FRANKLIN TEMPLETON | ClearBridge

ClearBridge Small Cap Fund

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

Key Takeaways

- **Markets:** Small cap stocks declined in the third quarter and lagged large caps, as a July momentum unwind, the Fed's first rate increase since 2023 and rising Treasury yields weighed on smaller AI-related companies.
- **Contributors:** Holdings in International Seaways, Utz Brands, Zeta Global, Matador Resources and Signet Jewelers. Stock selection in consumer staples, energy and IT and an underweight to IT.
- **Detractors:** Holdings in TeraWulf, Solstice Advanced Materials, Allegro MicroSystems, Penguin Solutions and PROG Holdings. Stock selection in health care, financials and materials and an underweight to health care.
- **Outlook:** We expect earnings growth to decelerate from exceptional levels, and with dispersion within small cap sectors well above average, we believe bottom-up stock selection has room to work.

Performance Review

- Weak stock selection in health care and financials outweighed strong results from energy, consumer staples and select IT holdings. The Fund held up well in July's rotation toward value and quality but gave back that advantage in August and September.
- Health care was the largest detractor. Our underweight hurt as the sector held up far better than the overall benchmark, and stock selection added to the shortfall. Bicara Therapeutics, which is developing a treatment for head and neck cancer, declined amid an uneven backdrop for biotech stocks and its ongoing leadership transition. Physician enablement company Privia Health fell after announcing second-quarter results the market viewed as disappointing.
- Financials and materials also weighed on results. PROG Holdings, the parent of lease-to-own provider Progressive Leasing, declined as higher write-offs and lower leasing revenue pointed to continued financial strain on its customers. Solstice Advanced Materials fell sharply after agreeing in July to acquire Element Solutions in a cash-and-stock deal, and the shares remained well below their pre-announcement level even after the companies terminated the agreement in late August.
- Energy and consumer staples were among the strongest contributors. Tanker operator International Seaways reported record second-quarter earnings on higher spot rates and declared the largest quarterly dividend in its history, while Permian Basin producer Matador Resources delivered record oil production and raised its full-year production outlook as oil prices climbed. Snack maker Utz Brands rose after agreeing to be taken private at a substantial premium.
- IT also contributed overall, led by marketing technology company Zeta Global, which raised its full-year outlook on rising adoption of its AI agent, cross-selling and growing confidence in its Palantir partnership. However, several AI infrastructure holdings gave back gains. TeraWulf, which is converting former bitcoin mining sites into data center capacity for AI customers, fell alongside peers even after signing a large data center lease with Anthropic, while Allegro MicroSystems, a maker of magnetic sensors and power semiconductors, gave back much of an exceptional first-half run as the crowded semiconductor trade unwound in July.
- Biotechnology's weight in the benchmark rose meaningfully in the June Russell index rebalance, and several of our biotech positions had grown large. We trimmed Arrowhead Pharmaceuticals and Bicara Therapeutics and initiated positions in Protagonist Therapeutics, Rhythm Pharmaceuticals and TG Therapeutics, among others, which modestly increased our biotech exposure with greater diversification, though the Fund remains underweight the industry.
- In energy, we added wellhead equipment maker Cactus, funded in part by trims to International Seaways and Weatherford International, and in financials we initiated a position in FirstCash, the world's largest pawn store operator, where regulatory and zoning barriers limit new competition in a fragmented market the company continues to consolidate.
- We sold trucking company Landstar System and airline Allegiant Travel to shift our industrials exposure toward more growth and AI buildout names, and we trimmed Terex as the rebalance left the portfolio overweight the sector. We also exited Portland General Electric as risks mounted that regulators would reject its holding company request, which would strain the economics of its proposed PacifiCorp acquisition, and sold Utz after its take-private agreement.

Outlook

- Corporate earnings growth has been exceptionally strong this year and is broadening beyond AI and energy, including among small caps. We expect growth to decelerate as comparisons get harder as sharp rises in Treasury yields have historically weighed disproportionately on small cap earnings as these companies have more exposure to short-term funding. We see several paths from here: a continuation of current AI leadership, a migration of AI's economic value toward the companies that deploy it, or a slowdown in capital spending that could weigh on profits across the economy.
- The width of those outcomes argues for balance. We have increased exposure to growth and the AI buildout while keeping a value bias and sector weights close to the benchmark, with the main exceptions an underweight to health care and an overweight to materials. Dispersion within small cap sectors is well above average, which should give bottom-up stock selection room to work. We remain focused on owning businesses with improving fundamentals, capable management teams and attractive risk/reward.

Top Securities (% of Total)

Holding	Fund
Murphy USA Inc.	2.03
Matador Resources Co.	1.96
International Seaways Inc.	1.76
Zeta Global Holdings Corp	1.70
Wintrust Financial Corp	1.66
WSFS Financial	1.56
COLUMBIA BANKING SYSTEM INC	1.55
CommVault Systems, Inc.	1.53
Encore Capital Group Inc.	1.49
RADNET INC	1.47

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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	-9.30	5.71	6.50	9.12	2.37	6.49	9.38	-10.21	4.71	5.54	9.12	2.37	6.49	9.38	1.89	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	-9.12	6.32	7.34	9.98	3.16	7.29	11.71	-14.11	0.47	1.45	7.93	1.94	6.66	11.33	1.13	1.07	5.50	—	2/3/2009
Benchmark	—	—	-7.23	13.71	16.20	17.72	6.34	9.84	—	-7.23	13.71	16.20	17.72	6.34	9.84	—	—	—	—	—	—

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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