



All Cap Growth Strategy



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Key Takeaways

- ▶ Momentum carried markets higher on strong earnings and easing geopolitical concerns, while the Russell reconstitution and SpaceX's historic IPO significantly reshaped large cap growth benchmarks.
- ▶ Our activity was focused on rebalancing mega cap exposures and enhancing participation in both higher beta market leadership as well as diversified growth companies in areas like health care.
- ▶ Although the Strategy underperformed for the quarter, we believe benchmark changes, broader market participation and continued AI infrastructure leadership create a strong setup for alpha generation in the second half of 2026.

Market Overview

Equity markets rallied in the second quarter, fueled by robust corporate earnings and optimism that a U.S.-Iran ceasefire would bring down commodity prices and temper geopolitical risk. Despite wavering sentiment for AI investments late in the period, the S&P 500 Index finished up 15.2%, its best quarterly showing since 2020, while the benchmark Russell 3000 Growth Index advanced 17.1%.

Growth outperformed value in a momentum-led rebound from geopolitical-driven first quarter headwinds with the Russell 3000 Growth Index topping the Russell 3000 Value Index (+14%) by 310 basis points.

In a period when benchmark flows and constituent changes had an unusually large impact, the ClearBridge All Cap Growth Strategy generated double-digit absolute returns but underperformed its benchmark. While some of the Strategy's larger holdings were laggards, much of the quarter's underperformance reflected what we did not own rather than weakness across portfolio holdings.

For example, the valuations of select semiconductor stocks rerated in response to a supply/demand imbalance for chips critical to AI workloads as well as the equipment needed for their production. Advanced Micro Devices nearly tripled in the quarter on surging demand for CPUs to support agentic AI while semiconductor capital equipment makers Lam Research and KLA both doubled. Not owning these names due to valuation and portfolio construction considerations accounted for more than two thirds of the Strategy's performance shortfall.

In terms of portfolio holdings, Netflix declined as investors worried about slowing user engagement and were disappointed the company

did not raise full-year guidance despite another solid quarter while design software maker Autodesk came under pressure after announcing its acquisition of MaintainX, a frontline operations software vendor. While the market focused on the size of the transaction and related execution risk, we believe that reaction overlooked both the potential for Autodesk to expand its addressable market and the continued strength of its core design software business.

The Strategy benefited from a software rebound on improving investor sentiment toward AI-enabled enterprise software and cybersecurity providers. Palo Alto Networks delivered quarterly earnings and revenue above expectations driven by strong enterprise demand for AI-native cybersecurity solutions. Cybersecurity peer CrowdStrike was also up strongly. Chip holdings ASML, Tawain Semiconductor and Broadcom were strong contributors as capacity constraints across the semiconductor supply chain has created strong pricing power and healthy order backlogs.

While markets are constantly evolving, we witnessed an acceleration of those normal fluctuations in June, highlighted by unprecedented changes to large cap benchmarks in the Russell U.S. Indexes Reconstitution and [SpaceX completing the largest initial public offering](#) in history.

The Russell rebalance substantially reduced the weighting of the Magnificent Seven in the Russell 3000 Growth Index, with Apple, Microsoft and Amazon shifting toward the Russell 3000 Value Index while Alphabet's weight increased. Factoring in the net effect of these changes, the index saw a reduction in top-heavy concentration, which we view as a welcome change. At the same time, the rebalance has caused the index to become more momentum oriented.

We began repositioning the portfolio for these changes in advance of the rebalance and, although we are confident in our positioning entering the third quarter, we will continue to refine our exposures as the market evolves. Our objective remains to express our highest-conviction ideas while also appropriately managing risk among benchmark holdings.

Portfolio Positioning

The Strategy initiated three new positions in the quarter while exiting two others. Texas Instruments is a semiconductor company focused on analog-semiconductor devices and embedded processing, selling products with long life cycles to a diversified customer base and has a unique free cash flow story. While its cash flow has been suppressed by elevated, counter-cyclical capex, as that spending slows down and demand normalizes we believe the shares 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.

