FRANKLIN TEMPLETON | ClearBridge

ClearBridge Appreciation ESG Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** Following the second quarter's historic run, the S&P 500 Index ground higher again in the third quarter, returning 2.3%; the index is up 12.7% year to date. September marked the 14th consecutive month in which the S&P 500's trailing three-year annualized total return exceeded 18% — the fifth-longest such streak of the past century, exceeded only by the late-1990s melt-up and three post-war episodes. An extraordinary run by any measure.
- **Contributors:** On an individual stock basis, the largest contributors to relative returns were Thermo Fisher Scientific and not owning Applied Materials, KLA, Lam Research and Micron Technology. On a relative basis, stock selection in industrials, IT and financials contributed to performance.
- **Detractors:** The largest detractors were ASML, WEC Energy, Alphabet, Linde and an underweight to Microsoft. Stock selection in communication services, energy and materials detracted from performance.
- **Outlook:** As through-the-cycle investors with an emphasis on downside protection, we believe current conditions argue for a more cautious stance. Although absolute levels are still relatively benign, financial conditions have begun to tighten, underlying momentum is waning and investor leverage to equities remains elevated.

Performance Review

- Stock selection in industrials, financials, information technology and consumer discretionary contributed most at the sector level. Stock selection in energy, materials and communication services detracted, while an underweight to information technology also weighed on relative results.
- Thermo Fisher Scientific and the absence of Applied Materials, KLA, Lam Research and Micron Technology were the five largest relative contributors. Thermo Fisher advanced after better-than-expected results, improving demand in life-sciences tools and bioprocessing and an increase in full-year guidance. Avoiding Applied Materials, KLA and Lam Research helped as semiconductor equipment shares retreated after their strong second-quarter rally amid elevated valuations, questions about AI capital-spending returns and China-related risks.
- Microsoft advanced following strong quarterly results, faster Azure growth and greater Microsoft 365 Copilot adoption. Our underweight was a relative drag.
- ASML declined with the broader semiconductor-equipment group amid elevated expectations, uncertainty about returns on AI capital spending and China-related risks. Higher bond yields pressured WEC Energy and other rate-sensitive, dividend-paying utilities.
- We increased energy exposure by adding to Diamondback Energy and initiating Cheniere Energy, viewing domestic oil and LNG production as increasingly valuable as governments prioritize security of supply. We also initiated Colgate-Palmolive, ServiceNow, XPO, Fastenal, Howmet Aerospace, Novartis, CVS Health and Sunbelt Rentals across several sectors. The purchases were funded through exits of Ferguson, Cisco Systems, Stryker, SpaceX, Walt Disney, T-Mobile, Honeywell International, Honeywell Aerospace and International Paper.

Outlook

- As through-the-cycle investors with an emphasis on downside protection, we believe current conditions argue for a more cautious stance. Although absolute levels are still relatively benign, financial conditions have begun to tighten, underlying momentum is waning and investor leverage to equities remains elevated.
- As in the second quarter, the argument for continued robust benchmark returns remains nuanced given ongoing economic momentum and sustained technology-related capital expenditure against the risk factors discussed above. We do not see meaningful recession risk. Rather, we read the second quarter's herd mentality and the third quarter's breadth decay as evidence of a market vulnerable to a speculative washout — a correction that would force investors to retrench around their highest-conviction, long-term ideas rather than continue to chase momentum.
- We would view such a correction, even a reasonably sharp one, as healthy for the long-term durability of the bull market.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corp	9.49
Apple Inc	8.18
Alphabet Inc	7.26
Amazon.com Inc	4.71
Microsoft Corp	4.50
ASML Holding NV	3.21
Eli Lilly & Co	2.80
JPMorgan Chase & Co	2.72
Thermo Fisher Scientific Inc	2.34
Linde PLC	2.33

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	1.80	10.18	4.74	4.87	14.29	6.63	8.80	9.78	6.79	—	7.54	9/30/2002
Pure Gross of Fees	2.55	11.79	7.08	8.01	17.68	9.81	12.04	13.05	9.98	—	10.75	9/30/2002
Benchmark	2.30	17.85	12.75	15.74	22.89	13.79	15.33	15.68	11.21	—	11.87	—

*Cumulative total returns

Benchmark(s)

Benchmark =S&P 500 Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
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What are the Risks?

All investments involve risks, including possible loss of principal. Small- and mid- cap stocks involve greater risks and volatility than large-cap stocks. The managers' **environmental, social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance.

Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization.

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