

## BEST ETFS & MUTUAL FUNDS

# Diversification Is ClearBridge Fund's Winning Edge

Holding three types of growth stocks smooths the portfolio's ups and downs

### MUTUAL FUND PROFILE

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One key trait that enabled \$19.4 billion ClearBridge Large Cap Growth Fund (SBLGX) to earn its spot among the best mutual funds: returns with lower volatility.

In particular, the fund tends to gain more than its Russell 1000 Growth Index benchmark by picking and holding growth stocks in strong markets. And over time it loses less in downturns, according to Morningstar.com.

How does it manage that? Managers of the fund seek a variety of growth stocks, so the fund can thrive in different market conditions. That helps the fund make the most of its upside potential. And it enables it to slide backward as little as possible during the inevitable tough times.

Result? Performance among the best mutual funds.

Each of the fund's stocks falls into one of three buckets. Co-managers Margaret Vitrano and Peter Bourbeau call their first bucket select growth.

They expect those stocks to grow earnings faster than the overall market average. Vitrano and Bourbeau expect their stable growers to be "Steady Ed-dies." They may not be the fastest growers, but the idea is for them to plug ahead no matter what's going on around them.

And their cyclicals do well not just when economic conditions provide a tailwind. They can be rebounding from some setback. "It can be a situation where a company has some ephemeral issue going on, where revenue and profits are depressed but for reasons that are fixable," Vitrano said. "Like Chipotle (CMG), after they had the foodborne illness situation. And Target (TGT) after they had the security breach. And American Express (AXP) after they lost a big piece of business from Costco (COST)."

The mix of stocks means that the fund tends to miss out on the peaks of hot markets.

But the fund's stable growth stocks are shock absorbers, typically protecting the fund from the worst of a market decline.

Select growth holdings include chipmaker Nvidia (NVDA) and lithography systems maker ASML (ASML).

Stable growers include Home Depot (HD) and Thermo Fisher Scientific (TMO). Cyclicals include Booking Holdings (BKNG) and Raytheon Technologies (RTX).

Vitrano and Bourbeau have 48% of their shareholders' money at work in stable growers, 36% at work in select growers and nearly 16% in cyclicals.

What is Nvidia's role in making Large Cap Growth one of the best growth stock mutual funds? Nvidia's graphics processing units perform fast math. That makes those GPUs suitable for applications from video gaming to autonomous driving and cryptocurrency mining.

Here's one way to think about their strength, Vitrano says:

### ClearBridge Large Cap Growth A



Margaret Vitrano Peter Bourbeau

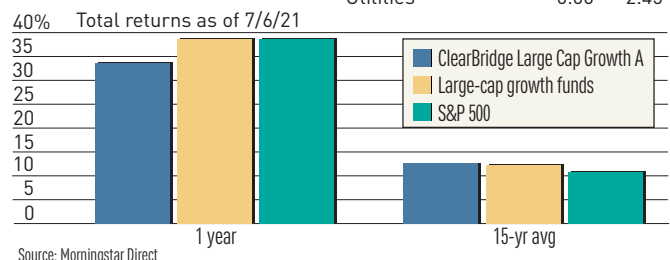
■ Max. front load: 5.75%  
■ Expenses: 1.00%  
■ Symbol: SBLGX

**Total returns** as of 7/6/21  
2020: 30.83% 3-yr. avg.: 21.24%  
YTD: 13.42% 5-yr. avg.: 20.92%  
10-yr. avg.: 17.33%

#### Sector weightings

Fund as of 3/31/21, S&P 500 as of 6/30/21

	% of stock assets	% of S&P 500
<b>Cyclical</b>	<b>28.22%</b>	
Basic materials	1.40	2.27
Consumer cyclical	20.61	12.00
Financial services	4.65	14.22
Real estate	1.56	2.58
<b>Economically sensitive</b>	<b>56.22</b>	
Communication svcs	10.36	11.14
Energy	0.00	2.85
Industrials	7.52	8.86
Technology	38.34	24.22
<b>Defensive</b>	<b>15.56</b>	
Consumer defensive	2.45	6.32
Health care	13.11	13.09
Utilities	0.00	2.45



They can perform many calculations at once. In contrast, ordinary central processing units do one thing at a time.

