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## Large Cap Growth ESG Strategy

### Key Takeaways

- ▶ The Strategy's more diversified and defensive exposure compared to our concentrated benchmark reversed from a tailwind in a turbulent first quarter to a headwind in a momentum-driven second quarter.
- ▶ We took advantage of elevated volatility to initiate four new positions, with a focus on broadening our AI semiconductor exposure and enhancing diversification across more overlooked areas of the market poised to benefit from attractive secular trends.
- ▶ Intermittency from renewables remains an issue for hyperscalers seeking low-carbon power sources for AI buildouts; demand for nuclear power is growing, though it is part of a portfolio approach to power generation that also includes wind, solar and battery storage solutions.

### Market Overview

U.S. equities persevered through tariff, growth and geopolitical scares to deliver solid gains in the second quarter. The broad market S&P 500 Index returned 10.9% while the technology-heavy NASDAQ Composite soared 17.7%, with both swinging from bear or near-bear markets to all-time highs. The benchmark Russell 1000 Growth Index did even better as risk-on sentiment took hold, rising 17.8%, and outperforming the Russell 1000 Value Index by over 1,400 basis points.

Stocks fell to begin the quarter after President Trump unveiled wide-ranging reciprocal tariffs on April 2 but recovered as a 90-day delay in their implementation, a handful of bilateral trade deals and a softened tone from the White House on both China and Federal Reserve policy improved the outlook. May then delivered the best monthly performance for the S&P 500 since November 2023 as the trade picture continued to brighten, while in June markets looked past Middle East conflicts to maintain their positive momentum.

The rebound following April's tariff scare was marked by a return to mega cap AI market leadership, with hyperscalers showing their commitment to high levels of AI-driven capex. Microsoft and Meta Platforms handily outperformed the benchmark as both they and semiconductor companies, including Nvidia and Broadcom, were boosted by solid earnings and renewed expectations of widespread adoption of AI.

The ClearBridge Large Cap Growth ESG Strategy's mega cap positioning was mostly neutral for the quarter as an overweight to Meta and

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We remain confident and committed to our more balanced, risk-aware approach to growth investing.

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underweight to underperforming Apple offset relative headwinds from underweights to Microsoft and new addition Broadcom.

On a broad sector basis, the information technology (IT, +25.0%), communication services (+23.9%) and consumer discretionary sectors (+14.2%) led benchmark performance. Netflix, one of the Strategy's largest active weights, saw its shares rise due to overall continued robust execution with double-digit revenue growth, driven by a balance of subscriber growth and price, and continued margin expansion. We took some profits in the position but remain confident in the company's long-term strategy, strong market position and attractiveness of the global streaming market. Industrials (+13.1%) also did well, buoyed by stocks tied to power and electrification, like out-of-benchmark portfolio holding Eaton.

Concerns over the deficit and inflation kept Treasury yields elevated and led to more modest returns for the real estate (+4.1%) and consumer staples (+0.1%) sectors, while tariff uncertainty and geopolitical tensions capped gains for economically sensitive financials and materials stocks. The health care sector (-2.0%) declined amid regulatory fears including tariffs on pharmaceutical imports and most-favored nation (MFN) pricing implementation for drugs.

The Strategy's more diversified and defensive exposure compared to our concentrated benchmark reversed from a tailwind in a volatile first quarter to a headwind in the second quarter. We were also disappointed with the weak quarterly performance of several of our more defensive, countercyclical holdings. UnitedHealth Group saw a renewed selloff in May following a first-quarter earnings miss and guidance reduction as the company announced even further elevated cost pressure and the exit of the managed care company's CEO Andrew Witty. We had reduced some of our position in the first quarter and further reduced the position in the second quarter given limited visibility in UnitedHealth's earnings outlook. Also in health care, Thermo Fisher Scientific lagged due to concerns around spending cuts in the academic/government and biopharma segments due to regulatory fears from tariffs and MFN pricing. Shares of insurance broker Marsh & McLennan, meanwhile, fell due to the unwind of the flight to quality trade that occurred during the prior quarter along with concern around a softer insurance pricing environment.

### Portfolio Positioning

We were active in the second quarter, taking advantage of higher volatility to initiate four new positions while exiting three others.

