



Growth Strategy



Evan Bauman
Managing Director,
Portfolio Manager



Aram Green
Managing Director,
Portfolio Manager



Amanda Leithe, CFA
Managing Director,
Portfolio Manager

Key Takeaways

- ▶ Following several successive quarters of relative outperformance, the Strategy modestly underperformed in the first quarter amid a volatile, macro-driven backdrop.
- ▶ Results were pressured by information technology and financials holdings, while positions in communication services and historically underrepresented industrials and consumer discretionary sectors proved beneficial.
- ▶ A multi-year evolution in portfolio construction has resulted in a more balanced expression of growth, enhancing resilience while maintaining the Strategy's ability to capture long-term upside.

Market Overview

Surging volatility pressured U.S. equities to start 2026, as rapidly evolving macro conditions and the outbreak of a military conflict in the Middle East contributed to sharp shifts in investor sentiment. While volatility had already been building since late 2025 — driven in part by elevated valuations across growth equities beginning to compress — conditions became more unsettled as the quarter progressed. A broad-based sell off among more liquid, larger cap holdings put pressure on the Russell 3000 Growth Index, which declined 9.5% for the quarter, while small and mid cap growth categories held up relatively better, with the Russell Midcap Growth and Russell 2000 Growth indexes declining 6.3% and 2.8%, respectively.

Attacks by the U.S. and Israel on Iran in early March introduced an additional layer of uncertainty, particularly around the potential for disruptions to global oil supply and the resulting concerns over the inflationary impact that could arise from a prolonged closure of the Strait of Hormuz.

Importantly, market behavior during the quarter was driven more by macro forces than company-specific fundamentals. Periods of indiscriminate selling impacted both cyclical and defensive sectors, creating dislocations often disconnected from underlying business performance. This environment reinforced the importance of maintaining a disciplined, bottom-up investment approach while avoiding overreliance on macro forecasting.

Portfolio Performance

The ClearBridge Growth Strategy modestly underperformed its Russell Midcap Growth benchmark during the first quarter, giving

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back a small portion of the strong relative performance achieved over the past several quarters. Performance was pressured primarily by stock selection within the information technology (IT) and financials sectors, while strength in areas such as communication services and historically underrepresented industrials and consumer discretionary sectors underscored the benefits of our multi-year portfolio diversification efforts.

Within IT, a broad-based selloff in software and higher-multiple growth names weighed on results. Despite solid quarterly results, holdings such as Autodesk, Shopify and CrowdStrike declined as investors questioned growth durability and valuation levels across the subsector. AppLovin, which operates a software platform for advertisers to enhance the marketing and monetization of their content — particularly within mobile apps — was also a notable detractor, on fears of AI disruption and rising competition from Meta. We see AppLovin as an early adopter and longer-term beneficiary of AI, as greater gaming and application development should increase the need for discovery. We also believe recent competitive concerns are overblown as the company has successfully competed against Meta for years and there are no signs it is being displaced, particularly as it relates to AppLovin's higher-value impressions.

In financials, Robinhood Markets detracted from performance due to a pullback in retail trading volumes and bitcoin pricing following a strong 2025. While near-term cryptocurrency trends have moderated, we continue to see long-term potential in the platform's ability to expand its ecosystem and capture share across a broader set of financial services offerings.

These pressures were partially offset by strength in other areas of the portfolio. In industrials, Vertiv, a manufacturer of power and precision cooling systems, continued to benefit from the buildout of data center and AI infrastructure, while defense contractor L3Harris delivered solid performance amid sustained global defense spending trends. Relatively new addition XPO, the fourth-largest less-than-truckload carrier in North America, continued to benefit from initiatives under its new leadership to improve service levels, pricing discipline and margins.

Holdings in the communication services and consumer discretionary sectors were also key contributors, led by Madison Square Garden Sports, which is exploring a separation of the New York Knicks and Rangers into two standalone public companies, enhancing strategic flexibility, and TJX, which put up better than expected same-store sales growth despite a more constrained consumer spending environment.

Portfolio Positioning

While our core investment philosophy remains unchanged, the portfolio today reflects a broader and more balanced expression of

growth than in the past. A foundation of steady compounders continues to provide stability and downside support, while a complementary set of disruptive growth businesses enhances the portfolio's ability to participate effectively across a wide range of market environments.

