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## 2<sup>nd</sup> Quarter 2018 Webcast

### Diversified Large Cap Value Equity

**Presented by**

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# Tracking Error: June 30, 2003 to June 30, 2018\*

## Predicted Tracking Error and Actual Tracking Error (12 Months) Versus the Russell 1000 Value Index



\*Supplemental information to the attached Diversified Large Cap Value Equity GIPS composite.

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# Economic Review 2<sup>nd</sup> Quarter 2018

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- **Stocks posted solid gains in the second quarter**
  - Broad equity markets rebound from lows in the first quarter and are back in positive territory for the year despite continuing trade tensions. With increasing trade tensions and stronger dollar, small caps outperformed large caps.
- **Underlying fundamentals suggest an uptick in economic growth**
  - Although trade tariffs may eventually weigh on growth, in the second quarter early projections suggest a rebound from the 2% GDP level from the 1<sup>st</sup> quarter.
  - May retail sales exceeded forecasts and rose by the most in 6 months.
  - Although the June unemployment rate rose to 4% from a large gain in the labor force, job growth remained robust with modest annual wage growth of 2.7%.
  - Elevated consumer confidence, a solid labor market, strong corporate earnings, and a lower tax rate bode well for growth.
  - New home sales rebound in May benefitting from limited inventory of existing homes. Pending home sales were weak during the quarter impacted by rising prices and low levels of inventory.
- **Federal Reserve (Fed)/ Interest rates**
  - The Federal Reserve raised interest rates 1/4 point in June as expected.
  - Inflation reached the Fed's 2% goal for the first time in 6 years reinforcing projections for 2 additional hikes this year.
  - The yield on the 10-Year Treasury rose 12 basis points in the quarter and 45 basis points year-to-date to 2.86%. The yield curve flattened further as the 2-Year rose 26 basis points to close at 2.53%.
- **Energy**
  - Oil supplies continue to tighten and prices rose sharply at the end of the quarter. Oil gained approximately 15% to close above \$74/barrel.
- **Global concerns**
  - Heightened trade war concerns due to prospect of tariffs against China, NAFTA, and European trading partners. Chinese and emerging market equities have sold off this year with the rise of the dollar and trade concerns.

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## Market Performance 2<sup>nd</sup> Quarter 2018

- U.S. equities rebound in the second quarter and most indices are back in positive territory for the year
- With a strengthening dollar as a tailwind small-cap stocks handily outperformed large-cap stocks.
- In large cap, value lagged growth in the quarter, continuing the trend from last quarter and 2017.
- In small cap, value edged growth for the quarter but is behind by a significant margin for the year.

Index Total Returns	2Q 2018	YTD
Russell 1000® Value	1.2%	-1.7%
Russell 1000®	3.6%	2.9%
Russell 1000® Growth	5.8%	7.3%
Russell 2000® Value	8.3%	5.4%
Russell 2000®	7.8%	7.7%
Russell 2000® Growth	7.2%	9.7%

### • Sector / Factor Performance

- In the broad market energy had the strongest returns
- Higher dividend yielding stocks were some of the strongest performers particularly after yields fell from their highs in mid-May
- A flattening yield curve weighed on banking and financial company margins contributing to the underperformance of financials.
- Consumer staples, telecommunications, industrials and technology also had negative returns within large cap value.
- Stocks with low-price-to-earnings and high return-on-equity ratios lagged considerably. Price momentum as a factor was not effective this quarter due to a strong reversal of low momentum stocks.

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# 2<sup>nd</sup> Quarter Positives for Relative Returns

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## Consumer Staples

- This quarter was marked as a very strong quarter for growth investing and smaller riskier companies. The more defensive consumer staples sector has lagged the broader value benchmark for the last 4 consecutive quarters as investors have chased higher growth segments. We began the year underweight the sector and further reduced our positioning last quarter which further aided relative returns this quarter.

## Telecommunications

- Consolidation was the theme during this quarter. A very large acquisition was finally completed by one of the larger constituents of this sector. Part of our process includes avoiding large acquisitions which tend to hurt valuations in the near term. We have avoided the acquiring company over the last two years which has been a benefit to our strategy.

## Technology

- In a reversal from last quarter the technology sector was one of the worst performing sectors in the benchmark. Despite maintaining nearly twice the benchmark weight, the benefit to the portfolio was again driven from our out of benchmark holdings which contributed to both absolute and relative returns.