In the semiconductor sector, we trimmed our position in Taiwan Semiconductor to manage the risk amid intensified geopolitical tensions between the U.S. and China in 2025, directing the proceeds into the purchase of a position in Broadcom. Adding Broadcom, a leader in semiconductor design for communications and networking

devices, enables the Strategy to better participate in the development of custom silicon chips for AI computing. Broadcom is well-positioned for continued healthy investment in AI, working with several large technology companies to develop custom silicon that we expect to grow alongside robust demand for Nvidia's all-purpose GPUs. The company's cloud infrastructure software business should also continue to grow for the next several years given its entrenched position within enterprises.

We also added a starter position in Marvell Technology in June. Marvell is a company we have been tracking through our ownership of Nvidia and work on the AI semiconductor complex over the last several years. Similar to Broadcom, Marvell designs chips and networking equipment that power technologies like AI, cloud computing and 5G infrastructure and has a particularly strong interconnect business. While Marvell has a high-quality asset portfolio to compete in the custom application-specific integrated circuits (ASICs) chip business, the stock has lagged AI accelerator peers like Nvidia and Broadcom as its ramp in AI revenue has been slower than others in the ecosystem. We believe this dynamic can reverse in the coming years as more of Marvell's customer wins ramp up. Marvell's valuation has compressed significantly over the past six to nine months and the stock now trades at a healthy growth-adjusted discount to AI semi peers, providing an attractive entry point.

Our other focus was continuing to diversify the portfolio beyond traditional growth areas to gain exposure to attractive secular trends and prepare for broader large cap leadership. We did this through the purchase of two non-U.S. companies who are leaders in their industries. Netherlands-based Airbus, which designs and manufactures commercial aircraft, aerospace components and defense systems, stands to benefit from increasing long-term demand for commercial aircraft to support air travel. Aging of the existing fleet along with rising travel demand in relatively less penetrated regions like Asia-Pacific support a robust pipeline of replacement demand for Airbus for years to come. Airbus has a solid platform with the current A320 family before needing to scale up a new family of planes, putting the company in an attractive period for free cash flow growth.

We also initiated a position in U.K.-based Linde, a well-run company operating in an attractive, consolidated end market of industrial gas, which is a key input in many industries including technology, chemicals, manufacturing, health care and electronics. Both the company and the industry are highly disciplined in terms of price and contracting structure, providing downside protection in periods of slower economic growth. The stock's relative multiple has recently declined due to macroeconomic pressure on sales volumes, providing an attractive entry point. We believe an overlooked feature of Linde's business is its role as primary provider of gases for rocket propellant and coatings used by companies operating space and satellite businesses.

Our sales during the quarter targeted companies whose end markets have become further challenged due to the broader macro backdrop or those facing technological challenges in the AI era.

After making progress on margin expansion through the first half of 2024, mass market retailer Target has more recently been challenged by continued shifts in consumer spending away from discretionary categories, like home and electronics, which make up the majority of the company's sales and carry higher margins. Tariffs on imports from China are likely to further pressure Target's business. Despite the company's execution to protect margins in a difficult operating environment, we see risks weighted to the downside, leading us to exit the position.

Biotech funding challenges and government funding pressure have negatively impacted companies supporting biopharmaceutical development like contract research organization (CRO) ICON. This has pushed out the timing of a CRO growth recovery, even after multiple quarters of spending rationalization among its customers. We exited ICON due to the lowering of our confidence in the timing of CRO business normalization.

Following trims over the last several quarters, we exited a position in Adobe due to concern about high levels of existing penetration of its product suite and competitive risks. AI won't be winner takes all, and Adobe is an example where we believe AI is lowering barriers to entry and increasing competitive pressure on the business. The due diligence that led us to sell Adobe is part of a broader analysis we have been conducting about the impact of agentic AI, software systems which complete tasks autonomously.

