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Large Cap Growth ESG Strategy

Key Takeaways

- ▶ The Strategy outperformed in a risk-off quarter, supported by contributions outside of mega cap technology that illustrated the efficacy of our diversified approach.
- ▶ We were encouraged to see a positive reversal in communication services and broad support from our cyclical growth holdings across industrials, materials and parts of IT.
- ▶ As AI adoption accelerates across industries, our engagements have increasingly focused on data privacy, ethical use of AI, labor implications and environmental impacts such as energy and water consumption from data centers.

Market Overview

The outbreak of war in the Middle East accelerated a selloff among growth stocks that started with software weakness and resulted in wide losses for the first quarter. The S&P 500 Index declined 4.3% while large cap growth stocks were the worst-performing segment of the market, with the benchmark Russell 1000 Growth Index falling 9.8% compared to a gain of 2.1% for the Russell 1000 Value Index.

Growth stocks were pressured as investors more pointedly questioned the return on investment from massive capital spending on AI buildouts as well as the viability of application software business models amid new generative AI tools introduced during the quarter. Rising bond yields resulting from the inflationary pressures of higher oil prices due to the U.S. and Israeli conflict with Iran also weighed on higher-multiple growth stocks.

Against this volatile backdrop, the ClearBridge Large Cap Growth ESG Strategy outperformed its benchmark as we saw increased market dispersion away from the technology sector and momentum stocks that led the market in 2025. Materials was the largest contributor to relative performance in the quarter as industrial gases provider Linde and paint and coatings maker Sherwin-Williams were solid performers in an environment that has begun to reward companies with quality fundamentals.

The Strategy also saw contributions from a diversified mix of industrials names, led by Eaton, a key provider of equipment to enable electrical connectivity, and W.W. Grainger, a distributor of industrial supplies. We were also encouraged by the rebound in Netflix after the streaming provider withdrew from a bidding war for

Warner Bros. Discovery; we believe the fundamental setup for its business remains robust.

These holdings helped offset weakness among the portfolio's software names. Tax prep software maker Intuit, cloud hyperscaler Oracle and enterprise software firm Salesforce were all impacted by a broad acceleration in the selloff among software companies feared to be disintermediated by AI. We completed an exit from Salesforce this quarter after trimming the position as part of our actions to reduce software exposure over the past year.

Since 2022, Salesforce has experienced slowing growth in its core business across its sales and service cloud segments and, more recently, marketing cloud. While Salesforce is executing on several product strategies to accelerate growth, we think these initiatives are not substantial enough to bend the curve on overall revenue growth. Product execution on innovation strategies has also been mixed. We believe Salesforce will continue to face rising competitive and model transition pressures as the software-as-a-service ecosystem moves from seat-based to usage-based pricing.

Portfolio Positioning

We continue to be optimistic on trends in the semiconductor sector and added a new position during the quarter in Texas Instruments, a company focused on analog semiconductor devices and embedded processing. The company sells products with long life cycles to a diversified customer base and has a unique free cash flow story. While the company's cash flow has been depressed by sluggish demand and elevated capex, we believe cash flow can inflect meaningfully as both of those trends reverse. We also view Texas Instruments as well positioned for an improving manufacturing outlook as 30%–40% of its customer base is in industrials.

We also added two new positions in the health care sector with the additions of Roche and Alnylam Pharmaceuticals. These moves brought the portfolio's health care exposure back to a slight overweight versus the benchmark and continued our efforts to improve quality of our health care holdings. We believe Roche has an attractive growth runway with multiple positive Phase III readouts in early-stage breast cancer and multiple sclerosis. These should enable Roche to grow revenues through the loss of exclusivity period for several of its current cancer and multiple sclerosis drugs and secure its place among pharmaceutical companies that can grow revenue for the next decade.

Alnylam has pioneered RNAi drugs that work to "silence" certain proteins created by the body that can malfunction and cause disease. The company's key product, Amvuttra, treats a condition that leads to protein misfolding in the heart and, eventually, heart failure (cardiomyopathy). While Amvuttra entered the cardiomyopathy market to strong early success in 2025, missed expectations heading

into 2026 provided a chance to buy the stock at valuation levels we think incorporate conservative assumptions for its commercial opportunity and very little value for any other pipeline drugs. Alnylam also reached free cash flow breakeven in 2025, a milestone that we seek in biotech investments to derisk some downside potential.

