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## Large Cap Growth Strategy

### Key Takeaways

- ▶ In a period of momentum-driven returns and bullish investor sentiment sparked by the re-election of Donald Trump, the more defensively positioned Strategy underperformed.
- ▶ We took advantage of price dislocations in several leading growth franchises to enhance our health care and consumer discretionary exposure while also reducing underweights to several strong-performing mega cap holdings.
- ▶ Coming off two years of historically robust performance for large cap growth stocks, we do not expect such strong results to continue and have positioned the Strategy for potential turbulence resulting from elevated valuations and policy uncertainty under the incoming administration.

### Market Overview

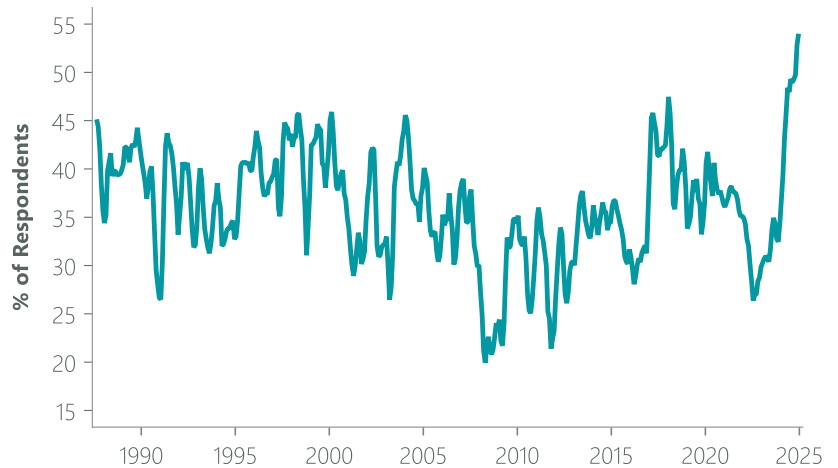
Despite inklings of a market broadening in the fourth quarter sparked by Donald Trump's election victory and further interest rate cuts from the Federal Reserve, the post-election rally proved short-lived and momentum-led with relatively narrow leadership. The S&P 500 Index advanced 2.41% in the quarter to finish 2024 up 25.02%, completing the best back-to-back years for the index since 1998. The benchmark Russell 1000 Growth Index (RLG) jumped 7.07% for the quarter and 33.36% for the year, easily outdistancing all other parts of the U.S. equity market.

While small cap, value and cyclical shares were bid up in the aftermath of Trump's win, which included a Republican sweep of Congress, growth stocks reasserted control by quarter's end. The RLG topped the Russell 1000 Value Index by 905 basis points for the quarter and 1,900 bps for the year while the Russell Midcap Growth Index was the best quarterly performer overall, rising 8.14%.

As they have done for most of the last several years, the Magnificent Seven dominated broad market returns, accounting for 74% of the RLG's performance in the quarter and 68% for the year. Nvidia continued to ride the momentum of its leading position as the key supplier of chips for AI applications, rising more than 170% in 2024, while Tesla roared back in the fourth quarter on strong financial results and the coattails of Elon Musk's close association with the incoming Trump administration. Meanwhile, most gauges of investor sentiment, including the Investors Intelligence Bull/Bear Ratio, Citigroup's Panic-Euphoria model, as well as current put/call ratios, show elevated levels of bullishness (Exhibit 1).

Exhibit 1: Market Optimism Elevated

**Respondents Expecting Higher Stock Prices in Next 12 Months (%)**



Note: 3-Month Moving Averages. Sources: Conference Board, Macrobond.  
Data last updated on: 12/23/2024, latest available as of Dec. 31, 2024.

The ClearBridge Large Cap Growth Strategy carefully manages its mega cap exposure to promote diversification, control risk and promote long-term consistency. We have always said it would be difficult to keep pace in a high-beta market when the index is up 30%. While strong stock selection enabled the Strategy to outpace the RLG in 2023, the offensive market posture and continued historical levels of market concentration for the Magnificent Seven were headwinds to our diversified approach, most notably in the fourth quarter.

For the quarter, our portfolio overweight in health care, an underweight position in Tesla and lack of exposure to Broadcom drove the majority of relative underperformance versus the index. Throughout 2024, we took steps to reduce our underweights to Tesla and Alphabet, while continuing to maintain active weights in Amazon.com and Meta Platforms. Given another year of triple-digit price returns for Nvidia, we find the risk-reward skew in the stock to be more balanced and now have a modest underweight position in the stock relative to the index.

The Strategy's more defensive positioning was the primary detractor during the quarter, highlighted by our exposure to the underperforming health care sector. Our health care holdings suffered from a combination of negative investor sentiment toward managed care holding UnitedHealth Group and sluggish biotechnology and pharmaceutical R&D spending negatively impacting portfolio holding Thermo Fisher Scientific. Despite weak recent performance, we continue to believe that health care offers durable growth trends and adds resilience to the portfolio.

