

ClearBridge Appreciation Fund

Class A: SHAPX Class I: SAPYX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Most major equity indexes declined in the first quarter as concerns over rising AI capex at hyperscalers, inklings of AI disruption in software, stress in private credit and a shock to energy prices from the war in the Middle East outweighed a nascent rally for cyclical stocks. The S&P 500 Index returned -4.3%.
- **Contributors:** Stock selection in financials proved beneficial; overweights to materials and industrials and underweights to IT and consumer discretionary also helped.
- **Detractors:** Stock selection in the consumer staples and materials sectors detracted from relative results.
- **Outlook:** Current conditions argue for a more cautious stance. The continued strength in high-beta AI and quantum computer stocks during the March market decline indicates that animal spirits remain high. In our view, the “buy the dip” mindset that was so successful over the past decade looks less reliable in an environment where inflation risk, policy uncertainty and labor market softening are all rising simultaneously.

Performance Review

- The ClearBridge Appreciation Fund performed better than the benchmark S&P 500 Index in the first quarter of 2026. On an absolute basis, the Fund had positive contributions from five of 11 sectors. The energy sector was the main positive contributor, while IT, communication services and financials were the main detractors.
- On an individual stock basis, the biggest relative contributors during the quarter were ASML, Entergy, Eaton, Johnson & Johnson and Linde. The biggest detractors were Microsoft, McCormick, Bank of America, Thermo Fisher Scientific and not owning Applied Materials.
- ASML (ASML), in the IT sector, is a leading maker of extreme ultraviolet lithography equipment critical for the production of advanced semiconductors. Share performance was primarily fueled by record-breaking orders for AI infrastructure and a significantly raised revenue outlook for 2026.
- In health care, Johnson & Johnson (JNJ) is benefiting from an acceleration in earnings growth as its pharma business is growing at a high-teens rate excluding the impact from a loss of exclusivity on a major drug franchise (Stelara), while its medical device business appears to also be gaining momentum.
- Linde (LIN), in the materials sector, is an industrial gasses provider. Linde benefited from damage to natural gas infrastructure in the Middle East that created a supply shortage of helium, of which Linde is one of the largest distributors globally.
- Microsoft (MSFT) was down amid negative sentiment for software; shares also traded down on worries over higher than expected AI capex and delays in monetizing its AI backlog.
- McCormick (MCK) was lower as expectations grew that it would move to acquire Unilever’s foods business, a transaction viewed as large, complex and occurring at an inopportune time for McCormick’s struggling core business. The acquisition of Unilever’s food unit is thesis-changing and an enormous undertaking for a company that is having a hard time executing against its core business strategy (it is buying Unilever’s food business for \$44 billion, while the standalone McCormick is a \$13 billion market cap). Given the stock was trading at an all-time low multiple ahead of the deal announcement, we strongly believe the best ROI of excess capital would be to invest in the core strategy and buy back shares and return value to shareholders. Given the thesis shift and execution risk, we decided to walk away from the position.
- Life sciences and diagnostics company Thermo Fisher Scientific (TMO) detracted as a weakening biotech and academic demand environment created a lower-growth backdrop for tools and diagnostics companies more broadly, weighing on sentiment.

Outlook

- Current conditions argue for a more cautious stance. The continued strength in high-beta AI and quantum computer stocks during the March market decline indicates that animal spirits remain high. In our view, the “buy the dip” mindset that was so successful over the past decade looks less reliable in an environment where inflation risk, policy uncertainty and labor market softening are all rising simultaneously.
- The combination of a softer consumer backdrop and renewed cost pressure meeting a long period of uninterrupted credit expansion (with significant expansion in the unregulated corner of private credit) suggests that the early stages of a credit cycle may be forming. If that proves correct, investors may need to revisit playbooks that have not been relevant in over a decade. Future market corrections, in that scenario, may carry greater risk and last longer than many have come to expect.
- As always, we remain focused on through-the-cycle outperformance with an emphasis on downside risk management. We are closely evaluating balance sheet strength and cash flow durability across our AI-exposed holdings to ensure our exposure remains concentrated in companies with the financial resilience to withstand a cooling in today’s exceptionally strong environment.

Top Securities (% of Total)

Holding	Fund
NVIDIA Corp.	8.06
Microsoft Corp	6.21
Alphabet Inc. Class A	5.45
Apple Inc.	4.85
Netflix Inc	3.14
Amazon.Com, Inc.	2.93
Meta Platforms Inc. (FB)	2.90
Broadcom Inc.	2.86
JPMorgan Chase & Co.	2.70
Johnson & Johnson	2.40

Average annual total returns and fund expenses (%) - as of March 31, 2026

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	-3.71	-3.71	13.63	15.59	10.64	12.47	10.63	-9.00	-9.00	7.39	13.43	9.34	11.81	10.51	0.91	0.91	5.50	—	3/10/1970
Class I	52468E402	SAPYX	-3.69	-3.69	13.90	15.87	10.94	12.78	9.95	-3.69	-3.69	13.90	15.87	10.94	12.78	9.95	0.67	0.67	—	—	1/30/1996
Benchmark	—	—	-4.33	-4.33	17.80	18.32	12.06	14.16	—	-4.33	-4.33	17.80	18.32	12.06	14.16	—	—	—	—	—	

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 12/31/2027 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.