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Large Cap Growth ESG Strategy

Key Takeaways

- ▶ The growth market has seen a wide divergence between “AI winners” and “AI losers” since the lows following Liberation Day, most notably within the technology sector, which has been a primary headwind to Strategy performance.
- ▶ We were quite active during the quarter, upgrading our exposure to perceived AI winners in infrastructure software, as well as early cyclical businesses, while scaling back in a health care sector facing myriad headwinds.
- ▶ Recent engagements with ClearBridge portfolio companies have touched on ways they are developing carbon capture and sequestration capabilities across several industries and how in most cases advanced CCS capabilities are driving share gains and improving cash flows.

Market and Performance Overview

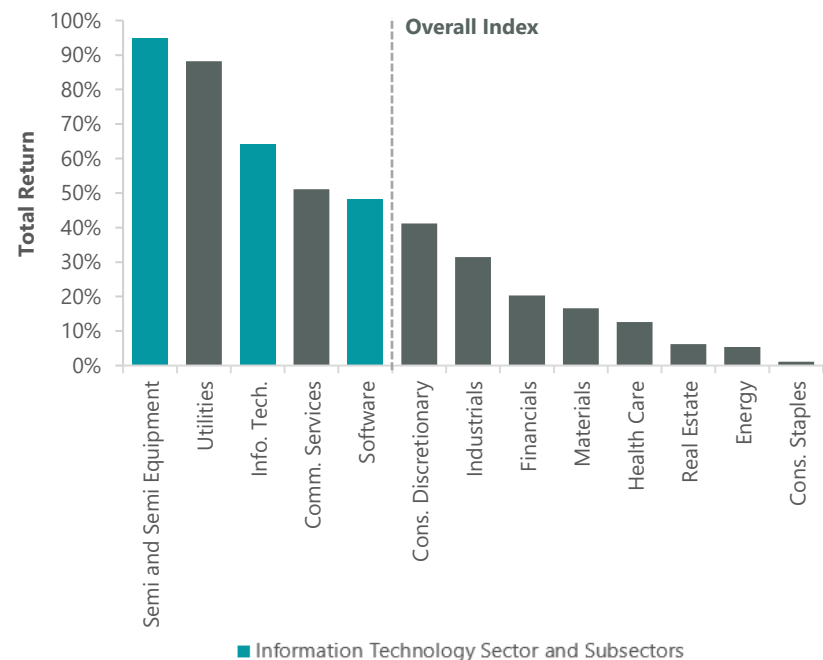
Equities surged in the third quarter, continuing their post-Liberation Day rebound, with the S&P 500 Index up 8.1% and tech-heavy Nasdaq Composite rising 11.2% to record highs. Investor optimism was fueled by better-than-feared tariff outcomes, the passing of the One Big Beautiful Bill Act in July, anticipated interest rate cuts — the Federal Reserve cut 25 bps in September and signaled further easing — and robust corporate earnings, particularly in technology and the Magnificent Seven.

The benchmark Russell 1000 Growth Index rose 10.5% for the quarter and is up 46.7% from its early April lows in the aftermath of Liberation Day. A significant theme since then has been exuberance around AI and divergence between “AI winners” and “AI losers.” AI winners, consisting primarily of cloud providers, chip makers and certain infrastructure software companies (as well as utilities powering data centers), have rallied even more strongly from the April lows — with some stocks up over 100% — while capital has flowed out of perceived AI laggards in areas like application software and services. Widening dispersion has been accompanied by a broadening out of perceived AI losers from companies directly threatened in the near to intermediate term to include those potentially exposed but unlikely to be challenged for years to come (Exhibit 1).

While the ClearBridge Large Cap Growth ESG Strategy has delivered solid absolute performance from the April lows, it has underperformed the benchmark due to underexposure to perceived AI winners (Broadcom, Oracle, not owning Palantir Technologies) as well as

holding several names deemed by investors to be AI losers (Workday, Salesforce, Accenture). We made several adjustments to the portfolio in these areas during the third quarter as explained further below. As long-term growth investors with a three-to-five-year time horizon for our portfolio companies, we remain balanced in a growth market moving to more exuberant levels. While acknowledging both the euphoria among so-called winners and gloom around so-called losers, we are not chasing momentum but adding new AI-indexed growth ideas in a disciplined way.

Exhibit 1: Russell 1000 Growth Index Since Liberation Day



Performance from index lows on Apr. 8, 2025 through Sept. 30, 2025. Source: FactSet.
Note: Utilities performance represents three stocks comprising 0.30% of the index.

