ClearBridge
A Franklin Templeton Company

Large Cap Value Strategy

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Key Takeaways

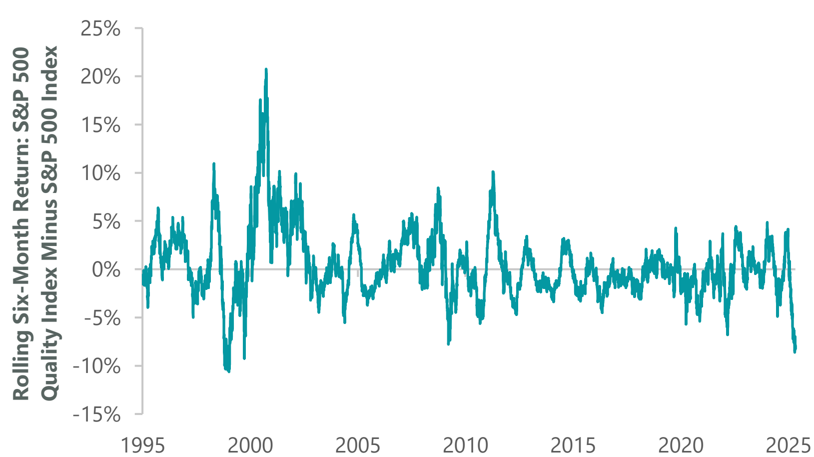
- During the fourth quarter, quality stocks across the market cap spectrum underperformed the broader market by the widest margin since the late 1990s, which was a headwind for the quality-focused Strategy.
- Recent repositioning in health care helped that sector make strong relative contributions in the quarter.
- We believe the shifting market regime offers significant value opportunities, especially as overall market breadth improves and capital flows shift away from high-flying growth stocks toward overlooked, high-quality businesses.

Market Overview

U.S. equites finished a strong 2025 albeit with more subdued gains in the fourth quarter, with the S&P 500 Index rising 2.7% during the period to end the year up 17.9%. Value stocks outpaced growth in the quarter across all market caps as the market pivoted from recent high-momentum AI winners and leadership broadened. The benchmark Russell 1000 Value Index gained 3.8% for the quarter, capping off a 15.9% return for 2025.

During the fourth quarter, quality stocks across the market cap spectrum underperformed the broader market by the widest margin since the late 1990s (Exhibit 1). This was a headwind to the Strategy, which trailed the Russell 1000 Value in the quarter as several high-quality long-term holdings sold off.

Exhibit 1: Quality Stocks' Underperformance at Extremes



As of Oct. 9, 2025. Source: ClearBridge Investments, Bloomberg Finance.

Within information technology (IT), long-term portfolio holding Motorola Solutions sold off as its revenue growth rate continued to normalize in its core land mobile radio (LMR) devices business; the company is working off an unusually high backlog created by COVID-era government funding programs. While its LMR devices business is slowing, we think the company has augmented its core franchise with faster-growing adjacencies and increased its mix of software and services. We think Motorola Solutions is a core holding for our strategy that offers attractive risk-reward at current valuation given a sustainable mid-single-digit top-line growth rate with continuously improving profit margins.

Our high-quality bias applies across the portfolio, including areas of AI. We are more exposed to higher-quality AI exposed stocks such as Broadcom, Taiwan Semiconductor Manufacturing and Microsoft, which lagged this year (although the first two were both up more than 40%) relative to lower-quality more commodity-exposed AI stocks like Micron, Sandisk and Lumentum. While these lower-quality companies are likely to benefit more from supply chain constraints in the near term, we believe that businesses with more sustainable moats are likely to deliver superior returns through the cycle for investors.

In materials, ongoing uncertainty regarding the economics of Air Products and Chemicals' mega projects in Saudi Arabia and Louisiana weighed on the stock through the year. While these projects are longer dated in nature, we believe the company's recent partnership with Yara to provide offtake for its blue ammonia in Louisiana is another point of evidence that the new management team is financially disciplined and focused on returning the business to its core strengths in industrial gases. We have long favored the traditional industrial gas business model, as it is durable during periods of economic weakness and has demonstrated strong pricing power, predictable results and resilient free cash flow.