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## 2<sup>nd</sup> Quarter Negatives for Relative Returns

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### Energy

- Oil supplies continue to tighten and prices rose sharply at the end of the quarter. Oil gained approximately 15% to close above \$74/barrel which translated into strong returns across all Industries. We have been adding to this sector over the last few quarters but remained underweight through most of the second quarter which hurt from a relative perspective.

### REITS & Utilities

- With the further flattening of the yield curve, higher yielding companies were the best performers behind the energy sector. Since we do not own REIT's in the portfolio and many utility companies still do not qualify from valuation levels and share issuance, we have remained underweight both sectors. The combined impact was just over 40 bps of underperformance

### Health Care

- Higher valuation health care companies led the sector returns in the benchmark. Despite being overweight a better performing sector, the portfolio lagged and thus detracted from relative performance during the quarter.

### Factors

- Valuation and share change. Even within large cap value high growth companies or those with highest price/earnings ratios outperformed while companies with the cheapest valuations severely lagged. Likewise companies who bought back the greatest amount of shares lagged substantially. These are two of our primary factors that worked against us this quarter.

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# Representative Account\*

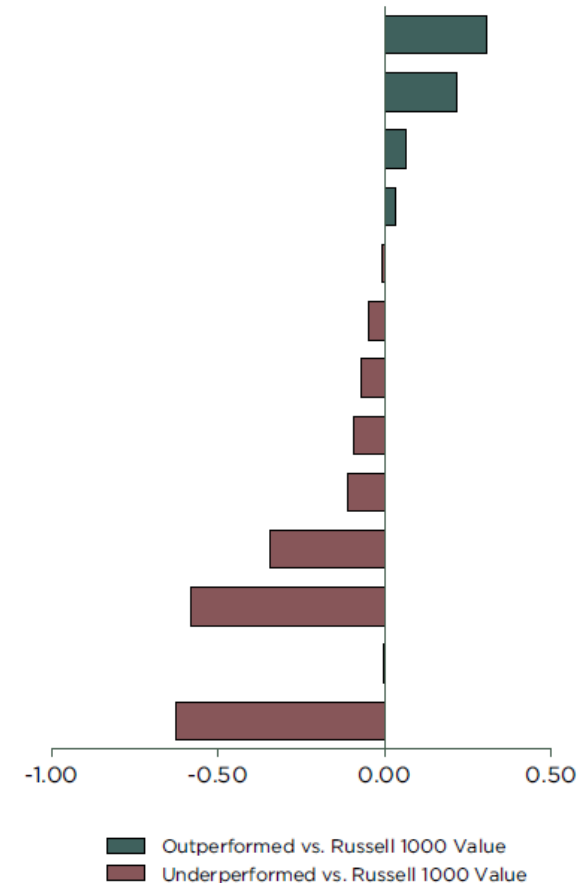
## Diversified Large Cap Value Equity

# Attribution Analysis

2<sup>nd</sup> Quarter 2018

### Diversified Large Cap Value Equity Composite Return (Net of Fees): 0.44%

	Your Portfolio		Russell 1000 Value		Variance Analysis		
	Avg. Weight	Gross Return	Avg. Weight	Gross Return	Allocation	Selection	Total
Consumer Staples	2.38	-1.54	7.64	-3.47	0.26	0.05	0.31
Telecommunication Services	2.43	4.84	2.83	-3.09	0.01	0.21	0.22
Information Technology	17.78	0.27	9.30	-1.03	-0.15	0.22	0.06
Consumer Discretionary	10.82	2.55	6.84	3.23	0.09	-0.06	0.03
Financials	29.24	-3.06	26.58	-3.45	-0.13	0.12	-0.01
Materials	2.74	0.47	3.07	2.17	0.00	-0.04	-0.05
Industrials	8.15	-3.57	8.07	-2.76	0.00	-0.07	-0.07
Utilities	2.62	3.98	5.77	4.21	-0.09	0.00	-0.09
Health Care	16.50	1.69	13.64	2.42	0.02	-0.13	-0.11
Real Estate	0.09	-4.22	4.64	8.56	-0.33	-0.01	-0.34
Energy	6.57	15.75	11.63	14.55	-0.64	0.06	-0.58
CASH	0.55	0.46	0.00	0.00	0.00	0.00	0.00
<b>Total</b>	<b>100.00</b>	<b>0.53</b>	<b>100.00</b>	<b>1.16</b>	<b>-0.96</b>	<b>0.34</b>	<b>-0.63</b>