We exited PayPal and Equinix during the quarter. When we invest in businesses like PayPal executing upon turnarounds, we regularly weigh the positive outcome of improved execution with downside risks, including the opportunity cost of longer than expected paths to improvement. While there are some signs of improvement in PayPal's business, the turnaround has proved more challenging than expected, leading us to exit the position.

Equinix owns and operates interconnected data centers that provide network and cloud platforms for enterprise customers. The stock was sold as the company remains in the middle of a large capex investment cycle while AI tailwinds from increased customer spending on inference will take time to show through.

Outlook

We believe the start of 2026 demonstrated stabilization for the Strategy compared to the prior year. While the top-heavy composition of the Russell 1000 Growth Index causes us to maintain a significant weighting to the Magnificent Seven, our mega cap exposure did not have an overriding influence on first-quarter performance. Instead, we were encouraged by the diversified contributions the Strategy received across multiple sectors outside IT.

Rising geopolitical risks also highlighted our ability as active managers to oversee the level of risk in the portfolio. As market volatility rose during the quarter with the Iran conflict, we continued to dial back risk by trimming strong recent performers to redeploy the proceeds into more attractive ideas. Looking ahead, some early signs of positive early-cycle momentum in industrials have eroded somewhat due to the conflict, yet we remain optimistic that pent-up activity in the manufacturing economy can be supportive of portfolio results.

Portfolio Highlights

The ClearBridge Large Cap Growth ESG Strategy outperformed its Russell 1000 Growth Index benchmark in the first quarter. On an absolute basis, the Strategy delivered positive contributions across three of the nine sectors in which it was invested (out of 11 total). The primary contributor was the materials sector, while the IT and consumer discretionary sectors were the main detractors.

Relative to the benchmark, overall stock selection and sector allocation contributed to performance. In particular, stock selection in the communication services, IT and materials sectors and overweights to the industrials and materials sectors

supported performance. Conversely, stock selection in health care and consumer staples detracted as did an underweight to consumer staples.

On an individual stock basis, the leading contributors to relative performance included ASML, Eaton, Taiwan Semiconductor, Netflix and an underweight to Microsoft. The primary detractors from relative returns were Intuit and Salesforce as well as not holding Costco Wholesale, GE Vernova and Lam Research.

In addition to the transactions mentioned above, we initiated a position in Blackstone in the financials sector and exited a position in Marvell Technology in the IT sector.

ESG Highlights: Materiality Drives Stewardship Insights

ClearBridge's approach to ESG integration remains rooted in a simple but enduring principle: material environmental, social and governance factors are integral to long-term value creation. As the global sustainability landscape evolves amid shifting regulatory priorities, geopolitical complexity and rapid technological change, our approach continues to emphasize fundamental research, active ownership and a disciplined focus on materiality.

Our 2026 Stewardship Report highlights how this philosophy is translating into tangible outcomes, underscoring both the breadth of our engagement activity and the depth of our ESG integration across portfolios.

A defining feature of ClearBridge's ESG integration is our proprietary ClearBridge Materiality Framework™, which identifies the ESG factors most relevant to each sector and subsector. Engagement priorities are derived from this framework at the company level, ensuring that these efforts focus on issues that are financially material and aligned with our fiduciary duty.

In 2025, several key themes emerged as focal points of engagement:

- Decarbonization and climate adaptation
- Critical minerals and human rights
- Biodiversity and natural resource management
- Responsible AI and data governance
- Governance and shareholder rights

These themes reflect both structural global trends and evolving investor priorities. For example, climate-related engagements increasingly addressed not only emissions reduction but also adaptation and resilience topics, such as grid modernization, water management and disaster preparedness. Companies like DTE Energy, a utility making grid modernization and storm hardening investments, and Eaton, which builds backup power and electrical resilience systems, illustrate how investments in infrastructure

resilience can support both sustainability outcomes and long-term earnings durability.

