

3rd Quarter 2017 Webcast

Classic Large Cap Value Equity

Presented by

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Third Quarter 2017

- **The average gross return for Large Cap Value accounts during the quarter was 6.57% (6.39% net) versus 3.11% for the Russell 1000 Value.**
- **Performance is driven by both “what we own” and “what we don’t own.”**

**Supplemental Information to the attached Classic Large Cap Value - Unrestricted GIPS-compliant Composite.*

*The above are the views of Brandywine Global and are not intended as a forecast or guarantee of future results. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. 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. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Value Index is a registered trademark of Russell Investments (©2017 Russell Investments). Indices are unmanaged and not available for direct investment. **Past performance is no guarantee of future results.***

Characteristics and Cheapness*

As of 9/30/2017

Third Quarter 2017

- **26% discount to the index (4.9 multiple points) is far greater than average**
- **Our estimates of intrinsic value show over 25% upside for the strategy in an environment where the index looks fairly/fully valued**

9/30/2017

	Representative Account	Russell 1000 Value Index
Price-to-Earnings	14.1x	19.0x
Price-to-Book	1.7x	2.1x
Price-to-Cash Flow	7.3x	11.2x
Dividend Yield	2.2%	2.5%
Weighted Avg Market Cap (\$B)	\$87.9	\$118.9
Median Market Cap (\$B)	\$19.5	\$8.9

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The Market Looks Expensive

As of 9/30/2017

- Value stocks appeared to have a much better Q3 than first half of the year. We still see good opportunities.
- Economic growth looks to be accelerating both in the US and globally. This could finally move rates higher and put a floor under oil prices.
- The below chart shows the trailing price-to-earnings ratios for the Russell 1000 Value Index and S&P 500 Index.



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Value Based Factor Contributions Rebounded in 3Q2017

As of 9/30/2017

- The below table shows the return spread of various factors of the Russell 1000 Value Index. The spread is calculated by subtracting the return of the bottom quartile from the top quartile.

Russell 1000 Value Index				
Factor:	3Q2017	2Q2017	1Q2017	YTD
Low Price-to-Book	1.90%	-0.07%	-2.86%	-1.08%
Low Price/Earnings	2.43%	1.95%	2.25%	6.78%
High Dividend Yield	0.37%	-1.61%	-2.99%	-4.20%
High ROE	-1.14%	6.81%	6.07%	12.00%
Low-Debt-to-Equity	1.19%	1.41%	-0.61%	1.99%
Low Price Volatility	-1.24%	1.68%	2.35%	2.78%
High Earnings Growth	0.75%	0.09%	0.75%	1.60%
Higher Beta	3.56%	0.79%	-2.87%	1.38%

Data is obtained from FactSet Portfolio Analysis (©2017, FactSet Research Systems, Inc.), which Brandywine Global believes to be accurate and reliable. The above are the views of Brandywine Global and are not intended as a forecast or guarantee of future results. The Russell 1000® Value Index is a registered trademark of Russell Investments (©2017 Russell Investments). The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values. Indices are unmanaged and not available for direct investment. Past performance is no guarantee of future results.

What We Don't Own*

As of 9/30/2017

Over the 1-Year Period Ending 9/30/2017:

- We also added value through what we don't own – the sectors with many stocks at high valuations.
- Utilities, Telecom , Real Estate, and Consumer Staples all have substantial underweights in your portfolio and contributed over 140 basis points combined of outperformance
- As mentioned previously, these groups are approximately 23% of the index and 5% of the portfolio.
- For the quarter, these groups contributed to outperformance.

9/30/2017	Russell 1000 Value Weight	Portfolio	Trailing P/E	Forward P/E	Dividend Yield
Consumer Staples	8.7%	2.8%	21.8x	19.3x	2.8%
Utilities	6.2%	1.3%	15.7x	18.6x	3.4%
Real Estate	4.8%	0.0%	28.2x	31.9x	3.9%
Telecom	3.2%	0.9%	17.0x	13.7x	4.7%
Total	22.9%	5.0%			

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Third Quarter 2017 Sector Attribution*

As of 9/30/2017

Classic Large Cap Value - Unrestricted Composite: 6.57% Gross (6.39% Net)

Russell 1000 Value Index: 3.11%

	Classic Large Cap Value Representative Account		Russell 1000 Value Index		Relative Performance (BPS)		
	Sector Weight (Avg.)	Sector Return	Sector Weight (Avg.)	Sector Return	Stock Selection	Sector Allocation	Total
Consumer Discretionary	13.3%	6.2%	6.9%	1.7%	63	-10	52
Consumer Staples	2.8%	-3.7%	9.0%	-0.4%	-6	24	17
Energy	15.3%	11.1%	10.5%	6.9%	62	26	88
Financials	30.9%	7.2%	25.6%	4.8%	72	10	82
Health Care	8.0%	1.5%	14.1%	0.2%	12	17	30
Industrials	9.1%	-2.6%	8.6%	0.8%	-31	-2	-32
Information Technology	7.9%	17.9%	8.2%	5.2%	92	1	92
Materials	7.3%	8.0%	2.8%	8.4%	-3	24	21
Real Estate	-	-	5.0%	-0.1%	-	16	16
Telecommunication Services	0.9%	5.2%	3.1%	5.1%	-0	-4	-4
Utilities	1.3%	9.0%	6.3%	2.8%	8	1	9
Cash	3.2%	0.3%	-	-	-	-15	-15