Portfolio Positioning

During the quarter, the Strategy initiated new positions in infrastructure software providers Oracle and Datadog and added to custom silicon developer Broadcom. Oracle, a leading provider of database software for large enterprises, has successfully expanded into cloud infrastructure as a platform to run generative AI workloads. Oracle is gaining share among hyperscalers due to its lower-cost data center architecture, which is well-suited for large-scale AI training workloads. We believe Oracle's share of the market will continue to grow over the next few years with profitability of this growth underappreciated by the market.

Datadog operates a monitoring, observability and data security platform for cloud applications. Observability is a large and growing end market with penetration rising as use and complexity of applications grow, requiring more performance monitoring. Datadog

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is a leader in cloud application monitoring, offering ease of use, breadth and scalability superior to its competitors. We believe large language model (LLM) observability, a rapidly growing market due to the acceleration of Gen AI workloads, creates a new vector for growth not reflected in fundamental estimates. Datadog's mission critical offering and rapid innovation should support attractive >20% revenue growth with an attractive valuation as the company further scales margin and cash flow.

We exited positions in Workday and Accenture, lowering our exposure to application software providers given decelerating fundamental growth and growing risks around AI. Workday continues to see core organic growth slow, particularly in the human capital management segment, and has yet to develop a comprehensive suite of AI tools needed to support pricing and incremental growth opportunities. The sale of Accenture, a global professional services company helping clients build digital infrastructure, was driven by growing concerns that growth in Accenture's consulting business from AI is being offset by a still-muted aggregate tech spending environment and demand in the outsourcing business. Meanwhile, we have trimmed but still maintain a position in Salesforce in application software.

The health care sector is facing a myriad of questions around underlying spending levels, tariff concerns and regulatory risks. After trimming managed care provider UnitedHealth Group regularly over the last three quarters, we fully exited the position in July following remarks from returning CEO Stephen Helmsley about a turnaround plan that indicated the path to recovery will be protracted. Ongoing uncertainty impacting pharmaceutical companies, as well as our more muted view of the GLP-1 market, prompted the sale of leading diabetes and obesity franchises Eli Lilly and Novo Nordisk. These companies also continue to face competition from lower-priced compounders that we had expected to abate. We upgraded our biopharmaceutical exposure with the purchase of Vertex Pharmaceuticals, a high-quality biotech with a leading franchise in cystic fibrosis. We have been following the company for some time and see its pain treatments as its next big opportunity. Some disappointments in the timing of clinical trials for chronic pain enabled us to establish a position at what we view as a moderate valuation relative to its pipeline.

Another area where we see promise is in early cyclical companies that could be beneficiaries of an improving economic environment. We repurchased Chipotle Mexican Grill, which is coming off a period of relatively weaker sales we view as more macro than execution related, and increased our Starbucks position. We have been optimistic about the durability of growth in aerospace as expressed through portfolio holding Airbus, to which we added. While it is still too early to definitively call a positive inflection in the industrial economy, we see green shoots here and want portfolio exposure to

improving trends. These additions were partially funded with proceeds from the sale of Union Pacific. We believe the merger between Union Pacific and Norfolk Southern will create an overhang on the cargo rail operator for some time, limiting the upside potential. Without a stronger freight environment, an area that has been in a multi-year recession, we do not expect the combined company will benefit as much from an expected industrials recovery.

Outlook

Momentum remains strong and valuations high across the large cap market, most notably among growth stocks. We have purposely positioned the ClearBridge Large Cap Growth ESG Strategy as an all-weather portfolio that seeks to deliver consistent results through the business cycle. When the Russell 1000 Growth Index compounds at its historical average of 11.9%,¹ the Strategy has shown an ability to outperform. We also have a track record of strong downside capture during challenged market environments as demonstrated in the first quarter of this year. Due to our focus on diversification and risk management, however, we tend to lag the benchmark in higher-return, beta-driven momentum periods like the current one.

Despite the near-term performance challenges, nothing has changed in our investment approach or management of the portfolio. We have always tried to buy names at attractive entry points, using our long-term orientation to take advantage of periods of volatility like the aftermath of Liberation Day. We also remained focused on valuations and cognizant of position sizes, trimming winners into strength like we did with Netflix and Intuitive Surgical earlier this year. We continue to lean on our three growth buckets framework with the core of the portfolio in reasonably priced stable growth companies that compound earnings over time, supported by higher growth select names gaining share through innovation and cyclical growers with turnaround potential or direct exposure to economic activity. Looking ahead to 2026, we are optimistic but also cautious. While AI winners continue to dominate market attention, the ClearBridge Large Cap Growth ESG Strategy is prepared for a range of scenarios, including stagflation or a rate-cutting rally.

Portfolio Highlights

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

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in

¹ Annualized total return since inception on Jan. 1, 1987. Source: FactSet.

