



Large Cap Growth ESG Strategy



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Key Takeaways

- ▶ The Strategy outperformed, benefiting from strong stock selection as the unwind in AI momentum rewarded our more disciplined, valuation-sensitive approach.
- ▶ In a period of above average activity, we took advantage of price dislocations to broaden our participation across select semiconductor, AI infrastructure and diversifying growth companies while maintaining measured exposure to momentum.
- ▶ AI and data centers dominated Climate Week as development increasingly depends on managing power, water and community impacts, creating opportunities for ClearBridge holdings that provide more sustainable infrastructure.

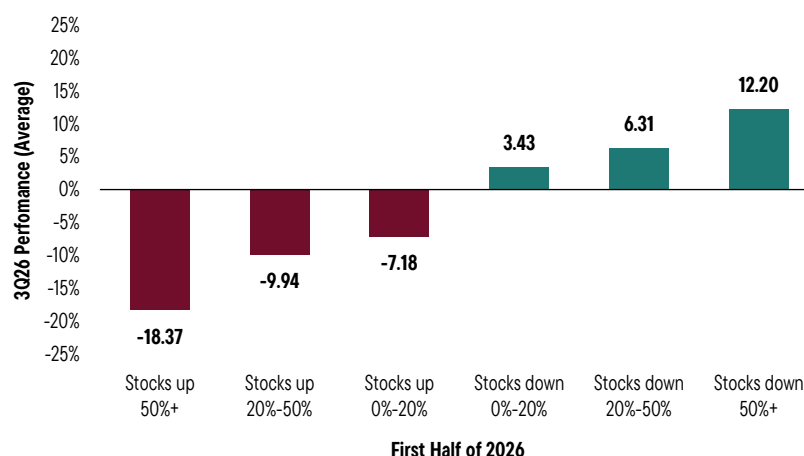
Market Overview

U.S. equities saw shifting leadership in the third quarter, with a selloff in higher-beta AI stocks offsetting corporate earnings strength in a period that saw Treasury bond yields rise to multidecade highs. The S&P 500 Index advanced 2.3% for the quarter while the NASDAQ Composite recovered from a July decline to finish up 2.5%. The benchmark Russell 1000 Growth Index eked out a gain of 0.9% while the Russell 1000 Value Index was up 2.6%.

Large cap growth stocks continued to trail large cap value in the third quarter, although comparative results were heavily influenced by June's Russell 1000 Growth Index (RLG) reconstitution and a rotation in AI leadership. Leadership shifted away from semiconductor winners in the first half of 2026 toward hyperscalers and software companies demonstrating clearer paths to AI monetization (Exhibit 1). The index changes were consequential: semiconductors became a substantially larger portion of the RLG (over 32% at quarter end) while software's weight declined by several hundred basis points, changing both the benchmark's character and the relative performance backdrop.

The quarter proved volatile as investors reassessed the pace of progress at leading large language model providers. Anthropic's delayed initial public offering, alternative data suggesting a slowdown in the leading lab's revenue growth, and a significant rise in usage of lower-priced open-source models intensified the debate around AI monetization. That reset helped support high-quality companies such as Visa and Airbnb as investors broadened their focus beyond the most crowded AI beneficiaries.

Exhibit 1: Performance Reversals in the Russell 1000 Growth Index



Data as of September 30, 2026. Source: FactSet.

Performance Overview

The ClearBridge Large Cap Growth ESG Strategy outperformed for the quarter, benefiting from strong stock selection as the unwind in AI momentum rewarded our more disciplined, valuation-sensitive approach. The portfolio's quality characteristics and greater differentiation within AI proved helpful. Rather than treating AI as a single trade, our research emphasizes the durability of individual business models, the quality of execution and the valuation implied by market expectations. Meta Platforms and Arista Networks as leading contributors during the quarter are positive proof points of this approach. Outside of AI, Thermo Fisher Scientific was also a positive contributor.

