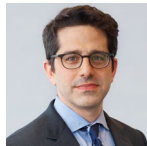




Dividend Strategy



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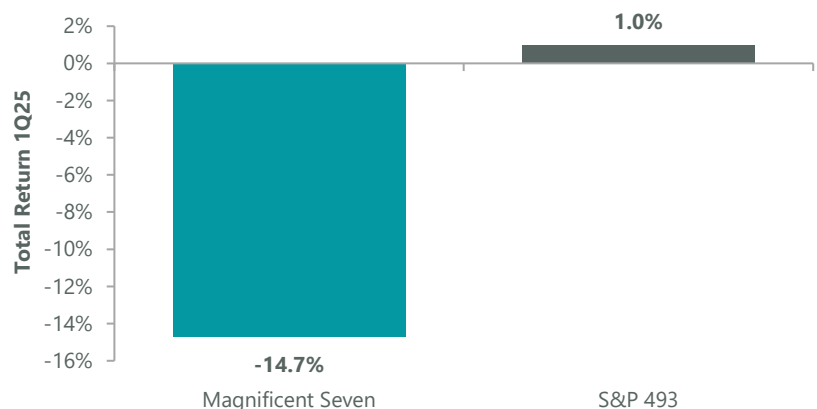
Key Takeaways

- ▶ A correction in Magnificent Seven stocks and concerns about escalating tariffs drove negative returns for the market in the first quarter, yet the ClearBridge Dividend Strategy proved resilient and managed a positive absolute gain.
- ▶ Our outlook for the economy and the markets has grown more cautious, although we believe the portfolio is positioned well given our emphasis on valuation and our companies' ability to profitably navigate the turbulence and deliver continued, robust dividend growth.
- ▶ We were active in the quarter exiting holdings where valuation appeared full and initiating new positions in quality compounders at reasonable prices, with portfolio diversification also a key consideration.

Market Overview

Despite a 4.3% decline in the benchmark S&P 500 Index in the first quarter, the ClearBridge Dividend Strategy proved resilient. The Strategy delivered a positive quarterly return on a gross basis and also outperformed the benchmark on a net basis. The market declined due to two distinct factors. First, after two years of AI-driven outperformance, the Magnificent Seven broadly underperformed. Wall Street continues to digest the implications of DeepSeek and investors are grappling with what the future will look like in a quickly evolving industry. So, despite continued impressive revenue growth of the Magnificent Seven, investors have become increasingly cautious about the enormity of future success already discounted in their stock prices (Exhibit 1).

Exhibit 1: Magnificent Seven vs. S&P 493



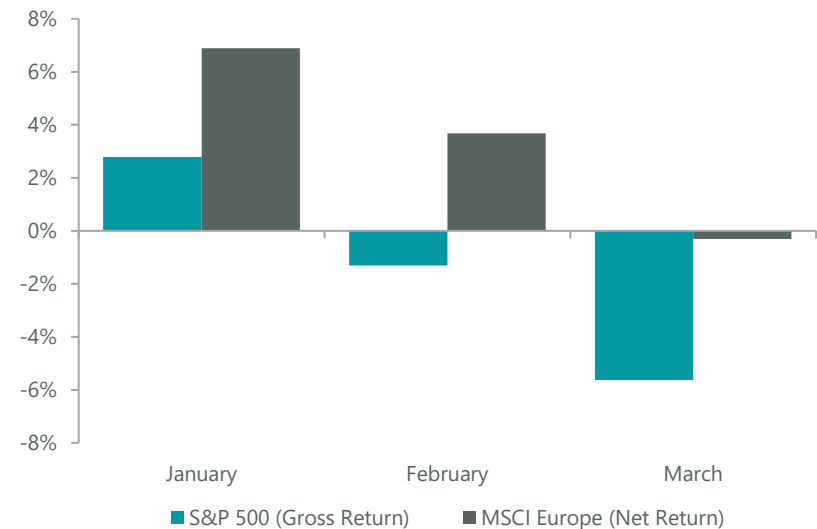
As of March 31, 2025. Source: ClearBridge Investments, Bloomberg Finance.

Beyond this correction, the market also reeled from the unpredictable developments in U.S. government policy. While investors were prepared for escalating tariffs, the speed and magnitude caught the markets off guard.

Our outperformance stemmed from several factors. First, we are significantly underweight information technology (IT) and consumer discretionary companies. Over the last few years, we have reduced exposure in IT due to concerns about elevated valuations and market concentration. Our underweight to consumer discretionary is more structural, as we prefer to own companies whose products are not viewed by their customers as being “discretionary.” Our large overweight to energy and superior stock selection in consumer staples, where Nestle and Coca-Cola performed well, and industrials, led by contributions from defense stocks RTX and Northrop Grumman, also helped. Meanwhile, our California utilities Sempra and Edison International were down as wildfires in the state heightened investor concerns over the health of the state’s utility-backed wildfire fund.

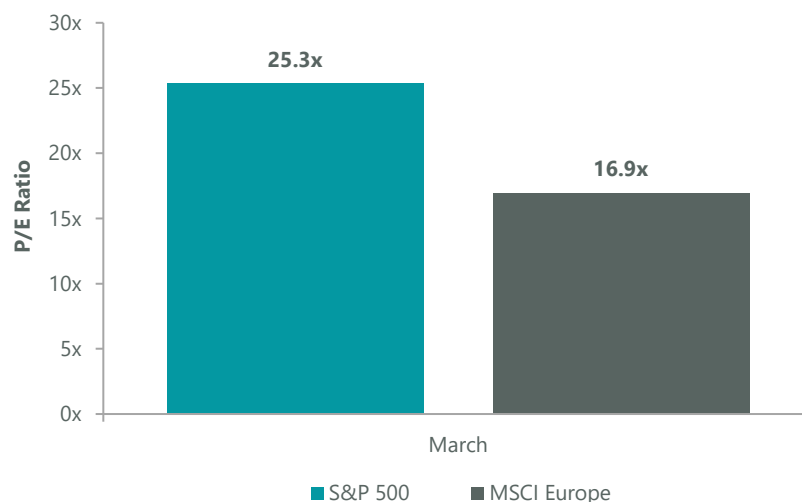
American markets have historically benefited from their place at the center of the global economic order. As America dismantles that system, foreign investors are becoming less enthusiastic about investing in the U.S. Indeed, for the first time in years, U.S. markets significantly underperformed foreign markets during the quarter, as global investors reduced allocations to the U.S. and increased allocations to Europe, where valuations are much lower (Exhibits 2 and 3).

