

ClearBridge Small Cap Fund

Class C: LMASX Class A: LMSAX

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** The third quarter of 2025 was a period of dramatic resurgence for small cap equities, as the Russell 2000 Index advanced 12.4%, not only outpacing its large cap peers but also setting a new all-time high after nearly three years. The rally was driven by a confluence of factors: a sharp improvement in earnings revision breadth, persistent optimism around Federal Reserve rate cuts, and a continued appetite for speculative growth and high-beta stocks. Retail investors remained a dominant force, fueling momentum in a narrow set of names and driving both the breadth and concentration of returns. While momentum and high-beta factors led the way, value and profitability continued to lag, extending a trend that has now reached historic proportions.
- **Contributors:** Holdings in MP Materials, Terawulf and Arrowhead Pharmaceuticals. Stock selection in the materials, information technology (IT) sectors, an overweight to the materials sector.
- **Detractors:** Holdings in Gambling.com and Euronet Worldwide, not owning Bloom Energy. Stock selection in the communication services, industrials and consumer discretionary sectors.
- **Outlook:** As the market cycle evolves and fundamentals reassert themselves, we believe our focus on high-quality businesses, strong balance sheets and long-term growth drivers will be rewarded. While the path may not be linear, we are steadfast in our conviction that patience, discipline and commitment to fundamental research will ultimately deliver value for our clients.

Performance Review

- For active managers, the quarter was challenging, as the dominance of speculative winners and the narrowness of leadership made it difficult for fundamentally driven strategies to keep pace. As a result, the ClearBridge Small Cap Fund generated positive absolute performance shaped by broad participation across several sectors but modestly trailed the benchmark.
- Materials was a leading source of relative strength for the portfolio, driven by exposure to critical supply chains and favorable commodity cycles. The standout in this group was MP Materials, the only scaled producer of rare earth elements in North America. MP Materials' shares soared as the company secured new supply agreements with the U.S. Department of Defense and continued to benefit from government support for domestic rare earth production, which is critical for electric vehicles and clean energy.
- Information technology (IT) was another bright spot, with several holdings delivering strong relative results. Terawulf, a vertically integrated bitcoin mining and energy infrastructure company, was a top contributor as cryptocurrency prices rebounded and it was revealed that Google was taking a significant stake in the company. Terawulf is quickly pivoting from being a crypto miner to becoming an AI infrastructure provider for hyperscale customers.
- Communication services was the leading detractor from relative performance, stemming from an uncertain outlook in cyclical and structural shifts in media, advertising and consumer engagement. Despite posting second-quarter earnings that came in above market expectations, Criteo, a digital advertising technology provider, struggled amid sector-specific headwinds and competitive pressures, as digital ad spending remained volatile and investors remained cautious about challenges in maintaining its market share.
- Consumer discretionary was another area of relative weakness. Murphy USA, a leading operator of gas stations and convenience stores primarily located near Walmart locations, was the notable detractor. The company's shares struggled as it reported weaker-than-expected earnings, driven by lower fuel volumes, rising operating expenses and a decline in same-store sales — even as total merchandise sales increased.
- One notable addition was Quaker Houghton, a global specialty chemicals company in the materials sector serving industrial and manufacturing end markets. We initiated a position as the company appeared to be nearing the bottom of its estimate revision cycle, with embedded expectations that seemed overly pessimistic relative to its long-term growth prospects. We believe that Quaker Houghton's resilient business model leaves the company exceptionally well positioned to bolster its growth to above-industry average as it improves margins and returns.
- We also established a new position in Avidity Biosciences, a development-stage biotechnology company with a proprietary platform for delivering RNA-based therapeutics to muscle tissue. The company's pipeline offers a wide range of potential outcomes, with a strong probability of a positive clinical readout from its pipeline likely to produce a positive rerating in the share price.
- We exited our position in Vivid Seats, an online ticket marketplace that connects fans with live event tickets. While the company has a strong brand and a differentiated technology platform, the secondary ticketing market has become increasingly challenging. Competitive pressures have intensified, particularly from larger platforms engaging in uneconomic pricing strategies, which have eroded margins and made it difficult for Vivid Seats to maintain its market share.

Outlook

- We recognize that this remains a difficult time for active small cap investors. The market's relentless focus on speculative, high-beta and often unprofitable companies has made it challenging for fundamentally driven strategies to keep pace. Retail-driven momentum and thematic speculation have dominated the landscape, leaving many high-quality, cash-generative businesses overlooked. For those of us who remain committed to disciplined, bottom-up investing, it can feel as though the market is rewarding everything but fundamentals.
- Yet, even in this environment, we are beginning to see green shoots. Earnings revision breadth has improved, and there are early signs that the pendulum may be swinging back toward companies with real earnings power and sustainable business models. Valuations for small caps remain attractive relative to large caps, and history suggests that periods of rampant

Top Holdings (% of Total)

Holding	Fund
Wintrust Financial Corp	2.03
Murphy USA Inc.	1.93
Corcept Therapeutics Inc	1.93
Bank OZK	1.89
GATX Corporation	1.78
UMB Financial Corp	1.68
MP Materials Corp	1.61
Portland General Electric	1.60
Arrowhead Pharmaceuticals Inc	1.57
Meritage Homes Co.	1.55

- speculation are often followed by a renewed appreciation for quality and discipline.
- As the market cycle evolves and fundamentals reassert themselves, we believe our focus on high-quality businesses, strong balance sheets and long-term growth drivers will be rewarded. While the path may not be linear, we are steadfast in our conviction that patience, discipline and commitment to fundamental research will ultimately deliver value for our clients.

Average annual total returns and fund expenses (%) - as of September 30, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
			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	10.55	4.48	5.19	11.27	9.32	7.47	9.46	9.55	3.48	4.21	11.27	9.32	7.47	9.46	1.86	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	10.75	5.09	6.01	12.13	10.16	8.28	11.97	4.66	-0.70	0.19	10.03	8.86	7.64	11.57	1.10	1.07	5.50	—	2/3/2009
Benchmark	—	—	12.39	10.39	10.76	15.21	11.56	9.77	—	12.39	10.39	10.76	15.21	11.56	9.77	—	—	—	—	—	—

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.

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.