

# ClearBridge Small Cap Fund

Class C: LMSX Class A: LMSAX

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** Small cap equities experienced a volatile start to 2026, as strong early gains gave way to shifting leadership and a more uncertain macro backdrop. The Russell 2000 Index returned 0.9% for the quarter, outperforming the larger cap Russell 1000 Index by over 500 bps. A partial rotation away from the dominant AI trade supported value stocks over growth during the quarter, with the Russell 2000 Value Index returning 5.0% compared to a 2.8% loss for the growth index.
- **Contributors:** Holdings in Matador Resources, International Seaways and Murphy USA. Stock selection in the health care, energy and consumer discretionary sectors.
- **Detractors:** Holdings in Upwork, nCino and not owning Bloom Energy. Stock selection in the industrials, IT and materials sectors.
- **Outlook:** While macro uncertainty remains elevated, a shift toward quality and fundamentals may provide a more supportive environment for disciplined small cap investors.

## Performance Review

- The Fund outperformed its Russell 2000 Index benchmark during the first quarter, driven by strong stock selection in health care, energy and consumer discretionary.
- In health care, several holdings delivered strong gains on company-specific developments and improving sentiment toward innovative biopharmaceutical companies. CG Oncology, a clinical-stage oncology company focused on bladder cancer therapies, Celcuity, a precision medicine company targeting cancer signaling pathways, and Palvella Therapeutics, a developer of treatments for rare genetic skin diseases, benefited from positive clinical progress and the advancement of differentiated pipelines. Performance in the sector reflects our focus on identifying companies with compelling science, clear catalysts and attractive long-term growth potential.
- Energy was another notable area of strength, with five of the Fund's top 10 contributors coming from the sector. Holdings such as Matador Resources, an independent oil and gas producer with operations in the Permian Basin, International Seaways, a global crude and product tanker company, and California Resources, a California-focused energy and carbon management company, benefited from improving industry fundamentals and a sharp increase in oil prices driven by geopolitical tensions in the Middle East. These companies continue to demonstrate strong free cash flow generation and capital discipline, positioning them well in a supportive commodity environment.
- Stock selection in consumer discretionary also contributed, led by Murphy USA, a convenience store and gas station operator. The company's shares rose in March alongside a sharp increase in oil and gasoline prices, which lifted fuel margins and supported earnings expectations. Murphy's low-cost operating model and strategic store footprint continue to provide a competitive advantage, particularly during periods of fuel price volatility.
- Relative performance gains were partially offset by weakness in industrials. Detractors included Upwork, an online freelance marketplace connecting businesses with independent workers, ICF International, a consulting and technology services provider focused on government and commercial clients, and AeroVironment, a manufacturer of unmanned aircraft systems and defense technologies, reflecting a combination of company-specific challenges and sensitivity to evolving demand expectations.
- In information technology (IT), positions including nCino, a provider of cloud-based banking software, Q2 Holdings, a digital banking and payments platform, and Commvault, a data protection and management software company, came under pressure as investors increasingly weighed the potential for AI-driven disruption across software and online platform businesses, contributing to a reassessment of growth durability and valuation.
- Defense was a focus of activity in the quarter. We initiated a position in Parsons Corporation, an engineering and infrastructure services provider, as we see the company well positioned to benefit from increasing global investment in defense and critical infrastructure. Its growing exposure to higher-margin, technology-enabled solutions and strong backlog provide improved visibility into earnings and cash flow. We also added AeroVironment, for which rising demand for autonomous and defense technologies supports a durable growth outlook tied to evolving national security priorities.
- At the same time, we exited Stride, an online education platform, following a period of strong performance that left shares more fairly valued relative to our forward expectations. We also exited Corcept Therapeutics, a biopharmaceutical company, as we reassessed the risk-reward profile following strong prior gains and evolving considerations around its pipeline. Additionally, we exited Valaris, an offshore drilling contractor, following its agreement to merge with competitor Transocean in a primarily stock-based transaction that we believe would leave the combined company with an uncomfortably leveraged balance sheet.

## Outlook

- The market environment appears to be at an inflection point. While speculative leadership and a preference for lower-quality, high-beta companies persisted into the start of the year, rising dispersion and improving breadth suggest conditions may be becoming more supportive for active managers. Early signs of rotation toward more asset-backed and higher-quality businesses are an encouraging shift after an extended period dominated by momentum and risk-seeking behavior.
- At the same time, macroeconomic uncertainty has increased. Elevated oil prices, geopolitical tensions and shifting expectations around inflation and monetary policy have introduced new risks, particularly for small caps, given their greater economic sensitivity. These crosscurrents are likely to drive continued volatility and rapid rotations, with markets increasingly focused on distinguishing between winners and losers across sectors and business models.

## Top Securities (% of Total)

Holding	Fund
Murphy USA Inc.	2.68
Matador Resources Co.	2.52
Weatherford International	1.87
International Seaways Inc.	1.86
Arrowhead Pharmaceuticals Inc	1.79
WSFS Financial	1.77
SCHOLAR ROCK HOLDING CORP	1.74
Landstar System Inc.	1.70
COLUMBIA BANKING SYSTEM INC	1.68
GATX Corporation	1.62

- Despite this backdrop, the underlying setup for small caps remains constructive. Valuations are attractive relative to large caps, and improving earnings breadth, combined with higher dispersion, should create a more favorable environment for stock selection. As fundamentals reassert themselves, we believe companies with durable business models, strong balance sheets and clear earnings power are well-positioned to drive long-term returns.

## 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 C	524686474	LMSX	0.78	0.78	13.31	8.58	1.64	7.40	9.38	-0.22	-0.22	12.31	8.58	1.64	7.40	9.38	1.89	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	0.98	0.98	14.23	9.43	2.42	8.21	11.73	-4.58	-4.58	7.93	7.38	1.21	7.57	11.35	1.13	1.07	5.50	—	2/3/2009
Benchmark	—	—	0.89	0.89	25.72	13.05	3.77	9.88	—	0.89	0.89	25.72	13.05	3.77	9.88	—	—	—	—	—	

## 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](http://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.

## Glossary

**Free cash flow (FCF)** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

The **Russell 1000 Index** measures the performance of the large-cap 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.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

Source: FTSE.

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](http://www.franklintempleton.com). Please read it carefully.**