

Dynamic Large Cap Value Equity

Quarterly Commentary

MARKET AND STRATEGY PERFORMANCE

Broad equity markets reached all-time highs as optimism for tax reform grew, hurricane damages—although devastating—were less than initially feared, and tensions with North Korea eased at the end of the quarter. Continued positive and steady economic momentum and corporate earnings also helped drive markets higher. Second quarter gross domestic product (GDP) was revised higher to 3.1%; however, a record hurricane season may dampen growth in the third quarter. On the other hand, rebuilding activity could contribute to a reacceleration in the fourth quarter. The labor market continued to tighten and the unemployment rate in the weather-impacted September jobs report showed a decline in the unemployment rate to a 16-year low of 4.2%—even as the labor force grew. Wage growth had been relatively benign until the September report showed an acceleration to 2.9% in the past year. Consumer confidence eased, especially in storm-affected areas, but consumers remained upbeat about the economy and the job market and continued to spend at a moderate pace. Housing was not a driver of growth, especially compared to the last market cycle, and has been impacted by a lack of affordable inventory and high prices. Pending home sales have declined in six of eight months so far this year.

The Federal Reserve (Fed) remained on a gradual path of normalizing monetary policy and signaled a likely tapering of the balance sheet in October. Additionally, expectations have been rising for an interest rate hike in December despite relatively low levels of inflation. Bond yields fell in July and August but rose sharply in September, leading to a relatively flat 10-year treasury yield for the quarter. West Texas Intermediate crude oil prices rose nearly 12% during the quarter in part from improving demand forecasts and falling inventories.

Despite geopolitical tensions and record natural disasters, U.S. equities ended the quarter at all-time highs. The S&P 500 advanced 4.5% during the quarter—extending year-to-date gains to 14.2%. Although growth stocks lagged value in September, growth stocks still led for the quarter and by a wide margin for the year. Small-cap stocks also edged large-cap stocks for the quarter, but trail for the year. In the broader market, technology had strong gains driven by semiconductors while consumer staples declined on food, beverage, and tobacco weakness. In large-cap value, valuation was a tailwind as stocks with low price-to-earnings (P/E) and price-to-book (P/B) outperformed those with higher valuations. Quality, on the other hand, was not in favor as stocks with high return on equity (ROE) ratios and low change in shares outstanding lagged. Momentum as a factor worked as intended during the quarter as high momentum outperformed low momentum, even with a slight reversal that occurred in September.

Dynamic Large Cap Value composite outperformed the Russell 1000 Value by approximately 2.6% during the third quarter, generating 5.70% (5.53% net) versus the benchmark return of 3.11%. Contribution from value was higher particularly from our overweight in stocks with lower P/E ratios, which have been strong performers for the quarter and year to date. The results from our quality factors varied as we gained marginal excess returns from an overweight to higher ROE companies, despite companies with lower ROE ratios leading the market. On the other hand, our overweight to companies repurchasing shares detracted from performance. Within sentiment factors, our exposure to stocks with higher volatility was a marginal contributor while our exposure to companies with higher price momentum was our largest contributor to performance from a factor basis.

Similar to last quarter, from a sector perspective, our stock selection from holdings in aerospace and defense contributed to performance within industrials. Our underweight in consumer staples, combined with our positive stock selection in food products, contributed to performance. Our overweight to financials and our positive stock selection in banks and diversified financials also contributed to outperformance. On the negative side, our overweight in consumer discretionary stocks, combined with poor stock selection in media companies, detracted from excess return. Our significant underweight in energy detracted from performance as energy companies reversed during the quarter, particularly in September—in tandem with the price of oil. Having no weight in telecommunications was a slight detractor during the quarter as companies, like Verizon, showed improvement in gaining wireless customers.

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STRATEGY CHANGES, POSITIONING, & OUTLOOK

In the third quarter, the model continued its trend during the year of purchasing financials, as their ranking based on valuation, share buybacks, and positive price momentum continued to remain steady. The majority of the purchases within financials during the quarter were from banks. We also purchased media companies within consumer discretionary. The largest sales during the quarter were from aerospace and defense within the industrials sector. The sale of a large position in food and staples retail reduced our weight in consumer staples. Financials is now our largest overweight, followed by industrials and consumer discretionary. Our largest underweight is healthcare, followed by energy and consumer staples.

We remain in the broad value model as valuation spreads have narrowed again, with value stocks outperforming during the last month of the third quarter. During the year, spreads have been very narrow, which has been a tailwind for momentum stocks. Our strategy is overweight stocks with high 12-month price momentum—which we believe is likely to continue outperforming.

