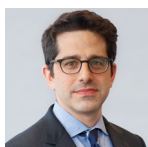




Dividend Strategy



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Key Takeaways

- ▶ AI remained the market's dominant force, but rising interest rates, narrow market leadership and intensifying competition among models heightened risks beneath the surface.
- ▶ The Strategy delivered modest gains but underperformed the S&P 500, as positive stock selection in information technology, financials and industrials was offset by sector allocation and stock-specific headwinds.
- ▶ We are maintaining measured exposure to AI leaders while emphasizing attractively valued, durable businesses across other sectors.

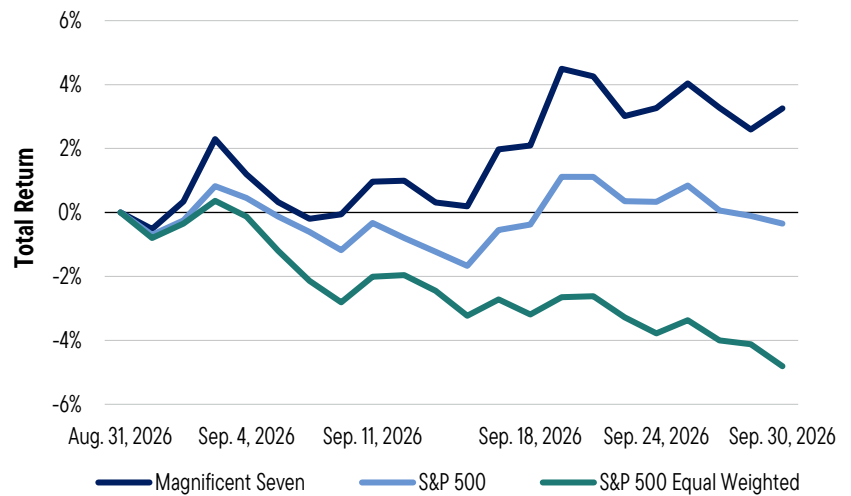
Market Overview

During the third quarter, the S&P 500 Index rose 2.3% while shares of the ClearBridge Dividend Strategy increased modestly. The Strategy rose strongly in the first two months of the period, outperforming the index, but retraced those gains in September. AI developments continued to drive the markets, and the information technology (IT) sector was the largest contributor to the S&P 500's return for the quarter. Superficially, this resembled most recent quarters, with a one-dimensional market dominated by AI. Beneath the surface, however, turbulence increased.

Interest rates rose sharply during the quarter, mostly in September. Oil prices soared as inventories dwindled. Both will have longer-term effects: rising rates reflect stubborn inflation and the increased hawkishness of the new Fed Chairman; years of above-average oil production will be required to replenish inventories. Higher interest rates and gasoline prices weigh on the consumer. Higher diesel prices represent a headwind to many companies. Inflation is not relegated to the old economy: computer chip and memory prices have soared due to AI-driven demand.

Higher interest rates represent a headwind to both economic activity and asset prices, but their impacts have not been felt evenly throughout the market. While rising rates weighed on most stocks in September, the tech giants were full steam ahead (Exhibit 1).

Exhibit 1: Tech Giants Power through Higher Interest Rates



As of Sept. 30, 2026. Source: ClearBridge Investments, Bloomberg Finance.

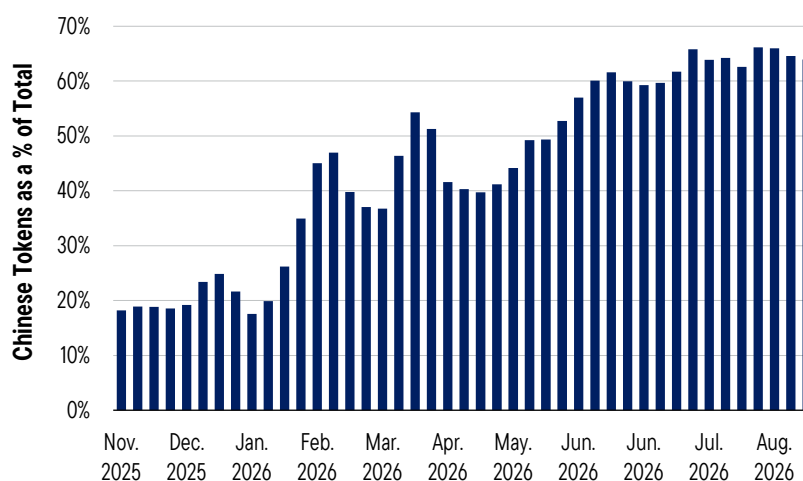
Healthy stock markets are characterized by broad participation. Markets like September's — where index gains are powered by a small group of companies despite broad-based deterioration — are often a precursor to weaker market action.

We continue to maintain measured exposure to leading AI companies, but recent trends should give investors pause. The tech juggernauts are not immune to rising rates. More fundamentally, cracks have begun to appear in the AI monolith.

