

ClearBridge Small Cap Growth Fund

Class A: SASMX Class I: SBPYX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** Last year's pattern of large caps outperforming small caps has continued, although growth leadership has given way to value amid the preference for defense. Interestingly, the benchmark Russell 2000 Growth Index (-11.12%) and the Russell 1000 Growth Index (-9.97%) performed similarly. Meanwhile, the Russell 2000 Value Index was down just -7.74%, while the Russell 1000 Value Index was up a modest +2.14%. The Russell 2000 Growth Index has declined roughly 18% from its post-election highs last year and ended the quarter down over 15% from its year-to-date high watermark in late January.
- **Contributors:** Holdings in H&E Equipment Services, Intra-Cellular Therapies and BJ's Wholesale Club. Stock selection in the information technology (IT), industrials and health care sectors.
- **Detractors:** Holdings in Vaxcyte, Wix.com, Global-E Online. Stock selection in the consumer discretionary and financials sectors and lack of exposure to the real estate sector.
- **Outlook:** We anticipate softer near-term results across most every major sectors until macroeconomic and governmental drivers solidify (in either direction), which can allow companies and investors to reposition as necessary. However, the speed and magnitude of the recent momentum reversal in various corners of the stock market have likely created attractive long-term opportunities. With the rolling underperformance and valuation gaps between small caps and large caps persisting, coupled with some comforting dynamics (healthy balance sheets, functioning capital markets, still-healthy innovation, low unemployment), we continue to believe that the asset class is poised for better performance.

Performance Review

- Amid this challenging backdrop, the Fund posted strong relative performance, handily outperforming its benchmark on a net of fee basis in the first quarter.
- Overall stock selection benefited relative performance, particularly in sectors like IT and industrials, which were buoyed by some of our higher-quality compounders and idiosyncratic growth stories including longstanding holding RBC Bearings in the industrials sector. Within IT, exposure to mission critical software company Clearwater Analytics, Intapp and Varonis in security software contributed to relative outperformance.
- The consumer discretionary sector was one area of general weakness, as a combination of high expectations, difficult comparisons and concerns around consumer spending weighed on names like beauty company e.l.f. Beauty and cross-border commerce enabler Global-e Online. Several other companies were caught up in this area of concern despite fairly strong results and outlooks, including IT holdings Klaviyo and Wix.com and financials holding Shift4 Payments.
- Early in the first quarter, several portfolio holdings announced acquisitions at healthy premiums to strategic buyers: Paycor in the industrials sector (acquired by Paychex), Intra-Cellular Therapies in the health care sector (acquired by Johnson & Johnson) and H&E Equipment Services in the industrial sector (acquired by Herc Holdings).
- We are gratified to see that the work undertaken in 2024 to improve our relative underweight to biotech has been a positive contributor to relative performance. The Fund overcame the headwind from a still-sizeable relative underweight in biotech, outperforming the benchmark and with strong idiosyncratic stock performance — six out of our 10 holdings in the industry were relative outperformers.

Outlook

- We were encouraged by contributions both from new names added in 2024, the acquisition of multiple portfolio holdings by strategic buyers and balanced tailwinds to performance from longtime holdings across steady compounders, middle growers and hyper-growth companies. While we saw a small handful of companies that had cyclical headwinds in 2024 rebound to start 2025, we similarly saw some of our stronger performers from last year give back gains, in some cases despite unchanged or continued strong fundamental results.
- With this many crosscurrents, it is unsurprising to see volatile market performance. While our touchpoints with public and private management teams underscore that it is too early to determine the near-term path for many sectors of the economy, there remains potential for some of the proposed changes to serve as long-term economic tailwinds (i.e., deregulation, reshoring). We remain focused on identifying idiosyncratic investment opportunities with multiple ways to win and secular drivers to allow for compounding of strong returns over time.
- With ever-changing policy priorities out of the new leadership in Washington, D.C., particularly around tariffs, taxes, funding priorities and geopolitical conflicts, we have endeavored to have frequent touchpoints with the management teams of our investments. It is premature to declare definitive winners and losers or to precisely quantify impacts given the fluidity of the potential outcomes and many remaining related, but unknown, variables. What is clear, however, is that the pace of proposed change and lack of clarity around the duration of proposals (particularly tariffs/reciprocal tariffs) has had a chilling impact on general investment and consumer activity.

Top Equity Issuers (% of Total)

Holding	Fund
BJ's Wholesale Club Holdings Inc	3.08
Casey's General Stores Inc	2.91
Penumbra Inc	2.85
RBC Bearings Inc	2.82
Hamilton Lane Inc	2.64
Wix.com Ltd	2.62
XPO Inc	2.45
HealthEquity Inc	2.40
Insmed Inc	2.37
Varonis Systems Inc	2.34

Sector Allocation (Equity as a % of Total)

Sector	Fund
Health Care	21.39
Information Technology	21.30
Industrials	18.74
Financials	9.61
Consumer Staples	9.30
Consumer Discretionary	8.45
Energy	3.82
Materials	3.00
Communication Services	0.63
Other	2.60

Average annual total returns and fund expenses (%)

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	SASM	-7.99	-7.99	-6.72	-4.70	9.31	6.78	9.30	-13.05	-13.05	-11.85	-6.56	8.02	6.15	9.06	1.19	1.19	5.50	—	7/1/1998
Class I	52470H765	SBPY	-7.92	-7.92	-6.47	-4.44	9.60	7.09	8.87	-7.92	-7.92	-6.47	-4.44	9.60	7.09	8.87	0.91	0.91	—	—	11/1/2004
Benchmark	—	—	-11.12	-11.12	-4.86	0.78	10.78	6.14	—	-11.12	-11.12	-4.86	0.78	10.78	6.14	—	—	—	—	—	—

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

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. Source: FTSE.

The **Russell 1000 Value Index** measures the performance of the large-cap value 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 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE.

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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.