ClearBridge
A Franklin Templeton Company

Large Cap Growth Strategy

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Market Overview

U.S. equities advanced in October as investors cheered stronger-than-expected corporate earnings and welcomed a second consecutive interest rate cut from the Federal Reserve. The S&P 500 Index rose 2.3% for the month, while the NASDAQ Composite gained 4.7%, supported by renewed strength in AI-supported large cap technology shares. Growth stocks continued to lead, with the benchmark Russell 1000 Growth Index up 3.6% compared to a 0.4% rise for the Russell 1000 Value Index.

The Federal Reserve delivered its second rate cut of the year at the October FOMC meeting, lowering the federal funds rate by another 25 basis points to its lowest level in three years. Chair Jerome Powell noted that further adjustments would depend on incoming data, casting doubts on an expected cut in December. Markets interpreted the decision as a signal that the easing cycle would remain gradual; according to CBOE's FedWatch, futures pricing implied roughly a 70% probability of another cut at the December meeting.

While the availability of some economic data has been affected by the federal government shutdown, indications are that economic growth continues to moderate but remains on a healthy trajectory. The ISM U.S. Manufacturing PMI declined from 49.1 in September to 48.7 in October, indicating an eighth consecutive month of contraction in the manufacturing sector. The University of Michigan Consumer Sentiment Index for October 2025 was 53.6, a slight decline from September's 55.1.

U.S. Treasury yields moved lower during the month as investors adjusted to the Fed's second rate cut and signs of moderating economic activity. The 10-year Treasury yield fell from 4.15% at the end of September to 4.08% to end October.

Six of the eight companies with $1 trillion or higher market caps in the benchmark reported solid earnings results in October, with those directly involved in AI continuing to ramp up capex. Our mega cap exposure accounted for most of the Strategy's overall underperformance (-66 bps) for the month, with an overweight to Meta Platforms, which declined more than 10% on a negative investor reaction to AI spending at the company, and an underweight to Alphabet, whose shares rose ~15% on strong performance of the company's cloud unit along with stable search trends, the primary detractors.

> While AI is at the top of the trends we are targeting, there are other compelling secular trends reflected in the portfolio such as robust aerospace spending.

Portfolio Positioning

We added to Fair Isaac (FICO), the credit scoring software provider purchased late in the third quarter. The stock has been pressured as Bill Pulte, the director of the Federal Housing Finance Agency (FHFA), has been vocal in calling FICO a monopoly and encouraging mortgage companies to use competitor VantageScore. This rhetoric has raised concerns that FICO will lose share and pricing power. However, mortgage lending remains FICO-dominated due to secondary market requirements and investor preferences, and we believe the company has opportunities to monetize credit scores in other areas such as auto loans.

We also added to newer positions including Chipotle Mexican Grill and Vertex Pharmaceuticals and longer-term holding Marsh & McLennan.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy underperformed its Russell 1000 Growth Index benchmark in October. On an absolute basis, the Strategy delivered positive contributions across five of the nine sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the information technology (IT) sector while communication services was the main detractor.

Relative to the benchmark, overall sector allocation detracted from performance. An underweight to IT, overweights to financials, industrials and materials and stock selection in communications and IT hurt performance. On the positive side, stock selection in the consumer discretionary, health care and industrials sectors contributed to performance.

On an individual stock basis, the primary detractors from relative performance for the month included Meta Platforms and Netflix, underweights to Alphabet and Broadcom and not holding Advanced Micro Devices. The leading contributors to relative returns were Intuitive Surgical, Amazon.com, Thermo Fisher Scientific as well as being underweight Microsoft and not holding AbbVie.

Strategy and Outlook

We have been managing against a highly concentrated benchmark since 2019 and continue to believe that a balanced portfolio approach will help us compound through various market cycles. We can’t always predict surprises like tariffs, wars, changes in the cost of capital or shifts in the current mega cap leadership, but we can control the price at which we buy fundamentally sound growth companies with attractive and growing end markets. Through our own fundamental research and the collaboration with our central research analysts, we focus on secular trends that will shape the economy and drive long-term shareholders returns while seeking to isolate the most attractive opportunities against this backdrop. We expect the productivity benefit as AI moves mainstream will be one of the biggest growth engines for our investments over the next 10 years. Some of these enhancements will take time to be realized. Life science tools maker Thermo Fisher Scientific, for example, recently announced a partnership with OpenAI to jointly develop AI agents to aid in drug development. While AI is at the top of the list of trends we are targeting, there are also other compelling secular trends reflected in our portfolio holdings, such as robust aerospace spending.

With an eye on these trends, we continue to spend every day seeking to optimize performance, improving our absolute and relative returns while also ensuring we have good downside capture.

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