



Large Cap Growth Strategy



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Market Overview

U.S. equities pulled back in February as investors reassessed the outlook for monetary policy, expressed concern over the viability of software stocks due to the latest generative AI advances and digested a mix of economic and corporate earnings data. The S&P 500 Index declined 0.8% for the month, while the benchmark Russell 1000 Growth Index fell 3.4% as concerns grew over the expected returns from accelerating hyperscaler capex.

Value stocks broadly outperformed with the Russell 1000 Value Index rising 2.6%, signaling a further broadening of market participation beyond the mega cap leadership of the past several years.

The growth stock slump preceded the start of military action by the U.S. and Israel in Iran on the last day of the month that is expected to raise volatility levels and inflation risks in the near term.

Minutes from the Federal Reserve's January meeting showed that, although it voted to keep rates steady, members of the committee were divided on the necessity of future easing. Policymakers noted that although inflation has moderated, additional evidence of sustained progress toward the 2% target is needed before considering further rate cuts.

The U.S. economy added 130k jobs in January, but February's labor update saw a loss of 92k jobs, with unemployment rising from 4.3% to 4.4%. While the ISM U.S. Manufacturing PMI slipped from 52.6 in January to 52.4 in February, it remained firmly in expansionary territory and signaled a second month of increased manufacturing activity.

U.S. Treasury yields declined amid mixed inflationary data, an elevated jobs report and an increase in geopolitical uncertainty. The 10-year Treasury finished 29 basis points lower at 3.95%.

Portfolio Performance

The ClearBridge Large Cap Growth Strategy modestly underperformed the benchmark in February, primarily due to stock selection in the information technology (IT) sector. Software stocks continued to face pressure around fears of disintermediation from new AI tools, which negatively impacted portfolio holdings including Palo Alto Networks and accounting and tax prep software maker Intuit. We have been reducing the portfolio's exposure to this segment over the past year, exiting positions like Workday and Accenture while reducing holdings in Salesforce, which has isolated

some of this pressure. Regarding Palo Alto Networks, we believe security is a subsector that will be more protected from AI pressure than horizontal SaaS providers. However, we continue to monitor trends in the segment closely.

Within IT, we saw more momentum from chip holdings Taiwan Semiconductor and ASML [as these companies continue to benefit](#) from a secular buildout of AI workloads.

The Strategy's mega cap positioning was a detractor, as an underweight to the strong-performing Apple and weakness in Meta Platforms and Amazon.com offset the benefits of underweights to the underperforming Microsoft and Alphabet.

Netflix rebounded from a period of weak performance after the company dropped out of the bidding war for Warner Bros. Discovery. We believe Netflix demonstrated a disciplined approach to this proposed transaction and remain optimistic about the strength of core fundamentals in its business.

Portfolio Positioning

We added to our semiconductor exposure during the month with the purchase of Texas Instruments, a high-quality, vertically integrated analog company. Texas Instruments sells products with long life cycles to a diversified customer base and has a unique free cash flow story. While the company's cash flow has been suppressed by elevated, counter-cyclical capex, as that spending slows down and demand normalizes we believe it can inflect meaningfully higher into 2027 and beyond. We also view Texas Instruments as well positioned for an improving manufacturing outlook as 30%–40% of its customer base is in industrials.

Other notable moves included trims to Salesforce, Intuit, Synopsys and Palo Alto and an addition to ServiceNow. After being overweight software over the last several years, our software and services exposure is approximately in line with the benchmark. We continue to hold positions in software companies we believe have fortified moats and the ability to leverage AI to accelerate their businesses and withstand competitive pressures.

Outlook

In addition to following the rapid moves in AI and related technologies, we are keeping a close eye on the sources of volatility in the market today. A hallmark of the Strategy is to have good downside capture, so we have been making sure to keep our beta under one and monitoring the momentum factor in the portfolio. We continue to believe a balanced approach to portfolio construction is optimal through market cycles with some signs of that benefiting the Strategy year to date and in February, for example, with strong performance from our materials holdings, Sherwin-Williams and Linde. We are also encouraged by early signs of improving economic

activity in the industrial economy and believe the consumer continues to be resilient, supporting our overweight exposure in industrials and recent portfolio additions in the consumer discretionary sector such as Chipotle.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy underperformed its Russell 1000 Growth Index benchmark in February. On an absolute basis, the Strategy delivered positive contributions across four of the eight sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the industrials and materials sectors while the IT sector was the main detractor.

Relative to the benchmark, overall sector allocation contributed to performance but was offset by negative stock selection effects. In particular, stock selection in the industrials, IT and consumer discretionary sectors detracted from performance. On the positive side, stock selection in communication services and overweights to industrials and materials supported performance.

On an individual stock basis, the primary detractors from relative performance for the month were Amazon.com, Palo Alto Networks, Meta Platforms, Intuit and an underweight to Apple. The main contributors to relative returns were Netflix, Taiwan Semiconductor, Eaton, Linde and Grainger.

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