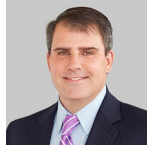
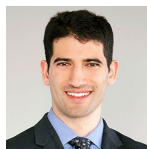




Mid Cap Strategy



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

Key Takeaways

- ▶ Mid cap growth equities moved lower during the first quarter but outperformed larger cap peers as market leadership continued to broaden.
- ▶ The ClearBridge Mid Cap Growth Strategy outperformed its Russell Midcap Growth benchmark, supported by its more cyclical positioning and strength across a wide range of industrials.
- ▶ Our approach remains grounded in selectivity and discipline. We are focused on owning businesses that can perform across a range of scenarios, while remaining flexible as the environment evolves.

Market Overview

Mid cap growth equities declined during the first quarter, with the Russell Midcap Growth Index falling 6.4%, but they outperformed the larger cap Russell 1000 Growth Index, which declined 9.8%. Neither group was immune to the broader market selloff, which was driven largely by investor concerns surrounding the ramifications of the conflict pitting the U.S. and Israel against Iran. Performance among mid cap growth companies exhibited less dramatic sector dispersion than large cap growth companies, with company-specific fundamental inflections and exposure to artificial intelligence (AI) proving to be more material drivers.

Investor attention remains split between a gradual improvement in select cyclical areas and ongoing uncertainty around the broader economic trajectory. Early signs of stabilization are emerging in parts of the industrial economy after four years of predominantly negative manufacturing activity. The pace and durability of any recovery remain unclear given mixed company results and an unexpected spike in oil prices driven by the closure of the Strait of Hormuz.

Meanwhile, the debate around AI has remained critical across almost every sector of the market. Rapid advancements in large language models and growing enterprise adoption have led to intensifying debates around winners and losers, as well as second- and third-order impacts. In particular, business models reliant on workflow, information aggregation or labor-intensive services are facing increased scrutiny as investors assess the potential for AI-enabled disruption. In contrast, companies tied to AI infrastructure, electrification and power demand have seen continued financial benefits, which in turn has powered stock prices higher. Meanwhile, more -asset-heavy business models across materials, energy and industrials have attracted renewed interest both due to limited obsolescence risk from AI and interest in cyclical recovery potential.

Periods of uncertainty often create opportunity, especially for companies with clear strategies, strong execution and the ability to adapt.

Portfolio Performance

The ClearBridge Mid Cap Growth Strategy outperformed its Russell Midcap Growth benchmark, supported by its more cyclical positioning and strength across a wide range of industrials.

Industrials performance was driven by high-quality compounders positioned to benefit from improving or stabilizing end markets, enthusiasm for cyclical recovery stories and AI infrastructure/power beneficiaries. For example, long-standing holding RBC Bearings, a manufacturer of highly engineered precision components, continued to grow revenues and profit margins in its aerospace and industrial segments. Vertiv, a manufacturer of power, precision cooling and infrastructure management systems primarily serving data centers, is benefiting from the generational data center infrastructure investment. Meanwhile, XPO, a less-than-truckload transportation provider, benefited from ongoing initiatives to improve pricing, service and network efficiency.

Consumer staples also contributed positively, in particular Casey's General Stores, whose value-focused consumer appeal is seeing resilient demand in an increasingly uncertain macro environment. The company continues to outperform industry trends in both fuel and food service.

Health care was an area of weakness during the quarter. Declines were particularly prevalent in contract research organizations (CROs) Medpace and ICON, as well as digital health platform Doximity, due to investor concerns over the possibility of AI disruption in drug development and advertising. ICON faced additional pressure after management announced it was withdrawing its guidance and investigating some of its historical accounting practices and, coupled with the rise in uncertainty over its long-term growth opportunities, we elected to exit the position.

Within information technology (IT), performance was mixed. AppLovin, a mobile advertising and app monetization platform, detracted modestly as investors evaluated potentially shifting competitive dynamics and reconsidered the near-term potential of its new e-commerce product. More broadly, several software and platform companies — including HubSpot, a customer relationship management provider, Monday.com, a work management platform, and Rubrik, a data security and cloud data management company — faced pressure as investors reassessed competitive positioning in an increasingly AI-driven landscape.

