

ClearBridge Small Cap Fund

Class C: LMSX Class A: LMSAX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The fourth quarter capped a volatile and demanding year for small cap investors. The Russell 2000 Index returned 2.2% for the quarter and finished the year up 12.8%, trailing the Russell 1000 Index by approximately 450 basis points. A partial rotation away from the dominant AI trade supported value stocks over growth during the quarter, with the Russell 2000 Value Index returning 3.3% compared to a 1.2% gain for the growth index.
- **Contributors:** Holdings in Arrowhead Pharmaceuticals, Celcuity and Photonics. Stock selection in the financials and energy sectors and underweight to IT.
- **Detractors:** Holdings in Corcept Therapeutics, MP Materials and Penguin Solutions. Stock selection in the materials, IT and communication services.
- **Outlook:** Despite near-term headwinds, attractive relative valuations and early signs of earnings broadening point to a more constructive setup for patient investors.

Performance Review

- The Fund generated positive absolute performance but trailed its benchmark in the fourth quarter, as notable strength in financials and energy, along with contributions from select health care holdings, were offset by weakness in materials and consumer discretionary.
- Beneath the surface, market leadership remained uneven. The quarter began with a continuation of one of the most extreme low-quality rallies on record, as non-earners, low-return on equity companies and high-beta stocks dramatically outperformed, leaving active managers broadly behind. This dynamic briefly gave way to a more constructive environment, as leadership rotated toward value, quality and lower-beta stocks, allowing small caps and active strategies to outperform for a short period. That improvement ultimately proved fleeting, as momentum leadership reasserted itself into year-end, closing the quarter with narrow breadth and elevated speculative activity.
- Financials strength reflected strong stock selection within consumer finance and specialty credit. OneMain Holdings, a provider of personal loans and related financial services, benefited from resilient credit trends and improving visibility into earnings as macro conditions stabilized. Encore Capital, which focuses on debt recovery and receivables management, also contributed positively as investor sentiment improved toward companies with demonstrated cash flow generation and disciplined balance sheet management in a benign credit environment.
- Energy was another area of relative strength, driven by company-specific execution and favorable industry fundamentals. Weatherford International, an oilfield services provider and a new position, advanced as improved operational performance and sustained upstream activity supported earnings momentum. International Seaways, a global tanker operator, benefited from constructive tanker market conditions, including favorable freight rates and tighter vessel supply. Green Plains, a biofuels and agricultural processing company, contributed as margins improved and investor focus increased on the company's strategic repositioning and longer-term earnings potential.
- Health care delivered mixed results as a sector but accounted for a large collection of the Strategy's top individual contributors. Arrowhead Pharmaceuticals and Celcuity led performance on continued progress across their respective pipelines, while Axsome Therapeutics, Tarsus Pharmaceuticals and Avidity Biosciences added further positive contributions tied to clinical and regulatory developments.
- Health care gains were offset by weakness in Corcept Therapeutics and Acadia Healthcare. Corcept declined following the issuance of a Food and Drug Administration Complete Response Letter for its relacorilant program, which introduced uncertainty around the timing and commercial potential of a key pipeline asset. Acadia Healthcare, meanwhile, detracted after lowering its outlook to reflect higher anticipated costs and increased legal-related reserves, which pressured near-term earnings expectations.
- On the detractor side, materials weighed on relative results due to stock selection. MP Materials, a producer of rare earth materials, declined as sentiment toward certain commodity-exposed names softened following strong prior performance and shifting expectations around demand. Eagle Materials, a supplier of construction materials, also detracted amid increased sensitivity to cyclical construction trends and input cost dynamics.
- Consumer discretionary was another area of relative weakness. Stride, an education services provider, declined as concerns emerged around enrollment trends and near-term growth visibility, while Visteon, an automotive electronics supplier, detracted amid volatility tied to global auto production and demand expectations.
- We also adjusted our exposure to consumer sectors with the addition of staples company Interparfums and Signet Jewelers in discretionary. Interparfums develops and markets prestige fragrances under long-term licensing agreements with global fashion and luxury brands, and we believe the market is undervaluing the company's long-term growth potential as it broadens its portfolio across brands and fragrances. Meanwhile, Signet Jewelers, the largest specialty jewelry retailer in North America, has shown signs of stabilization following a multiyear post-COVID demand contraction. We see improving execution, strong cash generation and ongoing capital returns supporting the company's recovery as demand normalizes.
- We also exited Alexander & Baldwin, a Hawaii-focused real estate company, following the announcement of its agreement to be taken private, and Beta Bionics, a medical device company focused on automated insulin delivery systems, as the investment case became increasingly dependent on longer-dated outcomes, leading us to reallocate capital toward opportunities with clearer near-term visibility.

Outlook

- We remain realistic about the challenges facing active small cap investors in the near term. The market's preference for

Top Securities (% of Total)

Holding	Fund
Wintrust Financial Corp	2.24
Murphy USA Inc.	2.10
Arrowhead Pharmaceuticals Inc	1.82
GATX Corporation	1.81
Bank OZK	1.79
SCHOLAR ROCK HOLDING CORP	1.71
National Bank Holdings Corp	1.69
Matador Resources Co.	1.63
Portland General Electric	1.59
Weatherford International	1.49

speculative growth, leverage and momentum has persisted longer than historical precedent would suggest, and periods of narrow leadership can continue to test patience. In such environments, outcomes can be unforgiving, and dispersion can remain elevated.

- That said, starting conditions matter, and we believe the current setup is increasingly constructive. Small cap valuations remain compelling relative to large caps, earnings leadership has the potential to broaden, and early, albeit intermittent, rotations toward quality and value suggest the market may be becoming incrementally more responsive to fundamentals. While we do not attempt to time inflection points, history suggests that periods of extreme factor dominance are often followed by more balanced leadership.
- As enthusiasm for low-quality extremes fades and fundamentals reassert themselves, we believe disciplined, bottom-up portfolios focused on durable business models, strong balance sheets and long-term value creation are well-positioned to benefit. While the path forward may not be linear, we are confident that patience, selectivity and adherence to our investment discipline will be rewarded as market conditions normalize.

Average annual total returns and fund expenses (%) - as of December 31, 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	0.75	5.27	5.27	9.22	3.91	7.39	9.42	-0.16	4.32	4.32	9.22	3.91	7.39	9.42	1.86	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	0.96	6.09	6.09	10.06	4.71	8.20	11.85	-4.59	0.25	0.25	8.01	3.48	7.56	11.46	1.10	1.07	5.50	—	2/3/2009
Benchmark	—	—	2.19	12.81	12.81	13.73	6.09	9.62	—	2.19	12.81	12.81	13.73	6.09	9.62	—	—	—	—	—	—

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 12/31/2026 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 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. 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. Please read it carefully.