Exhibit 2: S&P 500 vs. MSCI Europe Performance



As of March 31, 2025. Source: ClearBridge Investments, Bloomberg Finance.

Exhibit 3: S&P 500 vs. MSCI Europe P/E



As of March 31, 2025. Source: ClearBridge Investments, Bloomberg Finance.

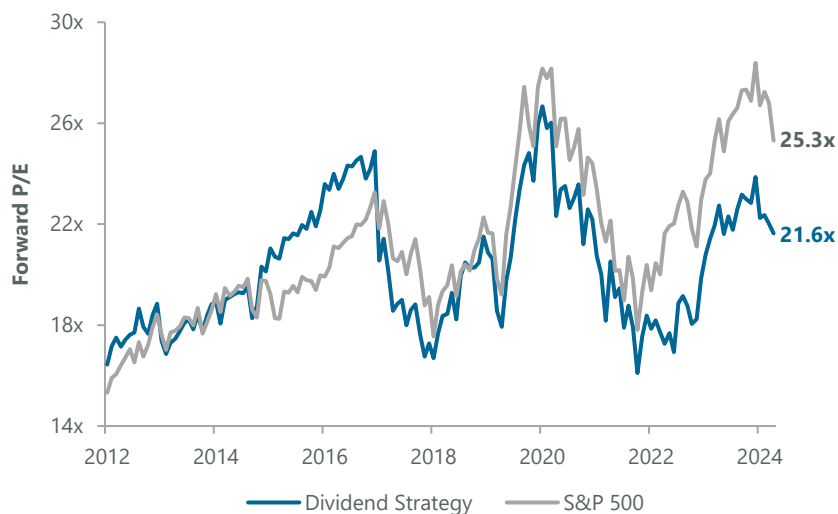
Outlook

As events have unfolded, our outlook for the economy and the markets have grown more cautious. It will be a bumpy multiyear process to re-order the system of global trade, commerce and security. While there may be long-term benefits to the U.S. (or some groups within the U.S.), in the short term it unavoidably introduces headwinds. It is a bit of a one-two punch for stocks. Tariffs and trade wars lower earnings due to reduced sales and higher costs. These fundamental headwinds are exacerbated by money flowing out of the U.S. as investors take profits and redeploy to a newly resurgent Europe.

We are well-positioned for the current environment, however. Over the last several years, as the market soared, we redoubled our emphasis on valuation (Exhibit 4). We reduced our exposure to higher-multiple stocks we viewed most at risk of multiple compression and redeployed those monies into more conservatively priced securities in stable sectors like consumer staples, health care and utilities. While we suspect markets will continue to remain choppy, we are confident in our companies' ability to profitably navigate the turbulence and deliver continued, robust dividend growth.

During the quarter we exited profitable investments in AIG, whose turnaround has been successful and offers less upside going forward, as well as Gilead and SAP, both of whose valuations appeared full.

Exhibit 4: ClearBridge Dividend Strategy Trading at a Meaningful Discount



As of March 31, 2025. Source: ClearBridge Investments, FactSet.

Meanwhile, we initiated positions in CVS, Inditex and TE Connectivity. Poor execution at Aetna, CVS's health insurance business, and declining retail profits precipitated a decline in the shares which created an attractive entry point. We anticipate that underwriting improvements for its Medicare Advantage program will yield considerable profit growth over the next few years, which should lead to a re-rating in the stock. TE Connectivity makes connectors for a wide range of uses such as automobiles, data centers and medical devices. Its main end markets, auto and industrial, have come under some cyclical pressure, which weighed on the stock and provided an attractive entry point to this strong business.

Further supporting our emphasis on portfolio diversification, Industria de Diseno Textil (Inditex) is a global apparel, footwear and accessories retailer (its flagship brand is Zara) that offers us a quality compounder in the consumer discretionary sector. Inditex is the leader in fast fashion with strong margins and return on capital employed, a huge cash position on the balance sheet and a steady dividend policy. Shares came off recent highs following softer February comps, and we used the pullback to start a position.

Portfolio Highlights

The ClearBridge Dividend Strategy outperformed its S&P 500 Index benchmark during the first quarter. On an absolute basis, the Strategy saw positive contributions from eight of 11 sectors in which it was invested for the quarter. The energy, consumer staples and industrials sectors were the main positive contributors, while the IT and utilities sectors detracted the most.

On a relative basis, stock selection and sector allocation contributed positively to performance. In particular, stock selection in the

industrials, communication services and consumer staples sectors as well as underweights to IT and consumer discretionary and overweights to energy, consumer staples and materials contributed positively. Conversely, stock selection in the utilities, financials and IT sectors detracted.

On an individual stock basis, the main positive contributors were Nestle, T-Mobile, Williams Companies, Exxon Mobil and Coca-Cola. Positions in Broadcom, Sempra, Microsoft, Alphabet and Apollo Global Management were the main detractors from absolute returns in the quarter.

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