However, there were also notable bright spots within the sector. Entegris, which provides advanced materials and process solutions for the semiconductor and other high-technology industries, continued to see strong demand due to an improving cyclical backdrop, while Teledyne Technologies, which provides advanced instrumentation and aerospace electronics, contributed as demand tied to defense, sensing and advanced industrial instrumentation began to inflect positively.

Portfolio Positioning

Portfolio activity during the quarter reflected our continued focus on positioning the Strategy toward durable growth opportunities. We are also preparing for the upcoming Russell rebalancing, which is expected to drive meaningful changes in sector weights, particularly within consumer discretionary, financials and IT, and will create both opportunities and dislocations across the mid cap growth universe.

We initiated a position in Medpace, a CRO focused on small- and mid-sized biotech clients. Its differentiated model supports strong margins and consistent execution, and we believe it is well-positioned to benefit from a recovery in biotech funding and clinical activity over time, with AI disruption risk potentially overstated.

We also added Tenet Healthcare, an operator of acute care hospitals and ambulatory surgery centers. The company is shifting its business mix toward higher-growth, higher-margin ambulatory services, while strong free cash flow generation supports deleveraging and shareholder returns.

In consumer discretionary, we initiated Viking Holdings, a leading cruise operator focused on river and luxury ocean itineraries. Viking's premium positioning, affluent customer base and long booking windows provide visibility into durable demand and attractive long-term growth.

On the sell side, we exited Pinterest, which operates a visual discovery platform that enables users to find inspiration and advertisers tools to reach targeted audiences. Pinterest has struggled to translate user growth into consistent revenue acceleration amid ongoing pressure on brand advertising budgets. With recently announced sales and go-to-market changes anticipated to take time to gain traction and limiting near-term visibility, we elected to redeploy capital into higher-conviction growth opportunities.

Concerns over AI disintermediation, as well as company-specific concerns around their growth and profitability trajectories, also motivated our sells of Monday.com, a cloud-based work management software provider, Verisk Analytics, which provides data analytics and technology solutions to the insurance industry, and CoStar Group, which provides information, analytics and online marketplace services to real estate businesses.

Outlook

As we look ahead, the range of potential outcomes remains wide. The path of economic growth, the durability of a recovery across cyclical end markets and the ultimate impact of artificial intelligence on business models are all still taking shape. Our focus remains on understanding businesses at a fundamental level — how they generate returns, how durable those returns are and how they may evolve over time.

We are spending more time challenging long-held assumptions, particularly in areas where technological change could alter competitive dynamics. At the same time, we are mindful that periods of uncertainty often create opportunity, especially for companies with clear strategies, strong execution and the ability to adapt. We also believe that many mid cap growth companies are better positioned than commonly appreciated to incorporate generative AI into their operations — not just as a risk, but as a potential source of efficiency and long-term value creation. Whether in logistics, industrial manufacturing or health care delivery, the ability to rethink cost structures and productivity could become an important differentiator over time.

Ultimately, our approach remains grounded in selectivity and discipline. We are focused on owning businesses that can perform across a range of scenarios, while remaining flexible as the environment evolves.

Portfolio Highlights

The ClearBridge Mid Cap Growth Strategy outperformed its benchmark during the first quarter. On an absolute basis, the Strategy had positive contributions from three of the 11 sectors in which it was invested. The greatest contributor was the industrials sector, while the health care and IT sectors proved the chief detractors.

On a relative basis, overall sector allocation drove performance. Specifically, stock selection in the consumer staples, industrials and communication services sectors, overweights to the energy, industrials and materials sectors and underweights to the financials and communication services sectors proved beneficial. Conversely, stock selection in the health care, energy, materials and real estate sectors weighed on performance.

On an individual stock basis, the largest contributors to relative returns were Casey's General Stores, RBC Bearings, XPO, Baker Hughes and Vertiv. The biggest detractors from relative returns during the quarter were AppLovin, Doximity, Rubrik and not owning Targa Resources and Quanta Services.

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