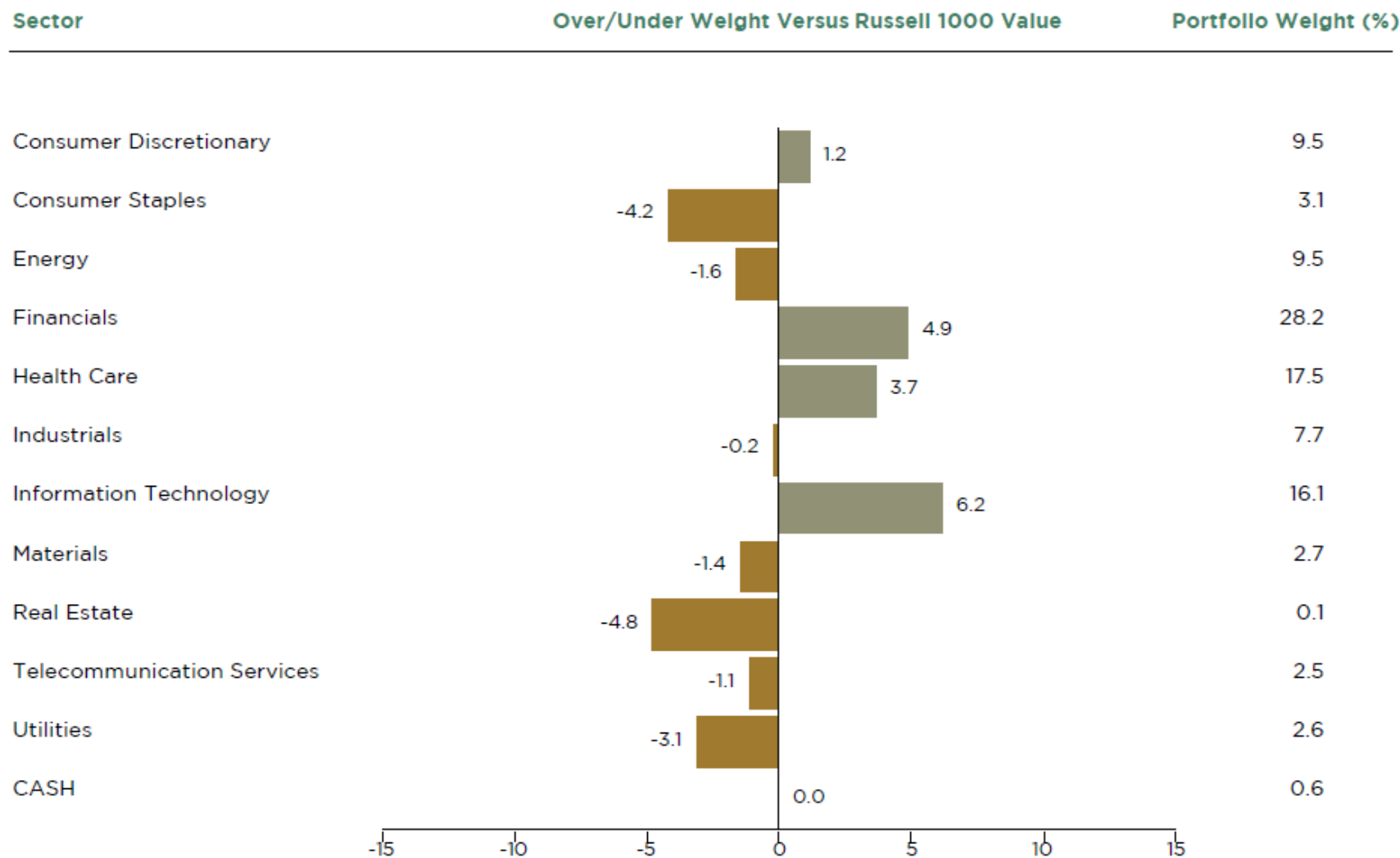


\*Supplemental Information to the attached Diversified Large Cap Value Equity GIPS composite.