We see promise in early cyclical companies that could be beneficiaries of an improving economic environment.

the IT, communication services, health care, consumer discretionary, industrials and financials sectors, an underweight to IT and overweights to financials and materials detracted from performance. On the positive side, stock selection in and an underweight to the consumer staples sector contributed to performance.

On an individual stock basis, the primary detractors from relative performance for the quarter were Apple (an underweight), Netflix, Intuitive Surgical, Alphabet (an underweight) and Intuit. The leading contributors to relative returns were Microsoft, Eli Lilly, Taiwan Semiconductor, ASML and not holding Costco Wholesale.

In addition to the transactions mentioned above, we closed a position in Zoetis in the health care sector.

ESG Highlights: Innovating Carbon Capture Across Industries

While deployment of renewable energy sources such as solar, wind and hydro will likely play the largest role in the energy transition, carbon capture and sequestration (CCS) remains an important technology for heavy industries that produce unavoidable CO₂ emissions.

There are many types of CCS, and ClearBridge holdings with which we engage regularly represent a diverse portfolio of CCS technologies. Recent engagements with portfolio companies have touched on ways they are developing CCS across several industries and how in most cases CCS capabilities are driving share gains and improving cash flows.

Cleaner Hydrogen Technologies Advancing in Manufacturing

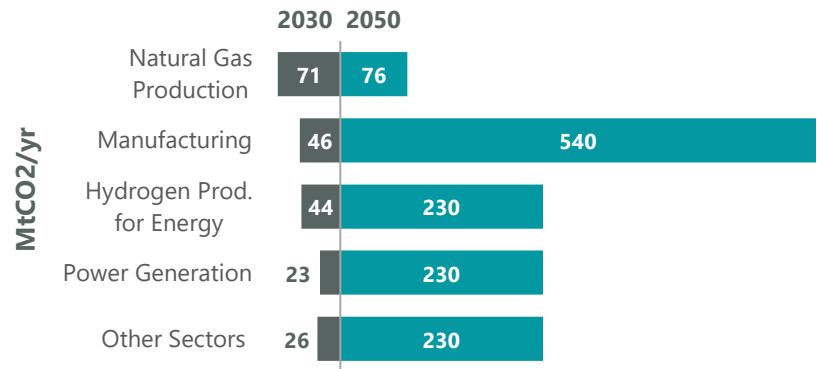
CCS is critical in addressing emissions from manufacturing and will be all the more so as capacity additions ramp up globally in the coming years (Exhibits 2 and 3). In North America, the main applications are hydrogen and ammonia. These were focal points of recent ClearBridge discussions with industrial gas company Linde, a Strategy holding which we find is well-positioned to continue taking share in clean hydrogen, specifically blue hydrogen. (Blue hydrogen is produced using fossil fuels but with carbon capture technology preventing emission of CO₂, and is used for various industrial, energy and transport applications.)

ClearBridge recently toured Linde's autothermal reformer (ATR) site at its Clear Lake facility in Texas, where Linde provides blue hydrogen and CO₂ to support industrial chemicals supplier and manufacturer Celanese with its methanol and acetyl production.

An ATR is essentially a large chemical reactor that combines natural gas, oxygen and water/steam to produce synthesis gas or syngas (hydrogen plus carbon monoxide/dioxide), a critical input for applications like chemicals production (such as methanol, which is used for paint solvents, antifreeze, fuels, pharmaceutical laboratories and adhesives, among other things). Syngas is also used in power

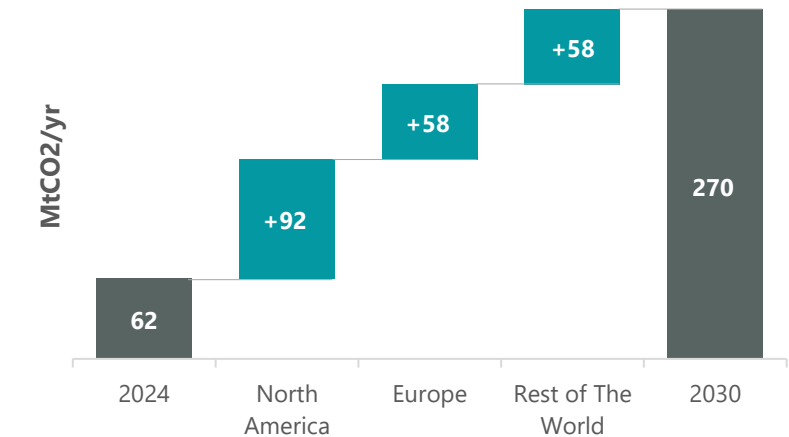
generation, ammonia and fertilizer production for growing crops, and refining (desulfurizing oil, which reduces sulfur dioxide emissions).

Exhibit 2: CCS by Sector 2030 and 2050



As of 2025. DNV, “Energy Transition Outlook CCS to 2050.”

