

# ClearBridge

A Franklin Templeton Company



**Brian Angerame**  
Managing Director,  
Portfolio Manager



**Jeffrey Bailin CFA**  
Managing Director,  
Portfolio Manager



**Aram Green**  
Managing Director,  
Portfolio Manager



**Matthew Lilling CFA**  
Managing Director,  
Portfolio Manager

## Mid Cap Growth Strategy

### Key Takeaways

- ▶ Mid cap growth equities faced a challenging fourth quarter as uneven end market demand conditions, sector and factor rotations, and late-year reversals weighed on results.
- ▶ The Strategy underperformed its benchmark by a modest margin, as uneven earnings reactions and stock-specific issues weighed across a broad range of holdings, despite solid execution and selective areas of strength.
- ▶ We believe the portfolio is well-positioned for a more balanced growth environment, as valuation dislocations and improving fundamentals create opportunity beyond the most crowded growth themes.

### Market Overview

Mid cap growth equities declined during the fourth quarter, with the Russell Midcap Growth Index falling 3.7% and underperforming both small and large cap peers. Investor focus remained highly concentrated around a narrow set of perceived secular winners while many growth-oriented businesses outside those themes faced sustained pressure. Market performance was shaped less by macroeconomic developments and more by a reassessment of growth durability, competitive positioning and valuation. As a result, earnings reactions were often sharp and uneven, with stocks moving meaningfully despite solid underlying execution, reinforcing a challenging environment for diversified growth portfolios.

Looking at 2025 more broadly, the year was defined by an unusually narrow appetite for growth risk. For much of the period, if a company's growth story was not closely tied to artificial intelligence or its immediate infrastructure beneficiaries, investor attention was limited, regardless of fundamentals. This dynamic created a bifurcated growth landscape: a small group of highly visible growth narratives continued to attract capital, while many innovative mid cap growth companies in areas such as software, health care and specialized industrial technologies were left behind. While this environment proved difficult for active growth investors, it also led to widening valuation gaps and increased dispersion beneath the surface.

Importantly, we are beginning to see early signs that this imbalance may be easing. As expectations reset and investors reassess growth opportunities beyond the most crowded areas of the market, select growth companies with durable business models, improving cash flow profiles and defensible competitive advantages are beginning to

---

Performance was driven primarily by stock-specific outcomes rather than broad sector moves.

---

stand out. We believe this shift, while still in its early stages, is creating a more constructive backdrop for disciplined, bottom-up growth investing.

### Portfolio Performance

The ClearBridge Mid Cap Growth Strategy underperformed its benchmark for the quarter as results were shaped by a highly selective growth environment and sharp market reactions to individual earnings outcomes, despite solid execution across many holdings.

Industrials was a meaningful detractor during the quarter, reflecting stock selection challenges rather than a broad-based sector trend. Several holdings faced pressure as investors reassessed near-term expectations following earnings and outlook updates. United Rentals, an equipment rental company, detracted as uncertainty persisted around the timing and durability of a recovery in short-cycle industrial demand. Trex, a manufacturer of composite decking materials, also weighed on results amid ongoing competitive dynamics and questions around demand normalization, conditions that led us to exit the position.

Some software and digital platform companies experienced sharp pullbacks following earnings, even where results were solid. AppLovin, a mobile advertising and app monetization platform, declined as its momentum faded late in the quarter following a strong run earlier in the year. Rubrik, a provider of data security and cloud data management solutions, took a breather after an extended period of positive performance driven by progress in customer adoption and recurring revenue. Dynatrace, an observability and application performance monitoring software company, declined after issuing conservative guidance, reflecting broader concerns around enterprise software spending, AI disintermediation and competitive dynamics.

Despite several strong individual contributions, health care also weighed on relative results. Doximity, a digital platform serving physicians and health care professionals, pulled back despite solid operating results, reflecting heightened investor sensitivity to valuation and concern around AI-related disruption. Meanwhile, Argenx, a biotechnology company focused on therapies for autoimmune diseases, advanced on continued commercial execution and pipeline progress. Natera, a diagnostics company specializing in genetic and oncology testing, benefited from strong volume growth and improving reimbursement trends across its core cancer diagnostics franchise. Mettler-Toledo, a provider of precision instruments and life sciences tools, also contributed positively as demand trends stabilized.

Our consumer discretionary growth holdings proved a bright spot. Expedia, an online travel platform with both consumer-facing and business-to-business offerings, contributed positively as improved

execution in its consumer segment complemented continued strength in its B2B business. Burlington Stores, an off-price apparel retailer, also delivered solid performance, supported by disciplined merchandising, steady store expansion and margin improvement, underscoring the benefits of operational execution in a selective growth environment.

Financials, meanwhile, delivered mixed results. Coinbase, a digital asset trading platform, detracted as crypto-related assets moved lower amid a risk-off backdrop leading to its sale. These results were partially offset by new holding Robinhood Markets, a retail brokerage and financial services platform, which benefited from product expansion and engagement trends.