The data is based upon a Representative Portfolio for the Diversified Large Cap Value Equity strategy in a separately managed institutional client account. The data represent the aggregate characteristics of all securities held in the Representative Portfolio. Data is obtained from Factset Research Systems, Inc. and is believed to be accurate and reliable. The actual characteristics with regard to any particular client account may vary based on any investment restrictions applicable to the account. Sector and industry weights of any particular client account may vary based on any investment restrictions applicable to the account. The Russell 1000® Value Index is a trademark of FTSE Russell. Russell™ is a trademark of FTSE Russell. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap value segment of the equity market. Indices are unmanaged and not available for direct investment. It should not be assumed that investment in any of the sectors or industries listed were or will prove profitable, or that investment decisions we make in the future will be profitable. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross performance results include transaction costs but do not reflect the deduction of Brandywine Global's management fee. Gross performance returns over one year are annualized and assume the reinvestment of dividends, interest and capital gains. A client's return will be reduced by the advisory fees and other expenses incurred as a client. As fees are deducted quarterly, the compounding effect will be to increase the impact of fees by an amount directly related to the gross account performance. For example, an account with an annual fee of 0.70%, if the gross performance is 10%, the compounding effect of the fees will result in net performance of approximately 9.23% annually. Net of fee performance was calculated using the highest management fee as described in Part 2A of the firm's ADV, which is available upon request. Please refer to Part 2A of Brandywine Global's Form ADV for a description of its advisory fees. Please refer to the end of this presentation for our GIPS presentations, which include performance footnotes, fee schedules, index descriptions and disclosures. This data is provided for informational purposes only. **Past performance is no guarantee of future results.**

# Diversified Large Cap Value Equity Sector Weights\*

As of 6/30/2018



\*Supplemental Information to the attached Diversified Large Cap Value Equity GIPS composite.

This data is based upon a Representative Portfolio for the Diversified Large Cap Value Equity strategy and represents the aggregate characteristics of all securities held in the Representative Portfolio. It is included for informational purposes only. The sectors discussed herein should not be perceived as investment recommendations and may no longer be held in an account's Portfolio. Sector weights and actual characteristics of any particular client account may vary based on any investment restrictions applicable to the account. It should not be assumed that investment in the sectors listed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable. Data is obtained through FTSE Russell and Brandywine Global (copyright 2018), which is believed to be reliable and accurate. FTSE Russell provides data on index holdings. The Russell 1000® Value Index is constructed to provide a comprehensive and unbiased barometer of the large cap value segment of the equity market. This data is provided for informational purposes only. The Russell 1000® Value Index is unmanaged and not available for direct investment. The Russell 1000® Value Index is a trademark of FTSE Russell. Russell™ is a trademark of FTSE Russell. Please refer to the end of this presentation for our GIPS presentations which include Performance Footnotes, Index Descriptions, Fee Schedules and Disclosures. **Past performance is no guarantee of future results.**



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# Diversified Large Cap Value Composite Disclosure

As of 6/30/2018 Results shown in USD

Period	Returns (%)				# of Accts	Market Value (MM)	Firm Assets (MM)	Composite Dispersion (%)	St. Dev. (% 3-Year Rolling)			Returns (%)				
	Composite Gross of Fees	Composite Net of Fees	R1000V <sup>1</sup>	SP500 <sup>2</sup>					Composite	R1000V <sup>1</sup>	SP500 <sup>2</sup>	Period	Composite Gross of Fees	Composite Net of Fees	R1000V <sup>1</sup>	SP500 <sup>2</sup>
2018	-1.49	-1.76	-1.69	2.65	12	7,961	74,436	0.03	11.21	10.12	10.02	QTD	0.58	0.44	1.18	3.43
2017	21.05	20.40	13.66	21.83	10	7,883	74,382	0.17	11.35	10.20	9.92	YTD	-1.49	-1.76	-1.69	2.65
2016	15.13	14.50	17.34	11.96	10	7,397	65,498	0.14	11.74	10.77	10.59	1 Year	10.99	10.39	6.77	14.37
2015	-2.28	-2.98	-3.83	1.38	10	7,257	68,819	0.05	11.19	10.68	10.47	3 Year	10.09	9.47	8.25	11.92
2014	13.22	12.39	13.45	13.69	8	5,898	63,375	0.03	9.16	9.20	8.97	5 Year	12.06	11.35	10.34	13.41
2013	33.09	32.12	32.53	32.39	7	3,406	50,050	0.02	11.70	12.70	11.94	7 Year	12.69	11.94	11.26	13.22
2012	16.05	15.20	17.51	16.00	7	2,666	42,894	0.06	14.66	15.51	15.09	10 Year	10.22	9.47	8.49	10.16
2011	6.97	6.17	0.39	2.11	6	2,385	33,122	-	18.88	20.69	18.71	Since Inception	8.37	7.62	6.71	5.96
2010	12.45	11.62	15.51	15.06	5	1,615	31,996	-	21.45	23.18	21.85					
2009	22.29	21.39	19.69	26.46	3	127	29,199	-	19.19	21.10	19.63					
2008	-31.26	-31.79	-36.85	-37.00	3	116	32,755	-	14.36	15.36	15.08					