While AI adoption, investment and development continue to race ahead, competition is intense. Frontier model leadership is ephemeral — in just the last year, the torch has passed between OpenAI, Alphabet and Anthropic. More worryingly, open-source models — mere afterthoughts a few quarters ago — now dominate search volumes (Exhibit 2). Model capabilities have advanced so quickly, many users now find cheaper, lagging-edge models sufficient. With most investment spent training new models, won't growth disappoint if usage of new models disappoints?

Serious questions about AI's safety also abound. What if AI must be shut down or curtailed to reduce risk? AI is such a dynamic and novel technology; it is impossible to predict its course. And yet, generally speaking, 50% of the S&P 500's capitalization — the IT sector, along with Meta, Alphabet and Amazon — is tied to its growth and development. We agree with the bulls that everyone should have some exposure to AI. We worry, however, that many folks have too much.

Exhibit 2: Open-Source Models Dominating Search Volumes



As of Sept. 7, 2026. Source: OpenRouter, Yipit. Represents weekly observed paid tokens via OpenRouter.

Performance Overview

Relative performance in the quarter showed a mix of positives and negatives in most sectors, with few major factors dominating. Our IT underweight detracted, although our positioning in the sector contributed positively: not owning the high-beta cyclical picks and shovels beneficiaries of the AI infrastructure buildout helped as these stocks sold off in the third quarter. However, our measured and underweight positions in Apple, Nvidia and Microsoft detracted.

Our energy overweight contributed, although our positioning detracted as Williams sold off modestly as investors impatiently await additional data center projects; ExxonMobil, on the other hand, rose as higher oil prices lifted producer revenue and earnings expectations.

In health care, Becton Dickinson rose as the sector rebounded from depressed valuations, helped by a rotation away from crowded AI positions. At the same time, CVS Health weakened despite strong results and increased 2026 guidance as management warned that pressure in its 340B business would persist into 2027.

In industrials, Honeywell Aerospace's first results as an independent business reflected lower adjusted earnings and separation-related costs, while management reduced its full-year sales and adjusted earnings outlook before interest and taxes amid continuing supply-chain constraints; we believe these will be short-lived headwinds. Automatic Data Processing (ADP), meanwhile, continued to execute well and was a top contributor: earlier in the year we bought the dip in ADP as we believed fears of AI disintermediation were overblown. The shares advanced in the third quarter on solid revenue and adjusted earnings growth, supported by strong client retention, pricing and new-business bookings. Margin expansion and a supportive fiscal 2027 outlook reinforced confidence in continued earnings growth.

Portfolio Positioning

With the market obsessively focused on AI, we see compelling opportunities in overlooked areas, including financials, industrials, communications services and energy infrastructure. Financials is our largest sector exposure; with the sector a strong contributor in the quarter we trimmed Travelers, Visa and JPMorgan Chase to harvest some gains while maintaining meaningful positions. In industrials, we exited aerospace manufacturer and defense contractor RTX also on strong performance, and as we believe its elevated valuation now discounts future good news, as well as Honeywell International. We added to other, higher-conviction, industrials positions: Honeywell Aerospace, recently spun off from Honeywell International and trading at a more attractive valuation, and Otis, an elevator and escalator maker whose high-margin service business generates sticky, defensive cash flows and some inflation protection.

In communication services we added to T-Mobile, which continues to gain market share. T-Mobile enjoys the lowest cost structure of the major carriers, enabling it to deliver superior service at lower prices while still generating attractive returns. T-Mobile just raised its dividend roughly 15%. And in energy we bought Kinder Morgan, a high-quality energy infrastructure company with a sizable dividend yield, good balance sheet, contracted and recurring revenues and a solid growth outlook due to surging natural gas demand for LNG exports and power.

Against an increasingly turbulent investment backdrop — with rising rates, increased market volatility and speed bumps in the road for AI — we could not feel better about our diversified and attractively priced positioning.

Outlook

In a world undergoing profound technological innovation, we emphasize companies with low risk of disintermediation. Our holdings have strong balance sheets, healthy dividends and predictable revenue streams, making them more defensive in periods of economic uncertainty. Our companies are positioned to compound earnings and dividends, which can insulate portfolios from inflation and protect purchasing power.

Given the current combination of market concentration and profound technological change, we believe a traditional approach to diversification is more important than ever and the Strategy is well-positioned to navigate today's turbulent waters.

Portfolio Highlights

The ClearBridge Dividend Strategy underperformed its S&P 500 benchmark during the third quarter. On an absolute basis, the Strategy had positive returns from four of the 11 sectors in which it was invested. The leading contributors were the IT and financials sectors, while the industrials and materials sectors detracted the most.

On a relative basis, stock selection in industrials, IT and financials contributed to performance. An overweight to energy and an

underweight to consumer discretionary also contributed. Conversely, stock selection in energy, health care, materials and consumer discretionary detracted. An underweight to IT and overweights to industrials and real estate also weighed on results.

On an individual stock basis, the largest contributors to relative returns were ExxonMobil, Becton Dickinson, Automatic Data Processing and not owning Tesla and Applied Materials. The largest detractors were Honeywell Aerospace, Williams and underweights to Apple, Nvidia and Microsoft.

During the quarter, besides activity described above, we exited positions in Roche in health care and PG&E in utilities.

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