Meta advanced following a strong reception to the launch of its Muse personal AI agent. Early downloads surpassed those of the ChatGPT and Gemini debuts, reinforcing our view that agentic commerce is becoming a broader opportunity. Thermo Fisher Scientific continued to benefit from its second-quarter earnings beat, with resilient biopharma consumables and pharmaceutical product development end markets and healthy third-quarter guidance supporting the prospect of an accelerating business into 2027. The breadth of recovery across those end markets is particularly important after a more difficult period for life sciences spending. Arista was a positive outlier among AI infrastructure names, delivering strong results through solid execution and new customer scaling. The company raised full-year guidance in its latest update, easing concerns created by earlier supply constraints and uneven revenue trends.

Microsoft was a relative detractor due to our underweight during an optimistic period for AI monetization. Shares were supported by continued Azure cloud momentum, encouraging Copilot usage data and signs of recovery in enterprise software. ASML declined with the broader semiconductor-capital-equipment group even as its second-quarter results were robust; elevated expectations and uncertainty over export controls constrained upside. Grainger also detracted despite a beat-and-raise quarter and no material change in its fundamentals.

Short-term sentiment toward cyclical industrials weakened amid higher fuel costs, elevated oil prices, higher rates and the continuing Iran conflict, pressuring Grainger's margins.

Portfolio Positioning

Our portfolio activity during the quarter was guided by two objectives: thoughtfully expanding exposure to the AI and semiconductor infrastructure ecosystem while maintaining appropriate risk following the RLG reconstitution. The rebalance materially increased the benchmark's semiconductor weight and reduced software exposure. We added initial positions across a broad set of opportunities, allowing us to participate in fast-moving areas of AI while preserving discipline around valuation and risk.

In semiconductors and AI infrastructure, we initiated positions in Micron Technology, Advanced Micro Devices, ARM and KLA, which offer differentiated exposure to high-performance computing, power-efficient processor architecture and advanced-chip inspection and metrology. We also added Ciena and Lumentum, reflecting rising optical connectivity requirements in AI data centers, and Seagate and Vertiv, which stand to benefit from demand for high-capacity storage and increasingly power- and cooling-intensive data center architectures. These are bottom-up investments where we intend to reassess position sizing over time as their opportunities and valuations evolve.

We also added a new position in Ingersoll Rand, a high-quality industrial compounder with recurring aftermarket revenue and exposure to automation, energy efficiency and data center infrastructure. We are optimistic about the company's prospects for growth in its compressor business against a backdrop of resilient growth in the industrial sector despite macro headwinds from the Iran conflict. Lastly, we purchased Take-Two Interactive, where we see a multiyear opportunity for the video game developer as the forthcoming Grand Theft Auto VI launch supports unit sales, recurring revenue and earnings revisions.

To fund the additions, we exited Roche, Marsh & McLennan and Honeywell Aerospace, a position we received in a spin-off from portfolio holding Honeywell International.

Outlook

The recent AI selloff has created a more constructive backdrop for our process. We remain fundamentally positive on AI and believe adoption is still early, but the market had moved quickly into many infrastructure names to capitalize on high expectations. A usage shift from proprietary to open-source models does not diminish the need for compute; in many cases, their broader use reinforces demand for the underlying infrastructure. The reset has given us opportunities to add to infrastructure investments while remaining cognizant of what adoption, utilization and monetization trends from the leading AI labs suggest about generative AI's secular growth trajectory. We have also seen a recovery in software where we added to our position in ServiceNow

while our aggregate software exposure remains weighted toward security and infrastructure investments.

More broadly, classic measures of market breadth remain weak even as individual business fundamentals are sound. We believe such a combination argues for selectivity: strong companies can perform well, but a narrow market leaves less room for indiscriminate risk-taking. Our non-diversified mandate supports this repositioning: it enables meaningful conviction in mega cap names, nimbleness when valuations improve and measured risk management as the market evolves.

Portfolio Highlights

The ClearBridge Large Cap Growth ESG Strategy outperformed its Russell 1000 Growth Index benchmark in the third quarter. 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 IT and communication services sectors while industrials was the main detractor.

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

On an individual stock basis, the largest relative contributors included Meta Platforms, Thermo Fisher Scientific, Palo Alto Networks, an underweight to Micron Technology and not holding Applied Materials. The largest relative detractors were ASML, W.W. Grainger, an underweight to Microsoft and not holding Palantir Technologies and CrowdStrike.

