ClearBridge Investments

Multi Cap Growth Strategy

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Key Takeaways

- Technology and media supported performance as investors rotated out of the momentum leaders that thrived during the pandemic into cyclical companies poised to benefit from a reopening of the economy.
- The Strategy continued to rebound in what we view as a more supportive environment for higher quality, attractively priced growth stocks.
- We took advantage of recent volatility to take profits in several of our best performers and reallocate into new and other existing holdings, an approach we expect to continue opportunistically going forward.

Market Overview

A rotation in market leadership that commenced last September continued to gain strength in the first quarter, with efforts to reflate the economy through fiscal and monetary stimulus providing a bid to attractively priced growth companies. The S&P 500 Index gained 6.2% on rising reopening hopes with cyclical and value stocks maintaining their recent advantage. The Russell 3000 Value Index advanced 11.9% in the first quarter, outperforming the 1.2% return of the benchmark Russell 3000 Growth Index.

From a sector standpoint, energy (+22.1%) was the best performer in the benchmark as crude oil prices rose 21%, followed by communication services (+8.4%), real estate (+6.8%), industrials (+4.8%) and financials (+2.7%). The information technology (IT, -0.6%) and consumer discretionary (0.1%) sectors, prime beneficiaries of the work-from-home and e-commerce boom during the pandemic, underperformed.

The ClearBridge Multi Cap Growth Strategy continued to rebound in what we view as a more supportive environment for the higher quality, structurally undervalued growth companies we target, outperforming the benchmark for the second consecutive quarter. Our high active share approach made the most difference in IT, where the portfolio's holdings gained 3.5% compared to a loss for the benchmark and communication services, where our holdings rose 16.3%, nearly double the benchmark return Tech results were led by our more cyclical positions in digital storage providers Seagate Technology and Western Digital, auto and electric vehicle

component supplier TE Connectivity as well as chipmaker and security software supplier Broadcom.

During the first quarter we initiated a new position in DocuSign, the leading provider of electronic agreement services for businesses, at what we believe are attractive levels after the stock corrected despite strong results and guidance. DocuSign's eSignature offering allows agreements to be transacted digitally and is appealing to both small and large organizations. While its business exhibited strong user uptake and revenue growth prior to the health pandemic, underlying adoption accelerated as businesses were forced to "go remote" and limit in-person contact. Unlike some trends witnessed during the COVID-19 pandemic which stand to be fleeting, in the emerging "anywhere economy" we do not believe organizations will return to the old, less environmentally friendly and error-plagued method of paper agreements. We see continual success in core eSignature with bright prospects for expanding into a much broader set of digital services, while simultaneously international markets remain underpenetrated.

We continue to be engaged in the building of early stage positions in emerging growth businesses.

Media has been another bright spot for the Strategy, boosted by the return of live events and subsequent rebound in advertising as well as good initial traction for several of our companies new streaming services. Discovery was among the top contributors for the quarter, even with a late March selloff as one of the media stocks caught up in the unwind of family office Archegos Capital Management. After being late to the expansion of programming from cable to streaming, both Discovery and AMC Networks have seen strong initial subscriber growth to their over-the-top services. Twitter was also a solid contributor on strong results and better-than-expected projections for future user and revenue growth.

While equity participation has been broadening, not all sectors and industries have benefited. Health care, which represents the Strategy's largest overweight, has lagged in recent months but we believe positive vaccine development and upcoming clinical news for other therapeutics will eventually lead to greater recognition by investors. We like our biopharmaceutical positioning with Biogen shares moving higher on new patents for its Tecfidera multiple sclerosis treatment and in anticipation of the FDA's decision on its aducanumab treatment for Alzheimer's disease. Vertex Pharmaceuticals, meanwhile, continues to expand its cystic fibrosis franchise globally while advancing multiple underappreciated pipeline assets. Testing and diagnostics provider Guardant Health has appreciated significantly due to strong growth and new product introductions since we added it to the portfolio last year while multi-decade holding UnitedHealth Group continues to execute and diversify into areas like telehealth and analytics.

Outlook

The passage of the latest $1.9 trillion package should further support the broadening of market performance. Rising interest rates are hurting the priciest growth stocks the most, bringing additional balance to a market that had reached historic levels of mega cap concentration just six months ago. The volatility created by higher rates and inflationary fears is also providing opportunities for the Strategy to selectively add to or establish new positions as some higher growth companies see their multiples contract to more reasonable levels.

Going forward, we expect to target a broader range of companies across sectors where we currently have little exposure as we continue to build a pipeline of new ideas. We continue to be engaged in the building of early stage positions in emerging growth businesses and expect to do more of this as volatility allows us the chance to own quality growth franchises at attractive valuations.

Portfolio Highlights

The ClearBridge Multi Cap Growth Strategy outperformed its Russell 3000 Growth Index benchmark in the first quarter. On an absolute basis, the Strategy generated gains across the seven sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the communication services, IT and materials sectors.

Relative to the benchmark, overall stock selection and sector allocation contributed to performance. In particular, stock selection in the IT, communication services and materials sectors and an overweight to communication services drove results. Conversely, overweights to the health care and materials sectors were a minor drag on relative performance.

On an individual stock basis, positions in Discovery, Twitter, Seagate Technology, Freeport-McMoRan and Nucor were the leading contributors to absolute returns during the period. The primary detractors were Autodesk, Vertex Pharmaceuticals, Ionis Pharmaceuticals, FireEye and Cerence.