ or Business Development Companies may be relatively illiquid, and may be more adversely affected by changes in economic or other conditions which could cause a substantial loss to the investments held by, hence the value of, the Fund.
- The Fund may invest in below investment grade/ unrated securities, which carry a higher degree of pricing volatility, market, counterparty default and liquidity risks.
- The Fund may use certain types of financial derivative instruments for hedging purposes, which may involve a higher degree of risk including but not limited to counterparty, volatility, liquidity, leverage and valuation risks, and the Fund may suffer a substantial loss.
- The Fund may invest in Real Estate Investment Trusts which involves additional risks.
- The directors of Legg Mason Global Funds Plc may at their discretion pay dividends out of capital of a Distributing Plus Share Class. The payment of dividends out of capital effectively amounts to a return or withdrawal of an investor´s original capital investment or of capital gains attributable to that original investment. Such distribution will result in a corresponding immediate decrease in the Net Asset Value per share of these Share Classes.
- Investors should not invest based on this marketing material alone. Offering documents should be read for further details, including the risk factors.

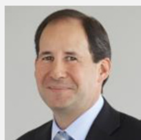
ClearBridge Investments Q3 2018

DIVIDEND STRATEGY



Michael Clarfeld, CFA

Managing Director, Portfolio Manager



Scott Glasser

Managing Director, Co-Chief Investment Officer, Portfolio Manager

Peter Vanderlee, CFA

Managing Director, Portfolio Manager

Key Takeaways

- During the quarter the portfolio benefited from strong performance in the industrials, health care and information technology (IT) sectors.
- Dividends today are a far more efficient mechanism for returning value to shareholders than they have been in decades.
- Growing cash flow is one of the best ways to offset rising interest rates, so as the rate cycle progresses, a portfolio of high-quality dividend growers can help to offset the ravages of higher interest rates.

Market Overview and Outlook

The third quarter was a good one for Dividend Strategy and the stock market overall. IT, health care, industrials and consumer discretionary stocks were all up around 10% or more in the market. Growth stocks continued to outperform, but by a much smaller margin than in the first half of the year.

It has been an excellent year for dividend growth. In the past year, dividends have increased 8%, up from 7% the year before. With its focus on dividend growers, the Legg Mason ClearBridge Tactical Dividend Income Fund is well positioned to benefit from this trend.

Economic activity continues to be brisk. Second-quarter gross domestic product (GDP) showed the U.S. economy growing at 4.2%, the highest level since 2014. Unemployment is a historically low 3.9%, while jobless claims reached the lowest rate in half a century. The economy's strength has enabled the Federal Reserve to continue raising interest rates. The Fed has raised rates four times in the last 12 months and expects to raise rates three more times in 2019.

As interest rates have risen, some investors have asked if dividend payers are still a good place to be. They see bonds offering better rates than they did a year ago and wonder if the time for dividends has passed. And, indeed, as interest rates have increased in the early part of this rate cycle, dividend-paying stocks have experienced turbulence. Dividend payers often underperform in the early part of a rising rate cycle. But as the cycle matures, dividend payers and especially dividend growers tend to more than recoup that initial underperformance.

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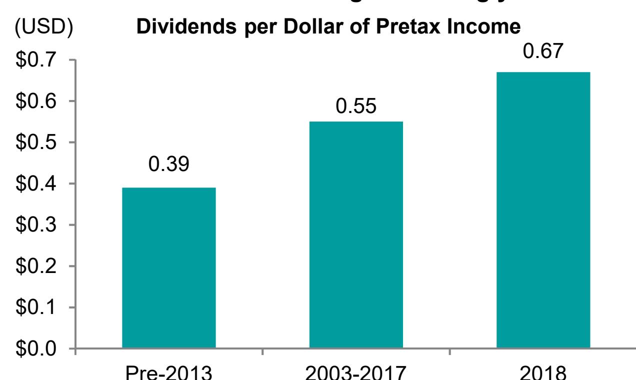
While there is no guarantee that the past is prologue in this interest rate cycle, there is good reason why dividend payers hold up well. Growing cash flow is one of the best ways to offset rising interest rates. So as the rate cycle progresses, a portfolio of high-quality dividend growers can help to offset the ravages of higher interest rates.

The healthy U.S. economy has driven strong corporate earnings in 2018, supporting robust dividend growth. Second quarter earnings reports released over the summer showed the third-highest growth rate since 2010.[1] Both the economy and corporate earnings reflect, in part, the benefit of the recent corporate tax cut. With lower tax bills, companies have more cash to distribute to shareholders.

The recent tax cut builds on a foundation that was laid in 2003, when the tax rate on qualified dividends was reduced to 15%.[2] This was a watershed event for dividend investors as it meaningfully reduced the drag of double taxation.[3] The recent corporate tax cuts further reduce the burden of double taxation, making dividends today a far more efficient mechanism for returning value to shareholders than they have been in decades. A dollar's worth of pretax income today generates up to 67 cents in dividend value, up dramatically compared to prior tax regimes (Exhibit 1).

Exhibit 1: Dividends Becoming Increasingly Attractive



Source: ClearBridge Investments. Pre-2003 assumes corporate tax rate of 35% and maximum marginal tax rate of 39.6%. 2003-2017 assumes corporate tax rate of 35% and qualified dividend tax rate of 15%. 2018 assumes corporate tax rate of 21% and qualified dividend tax rate of 15% for individuals earning under US$400,000 and households earning under US$450,000. For simplicity, table assumes a 100% payout ratio.

During the quarter the portfolio benefited from strong performance in the industrials, health care and IT sectors. In health care, Pfizer, Merck and Johnson & Johnson were all up double digits, lifted by: strong earnings, steady product approvals, positive clinical catalysts, good pipeline delivery and more benign regulatory rhetoric around drug pricing. In the IT sector, Microsoft all delivered nice performance for the portfolio. These companies exemplify our preference for stocks with recurring revenues, strong margins and returns and prodigious free cash flow.

The market has done well thus far in 2018 and the strong economy gives reason for continued optimism. At the same time, the list of risks is as long as it feels trite: rising rates, fiscal deficits, trade wars, regular wars, climate change, political uncertainty, geopolitical fragility – you get the point.

In this period, which we would generously term "interesting times", we remain steadfast and disciplined. We focus on high-quality companies with relatively less economic sensitivity and the potential to compound earnings and dividends at attractive rates over the long term. Today's bull market is nine years old and valuations are at cyclical highs. Against such a backdrop, we believe investing in a diversified portfolio of fundamentally strong dividend growers represents a sound course.

The market has done well thus far in 2018 and the strong economy gives reason for continued optimism.

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- A diverse family of specialized investment managers, each with its own independent approach to research and analysis
- Over a century of experience in identifying opportunities and delivering astute investment solutions to clients

* As of 30 September 2018.

[1] Source: S&P 500 Index. FactSet Earnings Insight, 7 September 2018.
[2] Prior to 2003 dividends were taxed at an individual's marginal tax rate.
[3] The shareholder is taxed first at the corporate level, as the corporation pays taxes, and then pays additional taxes on the dividends received.

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