

ClearBridge Appreciation Fund

Class A: SHAPX Class I: SAPYX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The S&P 500 Index extended its advance in the fourth quarter, rising 2.7% and finishing the year up 17.9%. Following the “Liberation Day” selloff, the index posted gains in each subsequent month (eight consecutive monthly advances), climbing 37% from the April 8 market low. While market participation broadened in the fourth quarter, 2025 was again dominated by mega cap technology and the AI ecosystem.
- **Contributors:** Stock selection in health care, consumer staples and consumer discretionary proved beneficial.
- **Detractors:** Stock selection in the IT, communication services, industrials and materials sectors detracted from relative results.
- **Outlook:** We remain focused on through-the-cycle outperformance via downside risk mitigation, and we increasingly believe risks may be starting to outweigh the prospective rewards.

Performance Review

- The ClearBridge Appreciation Fund underperformed the benchmark S&P 500 Index in the fourth quarter. On an absolute basis, the Fund had positive contributions from six of 11 sectors. The health care and communication services sectors were the main positive contributors, while industrials, materials and IT were the main detractors.
- On an individual stock basis, the biggest relative contributors during the quarter were Eli Lilly, Alphabet, Thermo Fisher Scientific, ASML and an underweight to Oracle. The biggest detractors were Netflix, Eaton, Micron Technology (not owned), Microsoft and Automatic Data Processing.
- Eli Lilly shares were up as the U.S. government struck a deal with Lilly to offer GLP-1s to Medicare and Medicaid patients, opening up millions of additional prescriptions, while readouts on the company’s oral GLP-1 treatment indicated a broader market than we had expected.
- Alphabet’s success with its Google Gemini chatbot and TPU chips for AI workloads boosted its shares more than 60% for 2025; in addition, the DOJ antitrust case concluded with less onerous penalties than feared, helping sentiment.
- Netflix (NFLX) fell as it became involved in the highly publicized bidding process to acquire Warner Bros. Discovery. We see merits to the deal for Netflix to buy WBD’s streaming and studio assets at the currently agreed price, but investors are concerned that a bidding war might ensue should Paramount Skydance further raise its competing offer. If Netflix’s current offer prevails, we view the deal as a net positive — while there is some execution risk, we see better revenue and cost synergies than the stock move is implying.
- Eaton, a manufacturer of electrical components critical to the operation of data centers, has supply constraints that limit its ability to vastly exceed its targeted growth rate and that may also limit its ability to garner price increases.

Outlook

- Like in the past year, policy today remains supportive of near-term growth, and capital markets conditions suggest risk assets — such as stocks — can continue to perform. But for the first time in the post-COVID period, we see pockets of weakness that could result in a more challenging economic backdrop.
- Given signs that markets may be entering a more speculative phase, we believe the probability of a correction (a peak-to-trough decline of >10%) has risen, and the possibility a selloff could prove more prolonged than in recent years makes the “buy the dip” mentality more precarious. In our view, capital markets will determine whether equities can sustain their advance. If investors continue to reward AI-related capex with higher share prices the cycle can persist. However, if markets tire of new multiyear infrastructure commitments or funding AI firms at ever richer valuations, there is little valuation support to fall back on. With half of consumers already showing signs of strain, we view any correction as posing more risk than any time in recent memory.
- We remain focused on through-the-cycle outperformance via downside risk mitigation, and we increasingly believe risks may be starting to outweigh the prospective rewards. Accordingly, we’re keeping a close eye on balance sheet and cash flow durability across our AI-exposed holdings to ensure our exposure is concentrated in companies with the financial wherewithal to weather a potential cooling in today’s white-hot environment.

Top Securities (% of Total)

Holding	Fund
Microsoft Corp	8.38
NVIDIA Corp.	7.28
Alphabet Inc. Class A	5.04
Apple Inc.	4.96
Broadcom Inc.	3.47
Meta Platforms Inc. (FB)	3.41
Amazon.Com, Inc.	3.10
JPMorgan Chase & Co.	2.82
Eli Lilly & Company	2.65
Bank Of America Corp	2.46

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	
Class A	52468E105	SHAPX	0.96	14.27	14.27	18.67	12.53	13.09	10.76	-4.58	7.98	7.98	16.46	11.21	12.42	10.64	0.91	0.91	5.50	—	3/10/1970
Class I	52468E402	SAPYX	1.04	14.58	14.58	18.99	12.85	13.41	10.17	1.04	14.58	14.58	18.99	12.85	13.41	10.17	0.65	0.65	—	—	1/30/1996
Benchmark	—	—	2.66	17.88	17.88	23.01	14.42	14.82	—	2.66	17.88	17.88	23.01	14.42	14.82	—	—	—	—	—	—

Benchmark(s)

Benchmark =S&P 500 Index

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com. Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 12/31/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns. Maximum sales charges have been updated as of August 15, 2022, please refer the Fund's prospectus for more information.

What are the Risks?

All investments involve risks, including possible loss of principal. Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **Short selling** is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.