ClearBridge

A Franklin Templeton Company

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Large Cap Growth Strategy

Market Overview

Investors rotated out of growth equities to start 2026 amid shifting expectations for monetary policy and continued signs of moderating economic growth. The S&P 500 Index rose 1.5% in January, while the benchmark Russell 1000 Growth Index declined 1.5%, trailing the Russell 1000 Value Index by over 600 basis points.

The Federal Reserve held interest rates steady at its January meeting, pausing after a series of rate cuts late in 2025. Policymakers emphasized a continued data-dependent approach, noting that while inflation has moderated, progress toward the Fed's 2% target remains uneven, resulting in more measured expectations for additional rate cuts in 2026.

The U.S. economy added 50k jobs in December, below analyst estimates, while the unemployment rate ticked down from 4.5% in November to 4.4% in December. However, the ISM U.S. Manufacturing PMI unexpectedly rose from 47.9 in December to 52.6 in January, significantly higher than expectations as activity in the manufacturing sector expanded for the first time in 12 months and the most since 2022. Consumer sentiment also increased, with the University of Michigan Consumer Sentiment Index increasing from 52.9 in December to 56.4 in January. These positive readings contribute to our view that the growth market can see greater participation going forward compared to the narrow leadership of the past several years.

Differentiated mega cap positioning enabled the ClearBridge Large Cap Growth Strategy to outperform the benchmark in January as the AI momentum trade reversed. Relative results were supported by positive investor reaction to quarterly earnings results from our active weight position in Meta Platforms, as well as from our underweight to Microsoft, which sold off post-earnings on concerns of slowing growth and elevated AI capex.

The Strategy also saw positive contributions from ASML and Taiwan Semiconductor, companies benefiting from accelerated capex on advanced chip designs and a strong memory demand cycle. Lastly, we saw positive contribution from our overweight sector positioning in industrials and materials due to strengthening industrial economic data and improved market breadth.

Portfolio Positioning

We added one new position in January and closed out of three others, increasing our weighting to higher conviction holdings. New

addition Roche is a Switzerland-based global pharmaceutical and diagnostics company that we believe has an attractive growth runway with several positive Phase III readouts in early-stage breast cancer and treatments for multiple sclerosis (MS). These products should enable the company to grow revenue through the loss of exclusivity period for several existing cancer and MS drugs and secure its place among pharmaceutical companies that can grow revenue for the next decade. We believe that successful execution of Roche's pipeline has the potential to drive both positive earnings revisions and multiple expansion in the coming years. Additionally, the stock has durable downside protection characteristics — an element of portfolio construction we focus on to help enable strong performance through market cycles.

Our largest sale was networking and storage semiconductor company Marvell Technology. We began a position in Marvell after the Liberation Day selloff in April 2025. While Marvell shares have done well since then, we recently initiated a position in Arista Networks, which we believe has a stronger competitive position going forward, driven by strength in its data center businesses and share gains in its campus network solutions. Marvell faces several important execution hurdles over the next several years, most notably scaling up of Microsoft's Maia custom silicon program, which we believe adds additional risk.

Data center operator Equinix was sold as it remains in the middle of a large capex investment cycle. The company is not benefiting from this capacity or AI tailwinds as customer data center spending remains focused on training rather than inference, where Equinix is relatively stronger. With other more attractive opportunities in the data center industry, we decided to sell our position.

We also sold digital payment provider PayPal. While we have seen some signs of improvement from initiatives by management to enhance revenue growth and profitability, the progress of PayPal's turnaround has been more challenging than expected, especially in the PayPal branded business which faces competitive pressures from players like Shopify. When we invest in businesses executing upon turnarounds, we regularly weigh the positive outcome of improved execution with downside risks, including the opportunity cost of longer than expected paths to improvement. Progress delays combined with increasing macroeconomic pressure led us to exit the position.

Outlook

The positive attributes of our balanced portfolio approach were on display in January amid a selloff among the most widely held names in a highly concentrated Russell 1000 Growth Index benchmark. We are encouraged by positive signs of improvement in the industrial economy while the consumer continues to hold on, signals that help support our approach of owning a combination of cyclical, higher-growth and stable compounder companies.

We continue to apply the learnings from a volatile 2025 in managing the portfolio, remaining proactive and moving quickly when attractive growth opportunities present themselves. In addition to targeting new ideas at advantageous valuations, our activity during the past month offers a good example of how we are constantly revisiting the case for owning every holding, moving away from companies with lower visibility and subpar execution and reprioritizing our highest-conviction names.

Portfolio Highlights

The ClearBridge Large Cap Growth Strategy outperformed its Russell 1000 Growth Index benchmark in January. On an absolute basis, the Strategy delivered positive contributions across six of the nine sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the industrials and communication services sectors while the IT sector was the main detractor.

Relative to the benchmark, overall stock selection and sector allocation contributed to performance. In particular, stock selection in the IT and consumer discretionary sectors, overweights to the materials and industrials sectors as well as an underweight to IT supported performance. Conversely, stock selection in communication services and an underweight to consumer staples detracted from performance.

On an individual stock basis, the primary contributors to relative performance for the month included ASML, Meta Platforms, Eaton, Taiwan Semiconductor and an underweight to Microsoft. The main detractors from relative returns were Intuit, Netflix, Oracle, an underweight to Alphabet and not holding Lam Research.