One macro factor that Nvidia benefits from is the global chip shortage. Another macro trend that benefits Nvidia is the proliferation of enterprise data centers. "The company can grow profits 30% annually for multiple years, as more uses for GPUs arise and the need for more sophisticated chips grows, especially as data center (business) scales and grows quickly," Vitrano said.

There may be ups and downs in yearly growth of demand for Nvidia GPUs, she says. "But lon-

ger term, the runway is long," she said.

ASML's cutting-edge technology is a driver of this ClearBridge fund's push to remain among the best mutual funds.

ASML is a Dutch maker of lithography systems used in the manufacturing of computer chips. It is a leader in the creation of the chipmaking machines that use extreme ultraviolet light (EUV), which enhances their precision.

"Theirs is one of the few ways to make semiconductors with the most advanced nodes (which means more transistors per chip)," Vitrano said. "Also, they have a backlog of orders. So they

have good earnings visibility.”

Another boost for ASML comes from the fact that leading chipmakers Intel (**INTC**) and Taiwan Semiconductor (**TSM**) both are constructing new manufacturing plants in the U.S. Both “will buy tools from ASML,” Vitrano said.

Recently, Nvidia and ASML have been members of both the IBD Leaderboard and the IBD 50.

Leaderboard is IBD’s curated list of leading stocks that stand

out for their technical and fundamental prospects. The IBD 50 is IBD’s flagship screen of leading growth stocks that show strong relative price strength and top-notch fundamentals.

Unlike those select-growth holdings of the fund, United Parcel Service (**UPS**) is in Large Cap Growth’s stable growers bucket. “What’s UPS doing in a fund like this?” Vitrano asked rhetorically. “We’re different. We’re not just a closet technology fund. We want diversification.”

She added, “Shipping packages may not seem the most innovative business model. But the shift of consumption to online is growing quite well.”

A second benefit is that new CEO Carol Tome is seeking only the most profitable new business. UPS just set a target of adjusted operating margin of between 10.5% and 12% in 2023. “Their international margin has been higher for some years,” Vitrano said. “This is an opportunity for improvement.”

Large Cap Growth became an IBD Best Mutual Funds Awards winner by topping the S&P 500 in 2020 and in the three, five and 10 years ended Dec. 31.

This year going into July 7, the fund lagged the S&P 500, 13.42% vs. 16.51%, and 13.97% for its large-cap growth rivals tracked by Morningstar Direct. But in the prior month alone, amid a rally by growth stocks vs. value-oriented stock, the fund outperformed the bogey, 6.33% vs. 2.79%.

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**Average Annual Total Returns and Expense Ratios (%) of ClearBridge Large Cap Growth Fund A shares (SBLGX) as of 6/30/2021**

	1-Year	3-Year	5-Year	10-Year	Since Inception	Expenses* (Gross, Net)	Inception Date
Class A (excl. sales charges)	36.31	21.37	20.53	17.28	10.44	1.00, 1.00	8/29/1997
Class A (incl. sales charges)	28.48	19.00	19.11	16.58	10.17	-	-
S&P 500 Index	40.79	18.67	17.65	14.84	8.80	-	-

**Performance shown represents past performance and is no guarantee of future results.** *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front-end sales charge of 5.75%. If sales charges were included performance shown would be lower. Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would be lower if fees had not been waived in various periods. For the most recent month-end information, please visit [www.leggmason.com](http://www.leggmason.com).*

\*Gross expenses are the fund's total annual operating expenses for the share class shown. Net expenses for Class A reflect contractual fee waivers and/or reimbursements, where these reductions reduce the Fund's gross expenses.

**Top 10 Holdings** (% as of 6/30/21): Amazon.com, Inc. 8.88, Facebook, Inc. Class A 6.54, Microsoft Corp. 5.14, Visa Inc. Class A 4.60, Apple Inc. 4.59, Nvidia Corp. 3.59, Adobe Inc. 3.50, Salesforce.com, Inc. 3.10, UnitedHealth Group Inc. 3.08, Thermo Fisher Scientific Inc. 2.57.

All investments involve risk, including loss of capital.

**ClearBridge Large Cap Growth Risks:** Equity securities are subject to price fluctuation and possible loss of principal. The manager's investment style may become out of favor and/or the manager's selection process may prove incorrect, which may have a negative impact on the Fund's performance. The Fund may focus its investments in certain regions or industries, increasing its vulnerability to market volatility.

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