Exhibit 3: CCS Capacity Additions to 2030



As of 2025. DNV, “Energy Transition Outlook CCS to 2050.”

Linde’s ATR technology is especially attractive as it is more efficient than other methods of producing these inputs given its better energy efficiency, higher CO2 concentration for better carbon capture, higher product yield and lower maintenance.

Linde has been able to leverage the success of this technology as a proof point to win other projects that support clean hydrogen and ammonia production in the U.S. Other blue hydrogen deals, such as in Nederland, Texas (where Woodside/OCI creates blue ammonia for agriculture, power and marine sectors), in Alberta, Canada (where Dow produces blue hydrogen for ethylene production with two ATRs), and the latest in Modeste, Louisiana (where CF Industries runs a large-scale air separation unit to support blue ammonia).

Linde represents an excellent example of a company where technological expertise in a sustainability practice is driving both emissions savings and growth for the business. In 2024, Linde helped

its customers to avoid more than 96 million metric tons of carbon dioxide equivalent, more than twice the emissions that Linde generated from its own operations.

What is Biogenic CO₂?

Green Plains, a U.S.-based agricultural technology and biorefining company based in Nebraska, is one of North America's largest producers of ethanol and bio-based products. It serves several main industries, such as ethanol for fuel, agricultural services (grain management), high-protein feed for livestock and aquaculture and renewable corn oil.

ClearBridge recently met with Green Plains's CFO and Director of Sustainability to discuss the company's carbon capture initiatives and other developments that impact its carbon intensity (CI) and ability to meet its target of net-zero emissions by 2050. The company recently suspended its clean sugar technology (CST) and ultra-high protein (UHP) initiatives to focus on carbon capture, which is more cost-effective under current tax credit structures.

Green Plains considers carbon capture a key tactic in decarbonizing biorefineries by capturing the pure stream of biogenic CO₂ from fermentation (CO₂ is released from the fermentation process of biological materials such as plants used for biofuels). Initiatives include partnering with Tallgrass Energy on the Trailblazer carbon pipeline, which will initially serve three Green Plains facilities in Nebraska, and is expected to sequester 800k tons of CO₂ annually beginning this year. These facilities are also expected to generate \$150 million in 45Z tax credits (for clean fuel production).

In addition, running other plants in a similar fashion without carbon capture can net another \$50 million under 45Z. Green Plains is raising capital for another deal with startup Carbon Solutions to perform carbon capture on other Midwestern plants. If the 45Z program isn't extended after 2029, Green Plains would drop down to 45Q credits, which are worth one-third of 45Z, until that program ends in 2038.

Overall, however, these credits are valuable programs that get Green Plains past recent liquidity issues after years of capex on plant modernization. With roughly \$50 million left in carbon capture capex, Green Plains has already cut its operating expenses by more than 50%, setting it up to generate ample free cash flow going forward.

Rocks Can Sequester Carbon

In a recent engagement with Vulcan Materials, the largest producer of construction aggregates such as crushed stone, sand and gravel in the U.S. and a name widely owned across ClearBridge, we checked in on Vulcan's goal of 10% absolute reduction in Scope 1 and 2 emissions by 2030. Vulcan shared that its Scope 1 and 2 emissions profile declined by 3% in 2024 versus its 2022 baseline, an improvement on 2023's flat performance. While 3% may seem low,

aggregates production already carries a low GHG intensity, so the incremental progress is notable.

Key drivers were increasing renewable adoption (now 14% of total electricity versus a 5% stated goal), upgrades to engines with 20%–50% lower emissions and increased renewable diesel usage in California. Renewable diesel — produced from vegetable oils, waste oils and animal fats and, unlike biodiesel, a “drop-in” fuel that can be used directly in engines without blending or modifications — now accounts for 9% of Vulcan’s total diesel usage.

We also touched on Vulcan’s operational use of water to wash residue off rocks and to suppress dust. We were encouraged to hear water recycling takes place at roughly 75% of Vulcan’s sites and that the company is striving for further improvement.

Increasing water recycling is a win-win from both a sustainability and economic perspective. At the 25% of sites where there is no recycling, Vulcan purchases water and absorbs the cost of trucking it. This seems like an easy target for the company to address over time.

Another interesting facet of Vulcan’s environmental profile is that some of its basalt fines (i.e., dust byproduct of rock production) actually help sequester CO₂. We learned the agricultural market can spread this byproduct on soil to support “enhanced rock weathering” whereby rainwater spurs a chemical reaction that traps atmospheric CO₂ in newly formed, solid material. While sequestering CO₂ with basalt fines is certainly not a core part of Vulcan’s business, it is nonetheless a positive attribute in its environmental profile.

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