



Dmitry Khaykin
Managing Director,
Portfolio Manager



Deepon Nag
Managing Director,
Portfolio Manager

Large Cap Value Strategy

Key Takeaways

- ▶ Value leadership broadened meaningfully, with the Russell 1000 Value Index positive for the quarter, and roughly 1,200 bps ahead of growth, as markets rotated away from mega cap concentration.
- ▶ Strategy results benefited from quality industrial holdings, which got a boost from a return to positive territory for the ISM Manufacturing PMI.
- ▶ Active repositioning sharpened the Strategy for a more fundamentals-driven market, with portfolio activity concentrated in communication services and industrials in the quarter.

Market Overview

Value stocks offered a rare bright spot in the first quarter of 2026 as market leadership rotated away from a narrow set of mega cap growth leaders and toward a broader set of companies, including value-oriented and more cyclical areas of the market. The Russell 1000 Value Index managed a 2.1% gain, almost 1,200 basis points ahead of its growth counterpart.

Energy companies surged as the U.S.-Iran conflict pushed up oil prices, while materials, industrials, utilities and consumer staples benefited from different combinations of geopolitical supply concerns, AI-related infrastructure demand and a rotation into defensive areas after extended underperformance. Financials and consumer discretionary, meanwhile, lagged as persistent inflation and higher fuel costs weighed on expectations for economic activity, including capital markets, credit, travel and housing.

Performance Overview

The ClearBridge Large Cap Value Strategy's anchoring in high-quality companies with durable moats and predictable cash flows was rewarded in the quarter's shift in market leadership. The portfolio modestly outperformed the benchmark Russell 1000 Value Index, driven by strong stock selection in industrials and health care and overweights to materials and energy.

Industrials stocks got a boost from a return to positive territory for the ISM Manufacturing PMI; this helped XPO, a less-than-truckload transportation provider, which is also benefiting from ongoing improvements in service quality, mix and pricing. Deere, meanwhile,

delivered a 20% earnings beat, helped by outperformance in both its small agriculture (e.g., compact and utility tractors) and its construction and forestry segments. Investors were encouraged that large agriculture (machines for commercial farming) orders were better than expected, suggesting there could be upside to Deere's 2026 guidance, and this year may be the cyclical trough. External indicators such as the Dodge Momentum Index and megaproject announcements suggest that nonresidential construction is improving — a plus for Deere's construction and forestry segment — and the company's results helped validate that.

Relative strength in health care was led by Johnson & Johnson, which delivered strong quarterly results; investors have become more confident that cancer and inflammation medicine growth and recent deals will allow the company to grow through the loss of Stelara exclusivity.

Negative sentiment for software weighed on our sole software position, Microsoft, which also traded down on worries over higher-than-expected AI capex and delays in monetizing its AI backlog. Despite some timing and perception issues, we maintain strong conviction in Microsoft, given durable Azure demand, accelerating AI workload monetization as capacity comes online and strengthening traction in higher-margin software offerings like M365 Copilot, which deepen customer engagement and reinforce Microsoft's competitive moat. We added to our position on weakness.

In financials, Capital One shares were lower amid broad sector weakness, driven by investor concerns around weakening macro conditions potentially leading to a credit cycle; deal-related overhang tied to the company's Brex acquisition also weighed on near-term sentiment. American Express detracted as regulatory uncertainty around credit card pricing and renewed attention on the Credit Card Competition Act pressured sentiment across the payments and card issuer space, including Capital One, despite stable underlying fundamentals. Our conviction in both remains intact: we view these sector pressures as cyclical and transitory, with no anticipated change to Capital One's long-term earnings power and strategic positioning or American Express's attractiveness as a high-quality compounder supported by its premium customer base, strong credit underwriting and durable earnings growth.

Portfolio Positioning

Portfolio activity was concentrated in communication services and industrials in the quarter. We initiated a position in T-Mobile: our core view is that it has the best network at the lowest cost in the U.S., and that should insulate it from competition from other wireless entrants (such as cable players). We also believe it should be economically insensitive given the nature of the industry (high recurring revenues and mobile wireless being an essential service for consumers). At the

same time, we exited Comcast, whose core broadband business looks increasingly pressured from new entrants including fixed wireless, fiber entrants and potentially SpaceX through its Starlink internet service. While the company spun out the bulk of its linear cable networks, its remaining content assets, particularly its direct-to-consumer streaming platform, Peacock, appears to be predominantly U.S. focused and lacking scale of peers such as Netflix, HBO (soon to be combined with Paramount) and Disney+.

We also exited Disney, as we are increasingly concerned that much of its growth is price driven in both its parks and experiences segment and its streaming business, while its legacy linear media assets continue to be secularly challenged. We redeployed the capital into Booking, which we view as a durable, high-quality travel platform with a strong competitive position. We believe its role in bookings, cancellations and customer service would remain hard to disintermediate, and we saw an opportunity to own the stock after valuations had been pressured by AI-related concerns.

In industrials we bought Honeywell, partially funding it by selling out of a marginal holding in Otis, which has been going through execution issues that made us question management quality. The appeal in Honeywell was better risk-reward and a more attractive mix of quality, defensiveness and upside relative to other industrial names we own. Honeywell is undergoing a transformation as it breaks up the company into an aerospace business, an automation company and a quantum computing company. We believe the stock today undervalues the assets as they separate into three more focused and independently traded entities over the coming months.

Outlook

A core tenet of the Strategy is that we largely avoid making top-down bets or try to time macro events; we focus on high-quality businesses with durable competitive advantages and reasonable valuations that can drive superior returns through the cycle. The broadening of the market during the first quarter, with its rotation from a concentrated AI-driven growth market to a more dispersed, fundamentals-driven environment, rewarded this quality bias with outperformance. Tangible earnings, pricing power and lower disruption risk are key components in the quality franchises we seek in the portfolio. In an increasingly complex macro backdrop marked by geopolitical tensions, rising energy prices and ongoing uncertainty around the durability of AI-driven investment cycles, we believe the companies we own will remain resilient.

Portfolio Highlights

The ClearBridge Large Cap Value Strategy outperformed the benchmark Russell 1000 Value Index for the quarter. On an absolute basis, the Strategy had positive contributions from six of 11 sectors.

The energy and industrials sectors were the main positive contributors, while financials and communication services were the main detractors.

In relative terms, overall stock selection detracted while sector allocation helped. Stock selection in industrials and health care proved beneficial, while stock selection in the materials and communication services sectors detracted from relative results. Overweights to energy and materials were beneficial, while a health care overweight and consumer staples underweight detracted.

On an individual stock basis, the biggest relative contributors during the quarter were XPO, ConocoPhillips, Chevron, Air Products and Chemicals and Enterprise Products Partners LP. The biggest detractors were Thermo Fisher Scientific, Microsoft, Capital One, American Express and an underweight to Exxon Mobil.

In addition to portfolio activity discussed above, during the quarter we exited Starbucks in consumer discretionary. We also received shares of Waters, a high-end lab equipment and consumables provider in the health care sector, following its combination with Becton Dickinson's biosciences and diagnostics solutions business via a Reverse Morris Trust transaction. We are currently evaluating the Waters position.

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