

ClearBridge Small Cap Fund

Class C: LMSX Class A: LMSAX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** Small cap stocks experienced whipsaw performance in the second quarter, as April's "Liberation Day" market decline was swiftly followed by a rally driven largely by growth, momentum, high-beta and low-quality stocks. The Russell 2000 returned 8.5% for the quarter compared to the 11.1% of the Russell 1000 Index, while the Russell 2000 Growth Index returned 12.0%, 700 basis points ahead of the Russell 2000 Value Index.
- **Contributors:** Holdings in Verona Pharma, MP Materials, Talen Energy. Stock selection in the utilities sector and an underweight to the health care sector.
- **Detractors:** Holdings in Corcept Therapeutics, Murphy USA, Criteo. Stock selection in the consumer discretionary, communication services, IT, industrials, consumer staples, financials, health care and materials.
- **Outlook:** The economic uncertainty on the horizon — the impact of tariffs working their way through the economy, a potential pick-up in inflation and the continued whirlwind of government policy changes — certainty looks like a storm worth bracing for.

Performance Review

- Although small caps rose higher on the broader market rally, the Fund underperformed its benchmark as detractors in the consumer discretionary and communication services overcame positive selection in the utilities and select health care companies
- Stock selection within the consumer discretionary reversed after a strong first-quarter performance. Long-time contributor Murphy USA, a convenience store and gas station operator, came under pressure after reporting weaker than expected earnings due to lower fuel volumes, rising store operating expenses and a decline in same-store sales.
- Several holdings in the communication services sector also detracted from performance, such as Criteo, which fell amid growing investor concerns after its largest retail media client announced it would significantly reduce the scope of Criteo's services beginning in November.
- Wireless communications company Anterix drifted lower despite exceeding earnings expectations for its fiscal third quarter, as revenue came in lower than expected and net margins declined. However, we believe that the company's expansion agreements to cover 102 counties in Texas, highlights the scale of its spectrum capabilities.
- Performance in utilities was led by Talen Energy, an independent power producer primarily serving the Pennsylvania-Jersey-Maryland region. The gem of the company's generation portfolio is the ~2.5 GW Susquehanna nuclear facility, which is uniquely positioned to benefit from tightening supply due to rising AI data center power demand, including potential direct supply agreements with hyperscale computing companies.
- Verona Pharma rebounded from a difficult first quarter. After the company received favorable designation from the FDA for its Ohtuvayre drug treatment for chronic obstructive pulmonary disease patients, as well as applications treating cystic fibrosis and asthma, Merck announced that it would acquire Verona at a premium.
- We continued to be very active in adapting our positioning within the financials sector, swapping our position in Home BancShares for UMB Financial to increase the quality of our exposure through UMB's differentiated fee business and greater geographic and business diversification.
- Also in financials, we exited our position in alternative asset manager Abacus Global, whose shifting business strategy has raised further concerns over performance. Following the release of a short report alleging conflicts of interest, we exited the position.
- We added a new holding in AGCO which manufactures and distributes agricultural equipment and replacement parts. With a diversified manufacturing footprint globally and approximately 80% of the company's sales outside of the U.S., AGCO stands to benefit versus more domestically oriented peers, given the new trade and tariff policies.

Outlook

- Markets certainly exhibit pendulum-like traits, and sooner or later the tide will ebb and many of those who espoused the low-quality, no-earnings "meme" stocks that led the second quarter will be caught holding the bag. While we believe that trying to time this reversion is a fool's errand, the economic uncertainty on the horizon — the impact of tariffs working their way through the economy, a potential pick-up in inflation and the continued whirlwind of government policy changes — certainty looks like a storm worth bracing for.
- As such, we continue to lean on our philosophy of focusing on high-quality stocks with strong balance sheets, attractive cash flows and substantive long-term catalysts for growth and improvement. While there will be periods like the second quarter where we find ourselves trailing, these fundamentally sound companies will be the ones sought out when the eventual tipping point occurs.

Top Holdings (% of Total)

Holding	Fund
Murphy USA Inc.	2.13
Wintrust Financial Corp	2.00
Bank OZK	1.84
MP Materials Corp	1.81
Corcept Therapeutics Inc	1.79
HealthEquity Inc.	1.68
GATX Corporation	1.64
Verona Pharma PLC	1.60
National Bank Holdings Corp	1.59
Matador Resources Co.	1.58

Sector Allocation (% of Total)

Sector	Fund
Financials	19.25
Industrials	16.58
Health Care	12.63
Information Technology	12.23
Consumer Discretionary	10.43
Real Estate	7.15
Materials	5.96
Energy	5.22
Other	9.23
Cash & Cash Equivalents	1.31

Average annual total returns and fund expenses (%) - as of June 30, 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 C	524686474	LMASX	0.94	-5.49	3.33	5.14	8.15	5.39	9.24	-0.06	-6.43	2.36	5.14	8.15	5.39	9.24	1.86	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	1.17	-5.12	4.15	5.95	8.98	6.19	11.47	-4.41	-10.34	-1.58	3.88	7.70	5.56	11.07	1.10	1.07	5.50	—	2/3/2009
Benchmark	—	—	8.50	-1.79	7.68	10.00	10.04	7.12	—	8.50	-1.79	7.68	10.00	10.04	7.12	—	—	—	—	—	—

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 12/31/2026 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.

Glossary

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).
The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. Source: FTSE.
The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE.
The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. Source: FTSE.

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.
© 2025 Franklin Templeton. Franklin Distributors, LLC. Member FINRA/SIPC. All entities mentioned are Franklin Templeton Companies.

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.