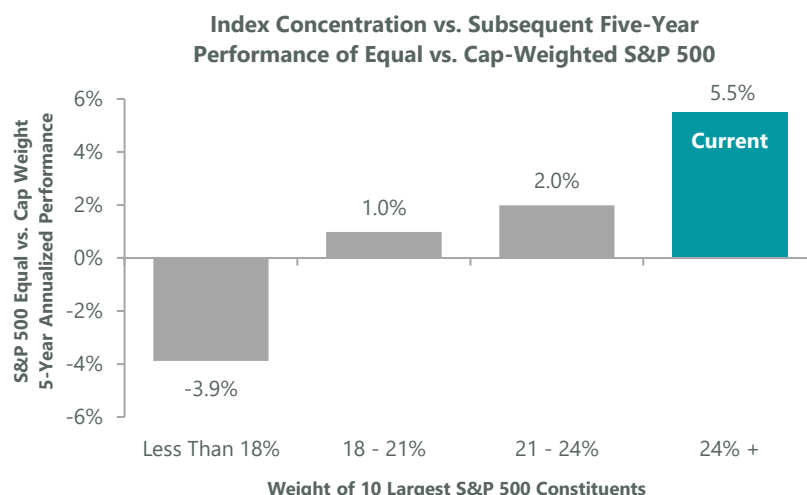
## Outlook

Boosted by AI enthusiasm along with an easing of volatility and a renewed embrace of risk taking, IT finished the second quarter at 49% of the Russell 1000 Growth Index (RLG), the second-highest concentration since parts of the sector were reclassified in 2018 and 2023. While the S&P 500 Index has shown signs of broadening as judged by the advance/decline line and the number of stocks closing above their 50-day moving average, the RLG remains dominated by its eight \$1 trillion+ market cap components, which now include Broadcom (Exhibit 1).

Our longtime IT underweight specifically, and our sector allocations more generally, are a function of managing concentration and industry risk and striving to maintain a portfolio with a diversified set of growth drivers. To this end, the long-term success of the Strategy will always be guided by fundamental stock selection. The second quarter is a reminder that there will be periods and market conditions when the Strategy will be challenged in keeping pace with the benchmark. We remain confident and committed to our more balanced, risk-aware approach to growth investing, seeking to add

value through sector and stock selection investing in differentiated, well-positioned companies.

Exhibit 1: Concentration Leads to Broadening



Data shown is from Dec. 1989 – June 2025. Monthly constituent level market cap data. Data as of June 30, 2025. Sources: FactSet, S&P.

### Portfolio Highlights

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

Relative to the benchmark, overall sector allocation and stock selection detracted from performance. From a sector allocation perspective, an underweight to IT and overweights to health care, financials, industrials and materials hurt results while an underweight to consumer staples contributed to performance. From a stock selection perspective, strength in communication services and industrials was offset by negative selection in health care, IT and financials.

On an individual stock basis, the leading relative contributors to performance among portfolio holdings were Apple, Netflix, Eaton, Meta Platforms and Eli Lilly. The primary relative detractors were UnitedHealth Group, Broadcom, Thermo Fisher Scientific, Visa and Marsh & McLennan.

### ESG Highlights: Climate Strategy is Business Strategy

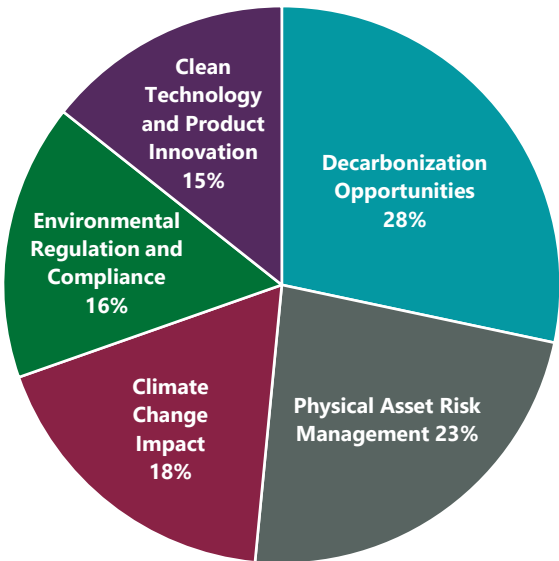
For almost 40 years ClearBridge has been incorporating climate risks and opportunities into our fundamental investment strategy. As climate has become more and more relevant in our portfolios, we have taken steps to enhance our process and ensure material climate metrics are appropriately captured.

Company engagements are a key pillar in ClearBridge’s climate strategy as we seek to understand and manage company-specific climate-related risks and opportunities. ClearBridge engagements on environmental, social and governance (ESG) topics generally have two overlapping objectives:

- 1. Research:** Gaining a better understanding of ESG issues that could impact our investment thesis
- 2. Impact:** Encouraging specific changes at the company to better align its operations with sustainability best practices

Across these two objectives, our engagements span many different climate-related topics (Exhibit 2), with engagements primarily focused on higher-emitting sectors.

