FRANKLIN TEMPLETON | ClearBridge

ClearBridge Small Cap Growth Fund

Class A: SASMX Class I: SBPYX **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** The Russell 2000 Growth Index rose 25.6% in the second quarter, its third-best quarterly gain in 20 years and only the fourth quarter over that span with a return above 20%. Unlike the prior instances, which followed severe market declines including the rebounds from the Global Financial Crisis in 2009 and the COVID recovery cycles in 2020, this quarter's performance followed a very modest first-quarter decline. Its speed and magnitude likely reflects the evolving market structure dynamics, including elevated retail volumes (2x the 2024 averages in May and June), benchmark concentration and narrow thematic leadership.
- **Contributors:** Holdings in Allegro MicroSystems, Bloom Energy and Lattice Semiconductor . Stock selection in materials, energy and industrials.
- **Detractors:** Holdings in Wix.com, Insmed and Matador Resources. Stock selection in health care, financials and IT.
- **Outlook:** Given investor appetite for undiscovered growth stories, innovation, an AI investment cycle with related opportunities and risks and a possible cyclical recovery, we see potential for continued small cap outperformance.

Top Securities (% of Total)

Holding	Fund
Allegro MicroSystems Inc	3.47
Lattice Semiconductor Corp.	3.14
RBC Bearings Incorporated	2.81
Element Solutions	2.49
XOMETRY INC	2.28
STATE STREET SPDR S&P BIOTECH	2.12
Construction Partners Cl. A	2.00
DUTCH BROS INC	1.99
MOOG INC-CLASS A	1.96
Varonis Systems Inc.	1.91

Performance Review

- The ClearBridge Small Cap Growth Fund generated strong absolute returns but underperformed the Russell 2000 Growth benchmark, which gained nearly 26% for the quarter. Idiosyncratic weakness in select health care and financials holdings, software pressure and under-exposure to high-beta and high-momentum AI-exposed stocks overcame the Fund's winners across AI-exposed businesses and several strong company-specific execution stories.
- In health care, weakness was concentrated in a few idiosyncratic holdings, despite a strong quarter for biotech. Long-standing biotech holding Insmed gave up some of the prior year's strength driven by concerns around the pace of key drug Brinsupri's launch. We remain confident in the meaningful long-term peak sales potential and believe recent weakness has been overly punitive. Insulet, the maker of insulin patch pumps, also detracted amid broad medtech weakness, minor product quality issues and rising concerns around potential future competition. Conversely, TG Therapeutics, a commercial-stage biopharmaceutical company producing a multiple sclerosis treatment, posted strong gains following better sales for its key product alongside positive clinical data for a subcutaneous version that could expand its addressable market.
- Information technology (IT) was another area of relative weakness despite exceptionally strong performance from several holdings across semiconductors and security software. We saw material gains in semiconductor holdings such as Allegro MicroSystems and Lattice Semiconductors, both of which benefited from recovery in previously depressed industrial and automotive end markets alongside increasing content gains in newer AI server architectures. Within security software, data governance software provider Varonis Systems was buoyed by potential demand tailwinds tied to increasing AI utilization, as well as rumors of potential takeover interest. However, these gains could not fully keep pace with benchmark strength (+47% for IT with semiconductors +98%) as over one-quarter of the 41 benchmark semiconductor holdings doubled and nearly half were up by over 50%.
- AI disruption concerns continued to weigh on several software holdings including Wix.com, a website creation, commerce and business management software platform, amid fears of AI-native competition and the investment required to develop its own AI capabilities. Similar disintermediation concerns affected alternative asset managers that have funded software go-private transactions, including Hamilton Lane.
- Industrials and materials positively contributed, though results were mixed by subsectors. The Strategy saw strength in AI infrastructure enablers such as Bloom Energy, whose alternative fuel cells are increasingly used to help data centers address constraints in grid access. Specialty chemicals and materials provider Element Solutions also rose, supported by cyclically recovering end markets and increasing semiconductor demand. Beyond AI tailwinds, Xometry, an online marketplace for on-demand manufactured parts, gained on continued acceleration in growth and profitability, as well as a new partnership with Siemens which should provide an incremental growth channel.

Outlook

- We are encouraged that small cap securities have continued to recover from one of their longest losing streaks on record, with the Russell 2000 Growth Index up over 77% from the Liberation Day lows versus 56% for the Russell 1000 Growth Index. According to Jefferies Equity Research, relative valuation versus large caps still sits in the 21st percentile, suggesting there could be further runway to reverse the multi-year small cap underperformance. Elevated retail and quantitative fund participation in such an indiscriminate risk-on environment has challenged active managers, although such pressure is common in reversal periods. Given investor appetite for undiscovered growth stories, innovation, an AI investment cycle with related opportunities and risks and a possible cyclical recovery, we see potential for continued small cap outperformance.
- At the same time, the market is contending with rapid disruption, geopolitical headlines and reversals that complicate consumer and business investment cycles, as well as a reassessment of perceived winners and losers. Debates around AI capital spending and which elements of the supply chain capture the most economic return will persist, and this technological arms race appears likely to dominate the market's attention. Importantly, the next phase of opportunity may extend beyond the companies building AI infrastructure to the companies using AI effectively. Businesses in transportation, biotechnology, financial services and other industries may be able to unlock cost savings, productivity gains or new revenue opportunities that are not yet fully reflected in stock prices. In a market where leadership can change quickly and narratives often move faster than fundamentals, our bottom-up discipline is designed to separate durable growth from temporary momentum.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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 A	52470H815	SASMX	21.62	19.98	27.90	11.21	0.97	11.88	10.25	14.94	13.37	20.86	9.13	-0.22	11.22	10.02	1.20	1.20	5.50	—	7/1/1998
Class I	52470H765	SBPYX	21.69	20.14	28.27	11.52	1.25	12.19	10.14	21.69	20.14	28.27	11.52	1.25	12.19	10.14	0.91	0.91	—	—	11/1/2004
Benchmark	—	—	25.71	22.18	38.74	18.44	5.57	11.97	—	25.71	22.18	38.74	18.44	5.57	11.97	—	—	—	—	—	—

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 12/31/2027 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 **global financial crisis (GFC)** refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009.

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.

Source: FTSE.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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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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