Within technology, we have been deliberate in refining exposures, particularly across software. What was a more significant relative overweight to our benchmark last year has been reduced, reflecting both valuation discipline and a more selective approach to identifying long-term winners in an evolving landscape shaped by AI. Our exit from HubSpot is representative of this discipline: while the company maintains a strong competitive position in the mid-market customer relationship management space, rising concerns around AI-driven disintermediation, particularly in the less complex and more price-sensitive small and medium business segment of the market, led us to reallocate capital toward higher-conviction opportunities.

At the same time, we have used market volatility to increase the quality of the portfolio, adding businesses with strong competitive advantages and attractive long-term growth profiles. In industrials, we initiated a position in Fastenal, a high-quality compounder with a differentiated onsite distribution model and structural advantages in scale and supply chain. We believe the company is well-positioned as a share gainer in a fragmented market to drive durable growth through the business cycle, offering offensive characteristics in the event of an industrial recovery as well as the ability to outgrow end markets amid a weaker environment. In communication services, we initiated a position in Spotify, a global audio streaming platform with more than 750 million monthly active users. We were attracted to Spotify's durable, subscription-led growth and improving pricing power and profitability. We took advantage of the recent selloff to initiate a position.

Finally, in consumer discretionary, we added Viking Holdings, a leading operator in river and luxury cruises. The company's focus on a more affluent customer base, combined with strong pricing power and high returns on invested capital, positions it well to benefit from continued growth in experiential travel demand. We also initiated a position in Wayfair, where we see significant long-term opportunity as e-commerce penetration increases within the home furnishings category. The company's asset-light model and logistics infrastructure provide a competitive advantage and should allow for meaningful margin leverages as revenue scales, particularly if housing activity and big-ticket spending normalizes over time.

We have also capitalized on recent market volatility to optimize our exposures to existing holdings. For example we increased our allocation to XPO, reflecting a preference for companies with both self-help initiatives and cyclical upside, particularly in an environment where macro conditions remain uncertain, as well as to fast-casual restaurant CAVA, which continues to expand its location footprint and

explore new menu innovations as it transitions from a newly public company to a large-scale sustainable growth franchise.

Outlook

Our outlook remains consistent: while macro uncertainty and volatility are likely to persist and may even increase as geopolitical developments evolve, these environments often create the most attractive opportunities for active, bottom-up investors. We continue to emphasize balance — owning companies with both offensive growth potential and defensive characteristics, including strong balance sheets, durable cash flows and capable management teams. This approach is designed to support performance across a wide range of market environments, rather than relying on a single factor or theme.

Importantly, we remain active. We are not standing still in the face of volatility but are instead using it to refine the portfolio — trimming positions where risk-reward has become less favorable and adding to high-conviction ideas where valuations have become more compelling. We also believe the ongoing broadening of market leadership, particularly beyond mega cap technology, is a constructive development for our investment universe. After a prolonged period of concentration, a more balanced market should reward differentiated, high active share portfolios such as ours.

Ultimately, we are confident that the Strategy's improved diversification, disciplined process and focus on high-quality growth businesses position it well to navigate current conditions and continue delivering long-term value for clients.

Portfolio Highlights

The ClearBridge Growth Strategy underperformed its Russell Midcap Growth Index during the first quarter. On an absolute basis, the Strategy had positive contributions from two of the nine sectors in which it was invested. The contributors were the industrials and materials sectors, while the IT sector detracted the most.

On a relative basis, overall sector allocation detracted from performance, while stock selection contributed. Stock selection in the IT, health care and financials sectors, overweights to the IT and communication services sectors and a lack of exposure to the energy sector weighed on performance. Conversely, stock selection in the communication services, consumer discretionary and industrials sectors, an overweight to the materials sector and an underweight to the financials sector proved beneficial.

On an individual stock basis, the biggest contributors to relative returns were L3Harris Technologies, Madison Square Garden Sports, Vertiv, Freeport-McMoRan and Johnson Controls International. The largest detractors from relative returns were

AppLovin and Shopify and not owning Comfort Systems, Quanta Services and Targa Resources.

In addition to the transactions listed above, the Strategy exited positions in Chipotle Mexican Grill in the consumer discretionary sector and Pinterest in the communication services sector.

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