Large Cap Growth Strategy

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Market Overview

Growth momentum stalled in July as mixed reactions to technology earnings, growing skepticism over the payoff from AI capex and a more hawkish Federal Reserve tempered sentiment. The S&P 500 Index declined 0.1% while the NASDAQ Composite fell 3.2%. The reconstituted Russell 1000 Growth Index dropped 4.8%, underperforming the Russell 1000 Value Index by over 850 basis points.

Second-quarter earnings results reinforced a growing divide among the mega cap hyperscalers. Microsoft and Amazon.com rallied after demonstrating that AI investments are driving accelerating cloud revenue, while Alphabet and Meta faced pressure as investors questioned the pace at which their substantial AI capex will translate into earnings. Also notable was the sharp selloff in momentum names, particularly within the semiconductor industry (10.7%), which had driven a sharp second-quarter rally.

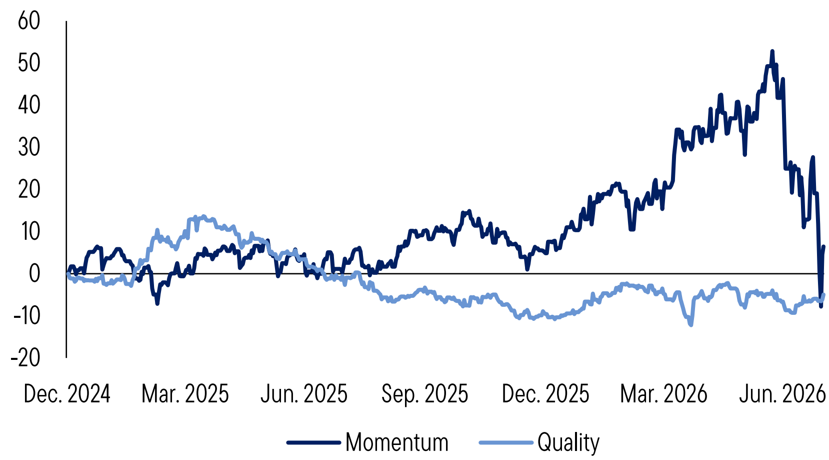
Performance Overview

Amid this reversal, the ClearBridge Large Cap Growth Strategy outperformed its Russell 1000 Growth Index benchmark. The Strategy benefited from an active overweight in Amazon.com as well as diversified contributions from Thermo Fisher Scientific and Visa.

Amazon shares surged following earnings that eased investors’ AI jitters, as well as an upbeat outlook about the long-term demand for its AWS cloud computing business and the return on investment from the company’s capital spending. Thermo Fisher Scientific’s second-quarter earnings topped analyst expectations and management raised guidance for the fiscal year, underscoring demand improvements in several of the company’s life science tools and bioprocessing end markets. Visa, meanwhile, also moved higher after management raised its full-year earnings outlook.

Our long-term focus on quality, bottom-up fundamentals instead of momentum was also a performance tailwind. In particular, not owning high-beta, high-momentum benchmark constituents Lam Research, Applied Materials, SanDisk and Advanced Micro Devices proved a meaningful relative contributor.

Exhibit 1: Momentum Saw Major Reversal



As of July 31, 2026. Source: Bloomberg,, using Bloomberg PORT MAC3 model.

Among mega caps, our underweight to Microsoft was a headwind as the enterprise software and cloud provider's quarterly revenue and earnings eased investor fears regarding heavy AI spending and the company's ability to benefit from growing AI adoption.

Semiconductor capital equipment manufacturer ASML was lower for the month due to reports of emerging domestic competition from China, as well as a broader pullback in semiconductor equipment stocks. Alnylam Pharmaceuticals also detracted as the developer of RNA therapies missed quarterly revenue forecasts and lowered full-year sales guidance. A failed competitor trial has also led to concerns about the addressable market for Nucresiran, one of Alnylam's pipeline products.

Portfolio Positioning

During the month, we continued to actively reposition the portfolio against a significantly reconstituted, momentum heavy benchmark, adding four new positions while exiting two others.

