



All Cap Growth Strategy



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Key Takeaways

- ▶ The growth market has seen a wide divergence between “AI winners” and “AI losers” since the lows following Liberation Day, most notably within the technology sector, which has been a primary headwind to Strategy performance.
- ▶ We were active during the quarter, upgrading our exposure to perceived AI winners while scaling back our weighting in AI losers and to a health care sector facing myriad headwinds.
- ▶ While many stocks have begun to price in a more optimistic monetary and regulatory environment, we remain cognizant of a number of economic and geopolitical risks. Our focus is managing a portfolio that can capture idiosyncratic upside in bullish periods in the market while also providing downside protection during times of volatility.

Market Overview

Equities surged in the third quarter, continuing their post-Liberation Day rebound, with the S&P 500 Index up 8.1% and tech-heavy Nasdaq Composite rising 11.2% to record highs. Investor optimism was fueled by better-than-feared tariff outcomes, the passing of the One Big Beautiful Bill Act in July, anticipated interest rate cuts — the Federal Reserve cut 25 bps in September and signaled further easing — and robust corporate earnings, particularly in technology and the Magnificent Seven.

The benchmark Russell 3000 Growth Index rose 10.4% for the quarter and is up over 40% from its early April lows in the aftermath of Liberation Day. A significant theme since then has been exuberance around AI and divergence between “AI winners” and “AI losers.” AI winners, [consisting primarily of cloud providers, chip makers and certain infrastructure software companies](#) (as well as utilities powering data centers), have rallied even more strongly from the April lows — with some stocks up over 100% — while capital has flowed out of perceived AI laggards in areas like application software and services. Widening dispersion has been accompanied by a broadening out of perceived AI losers from companies directly threatened in the near to intermediate term to include those potentially exposed but unlikely to be challenged for years to come.

The All Cap Growth Strategy started the third quarter with diversified but less-than-benchmark exposure to AI winners and meaningful exposure to areas deemed AI losers, which were primary drivers of relative underperformance. This headwind was

reflected in overall weakness in the information technology (IT) and communication services sector.

The Strategy did benefit from an overweight to Broadcom, a longtime holding that remains one of the Strategy's top positions, which stood out after announcing a fourth customer for its specialized XPU chips geared to AI workloads, underscoring its leadership in the market for custom silicon in AI applications, which is seeing robust overall demand. AppLovin, which runs an AI-powered digital ad targeting engine, and Taiwan Semiconductor, a contract manufacturer of high-end chips from Nvidia and other leading designers, were also strong contributors.

These performances were offset by poor results from application software makers Salesforce, HubSpot, ServiceNow and Workday, which faced pressure as concerns around AI disintermediation continued to weigh on the industry. That said, we have reduced our exposure to this area within technology, selling Salesforce and Workday, as well as Accenture, a global professional services company helping clients build digital infrastructure, which we sold over concerns that growth in its consulting business from AI is being offset by a still-muted aggregate tech spending environment.

The Strategy was also hurt by underweights to mega cap hyperscaler Alphabet, as well as Palantir Technologies, whose infrastructure software has positioned it to capitalize on the accelerating adoption of AI across industries.

Portfolio Positioning

At the same time, we initiated a position in Oracle, which runs an emerging cloud infrastructure platform to run generative AI workloads. Oracle is gaining share among hyperscalers due to its lower-cost data center architecture, which is well-suited for large-scale AI training workloads. We believe Oracle's share of the market will continue to grow over the next few years with profitability of this growth underappreciated by the market.

New position Vistra also stands to benefit as a power supplier to data centers run by hyperscalers. The company is the largest competitive power generator in the U.S. with a 41 GW fleet of power plants diversified by geography and fuel sources. Long-term fundamentals of the deregulated power markets remain constructive with Vistra well positioned to benefit from continued tightening in its primary PJM (Pennsylvania, New Jersey, Maryland Interconnection) and ERCOT (Texas) markets. Pending regulatory clarity could also pave the way for additional power purchase agreements with hyperscalers and act as a positive catalyst for independent power producer stocks.

The health care sector is facing a myriad of questions around underlying spending levels, tariff concerns and regulatory risks. After trimming managed care provider UnitedHealth Group

regularly over the last three quarters, we fully exited the position in July following remarks from returning CEO Stephen Helmsley about a turnaround plan that indicated the path to recovery will be protracted. Ongoing uncertainty impacting pharmaceutical companies, as well as our more muted view of the GLP-1 market, prompted the sale of leading diabetes and obesity franchise Novo Nordisk. Novo continues to face competition from lower-priced compounders that we had expected to abate.

We upgraded our health care exposure with the purchase of Natera, a molecular diagnostics company that specializes in cell-free DNA testing across oncology, women's health and organ health. We believe Natera has a long runway for growth as adoption of minimal residual disease (MRD) testing, a nascent post-cancer treatment area, increases. The company has multiple opportunities to broaden its MRD portfolio and extend its reach globally. While Natera is investing heavily in oncology today, its core women's health business is currently profitable, allowing the company to be self-funded.

Outlook

Looking ahead, we remain focused on maintaining a balanced portfolio that can capture upside in strong markets while providing downside protection during periods of volatility. While monetary easing and potential regulatory changes could provide tailwinds in 2026, we appreciate that many stocks have begun to price in a more optimistic environment and remain cognizant of a number of economic and geopolitical risks that could derail the market's current momentum.

While consistent in applying our orientation as long-term investors, we remain vigilant in monitoring stock-specific and sector allocations, trimming positions in areas facing headwinds or where valuation has become more extended and reallocating capital to opportunities with more attractive risk-reward profiles. This disciplined approach ensures that the Strategy maintains a healthy balance between offensive growth drivers and defensive stability, positioning it to perform well across a range of market scenarios.

Portfolio Highlights

The ClearBridge All Cap Growth Strategy underperformed its Russell 3000 Growth Index benchmark in the third quarter. On an absolute basis, the Strategy delivered positive contributions across four of the 10 sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while the main detractors were the financials and communication services sectors.

Relative to the benchmark, stock selection and sector allocation detracted from performance. In particular, stock selection in communication services, IT, consumer discretionary, health care,

financials and industrials and an IT underweight hurt results the most. Conversely, stock selection and an underweight in consumer staples contributed to performance.

On an individual stock basis, the leading relative contributors to performance were AppLovin, Microsoft, TE Connectivity and not holding Eli Lilly and Costco Wholesale. The primary relative detractors were underweights to Apple, Tesla and Alphabet as well as Netflix and Vertex Pharmaceuticals.

In addition to the transactions mentioned above, we exited Union Pacific in the industrials sector.

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