FRANKLIN TEMPLETON | ClearBridge

ClearBridge Small Cap Fund

Class C: LMASX Class A: LMSAX **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** Small cap equities rallied sharply, but unevenly, in the second quarter, with the Russell 2000 Index returning 21.5%. April and May extended the risk-on trade that has characterized much of the past year, with AI infrastructure theme and quantitative factors such as momentum, high-beta and higher-growth companies leading while quality, value and lower-volatility stocks lagged. However, in June, leadership broadened as large cap technology weakened and small caps extended their recent relative strength.
- **Contributors:** Holdings in Penguin Solutions, Extreme Networks and Custom Truck One Source. Stock selection in the materials, IT and real estate sectors.
- **Detractors:** Holdings in Matador Resources and Weatherford International and not owning Credo Technology. Stock selection in the industrials, health care and consumer staples sectors.
- **Outlook:** The second quarter highlighted both the opportunity and the challenge in small caps. Strong absolute returns showed how quickly the asset class can respond when risk appetite improves, while narrow leadership in April and May showed that not all rallies are equally fruitful for active management.

Top Securities (% of Total)

Holding	Fund
Murphy USA Inc.	2.30
Matador Resources Co.	1.84
COLUMBIA BANKING SYSTEM INC	1.83
Penguin Solutions Inc	1.74
WSFS Financial	1.70
Terex Corp	1.67
Arrowhead Pharmaceuticals Inc	1.66
SCHOLAR ROCK HOLDING CORP	1.66
Wintrust Financial Corp	1.65
Bank OZK	1.65

Performance Review

- Against the narrow performance backdrop that characterized much of the period, the ClearBridge Small Cap Fund underperformed its Russell 2000 Index benchmark during the second quarter.
- Industrials was the largest relative detractor. Among owned holdings, Primoris Services detracted after first-quarter results showed lower energy segment revenue and margin pressure, including slower renewable energy project activity. The Fund's lack of exposure to Bloom Energy, a power solutions company tied to the AI and data center infrastructure theme, and whose strong performance reflected the quarter's return concentration in a small group of high-momentum benchmark names, also weighed on performance. Custom Truck One Source helped offset some of this weakness, benefiting from demand for specialty equipment tied to electric utility transmission and distribution and other infrastructure markets.
- In information technology (IT), our underweight to the sector weighed on relative performance, though IT holdings also represented four of our top five individual relative contributors. Penguin Solutions advanced as investors recognized its exposure to AI infrastructure and memory-related demand, which drove an increase to the 2026 outlook. Extreme Networks contributed after results alleviated margin concerns and the company moved away from a potential acquisition that had weighed on sentiment. TeraWulf benefited from investor interest in AI-related data center capacity, while Commvault gained as demand for data protection and cyber resilience remained strong.
- Energy was another source of weakness as easing geopolitical tensions in the Middle East contributed to a late-quarter pullback in energy prices. Matador Resources and Weatherford International were among the Strategy's biggest individual detractors, with both companies coming under pressure alongside lower commodity prices and more cautious expectations for upstream activity.
- Positive contributors came from a variety of sectors. PROG advanced as financials participated in the risk-on rally and investors rewarded improving sentiment toward consumer credit and leasing-related businesses. Apple Hospitality REIT also benefited from the broadening of market leadership late in the quarter. In health care, Bicara Therapeutics rose after reporting encouraging longer-term data for its lead cancer therapy, suggesting the treatment may help patients with a difficult-to-treat form of head and neck cancer.
- We initiated positions in two IT companies. Globant, an IT services company, had been pressured by concerns that AI could disrupt traditional consulting and outsourcing models. We believe those concerns are overstated and that AI could support higher project volumes, lower delivery costs and improved client demand. We also added Allegro MicroSystems, a fabless semiconductor company focused on sensors and power chips used in automotive and industrial markets. While expectations for AI-related semiconductor companies remain elevated, we believe Allegro offers differentiated exposure to growth in data centers, robotics and electrification.
- In health care, we purchased Glaukos and RadNet. Glaukos is a medical technology company focused on glaucoma treatments. We believe earnings are nearing an inflection point as newer, higher-margin products scale, which could lead investors to reassess the company's growth and profitability profile. RadNet operates outpatient imaging centers and has built a digital health business we view as underappreciated. The company should benefit from steady imaging demand, continued share gains and AI tools that could improve the value of its platform.
- On the sell side, we exited AeroVironment, a defense company, after the investment case was dented by an accounting issue and a lost government contract. We also sold AGCO, an agricultural equipment manufacturer, as we reallocated away from a more cyclical position. In consumer staples, we exited Inter Parfums, a fragrance company, to fund opportunities with more attractive risk/reward. In utilities, we sold ONE Gas, a regulated natural gas distributor, on valuation and sector exposure considerations.

Outlook

- The second quarter highlighted both the opportunity and the challenge in small caps. Strong absolute returns showed how quickly the asset class can respond when risk appetite improves, while narrow leadership in April and May showed that not all rallies are equally fruitful for active management. Improved breadth during June was encouraging and, if sustained, should create a more favorable environment for stock selection.
- We expect AI to remain a powerful investment theme, but we are wary of areas where expectations appear elevated and valuations leave little room for disappointment. The central question is not whether AI will be transformative, but whether

market prices compensate investors for an uncertain future. We see opportunities among select AI infrastructure beneficiaries, as well as companies where the market may be overstating disruption risk or overlooking durable earnings drivers.

- Small caps continue to offer meaningful long-term potential, particularly relative to large caps, but elevated valuations in parts of the benchmark argue for selectivity. Higher dispersion, a broader earnings recovery and greater investor focus on quality, balance sheet strength and cash flow durability would all support our process. We remain focused on owning businesses with improving fundamentals, capable management teams and attractive risk/reward, while maintaining the discipline to trim winners and exit positions when the thesis changes.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 30, 2026

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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	Date
Class C	524686474	LMASX	15.64	16.55	29.80	10.64	3.28	8.25	9.71	14.64	15.55	28.80	10.64	3.28	8.25	9.71	1.89	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	15.85	16.99	30.81	11.50	4.08	9.07	12.50	9.49	10.55	23.62	9.42	2.85	8.42	12.12	1.13	1.07	5.50	—	2/3/2009
Benchmark	—	—	21.49	22.57	40.78	18.60	6.98	11.62	—	21.49	22.57	40.78	18.60	6.98	11.62	—	—	—	—	—	—

Benchmark(s)

Benchmark =Russell 2000 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. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 12/31/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.
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. **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 **investment style** may become out of favor, which may have a negative impact on performance. 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 **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe.

Source: FTSE.

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

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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.

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