



Large Cap Growth Strategy



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Key Takeaways

- ▶ Leadership shifted among large growth stocks as investors moved away from high-momentum semiconductor names toward companies demonstrating clearer AI monetization.
- ▶ The Strategy outperformed, benefiting from strong stock selection as the unwind in AI momentum rewarded our more disciplined, valuation-sensitive approach.
- ▶ In a period of above average activity, we took advantage of price dislocations to broaden our participation across select semiconductor, AI infrastructure and diversifying growth companies while maintaining measured exposure to momentum.

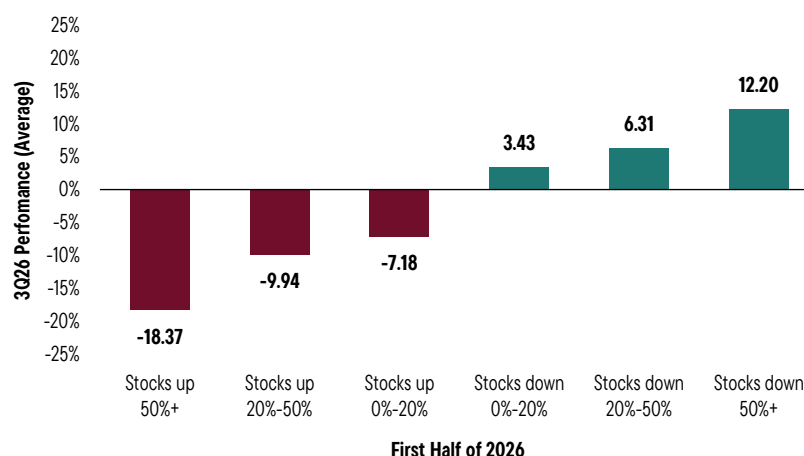
Market Overview

U.S. equities saw shifting leadership in the third quarter, with a selloff in higher-beta AI stocks offsetting corporate earnings strength in a period that saw Treasury bond yields rise to multidecade highs. The S&P 500 Index advanced 2.3% for the quarter while the NASDAQ Composite recovered from a July decline to finish up 2.5%. The benchmark Russell 1000 Growth Index eked out a gain of 0.9% while the Russell 1000 Value Index was up 2.6%.

Large cap growth stocks continued to trail large cap value in the third quarter, although comparative results were heavily influenced by June's Russell 1000 Growth Index (RLG) reconstitution and a rotation in AI leadership. Leadership shifted away from semiconductor winners in the first half of 2026 toward hyperscalers and software companies demonstrating clearer paths to AI monetization (Exhibit 1). The index changes were consequential: semiconductors became a substantially larger portion of the RLG (over 32% at quarter end) while software's weight declined by several hundred basis points, changing both the benchmark's character and the relative performance backdrop.

The quarter proved volatile as investors reassessed the pace of progress at leading large language model providers. Anthropic's delayed initial public offering, alternative data suggesting a slowdown in the leading lab's revenue growth, and a significant rise in usage of lower-priced open-source models intensified the debate around AI monetization. That reset helped support high-quality companies such as Visa and Airbnb as investors broadened their focus beyond the most crowded AI beneficiaries.

Exhibit 1: Performance Reversals in the Russell 1000 Growth Index



Data as of September 30, 2026. Source: FactSet.

Performance Overview

The ClearBridge Large Cap Growth Strategy outperformed for the quarter, benefiting from strong stock selection as the unwind in AI momentum rewarded our more disciplined, valuation-sensitive approach. The portfolio's quality characteristics and greater differentiation within AI proved helpful. Rather than treating AI as a single trade, our research emphasizes the durability of individual business models, the quality of execution and the valuation implied by market expectations. Meta Platforms and Arista Networks as leading contributors during the quarter are positive proof points of this approach. Outside of AI, Thermo Fisher Scientific and Airbnb were also positive contributors.