ESG Highlights: Investors Reinvigorated About Climate

Held annually in New York alongside the United Nations General Assembly, Climate Week brings together investors, companies, policymakers, researchers and civil society organizations to discuss climate risks and solutions. ClearBridge attends these events to deepen our understanding of emerging sustainability issues, compare perspectives with experts across industries and identify developments that could be material to our portfolio companies.

This work complements the company-level research and engagement performed throughout the year by ClearBridge analysts and portfolio managers. We seek to understand how environmental and social factors affect costs, competitive positioning, access to resources, regulatory exposure and long-term value creation.

Our overarching observation from this year's Climate Week was that investors appear reinvigorated about climate. Conversations focused on the mechanisms through which climate and sustainability issues are already affecting businesses: energy affordability, resource efficiency,

infrastructure resilience, insurance availability, community acceptance and economic competitiveness.

Not surprisingly, AI was central to almost all of these discussions. Participants debated not only the environmental footprint associated with data-center growth, but also AI's potential "handprint": how the technology might enable scientific advances, optimize power systems, improve industrial processes and accelerate the development of lower-carbon technologies. Energy efficiency was a key pillar of AI's potential positive effects on climate, although we acknowledge projections far out into the future remain highly theoretical. All in all, while stakeholders debate the pros and cons of AI center development — and headlines over the summer have overwhelmingly highlighted the cons — AI infrastructure is on track to be built: the question for investors is how it can be built responsibly.

Food Security and Responsible Mining Remain Material

Although AI and data centers dominated the week, sustainable food and human rights in mining were also important areas of focus for ClearBridge.

For sustainable food, the central question is what happens when geopolitical disruption and climate variability affect agricultural inputs at the same time. Recent disruptions to fertilizer production and trade illustrate the issue. Nitrogen-based fertilizer must be available during relatively inflexible planting windows; a delayed shipment cannot necessarily be recovered later in the growing season. If fertilizer shortages or higher prices coincide with an El Niño-related disruption to rainfall and temperature patterns, the effects could extend from farm input costs to crop yields, commodity prices and food inflation.

This is an example of climate acting as a threat multiplier. It also highlights the importance of supply-chain diversification, soil health, efficient fertilizer use and agricultural technologies that help farmers adapt to more volatile conditions. For investors, historical weather and production patterns may be less and less useful for assessing agricultural risk. At Climate Week we discussed how JPMorgan's food-security analysis emphasizes how fertilizer disruptions, planting windows and climate variability can combine to create longer-lasting food-system pressures.¹ AI is a potent source of innovation in this regard: ClearBridge holding US Foods, for example, uses AI-driven inventory forecasting to cut food waste.

For mining, the key question is how investors can connect community-level impacts to the companies in their portfolios and turn that information into actionable engagement. This is particularly important in industrial parks and complex mineral supply chains, where responsibility may be distributed among mine owners, operators, tenants, suppliers, customers, lenders and public-sector partners. Investors need information that sometimes embodies a complex balance: comparable across portfolios but sufficiently detailed to identify specific harms, responsible parties and potential remedies. Discussions focused on the

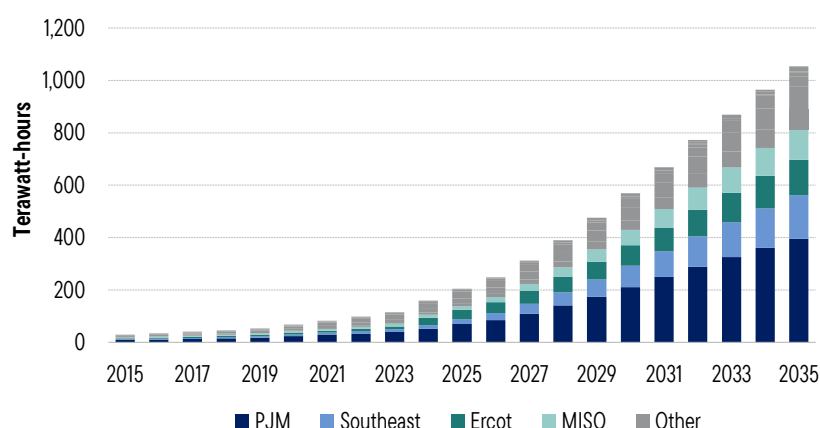
¹ Dr. Sarah Kapnick, "Climate Intuition: Food security under pressure: Iran conflict disruptions and a brewing El Niño." May 21, 2026.

