

ClearBridge Small Cap Growth Fund

Class A: SASMX Class I: SBPYX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** While our benchmark Russell 2000 Growth Index lagged the Russell 1000 Growth Index by roughly 555 basis points for the full year, it kept pace in the fourth quarter, returning 1.2% versus the Russell 1000 Growth Index's 1.1%. Importantly, the third quarter marked the first time in over a decade that small caps exceeded large caps in earnings growth, reinforcing our view that the earnings backdrop for the asset class is improving even if market prices have yet to fully reflect this shift. With small cap earnings growth forecasted to handily exceed large caps in 2026, and healthy capital markets from both an IPO and M&A perspective, we are constructive on the trajectory for small cap growth stocks.
- **Contributors:** Holdings in Penumbra, Insmad and Bloom Energy. Stock selection in industrials, consumer discretionary and energy.
- **Detractors:** Holdings in Wix.com, Varonis Systems and Trex. Stock selection in health care, information technology (IT) and consumer staples.
- **Outlook:** While we acknowledge that the past year represents one of the most challenging stretches for active management on record, history suggests that such periods of extreme factor dislocation and prolonged underperformance often set the stage for improved forward returns. With small cap earnings growth set to eclipse large cap peers, and relative valuations still at attractive levels, we believe the asset class is poised for stronger performance.

Top Securities (% of Total)

Holding	Fund
RBC Bearings Incorporated	2.91
Bloom Energy Corp	2.80
Lattice Semiconductor Corp.	2.73
Penumbra Inc.	2.59
Fabrinet	2.34
BWX Technologies Inc	2.25
XPO Logistics Inc.	2.17
Casey's General Stores, Inc.	2.16
MIRUM PHARMACEUTICALS INC	2.14
PJT Partners Inc.	2.10

Performance Review

- After a strong first three quarters of 2025, the ClearBridge Small Cap Growth Strategy lagged the Russell 2000 Growth Index in the fourth quarter. This was largely attributed to a small cohort of difficult earnings results among our information technology (IT) holdings and a torrid rally in biotechnology stocks, with the Russell 2000 Growth Biotech Index returning 28.1% versus the Russell 2000 Growth Index's 1.2%.
- The biotechnology sector has rebounded strongly behind a variety of positive clinical and commercial outcomes, healthy M&A activity, some performance mean reversion and lower interest rates. Just over half of our relative underperformance in the fourth quarter can be attributed to the biotech and pharmaceutical subsectors, underscoring how difficult it was to keep pace. While health care represented our weakest sector in the quarter, it also produced two of our top individual performers – medical device maker Penumbra and biotech Insmad, both of which continue to see strong commercial execution and growth.
- Beyond biotech, we experienced a challenging earnings season with the market continuing its trend of disproportionately punishing disappointments in small cap earnings – further exacerbated by trends in passive and retail investing. We saw this in several of our software investments, particularly security software company Varonis and Wix.com, a website and application creation platform, both of which had minor disappointments that led to material stock price overreactions. We continue to have conviction in the idiosyncratic growth opportunities at each of these profitable and attractively valued businesses, both of which can benefit from the proliferation of AI adoption.
- We benefited from stronger performance across investments in the industrials sector. RBC Bearings and FTAI Aviation were contributors to performance as the aerospace sector continues to see strong growth and profitability trends. Additionally, longstanding holding Bloom Energy continued to be one of our top performers, as the company's alternative power solutions are increasingly being called upon to assist electricity-starved data centers.
- During the fourth quarter we initiated four new common stock investments: Protagonist Therapeutics, Simpson Manufacturing Company, BETA Technologies, and Dyne Therapeutics.
- We also exited six positions: Avidity Biosciences (which was acquired by Novartis), Installed Building Products, Glaukos, Biohaven, Qualys and Duolingo.

Outlook

- Looking ahead to 2026, we are optimistic about the backdrop for the small cap growth stocks after several years defined by very narrow leadership and extreme performance dispersion between the "haves" and the "have nots". Outside of businesses tied to the AI infrastructure buildout and a few other early-stage growth markets (defense tech, space, bitcoin, quantum computing, etc.), many traditional industrial, software, consumer and health care end markets have seen false starts in returning to sustained growth. A broadening of growth leadership — particularly across the previously mentioned industries — would likely benefit diversified, quality-focused portfolios like ours.
- While we do not anticipate any material diminution in the investments in the AI infrastructure buildout in the near term, we are increasingly optimistic that 2026 could mark a period where the productivity and monetization benefits of AI become more visible across a wider set of industries. Several of our holdings are actively leveraging AI to improve efficiency, offer new products or offer solutions to secure and manage the critical data that AI will be utilizing. As proof points emerge, the beneficiaries of AI adoption could see share price tailwinds.
- Capital markets appear to be accelerating, with IPO activity improving after a multiyear lull and M&A volumes rebounding—an environment historically favorable to our Strategy. Recent M&A transactions, including the proposed take-private of Clearwater Analytics, highlight that sophisticated buyers (in this case the former PE owners) are opportunistically deploying capital at what they view as depressed valuations, reinforcing our confidence in the underlying value of many small cap businesses.

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 A	52470H815	SASMX	-2.55	9.26	9.26	7.30	-0.32	9.30	9.72	-7.91	3.24	3.24	5.30	-1.50	8.65	9.48	1.19	1.19	5.50	—	7/1/1998
Class I	52470H765	SBPYX	-2.48	9.58	9.58	7.61	-0.05	9.61	9.43	-2.48	9.58	9.58	7.61	-0.05	9.61	9.43	0.91	0.91	—	—	11/1/2004
Benchmark	—	—	1.22	13.01	13.01	15.59	3.18	9.57	—	1.22	13.01	13.01	15.59	3.18	9.57	—	—	—	—	—	—

Benchmark(s)

Benchmark =Russell 2000 Growth 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. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 12/31/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns. 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**. **Short selling** is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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 Growth Index** measures the performance of the large-cap growth 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 Growth Index** measures the performance of the small-cap growth 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.
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