Exhibit 2: Top Environmental Factors Engaged Upon in 2024



As of Dec. 31, 2024. Source: ClearBridge Investments.

ClearBridge’s model for ESG integration, which includes ESG discussions as part of fundamental company research led by our investment teams, allows climate-related engagements to be thoughtful and well-rounded discussions on climate topics. As the following examples show, our analysts and portfolio managers cover very different topics in discussions with companies in very different sectors while still focusing both on companies’ climate strategies and the connection of these strategies to the companies’ business case.

#### Amazon.com: A Fully Integrated Approach to Climate

In September 2024, ClearBridge joined Amazon for a group discussion with the company’s ESG and Energy Sustainability teams as part of Climate Week to discuss Amazon’s environmental strategy. Amazon went into the many components of its company-wide initiative to achieve net zero by 2040. Each business unit — grocery, studios, AWS — has dedicated sustainability leads, with a team led by Head of

Energy and Sustainable Operations Chris Roe ensuring carbon goals are embedded in annual plans and reviewed by leadership. In setting its strategy, Amazon focuses on metrics specific to different business units like carbon per dollar of gross merchandise value (GMV) in retail and per unit of compute in AWS. Amazon has also launched a \$2 billion fund to accelerate decarbonization technologies into commercial products.

Cost and carbon are highly correlated in Amazon's climate strategy as retail operations get more efficient. Major challenges include reducing Scope 1 emissions from middle-mile logistics, where diesel trucks remain a bottleneck. However, progress is evident in last-mile delivery: 680 million packages were delivered by EVs in the previous year. Efficiency gains in packaging have also led to a 40% reduction in packaging waste over nine years.

Internally, Amazon uses climate risk models to anticipate energy usage and drive real estate design. Factors in the models include generative AI's future energy needs, growth of Amazon's fleet, locations of logistics facilities and water availability for different sites.

While ClearBridge encourages emissions reduction targets aligned with the Science-Based Targets initiative (SBTi), Amazon appears to have a responsible approach of setting internal science-based targets per business unit, although these are not formally verified by the SBTi. Amazon does, however, work with both SBTi and academics to align with International Energy Agency pathways. The company avoids offsets for interim targets, reserving removals like direct air capture for residual emissions — which are expected to be mostly Scope 3 by 2040.

This discussion provided us with a better understanding of Amazon's climate strategy and we remain positive about its climate efforts. Our biggest takeaway was how well resourced and data driven Amazon's climate efforts are from an organizational standpoint, driving down the cost/carbon impact per dollar of value with the value metrics being defined at a segment level: e.g., carbon footprint per unit of compute for AWS or per dollar of GMV in Retail.

#### Microsoft: Powering AI Responsibly

In November 2024, ClearBridge held a call with Microsoft's sustainability investor liaison to discuss shareholder concerns on energy efficiency, as with the huge growth of AI has come a massive demand in energy as well. We discussed Microsoft's AI energy needs and its goals to become carbon negative. Microsoft reconfirmed its commitment to achieving its climate goals with its recently announced power purchase agreement for nuclear power with Constellation Energy, which involves restarting Three Mile Island. Microsoft clarified it won't own or operate this facility, but will be a customer of Constellation, with which Microsoft has maintained strong supplier conduct statements. When asked about safety concerns, Microsoft explained the reactor slated to be restarted was functioning safely and effectively for decades before being turned off for economic reasons

in 2018. This represents a significant part of Microsoft's commitment to nuclear power. The company sees this agreement as part of achieving its 2030 and 2050 carbon emissions targets (for net negative emissions).

As it relates to renewables, Microsoft continues to encounter the issue of intermittency (as do peers). It is conducting research on power battery storage and other mechanisms to solve this issue and includes deals for wind and solar in its portfolio approach to its power generation needs.

We were encouraged to hear Microsoft is still committed to bringing carbon emissions back down as energy needs increase. Since this engagement, Microsoft has also announced many agreements to purchase offsets, as the energy efficiency of AI, particularly in data centers, is still a challenge. We continue to see Microsoft's climate strategy as leading among peers and will continue to engage with the company on this topic.

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