Our participation in the SpaceX IPO also keeps the portfolio in step with a risk-on benchmark. A diversified aerospace and communications company, SpaceX competes in several large addressable markets with a significant technology lead versus peers. Its core competitive

advantage is its proven ability to reuse rockets, which materially lowers the cost of delivering payloads into orbit. This capability is supported by the company's vertically integrated approach to rocket design, manufacturing and launch operations. By combining SpaceX's operations with Starlink, the dominant satellite Internet provider, the company plans to extend this playbook into AI infrastructure scaling orbital data center compute. SpaceX also has demonstrated the ability to lower the cost of scaling data center compute terrestrially through innovative techniques like onsite battery power generation. Moving forward, key questions are around execution as SpaceX scales its next generation of large payload rockets, enabling the company to unlock multiple new end markets.

We also added Boston Scientific, a medical technology company developing minimally invasive devices to treat cardiovascular, oncological and a range of other conditions. We believe the market underestimates the company's durability of growth beyond its headline drivers, WATCHMAN for stroke prevention and electrophysiology to treat atrial fibrillation, as many treatment areas remain underpenetrated. We see a consistent pipeline of internal innovation and tuck-in M&A supporting durable, high-single-digit organic growth and low-teens EPS growth through the cycle, which we view as not fully reflected in the stock's current valuation.

To enable these moves, we trimmed exposure to Amazon.com and Microsoft.

The Strategy exited a position in Intuit due to growing concerns that AI could commoditize parts of its tax business. In order to maintain competitiveness, management appears to recognize the need to reinvest in the TurboTax platform, which we believe could weigh on forward guidance. We also see rising competition to Intuit's QuickBooks small business finance software platform from both traditional and AI peers. Our sale follows similar logic applied to other software companies over the past few years: exiting companies with weak or weakening core businesses that do not have a clear AI strategy to compete in an increasingly complex environment.

Outlook

Despite recent headwinds, the transformation of the Russell large cap indexes gives us renewed confidence in our ability to deliver alpha for shareholders. We maintain a well-rounded portfolio in a concentrated market with a focus on valuation, longer-term ownership and delivering consistent results through the business cycle. We believe this approach is well suited to an environment of heightened volatility, with more potential mega cap IPOs on the horizon and the benchmark now going through a reconstitution every six months.

In the second half of 2026, we will continue to recalibrate our portfolio exposures and evaluate the best ways to represent AI. One way to do this is by assessing the AI lifecycle: the first beneficiary in 2024 was GPU leader Nvidia; 2025 saw Broadcom take market share in custom silicon for AI applications; in 2026 leadership has shifted to AI infrastructure — the picks and shovels providers of memory and various

needs for data centers. These companies are leading an information technology (IT) sector generating earnings growth that is twice as fast as the overall market. Such earnings power allays the risks of a growth stock bubble, although we remain concerned about when massive hyperscaler capex will produce a compelling return on investment.

We entered the year expecting a broadening market, a development sidelined by war in the Middle East. With the conflict nearing a resolution and commodity prices down, we believe the Fed could look past recent upticks in inflation and cut interest rates in the second half of 2026. We would expect such an easing of financial conditions to promote greater market participation and benefit focus areas like industrials.

Portfolio Highlights

The ClearBridge All Cap Growth Strategy underperformed its Russell 3000 Growth Index benchmark in the second quarter. On an absolute basis, the Strategy delivered positive contributions across eight of the nine sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while the communication services sector detracted.

Relative to the benchmark, stock selection detracted the most from performance. In particular, stock selection in communication services, health care, industrials and consumer discretionary and an overweight to materials weighed on results. On the positive side, stock selection in IT, consumer staples and financials contributed to performance.

On an individual stock basis, the largest relative detractors included Netflix and Autodesk as well as not holding Advanced Micro Devices, Lam Research and KLA. The largest relative contributors were CrowdStrike, Palo Alto Networks, ASML, Taiwan Semiconductor Manufacturing and an underweight to Microsoft.

In addition to the transactions mentioned above, we exited a position in S&P Global in the financials sector.

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