Positioning in financials and health care was beneficial for the Strategy in the quarter. Strength in consumer spending from the third quarter looked to carry over into the holiday season, helping Capital One and American Express. Capital One reported a large earnings beat driven by lower credit costs and a large reserve release helped by lower charge-offs. The quarter showed very strong operating results from Capital One in its first full quarter following its acquisition of Discovery. The icing on the cake was the announcement of a $16 billion buyback authorization (11%–12% of the market cap) following management's review of post-acquisition capital requirements. American Express also topped earnings estimates and raised the lower end of its guidance helped by strong spending and a bounce back in travel. Its refresh on its Platinum cards is also being well-received.

A fourth-quarter rotation to health care driven by a decline in policy uncertainty, improved earnings, attractive valuations and a pickup in M&A activity helped our holdings in the sector. Thermo Fisher

Scientific, a supplier of life science tools and diagnostics, delivered strong earnings driven by its analytical instruments segment and strong operating margins. The company has also benefited from improving results in its growing bioprocessing business and raised revenue and EPS guidance. Strength in its oncology segment helped AstraZeneca deliver stronger-than-expected third-quarter results in November and reaffirm its guidance. Consumer health company Haleon rose as it delivered solid results; the stock should continue to benefit from its strong brands in consumer health as it maintains its pricing discipline and gains market share.

Portfolio Positioning

We have been fairly active within health care during the past year, initiating a position in AstraZeneca, adding to UnitedHealth Group, Thermo Fisher and Johnson & Johnson, and more recently initiating a position in Swiss biopharmaceutical and diagnostics company Roche. The company reported positive Phase III data for giredestrant in breast cancer and fenebrutinib in multiple sclerosis, paving the way for new treatments with peak sales opportunities of potentially over $5 billion each. These two products should enable Roche to grow revenues through the loss of exclusivity period for several cancer and MS drugs and secure its place among the pharmaceutical companies that can grow revenue over the coming decade and more.

We also added industrial gas company Linde, which traded down with its industry peers and materials more broadly on caution over the global macroeconomic backdrop. Linde is a durable and high-quality compounder that typically outperforms the market through cycles given its attractive industrial gas business, which offers strong pricing power through the cycle, exposure to non-economically sensitive long-term take or pay contracts, growing backlog of projects, and consistent execution.

At the same time, a strong runup in shares for Northrop Grumman left the risk-reward ratio less favorable going forward and we exited our position. Preference for WEC Energy in the utilities sector, which has 80% of its assets exposed to some of the most constructive jurisdictions in the country (such as Wisconsin and areas covered by FERC) as well as upside to the data center demand, led us to add to our holding, funding the increase with a trim to Sempra and an exit of Edison International.

Outlook

Our core tenet is to invest in high-quality businesses with underappreciated, sustainable, durable edges, and we remain convinced that this is the path to superior returns through the cycle. In the current frothy market, however, this style has been under pressure. Thanks to our long duration, we see the recent selloff in high-quality businesses as a significant opportunity, and we have recently initiated or added to positions in several — such as Linde, Parker-Hannifin and WEC Energy — at attractive valuations. We believe the shifting market regime offers significant value opportunities, especially as overall market breadth improves and capital flows shift away from high-flying growth stocks toward overlooked, high-quality businesses.

Portfolio Highlights

The ClearBridge Large Cap Value Strategy underperformed its Russell 1000 Value Index benchmark during the fourth quarter. On an absolute basis, the Strategy saw positive contributions from six of 11 sectors. The health care and financials sectors were the main contributors, while consumer discretionary and materials detracted the most.

On a relative basis, overall stock selection detracted from relative results. In particular, stock selection in the IT, materials and consumer discretionary sectors detracted, while stock selection in financials and health care, underweights to real estate and consumer staples and a health care overweight were beneficial.

On an individual stock basis, the top relative contributors were Thermo Fisher Scientific, Parker-Hannifin, AstraZeneca, Haleon and not owning Strategy (formerly known as MicroStrategy). Top relative detractors were Motorola Solutions, Home Depot, O'Reilly Automotive, Air Products and Chemicals and not owning Micron Technology.

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