Semiconductors accounted for ~32% of the benchmark as of July 31, and we reduced our underweight with the purchase of KLA Corp., a leading semiconductor inspection and measurement company whose products are critical to producing increasingly complex advanced chips. We believe the company is well-positioned to benefit from continued AI-related semiconductor capital spending and from growing demand for advanced manufacturing processes. In addition, KLA provides indirect exposure to foundry expansion initiatives, including Intel's efforts to scale its own foundry business, which could drive increased demand for the company's inspection and metrology tools.

The KLA purchase reflects our optimism around owning the "picks-and-shovels" beneficiaries of the AI buildout, as do the additions of Seagate Technology and Vertiv. The scale of AI capital spending is creating constraints in areas including storage. This is benefiting Seagate Technology, a key supplier of the hard drives supporting AI data infrastructure, where demand for low-cost, high-capacity storage is structurally rising. Vertiv is a leader in the power, cooling and thermal management systems required to operate increasingly dense AI data centers. As AI workloads drive substantially higher power consumption and heat generation, data centers are converting from air to liquid cooled architectures. Over the coming years, we also believe we will see conversion to 800-volt power systems due to Nvidia platforms requiring higher power, with Vertiv developing its such a system. Vertiv should continue to benefit from these shifts, driving upside to our estimates versus expectations.

We also added Ingersoll Rand, a provider of air, fluid, clean energy and medical technologies services and solutions. We believe the company is a high-quality industrial compounder with exposure to several long-term growth themes, including factory automation, energy efficiency, data center infrastructure, life sciences and industrial productivity. The company generates a significant portion of its revenue from mission-critical compressor, vacuum and flow-control equipment that customers rely on to operate their facilities, creating recurring aftermarket revenue and attractive margins. Ingersoll Rand's decentralized operating model, acquisition strategy and strong free cash flow profile provide opportunities for sustained earnings growth.

To make way for these new positions, we exited two holdings where our conviction has waned: Swiss pharmaceutical maker Roche and insurance broker Marsh & McLennan. We purchased Roche based on our belief that its pipeline of late-stage oncology and multiple sclerosis (MS) therapies could support sustainable revenue growth through the next decade and help drive earnings growth beyond upcoming patent expirations. More recently, however, clinical results for its MS therapies were less favorable than expected. An increased weighting to Apple, which can provide both resilience and attractive growth characteristics, reduced the need for Marsh's defensive profile. At the same time, industry conditions have become less favorable as insurance pricing has softened, resulting in slower revenue growth and a less compelling outlook relative to other opportunities in the portfolio.

Outlook

As demonstrated in an active July, we will continue to recalibrate our portfolio exposures and evaluate the best ways to represent AI. Currently, AI leadership resides at the infrastructure layer and is where we have been focusing our efforts. These companies are leading an information technology (IT) sector generating earnings growth that is twice as fast as the overall market. We are also encouraged by hyperscaler progress in demonstrating improving return on investment from AI capital spending. In the industrials sector, we remain optimistic about signs of improvement in the industrial economy despite the ongoing conflict in Iran.

Our new, non-diversified mandate allows us to more convincingly express our conviction in mega cap names in the benchmark and enabled us to reposition for the large Russell 1000 Growth Index rebalance which occurred at the end of June.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy outperformed its Russell 1000 Growth Index benchmark in July. On an absolute basis, the Strategy delivered positive contributions across three of the eight sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the financials sector while the IT and communication services sectors were the main detractors.

Relative to the benchmark, overall stock selection and sector allocation supported performance. In particular, stock selection in the IT, industrials and consumer discretionary sectors contributed to results. Conversely, an overweight to materials was a detractor.

On an individual stock basis, the largest relative contributors included Amazon, an underweight to Micron Technology and not holding Lam Research, Applied Materials and SanDisk. The largest relative detractors were ASML, underweights to Microsoft, Broadcom and Alphabet as well as not holding Mastercard.

Performance source: Internal. Benchmark source: Standard & Poor's.