Indonesian nickel supply chain in light of the EU Battery Regulation, which requires greater supply chain traceability, carbon footprint disclosure and environmental and human rights due diligence for battery materials sold in the EU and is relevant for EV and battery companies that source nickel such as China's CATL and Tesla.

Sustainability Is a Key Gating Factor for Data Centers and AI

The scale of anticipated AI infrastructure development is intensifying pressure on power systems and local resources. BloombergNEF estimates U.S. data-center power demand could reach 118 gigawatts by 2030 and that data centers could account for roughly one-fifth of U.S. electricity consumption by 2035 (Exhibit 2).

Exhibit 2: Data Centers' Growing Electricity Consumption



Source: BloombergNEF, DC Byte. Note: Pipeline includes capacity under construction, committed and early stage. MISO is Midcontinent Independent System Operator, Ercot is Electric Reliability Council of Texas and PJM is Pennsylvania-New Jersey-Maryland Interconnection.

Meeting that demand will require substantial new generation and grid infrastructure. Yet long interconnection timelines, transmission constraints and equipment shortages are already affecting where and how quickly projects can proceed. Developers are exploring nuclear power, on-site generation and other behind-the-meter solutions, but each option introduces its own cost, emissions and community considerations.

Power is not the only constraint. Communities are asking whether data centers will increase electricity bills, consume scarce water, create persistent noise or require infrastructure whose costs are ultimately borne by residents. They also want to understand the local benefits, including employment, tax revenue and investments in public infrastructure.

These concerns can delay or prevent development. Sustainability is therefore becoming a practical requirement for translating demand for AI into operating data-center capacity.

Microsoft Raises the Standard for Development

Microsoft, a holding in several ClearBridge portfolios, offers a good example of how hyperscalers are responding. Its community-first infrastructure framework addresses several of the issues that can

Data center sustainability and economics are becoming closely aligned.

determine whether a project earns local support. The company has committed to paying the electricity and grid-infrastructure costs associated with its facilities rather than passing them through to residential ratepayers. It is working with utilities to forecast demand, contract for new generation and fund necessary transmission and substation improvements. The company is also targeting a 40% improvement in data-center water-use intensity by 2030 and has begun deploying closed-loop cooling designs that do not require potable water for cooling.

The framework extends beyond environmental performance to include social dimensions. Microsoft has committed to paying full local property taxes, supporting workforce training and investing in schools, libraries and community organizations. It also plans to provide greater local transparency about water use and replenishment.

These measures don't eliminate every impact associated with data-center development, but they illustrate the higher standard increasingly required of developers: mitigate costs, provide measurable local benefits and engage communities early. Microsoft's community-first framework reflects the growing recognition that technical capacity alone is insufficient to secure a project's social license to operate.²

Equinix Focuses on Long-Term Community Trust

A recent engagement with Equinix, another ClearBridge portfolio holding, provides the perspective of a data-center owner and operator. In September 2026 we asked whether faster anticipated capacity growth threatened Equinix's goal of covering 100% of its power consumption with renewable energy by 2030. The CEO told us the commitment had not changed, noting both Equinix's own priorities and demand from customers seeking to meet their sustainability commitments.

We also discussed community opposition to new data centers in general. Equinix views itself as a long-term neighbor rather than a temporary developer because it expects to own and operate its facilities for decades. This creates an incentive to establish durable relationships with local stakeholders.

Equinix also distinguishes its average approximately 65-megawatt retail colocation facilities from the hundreds-of-megawatts — and sometimes gigawatt-scale — campuses attracting the greatest scrutiny. While that difference does not remove the need for responsible development, it shows why investors should consider a facility's scale, design and operating model when evaluating community risk.

Johnson Controls Improves Cooling Efficiency

ClearBridge's recent engagement with Johnson Controls (JCI) highlighted how equipment suppliers can help address the physical constraints on data centers. JCI's thermal-management offering includes cold plates, coolant distribution units, chillers and air-cooled technologies. Because it owns several major cooling subsystems, the

² <https://blogs.microsoft.com/on-the-issues/2026/01/13/community-first-ai-infrastructure/>

company can optimize the entire cooling architecture rather than focusing only on the efficiency of an individual component. This system-level approach becomes more important as computing density rises and cooling represents a larger share of facility power requirements.