Period	Composite Return Gross of Fees (%)				Composite Return Net of Fees (%)				R1000V <sup>1</sup> Return (%)				SP500 <sup>2</sup> Return (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2018	-2.06	0.58			-2.19	0.44			-2.83	1.18			-0.76	3.43		
2017	4.80	2.51	4.97	7.34	4.66	2.37	4.83	7.19	3.27	1.34	3.11	5.33	6.07	3.09	4.48	6.64
2016	0.48	1.91	4.00	8.11	0.34	1.77	3.86	7.97	1.64	4.58	3.48	6.68	1.35	2.46	3.85	3.82
2015	-0.65	1.17	-7.69	5.31	-0.84	0.99	-7.86	5.15	-0.72	0.11	-8.40	5.64	0.95	0.28	-6.44	7.04
2014	2.49	4.39	1.08	4.70	2.30	4.20	0.89	4.51	3.02	5.10	-0.19	4.98	1.81	5.23	1.13	4.93
2013	11.08	2.94	4.83	11.02	10.88	2.75	4.64	10.82	12.31	3.20	3.94	10.01	10.61	2.91	5.24	10.51
2012	11.19	-1.50	5.82	0.13	10.98	-1.68	5.63	-0.05	11.12	-2.20	6.51	1.52	12.59	-2.75	6.35	-0.38
2011	7.29	1.29	-13.34	13.58	7.10	1.10	-13.51	13.38	6.46	-0.50	-16.20	13.11	5.92	0.10	-13.87	11.81
2010	5.92	-11.70	10.14	9.16	5.73	-11.87	9.94	8.96	6.78	-11.14	10.13	10.54	5.39	-11.43	11.29	10.76
2009	-13.07	14.20	16.22	5.99	-13.24	13.99	16.01	5.80	-16.77	16.70	18.24	4.22	-11.01	15.93	15.61	6.04
2008	-6.96	-3.73	-4.69	-19.47	-7.14	-3.92	-4.87	-19.63	-8.72	-5.31	-6.11	-22.18	-9.44	-2.73	-8.37	-21.94

<sup>1</sup>R1000V = Russell 1000 Value    <sup>2</sup>SP500 = S&P 500    Inception Date: 4/1/1999

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, 2017, 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 non-discretionary, fee-paying and non-fee-paying assets under the Firm's management. Composite Description: Diversified Large Cap Value Equity Composite (the "Composite") Inception date: April 1, 1999. Creation date is April 1, 1999. The Composite includes all fully discretionary, actively managed accounts with no minimum market value requirement and no investment restrictions. The composite is primarily invested in large capitalization U.S. common stocks with Price-to-Earnings ratios below the 40th percentile or Price-to-Book ratios below the 25th quartile, favorable change in share issuance, and attractive price momentum. The portfolios typically hold approximately 150 - 250 securities. A non fee-paying account was the sole account in the composite from 1999-2005. As of June 30, 2017, non fee-paying account represented less than 1% of composite assets. 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: \$25 million): 0.650% on the first \$50 million; 0.400% on the next \$150 million; 0.350% on the next \$200 million; 0.300% on the next \$250 million, and 0.250% on any portion of assets in excess of \$650 million. Institutional Client Commingled Account Management Investment Trust Fee Schedule (minimum initial investment: \$1 million): 0.550% on the first \$50 million; 0.400% on the next \$150 million; 0.350% on the next \$200 million; 0.300% on the next \$250 million, and 0.250% on any portion of assets in excess of \$650 million. Additional information on the Firm's fee schedule can be found in Form ADV Part 2A which is available upon request.