Meta advanced following a strong reception to the launch of its Muse personal AI agent. Early downloads surpassed those of the ChatGPT and Gemini debuts, reinforcing our view that agentic commerce is becoming a broader opportunity. Thermo Fisher Scientific continued to benefit from its second-quarter earnings beat, with resilient biopharma consumables and pharmaceutical product development end markets and healthy third-quarter guidance supporting the prospect of an accelerating business into 2027. The breadth of recovery across those end markets is particularly important after a more difficult period for life sciences spending. Arista was a positive outlier among AI infrastructure names, delivering strong results through solid execution and new customer scaling. The company raised full-year guidance in its latest update, easing concerns created by earlier supply constraints and uneven revenue trends.

Microsoft was a relative detractor due to our underweight during an optimistic period for AI monetization. Shares were supported by continued Azure cloud momentum, encouraging Copilot usage data and signs of recovery in enterprise software. ASML declined with the broader semiconductor-capital-equipment group even as its second-quarter results were robust; elevated expectations and uncertainty over export controls constrained upside. Grainger also detracted despite a beat-and-raise quarter and no material change in its fundamentals.

Short-term sentiment toward cyclical industrials weakened amid higher fuel costs, elevated oil prices, higher rates and the continuing Iran conflict, pressuring Grainger's margins.

Portfolio Positioning

Our portfolio activity during the quarter was guided by two objectives: thoughtfully expanding exposure to the AI and semiconductor infrastructure ecosystem while maintaining appropriate risk following the RLG reconstitution. The rebalance materially increased the benchmark's semiconductor weight and reduced software exposure. We added initial positions across a broad set of opportunities, allowing us to participate in fast-moving areas of AI while preserving discipline around valuation and risk.

In semiconductors and AI infrastructure, we initiated positions in Advanced Micro Devices, ARM and KLA, which offer differentiated exposure to high-performance computing, power-efficient processor architecture and advanced-chip inspection and metrology. We also added Ciena and Lumentum, reflecting rising optical connectivity requirements in AI data centers, and Seagate and Vertiv, which stand to benefit from demand for high-capacity storage and increasingly power- and cooling-intensive data center architectures. These are bottom-up investments where we intend to reassess position sizing over time as their opportunities and valuations evolve.

We also added a new position in Ingersoll Rand, a high-quality industrial compounder with recurring aftermarket revenue and exposure to automation, energy efficiency and data center infrastructure. We are optimistic about the company's prospects for growth in its compressor business against a backdrop of resilient growth in the industrial sector despite macro headwinds from the Iran conflict. Lastly, we purchased Take-Two Interactive, where we see a multiyear opportunity for the video game developer as the forthcoming Grand Theft Auto VI launch supports unit sales, recurring revenue and earnings revisions.

To fund the additions, we exited Roche, Marsh & McLennan and Fair Isaac, positions where our conviction had diminished. In Fair Isaac's case, regulatory and competitive uncertainty increased the risk to future pricing power and growth.

Outlook

The recent AI selloff has created a more constructive backdrop for our process. We remain fundamentally positive on AI and believe adoption is still early, but the market had moved quickly into many infrastructure names to capitalize on high expectations. A usage shift from proprietary to open-source models does not diminish the need for compute; in many cases, their broader use reinforces demand for the underlying infrastructure. The reset has given us opportunities to add to infrastructure investments while remaining cognizant of what adoption, utilization and monetization trends from the leading AI labs suggest about generative AI's secular growth trajectory. We have also seen a recovery in software where we added to our position in ServiceNow

while our aggregate software exposure remains weighted toward security and infrastructure investments.

More broadly, classic measures of market breadth remain weak even as individual business fundamentals are sound. We believe such a combination argues for selectivity: strong companies can perform well, but a narrow market leaves less room for indiscriminate risk-taking. Our non-diversified mandate supports this repositioning: it enables meaningful conviction in mega cap names, nimbleness when valuations improve and measured risk management as the market evolves.

Portfolio Highlights

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

Relative to the benchmark, overall stock selection supported performance. In particular, stock selection in the industrials, IT, consumer discretionary, communication services and health care sectors contributed to results. Conversely, stock selection in materials, an underweight to IT and an overweight to industrials were detractors.

On an individual stock basis, the largest relative contributors included Meta Platforms, Thermo Fisher Scientific, Palo Alto Networks, Arista Networks and not holding Applied Materials. The largest relative detractors were ASML, W.W. Grainger, an underweight to Microsoft and not holding Palantir Technologies and CrowdStrike.

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