* Source: FactSet Portfolio Analysis, Basis Points (BPS) 100 basis points = 1%

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Investment Outlook & Positioning

As of 9/30/2017

- **The strategy has been relatively stable in its overall exposures. Our “High Conviction” areas of focus are unchanged from prior quarters.**
 - Financials
 - Underweight Bond Proxies
 - Autos
 - Airlines (although we did reduce the weighting)
 - Energy
 - Select pharmaceutical/biotech
- **Energy Weight increased marginally during the quarter as we added following 1H weakness in the stocks.**
- **Three additions and four complete sales during the quarter.**

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Economic Outlook

As of 9/30/2017

- **Recent data has indicated acceleration despite a stretch with major hurricanes.**
- **We are not putting high odds on successful tax reform, but we do not think it is necessary for economic growth to continue in the near term.**
- **Forecasting recessions beyond twelve months out is folly; we see low odds in the next twelve months absent a major geopolitical event or larger natural disaster.**
- **We expect more inflation signs to emerge given labor market tightness and rising producer prices recently.**

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For Further Information

For more background on our products and to provide us with your feedback regarding this format for communication:

- e-mail us at client.service@brandywineglobal.com
- or phone us at 1-800-348-2499

Classic Large Cap Value Composite Disclosure

As of 6/30/2017 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 ¹	SP500 ²					Composite	R1000V ¹	SP500 ²	Period	Composite Gross of Fees	Composite Net of Fees	R1000V ¹	SP500 ²
2017	4.32	3.96	4.66	9.34	27	4,905	71,546	0.40	13.88	10.38	10.21	QTD	1.69	1.51	1.34	3.09
2016	16.62	15.82	17.34	11.96	27	4,827	65,498	0.85	14.23	10.77	10.59	YTD	4.32	3.96	4.66	9.34
2015	-9.64	-10.27	-3.83	1.38	31	5,108	68,819	0.23	12.81	10.68	10.47	1 Year	27.65	26.78	15.53	17.90
2014	8.89	8.13	13.45	13.69	26	5,842	63,375	1.43	10.93	9.20	8.97	3 Year	3.30	2.58	7.35	9.60
2013	37.98	37.04	32.53	32.39	20	4,940	50,050	1.20	14.58	12.70	11.94	5 Year	13.07	12.29	13.93	14.62
2012	22.83	21.99	17.51	16.00	23	3,565	42,894	0.32	16.77	15.51	15.09	7 Year	12.89	12.11	14.30	15.40
2011	-5.19	-5.85	0.39	2.11	31	3,520	33,122	0.14	19.83	20.69	18.71	10 Year	6.97	6.23	5.56	7.18
2010	13.79	13.01	15.51	15.06	30	3,834	31,996	-	20.46	23.18	21.85	Since Inception	9.24	8.48	7.90	8.53
2009	29.75	28.86	19.69	26.46	4	40	29,199	-	18.36	21.10	19.63					
2008	-30.33	-30.83	-36.85	-37.00	1	13	32,755	-	12.91	15.36	15.08					
2007	7.37	6.63	-0.17	5.49	1	20	49,208	-	7.16	8.06	7.68					

Period	Composite Return Gross of Fees (%)				Composite Return Net of Fees (%)				R1000V ¹ Return (%)				SP500 ² Return (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2017	2.59	1.69			2.41	1.51			3.27	1.34			6.07	3.09		
2016	-3.31	-1.43	9.87	11.38	-3.48	-1.60	9.69	11.19	1.64	4.58	3.48	6.68	1.35	2.46	3.85	3.82
2015	1.44	-0.31	-13.98	3.88	1.26	-0.49	-14.13	3.70	-0.72	0.11	-8.40	5.64	0.95	0.28	-6.44	7.04
2014	2.51	5.92	-0.82	1.11	2.34	5.74	-1.00	0.93	3.02	5.10	-0.19	4.98	1.81	5.23	1.13	4.93
2013	11.11	6.45	5.41	10.67	10.93	6.27	5.22	10.48	12.31	3.20	3.94	10.01	10.61	2.91	5.24	10.51
2012	16.68	-5.97	7.76	3.89	16.48	-6.13	7.57	3.71	11.12	-2.20	6.51	1.52	12.59	-2.75	6.35	-0.38
2011	4.40	-2.81	-16.40	11.77	4.22	-2.98	-16.55	11.59	6.46	-0.50	-16.20	13.11	5.92	0.10	-13.87	11.81
2010	7.05	-12.53	10.34	10.15	6.87	-12.69	10.15	9.96	6.78	-11.14	10.13	10.54	5.39	-11.43	11.29	10.76
2009	-9.78	14.55	17.94	6.45	-9.94	14.36	17.75	6.27	-16.77	16.70	18.24	4.22	-11.01	15.93	15.61	6.04
2008	-8.58	-3.92	-6.83	-14.87	-8.75	-4.09	-7.00	-15.02	-8.72	-5.31	-6.11	-22.18	-9.44	-2.73	-8.37	-21.94
2007	1.06	7.10	2.69	-3.40	0.88	6.91	2.52	-3.57	1.24	4.92	-0.24	-5.80	0.64	6.28	2.03	-3.33

¹R1000V = Russell 1000 Value ²SP500 = S&P 500 Inception Date: 10/1/2004

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