FRANKLIN TEMPLETON | ClearBridge

ClearBridge Appreciation ESG Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Most major equity indexes declined in the first quarter as concerns over rising AI capex at hyperscalers, inklings of AI disruption in software, stress in private credit and a shock to energy prices from the war in the Middle East outweighed a nascent rally for cyclical stocks. The S&P 500 Index returned -4.3%.
- **Contributors:** Stock selection in financials and consumer discretionary proved beneficial; overweights to materials and consumer staples and underweights to IT and consumer discretionary also helped.
- **Detractors:** Stock selection in the consumer staples, materials, IT and energy sectors and an energy underweight detracted from relative results.
- **Outlook:** Current conditions argue for a more cautious stance. The continued strength in high-beta AI and quantum computer stocks during the March market decline indicates that animal spirits remain high. In our view, the "buy the dip" mindset that was so successful over the past decade looks less reliable in an environment where inflation risk, policy uncertainty and labor market softening are all rising simultaneously.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corp	8.02
Alphabet Inc	6.89
Microsoft Corp	6.17
Apple Inc	4.84
Netflix Inc	3.12
Meta Platforms Inc	2.99
Amazon.com Inc	2.93
Broadcom Inc	2.87
JPMorgan Chase & Co	2.70
ASML Holding NV	2.62

Performance Review

- The ClearBridge Appreciation ESG Portfolios performed in line with the benchmark S&P 500 Index in the first quarter of 2026. On an absolute basis, the Portfolios had positive contributions from five of 11 sectors. The energy sector was the main positive contributor, while IT and communication services were the main detractors.
- On an individual stock basis, the biggest relative contributors during the quarter were ASML, Kinder Morgan, Linde, Eaton and Johnson & Johnson. The biggest detractors were Microsoft, McCormick, Bank of America and not owning ExxonMobil and Chevron.
- ASML (ASML), in the IT sector, is a leading maker of extreme ultraviolet lithography equipment critical for the production of advanced semiconductors. Share performance was primarily fueled by record-breaking orders for AI infrastructure and a significantly raised revenue outlook for 2026.
- Linde (LIN), in the materials sector, is an industrial gasses provider. Linde benefited from damage to natural gas infrastructure in the Middle East that created a supply shortage of helium, of which Linde is one of the largest distributors globally.
- Microsoft (MSFT) was down amid negative sentiment for software; shares also traded down on worries over higher than expected AI capex and delays in monetizing its AI backlog.
- McCormick (MKC) was lower as expectations grew that it would move to acquire Unilever's foods business, a transaction viewed as large, complex and occurring at an inopportune time for McCormick's struggling core business. The acquisition of Unilever's food unit is thesis-changing and an enormous undertaking for a company that is having a hard time executing against its core business strategy (it is buying Unilever's food business for $44 billion, while the standalone McCormick is a $13 billion market cap). Given the stock was trading at an all-time low multiple ahead of the deal announcement, we strongly believe the best ROI of excess capital would be to invest in the core strategy and buy back shares and return value to shareholders. Given the thesis shift and execution risk, we decided to walk away from the position.

Outlook

- Current conditions argue for a more cautious stance. The continued strength in high-beta AI and quantum computer stocks during the March market decline indicates that animal spirits remain high. In our view, the "buy the dip" mindset that was so successful over the past decade looks less reliable in an environment where inflation risk, policy uncertainty and labor market softening are all rising simultaneously.
- The combination of a softer consumer backdrop and renewed cost pressure meeting a long period of uninterrupted credit expansion (with significant expansion in the unregulated corner of private credit) suggests that the early stages of a credit cycle may be forming. If that proves correct, investors may need to revisit playbooks that have not been relevant in over a decade. Future market corrections, in that scenario, may carry greater risk and last longer than many have come to expect.
- As always, we remain focused on through-the-cycle outperformance with an emphasis on downside risk management. We are closely evaluating balance sheet strength and cash flow durability across our AI-exposed holdings to ensure our exposure remains concentrated in companies with the financial resilience to withstand a cooling in today's exceptionally strong environment.

Average annual total returns (%) - as of March 31, 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	-4.93	-4.82	-4.93	10.00	10.94	5.84	8.00	8.12	6.46	—	7.26	9/30/2002
Pure Gross of Fees	-4.22	-3.39	-4.22	13.27	14.24	9.01	11.23	11.35	9.64	—	10.46	9/30/2002
Benchmark	-4.33	-1.79	-4.33	17.80	18.32	12.06	14.16	13.29	10.53	—	11.35	—

*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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