### **Portfolio Positioning**

During the quarter, portfolio activity reflected our focus on selectively allocating capital to high-potential and durable growth businesses. Throughout 2025, we sought to lean into dislocations where short-term sentiment and valuation pressures diverged from longer-term fundamentals, while remaining disciplined around areas where competitive dynamics or expectations have shifted. Our positioning reflects a preference for differentiated growth businesses with durable end markets, improving cash flow profiles and clear paths to compounding value, rather than broad exposure to any single growth theme.

We added selectively to innovation-led growth opportunities outside of the most crowded areas of the market. Kratos Defense & Security Solutions, a defense technology company with exposure to unmanned systems, hypersonics and space-related applications, offers leverage to what we view as a multiyear increase in global defense investment. We also initiated a position in Rocket Lab, an aerospace company providing launch services and space systems, where increasing demand for satellite deployment across both commercial and government customers supports a compelling long-term growth opportunity.

We also added Somnigroup International, now the world's largest vertically integrated mattress maker following the merger of Mattress Firm and Tempur Sealy International. The company is profitably gaining share in a fragmented industry and should benefit from a cyclical recovery in housing demand, while continued operational improvements support long-term growth.

We also exited a number of holdings as part of our effort to reallocate capital toward higher-conviction growth opportunities and adjust positioning where risk-reward dynamics have shifted. We exited Light & Wonder following its relisting to the Australian exchange, which reduced its suitability for the Strategy. We sold Chipotle as concerns around moderating growth increased. We also

sold Paylocity in the HR software industry as the company's growth profile matured and visibility into incremental upside diminished.

### **Outlook**

As we look toward 2026, we believe the backdrop for mid cap growth investing is becoming more favorable following a prolonged period of extreme selectivity. Over the past year, growth outcomes were dominated by a narrow set of highly visible themes, while many innovative growth businesses faced sustained pressure despite executing well. While this environment proved challenging, it also created meaningful dislocations, as valuation and sentiment often diverged sharply from underlying fundamentals.

We view this as an increasingly attractive setup for disciplined growth investors. As expectations recalibrate and capital begins to broaden beyond the most crowded narratives, we believe mid cap growth companies with durable end markets, improving cash flow profiles and defensible competitive positions are well-positioned to regain investor attention. Entering 2026, our focus remains on owning high-quality growth businesses that can compound value across a range of outcomes rather than relying on any single driver. While volatility is likely to persist, we believe periods like this tend to reward patience, selectivity and a long-term perspective — qualities that have historically made mid cap growth an important and rewarding allocation over time.

### **Portfolio Highlights**

The ClearBridge Mid Cap Growth Strategy underperformed its benchmark during the fourth quarter. On an absolute basis, the Strategy had positive contributions from one of the 11 sectors in which it was invested, the consumer discretionary sector while the IT sector proved the greatest detractor.

On a relative basis, overall stock selection detracted from performance but was partially offset by positive sector allocation effects. Specifically, stock selection in the materials, industrials, financials and health care sectors and an overweight to the consumer staples sector weighed on performance. Conversely, stock selection in the consumer staples and consumer discretionary sectors, an overweight to the materials sector and an underweight to the communication services sector proved beneficial.

On an individual stock basis, the biggest detractors from relative returns during the quarter were Doximity, United Rentals, an underweight to Rocket Lab and not owning Insmed and Cardinal Health. The largest contributors to relative returns were Expedia, RBC Bearings, an underweight to Roblox and not owning Coupang or Veeva Systems.

## CLEARBRIDGE MID CAP GROWTH STRATEGY

**Past performance is no guarantee of future results. Copyright © 2025 ClearBridge Investments.** All opinions and data included in this commentary are as of the publication date and are subject to change. The opinions and views expressed herein are of the portfolio management team named above and may differ from other managers, or the firm as a whole, and are not intended to be a forecast of future events, a guarantee of future results or investment advice. This information should not be used as the sole basis to make any investment decision. The statistics have been obtained from sources believed to be reliable, but the accuracy and completeness of this information cannot be guaranteed. Neither ClearBridge Investments, LLC nor its information providers are responsible for any damages or losses arising from any use of this information.

Source: London Stock Exchange Group plc and its group undertakings (collectively, the "LSE Group"). © LSE Group 2025. FTSE Russell is a trading name of certain of the LSE Group companies. "FTSE®" and "Russell®" are a trademark of the relevant LSE Group companies and are used by any other LSE Group company under license. All rights in the FTSE Russell indexes or data vest in the relevant LSE Group company which owns the index or the data. Neither LSE Group nor its licensors accept any liability for any errors or omissions in the indexes or data and no party may rely on any indexes or data contained in this communication. No further distribution of data from the LSE Group is permitted without the relevant LSE Group company's express written consent. The LSE Group does not promote, sponsor or endorse the content of this communication.