Supplemental information to the attached Dynamic Large Cap Value Equity GIPS compliant composite.

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ANNUALIZED RETURNS (%) (Results shown in USD)

	Gross	Net	R1000V	SP500
QTD	5.70	5.53	3.11	4.48
YTD	12.78	12.24	7.92	14.24
1 Year	18.91	18.15	15.12	18.61
3 Year	8.46	7.69	8.53	10.80
5 Year	15.85	15.02	13.19	14.22
7 Year	15.72	14.89	13.23	14.36
10 Year	9.79	8.99	5.91	7.43
Since Inception	10.18	9.38	6.06	7.77

Inception Date: 1/1/2007

GIPS INFORMATION (% , Unless Otherwise Noted) (Results shown in USD)

	Gross	Net	R1000V	SP500	# of Accounts	Market Value (M)	Total Firm Assets (M)	Composite Dispersion	Composite Rolling 3Y SD	R1000V Rolling 3Y SD	SP500 Rolling 3Y SD
2017	12.78	12.24	7.92	14.24	17	855	73,890	0.18	11.77	10.17	9.93
2016	10.95	10.16	17.34	11.96	14	721	65,498	0.21	12.42	10.77	10.59
2015	- 2.93	- 3.66	- 3.83	1.38	9	461	68,819	0.11	12.59	10.68	10.47
2014	11.80	10.98	13.45	13.69	8	295	63,375	-	10.49	9.20	8.97
2013	47.50	46.44	32.53	32.39	3	35	50,050	-	13.57	12.70	11.94
2012	17.58	16.72	17.51	16.00	2	9	42,894	-	15.60	15.51	15.09
2011	8.84	8.03	0.39	2.11	2	4	33,122	-	19.27	20.69	18.71
2010	13.36	12.53	15.51	15.06	3	5	31,996	-	21.58	23.18	21.85
2009	29.73	28.78	19.69	26.46	2	3	29,199	-	19.72	21.10	19.63
2008	- 30.67	- 31.21	- 36.85	- 37.00	2	2	32,755	-	-	-	-
2007	8.56	7.75	- 0.17	5.49	1	1	49,208	-	-	-	-

R1000V = Russell 1000® Value Index SP500 = S&P 500® Index

Organization: Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Legg Mason, Inc. The Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS). For the periods July 1, 2000 through June 30, 2016, the Firm has been verified by Kreisler Miller. A verification includes assessing whether the Firm (1) complied with the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards. A copy of the verification report is available upon request. Disclosed total firm assets represent the total market value of all discretionary and nondiscretionary, fee-paying and non-fee-paying assets under the Firm's management. Composite Description: Dynamic Large Cap Value Equity Composite (the "Composite") Inception date: January 1, 2007. Creation date: January 1, 2007. The Composite includes all discretionary accounts invested in a portfolio of large capitalization U.S. common stocks. The strategy employs a pure quantitative strategy. Securities are screened from the universe of U.S. companies based on their trailing P/E, P/B (companies must fall in the value segment of the universe using P/E, P/B). The combined quantitative multi factor selection process results in holdings of 100 - 250 company's stocks. Sector weights are a result of bottom-up stock selection and may deviate from the weightings in the benchmark index. This composite includes two non-fee paying portfolios which represents 100% of the composite assets from 2007 to 2009, 73.02% in 2010 and 72.96% in 2011. Benchmark: The Russell 1000 Value Index measures companies from the Russell 1000 Index that exhibit lower price to book and price to earnings ratios and lower forecasted growth values. The S&P 500 is a broad measure of U.S. domestic large cap stocks. The 500 stocks in this capitalization-weighted index are chosen based on industry representation, liquidity, and stability. Performance Calculation: Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. Prior to July 1, 2007, portfolios were included in the Composite beginning with the first full quarter of performance through the last full quarter of performance. After July 1, 2007, portfolios are included in the Composite beginning with the first full month of performance through the last full month of performance. Composite returns are reported on quarterly basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request. Fee Schedule: Institutional Client Separate Account Management Fee Schedule (minimum initial investment: \$1 million): 0.650% on the first \$10 million; 0.450% on the next \$40 million; 0.400% on the next \$50 million; 0.300% on the next \$100 million, and 0.250% on any portion of assets in excess of \$200 million. Additional information on the Firm's fee schedule can be found in Form ADV Part 2A which is available upon request.

Past performance is no guarantee of future results.