Large Cap Growth Strategy

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Market Overview

Growth stocks fell out of favor in November as concerns over elevated technology company valuations, aggressive generative AI capex commitments and the need for some companies to tap credit markets to finance future spending snapped the AI momentum trade. Hopes of an interest rate cut in December enabled the S&P 500 Index to eke out a 0.2% gain for the month; however, the NASDAQ Composite fell 1.5%, recording its first monthly loss since March. The benchmark Russell 1000 Growth Index declined 1.8%, underperforming its value counterpart by ~450 basis points and cutting into growth stocks' year-to-date leadership.

Investors continued to debate whether a third and final interest rate cut for the year would arrive at the Fed's December meeting. According to CBOE's FedWatch, future pricing implied a roughly 85% probability of another cut before the end of the year, up 15% from October.

While the availability of some economic data has been affected by the federal government shutdown, indications are that economic growth continues to moderate but remains on a healthy trajectory. For example, jobless claims, gathered at the state level (per usual) and aggregated by several Wall Street banks, research boutiques and economic think tanks, show that the trend in jobless claims has remained steady over the past month. The ISM U.S. Manufacturing PMI declined from 48.7 in October to 48.2 in November, the lowest level in four months, due to increasing price pressures and declines in backlogs, new orders and employment. The University of Michigan Consumer Sentiment Index for November was 51, a slight decline from October's 53.6.

U.S. Treasury yields continued to ease in November, supported by expectations for a gradual Fed easing cycle and moderating economic growth. The 10-year Treasury yield declined 6 bps to finish November at 4.02%.

Alphabet and Broadcom were among the few AI bellwethers to deliver positive returns in a month that saw sentiment turn decidedly negative over the near-term payoff from substantial spending on AI infrastructure as well as future funding concerns. Morgan Stanley recently estimated that while half of the $3 trillion in total data center capex from 2025-2028 will be covered by hyperscaler cash flows, the other 50% will need to come from capital markets. Capital needs for AI are large, and we are paying close attention to data points like

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privately held OpenAI's ability to access capital — not just equity but also from credit markets —to fund growth.

The Strategy's mega cap allocation was responsible for a little more than half of its underperformance versus the benchmark in November. In addition to being underweight Alphabet and Broadcom, a lower exposure to Apple was also detrimental.

While the Strategy saw solid contributions from medical device makers Intuitive Surgical and Stryker, biotechnology firm Vertex Pharmaceuticals and life science tools maker Thermo Fisher Scientific, health care was an overall detractor due to our not owning the strong-performing Eli Lilly.

Portfolio Positioning

We adjusted our consumer discretionary exposure in November by continuing to add to Chipotle Mexican Grill while trimming Starbucks. Chipotle was one of the Strategy's leading performers for the month amid optimism that restaurant trends have stabilized. Tax relief from the passage of the One Big Beautiful Bill is expected to provide greater spending power for consumers in 2026, especially among younger cohorts that are the burrito chain's most frequent customers. This follows a period of significant pressure on the stock, which provided an attractive entry point for our repurchase late in the third quarter.

We also added to Oracle after the shares derated over general market concerns about overspending on AI and, more specifically, the company's need to finance AI capacity buildouts and reliance on contracts with OpenAI to deliver much of its future growth. We believe that Oracle continues to have a tremendous opportunity to transform itself from a database and apps specialist into a leading AI-focused hyperscaler. While the costs required to stand up the contracts Oracle has won are significant, these investments will be phased in over time, and we believe the lease expenses in particular are more manageable than investors fear, with an average term of 10-15 years.

Portfolio Highlights

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

Relative to the benchmark, overall sector allocation contributed to performance but was offset by negative stock selection effects. In particular, stock selection in the IT, health care and communication services sectors hurt performance. On the positive side, stock selection in consumer staples and an underweight to IT contributed to performance.

On an individual stock basis, the primary detractors from relative performance for the month included Palo Alto Networks, underweights to Alphabet, Apple and Broadcom and not holding Eli Lilly. The leading contributors to relative returns were Intuitive Surgical, Monster Beverage, Chipotle Mexican Grill, Thermo Fisher Scientific and not holding Palantir Technologies.

Outlook

Despite managing against a highly concentrated benchmark since 2019 and recent performance dislocations, we continue to believe that a balanced portfolio approach combining high-conviction active ownership with a priority on risk management will help us compound shareholder returns through various market cycles. Through our own fundamental research and the collaboration with our central research analysts, we focus on secular trends that will shape the economy and drive long-term shareholder returns while seeking to isolate the most attractive opportunities against this backdrop. We have assembled a portfolio of growth businesses with a focus on their potential alpha generation over the next three to five years and are willing to endure short-term volatility if our thesis for owning a company remains intact. However, we will also remain disciplined sellers when the thesis no longer applies or catalysts are taking longer than expected to be realized.