FRANKLIN TEMPLETON

ClearBridge

ClearBridge Appreciation Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The S&P 500 Index extended its advance in the fourth quarter, rising 2.7% and finishing the year up 17.9%. Following the "Liberation Day" selloff, the index posted gains in each subsequent month (eight consecutive monthly advances), climbing 37% from the April 8 market low. While market participation broadened in the fourth quarter, 2025 was again dominated by mega cap technology and the AI ecosystem.
- **Contributors:** Stock selection in health care, consumer staples and consumer discretionary proved beneficial.
- **Detractors:** Stock selection in the IT, communication services, industrials and materials sectors detracted from relative results.
- **Outlook:** We remain focused on through-the-cycle outperformance via downside protection, and we increasingly believe risks may be starting to outweigh the prospective rewards.

Top Equity Issuers (% of Total)

Holding	Portfolio
Microsoft Corp	8.35
NVIDIA Corp	7.27
Alphabet Inc	6.48
Apple Inc	4.97
Broadcom Inc	3.47
Meta Platforms Inc	3.44
Amazon.com Inc	3.10
JPMorgan Chase & Co	2.83
Eli Lilly & Co	2.74
Bank of America Corp	2.51

Performance Review

- The ClearBridge Appreciation Portfolios underperformed the benchmark S&P 500 Index in the fourth quarter. On an absolute basis, the Portfolios had positive contributions from six of 11 sectors. The health care and communication services sectors were the main positive contributors, while industrials, materials and IT were the main detractors.
- On an individual stock basis, the biggest relative contributors during the quarter were Eli Lilly, Alphabet, Thermo Fisher Scientific, ASML and an underweight to Oracle. The biggest detractors were Netflix, Eaton, Micron Technology (not owned), Microsoft and Automatic Data Processing.
- Eli Lilly shares were up as the U.S. government struck a deal with Lilly to offer GLP-1s to Medicare and Medicaid patients, opening up millions of additional prescriptions, while readouts on the company's oral GLP-1 treatment indicated a broader market than we had expected.
- Alphabet's success with its Google Gemini chatbot and TPU chips for AI workloads boosted its shares more than 60% for 2025; in addition, the DOJ antitrust case concluded with less onerous penalties than feared, helping sentiment.
- Netflix (NFLX) fell as it became involved in the highly publicized bidding process to acquire Warner Bros. Discovery. We see merits to the deal for Netflix to buy WBD's streaming and studio assets at the currently agreed price, but investors are concerned that a bidding war might ensue should Paramount Skydance further raise its competing offer. If Netflix's current offer prevails, we view the deal as a net positive — while there is some execution risk, we see better revenue and cost synergies than the stock move is implying.
- Eaton, a manufacturer of electrical components critical to the operation of data centers, has supply constraints that limit its ability to vastly exceed its targeted growth rate and that may also limit its ability to garner price increases.

Outlook

- Like in the past year, policy today remains supportive of near-term growth, and capital markets conditions suggest risk assets — such as stocks — may continue to perform. But for the first time in the post-COVID period, we see pockets of weakness that could result in a more challenging economic backdrop.
- Given signs that markets may be entering a more speculative phase, we believe the probability of a correction (a peak-to-trough decline of >10%) has risen, and the possibility a selloff could prove more prolonged than in recent years makes the "buy the dip" mentality more precarious. In our view, capital markets will determine whether equities can sustain their advance. If investors continue to reward AI-related capex with higher share prices the cycle can persist. However, if markets tire of new multiyear infrastructure commitments or funding AI firms at ever richer valuations, there is little valuation support to fall back on. With half of consumers already showing signs of strain, we view any correction as posing more risk than any time in recent memory.
- We remain focused on through-the-cycle outperformance via downside protection, and we increasingly believe risks may be starting to outweigh the prospective rewards. Accordingly, we're keeping a close eye on balance sheet and cash flow durability across our AI-exposed holdings to ensure our exposure is concentrated in companies with the financial wherewithal to weather a potential cooling in today's white-hot environment.

Average annual total returns (%) - as of December 31, 2025-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	0.40	5.74	12.24	12.24	14.06	8.55	8.88	9.00	7.31	—	7.75	2/28/2003
Pure Gross of Fees	1.14	7.30	15.58	15.58	17.45	11.78	12.13	12.24	10.51	—	10.97	2/28/2003
Benchmark	2.66	11.00	17.88	17.88	23.01	14.42	14.82	14.06	11.00	—	11.73	—

*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).
Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures.
Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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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All investments involve risks, including 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**.

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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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