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### Portfolio Positioning

We took advantage of that negative sentiment to establish a new position in ICON, a leading contract research organization (CRO) that handles clinical trials for biopharmaceutical companies. The CRO industry has experienced multiple compression in recent years, driven by slowing pharma and biotech spending by large clients, resulting in a meaningful dislocation in ICON's multiple. We believe current growth is below normal and should revert toward historical levels in the coming years. ICON is a strong player in the CRO industry demonstrating consistent share gains with a strong management team.

Similarly, we used a temporary price dislocation caused by disappointing clinical trial results to purchase shares of Novo Nordisk, a Danish-based leader in diabetes and obesity treatments. Novo's Wegovy semaglutide drug was first to market among the new generation of obesity drugs; however, the company has lost market share to portfolio holding Eli Lilly due to delays in scaling up production volumes and superior weight loss results demonstrated by Lilly's tirzepatide drugs. While the initial market reaction to Novo's more enhanced CagriSema weight loss treatment was negative, we believe this is a more potent formulation that can better compete with Lilly's suite. With Novo poised to have a better product portfolio and improved supply position, we find the company's valuation very attractive given the large secular growth trends behind the diabetes market.

We also reduced the Strategy's consumer discretionary underweight with the purchase of peer-to-peer lodging marketplace Airbnb. Travel in aggregate is an attractive end market with Airbnb's alternative accommodations segment gaining share in the industry. The company's marketplace business model is one we are familiar with given our investments in Uber Technologies and Amazon.com (which operates both a marketplace and fulfillment model) and find attractive due to high margins and returns on investment for these businesses. Following a period of slowing travel demand at Airbnb, which we view as largely cyclical, and a commensurate reduction in growth estimates and valuation, we believe the stock offers an attractive risk-reward tradeoff for a high-quality, stable growth business.

After previous trims to the position, we closed out of utility and renewable energy producer NextEra Energy during the quarter. We expect the incoming Trump administration to increase uncertainty around renewables demand and subsidies, which could drive less upside over the next couple of years. Additionally, we modestly trimmed our positions in Netflix, Accenture and Intuitive Surgical after strong recent performance.

**Outlook**

The Strategy and the Russell 1000 Growth Index are coming off two years of historically robust performance, with healthy double-digit price returns in both 2023 and 2024. We do not expect such strong results to continue every year and have positioned the Strategy for the inevitable periods of turbulence that are the natural course of equity markets. High expectations could pose the greatest risk to our asset class going forward as valuations of most large cap indexes are above average levels and market positioning is bullish. The selloff at year-end, triggered by the Fed’s acknowledgment that inflation remains a risk and that the scope of future rate cuts could be limited, may serve as a warning that stocks could face more headwinds than are currently priced in.

The potential impacts of economic policies from the incoming Trump administration are also hard to assess (Exhibit 2). We are spending time evaluating how tariffs could impact not just our multinational holdings but all of the companies in the portfolio. We also see the prospect of reduced regulation as a possible benefit to many of our holdings but, as we saw in Trump’s first term, campaign rhetoric does not always make it into legislation.

Exhibit 2: Tariff Turbulence?



Sources: S&P Global, Macrobond.  
Data last updated on: 1/2/2025.

With the Magnificent Seven capping another very strong year, unless their profits increase dramatically, we see more compelling valuations among growth companies outside of that cohort. Software stocks, for instance, have lagged over the last 12 months versus semiconductors but are now showing signs of modest improvement and product cycle innovation is accelerating. We also see innovation occurring beyond technology-related businesses. One area we are excited about is medical devices, where portfolio holding Intuitive Surgical is making significant strides in providing

feedback to surgeons using its robotic instruments. AI is clearly a megatrend that we are monitoring closely to gauge the next phase of use cases and impact both to technology-oriented businesses and to those in more traditional industries.

We are excited about the year ahead as we believe it will provide opportunities to benefit from playing both offense and defense with our portfolio construction. This is probably the biggest upshot of taking a diversified approach across our three buckets of growth, allowing us to take advantage of market conditions while leaning on balance to promote consistency through the difficult periods.

### Portfolio Highlights

The ClearBridge Large Cap Growth Strategy underperformed its Russell 1000 Growth Index benchmark in the fourth quarter. On an absolute basis, the Strategy delivered positive contributions across five of the 10 sectors in which it was invested (out of 11 sectors total). The primary contributors to performance were the consumer discretionary and information technology (IT) sectors while the health care and industrials sectors were the main detractors.

Relative to the benchmark, overall sector allocation and stock selection detracted from performance. From a sector allocation perspective, overweights to health care and industrials and an underweight to consumer discretionary hurt results. From a stock selection perspective, IT, financials and industrials were detractors from performance while selection in the real estate sector proved beneficial.

On an individual stock basis, the leading absolute contributors to performance were Amazon.com, Nvidia, Netflix, Visa and Tesla. The primary detractors were Uber Technologies, Thermo Fisher Scientific, UnitedHealth Group, ASML and Zoetis.

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