JCI's technologies can also respond directly to local environmental concerns. Its cooling solutions can generally be configured for zero-water operation. Magnetic-bearing technology can reduce mechanical noise as well as energy consumption, while major product lines are available with low- and ultra-low-global-warming-potential refrigerants. In certain applications, absorption chillers can use waste heat in place of electricity as a primary energy source.

The engagement reinforced that data center sustainability and economics are becoming closely aligned. Reducing the power, water and noise associated with cooling can lower operating costs while making projects more acceptable to utilities, regulators and neighboring communities.

Vertiv Helps Make Power-Dense AI Feasible

As AI chips increase rack-level power density, data centers require tightly integrated power and thermal-management systems. Vertiv's closed-loop cooling technologies are well suited to higher-density computing and can reduce dependence on continual water consumption. Its broad offering also allows customers to integrate cooling and power systems more easily — an increasingly important consideration as infrastructure becomes more complex.

Modular construction is another part of the solution from Vertiv. Its prefabricated OneCore platform brings multiple systems together before they reach the construction site, reducing on-site complexity and helping customers bring computing capacity online faster. Its global service network, real-time monitoring and predictive maintenance capabilities support reliability and efficient operation over the facility's life.

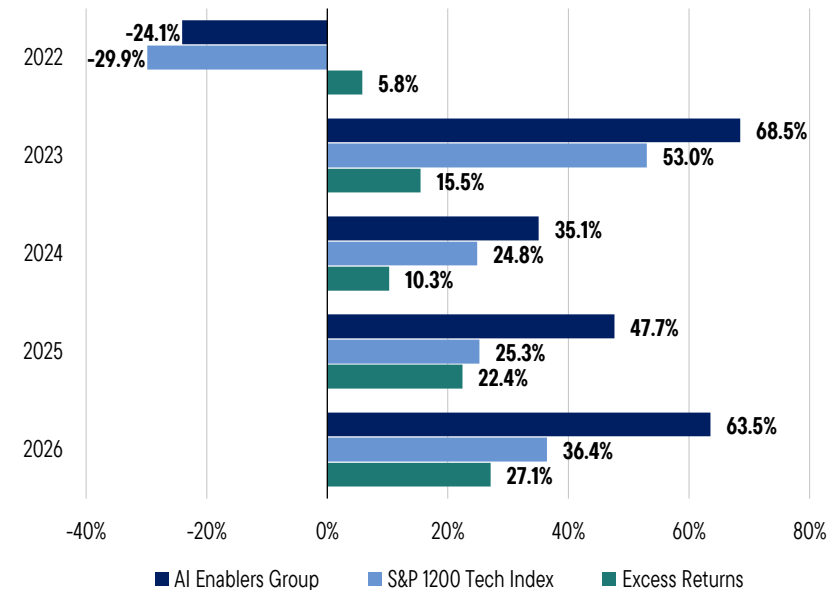
Vertiv's example illustrates that the sustainability of AI infrastructure is not limited to how electricity is generated. It also depends on how efficiently power is delivered, heat is removed, water is managed and complex facilities are constructed and maintained.

Conclusion

AI's rapid expansion is creating investment opportunities across technology, utilities, construction and industrial infrastructure. As it is also exposing physical and social constraints, the need to deploy more efficiency could be a tailwind for AI Enablers (Exhibit 3).

ClearBridge's research seeks to understand these constraints across the data-center value chain. With developers and operators, we ask whether energy and water commitments can keep pace with growth and how local communities will share in the benefits. With equipment suppliers, we examine total system efficiency, water requirements, refrigerants, noise, reliability and speed to deployment.

Exhibit 3: AI Efficiency Enabler Group Returns by Year



As of September 22, 2026. Source: Bloomberg Intelligence.

A common thread: sustainability is increasingly the mechanism connecting AI demand with practical development. Companies able to lower resource requirements, protect ratepayers, address community concerns and deliver reliable capacity may be better positioned to support — and benefit from — the next phase of AI infrastructure growth.

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