Large Cap Growth Strategy

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Market Overview

U.S. equity markets rebounded in August as investors focused on strong corporate earnings despite persistent inflation concerns, elevated Treasury yields and continued tensions in the Middle East. The S&P 500 Index advanced 2.7%, while the tech-oriented NASDAQ Composite gained 3.9%. Growth stocks reclaimed leadership following July's sharp momentum selloff, with the benchmark Russell 1000 Growth Index returning 3.7% versus 2.0% for the Russell 1000 Value Index.

Corporate earnings continued to provide market support. According to FactSet, with 97% of S&P 500 companies having reported second-quarter results, 86% reported a positive earnings surprise. The blended earnings growth rate rose to 52.0%, the highest since the second quarter of 2021. However, unusually large investment-related gains at Alphabet and Amazon materially elevated the headline figure; excluding both companies, blended earnings growth would be 33.8%, still marking a second consecutive quarter above 25%.

The U.S. 10-year Treasury yield was relatively unchanged, rising 2 basis points in August to 4.76%, but its highest level since January 2025, as investors weighed easing inflation against renewed energy-price pressure and the possibility of additional Federal Reserve tightening.

Performance Overview

In August, the ClearBridge Large Cap Growth Strategy outperformed its Russell 1000 Growth Index benchmark, driven primarily by strong stock selection across communication services, industrials, health care and information technology (IT).

After fears of their business models being disintermediated by AI earlier in the year, we have been encouraged by the recent rebound in software stocks with the market better differentiating between business models. Palo Alto Networks in security and ServiceNow in workflow software were leading contributors for the month as investors gained more confidence that enterprise platforms are successfully monetizing AI.

Airbnb, the leading alternative lodging platform offering vacation rentals and related accommodations, was also a primary contributor in August following strong second-quarter earnings report including a raised full-year outlook as higher-income consumers continue to spend on travel and experiences. Netflix shares rebounded roughly 25% from their mid-July lows, driven by a market rotation toward stable/high free-cash-flow generating companies and a bounce off over-sold levels following disappointing full-year guidance.

Among our mega cap holdings, Amazon.com pulled back after hitting a record high early in the month, mainly due to a market rotation away from AI-indexed companies amid ongoing spending concerns. An underweight to Microsoft was a relative detractor as the company moved higher on the heels of healthy guidance in its Azure cloud business. Also on the downside, industrial parts distributor W.W. Grainger declined after a robust start to the year due to forward-looking margin concerns following the release of its second-quarter earnings.

Portfolio Positioning

During August we added a position in Take-Two Interactive, a leading video game publisher across a variety of franchises including *Grand Theft Auto, Red Dead Redemption* and *NBA 2K*. The industry has transitioned toward live services and in-game purchases, making industry profits more recurring in nature. We believe the market is currently underestimating both the unit sales and recurring revenue potential of Take-Two's long-awaited launch of *Grand Theft Auto VI*, which extends one of the world's most popular online/console titles. With the upcoming launch along with its other high-quality titles as a base, we see a multiyear opportunity for revenue growth, earnings revisions and multiple expansion.

We exited a position in Fair Isaac, a credit scoring firm known for its FICO score, as increasing regulatory and competitive uncertainty created greater risk around the company's future pricing power and growth trajectory. While we continue to recognize FICO's strong market position, the investment case became increasingly dependent on regulatory outcomes, leading us to redeploy capital into opportunities with clearer growth drivers and more attractive risk/reward profiles.

Outlook

Currently, AI leadership is driving robust growth at the infrastructure layer with these companies, including Nvidia and Broadcom, enabling the aggregate IT sector to grow twice as fast as the overall market. We are also encouraged by hyperscaler progress in demonstrating improving return on investment from AI capital spending. We do believe that AI will diffuse across layers in the tech stack and into faster broader economic growth outside of tech, so while we have added to our positions in the AI infrastructure layer, we have also added for example to software provider ServiceNow. We continue to dedicate research resources to understanding AI infrastructure and the broader AI diffusion landscape.

As a reminder, our new, non-diversified mandate allows us to more convincingly express our conviction in mega cap names in the benchmark. Meanwhile, in the industrials sector, we remain optimistic about signs of improvement in the industrial economy despite the ongoing conflict in Iran.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy outperformed its Russell 1000 Growth Index benchmark in August. On an absolute basis, the Strategy delivered positive contributions across six of the eight sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while industrials and consumer staples detracted.

Relative to the benchmark, overall stock selection and sector allocation supported performance. In particular, stock selection in the communication services, industrials and health care sectors and an overweight to the materials sector contributed to results. Conversely, stock selection in materials and an underweight to IT were detractors.

On an individual stock basis, the largest relative contributors included Palo Alto Networks, Airbnb, Netflix and underweights to Alphabet and Broadcom. The largest relative detractors were Amazon, Grainger, underweights to Microsoft and Micron Technology as well as not holding Palantir Technologies.