Similarly, the energy transition has elevated the importance of critical minerals, where demand for copper, lithium and rare earths is driven by electrification, AI infrastructure and renewable energy deployment. ClearBridge engagements in this area extend beyond environmental impact to include human rights, supply chain practices and community relations, particularly through collaborative initiatives such as PRI Advance, with which we have engaged with mining companies Antofagasta and Freeport-McMoRan.

The integration of new teams across regions in 2025 further strengthened the ClearBridge Materiality Framework™ by incorporating new insights from emerging markets, the U.K. and Australia. This global perspective enhances our ability to identify best practices, anticipate risks and engage companies more effectively across diverse regulatory and operating environments.

Insights from Global Engagements

ClearBridge's global engagement activity provides a number of practical examples of how ESG considerations translate into investment insights and outcomes. Across regions, the most frequently addressed ESG factors in 2025 included energy transition risks, environmental impacts of operations, community relations, employee health and safety, capital allocation and executive compensation.

Several engagements illustrate our pragmatic approach focused on long-term value creation and positive change:

- **Amazon.com (U.S.):** Engagements focused on labor practices, safety and environmental efficiency. As of the first quarter of 2025, the company reported a 65% reduction in lost-time injuries over the last five years, progress toward net-zero by 2040 and improvements in logistics efficiency and renewable energy use. These developments demonstrate how operational improvements can enhance both social outcomes and cost efficiency at scale.
- **ASML (Netherlands):** Discussions centered on water usage, energy efficiency and supply chain emissions. While direct water usage is limited, engagement highlighted increasing regulatory and regional risks — water is a material topic due to increasing regulatory scrutiny, particularly in the Netherlands, and in Taiwan and the U.S. water stress is now considered a medium-level risk — reinforcing the importance of forward-looking risk management even where current exposure appears modest.
- **Walmart (U.S.):** Engagement emphasized workforce development, wages and human rights in the supply chain. The company's focus on internal upskilling and technology-enabled human rights monitoring illustrates how social considerations can strengthen operational resilience and labor productivity.

- **Toronto-Dominion Bank (Canada):** We engaged the company against the backdrop of U.S. regulatory scrutiny tied to material deficiencies in TD's anti-money laundering (AML) program and proxy advisor recommendations to withhold votes from board members. ClearBridge's nuanced voting decision in favor of contested directors took into account a meaningful board refresh in 2025 and momentum in remediation; it also reflected insights gained through direct dialogue, highlighting the value of active ownership beyond standardized proxy recommendations.
- **Freeport-McMoRan (U.S.):** Engagement on emissions, water management and human rights demonstrated the complexity of balancing environmental performance with operational realities in resource-intensive industries. Progress on emissions reduction initiatives and disclosure improvements supported continued investment conviction while identifying areas for further engagement.
- **Companhia Paranaense de Energia (Brazil):** Engagements centered on governance transformation following privatization. Improvements in board independence, disclosure practices and strategic focus highlight how governance reform can unlock value and improve investor confidence in emerging markets.
- **MercadoLibre (Latin America):** Engagement on data privacy and cybersecurity led to improved disclosures and attainment of ISO 27001 certification — an independent, third-party audit confirming an organization's information security system manages data security risks effectively. This progression highlights how governance and technology-related ESG factors are increasingly central to maintaining customer trust and supporting growth in digital platforms.

Responsible AI and Emerging ESG Themes

One of the most rapidly evolving areas of ESG analysis in 2025 was responsible AI. As AI adoption accelerates across industries, factors such as data privacy, ethical use of AI, labor implications and environmental impacts such as energy and water consumption from data centers have grown in importance in our analysis.

This reflects the increasing importance of technology-driven risks and opportunities in sustainability analysis. Responsible AI is now viewed as a material factor influencing competitive positioning, regulatory exposure and stakeholder trust. ClearBridge's approach emphasizes balancing innovation with accountability, seeking to ensure that companies adopt AI in ways that are transparent, secure and aligned with long-term societal value.

Conclusion

The 2026 Stewardship Report highlights a year of continued progress for ClearBridge's ESG platform, characterized by global engagement activity and deeper integration of material sustainability factors into investment decision making. As global markets continue to evolve,

our approach positions us to navigate complexity while identifying opportunities that align sustainability with shareholder value.

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