FRANKLIN TEMPLETON | ClearBridge

ClearBridge Appreciation 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%, 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. Stock selection in IT, financials, industrials and consumer discretionary and an overweight to energy contributed to performance.
- **Detractors:** The largest detractors were ASML, Alphabet and TJX, an underweight to Microsoft and not owning Palantir Technologies. Stock selection in communication services, energy and materials and an underweight to IT weighed on results.
- **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

- The portfolio outperformed the S&P 500 Index during the third quarter. Stock selection contributed overall, led by IT, financials, industrials and consumer discretionary, while sector allocation detracted modestly despite a positive energy overweight.
- Thermo Fisher Scientific advanced following better-than-expected results, resilient demand for biopharma consumables and pharmaceutical development services and guidance supporting an acceleration into 2027.
- Avoiding Applied Materials, KLA and Lam Research also proved beneficial as semiconductor equipment stocks retreated from their exceptionally strong second-quarter rally amid elevated valuations, questions about returns on AI capital spending and China-related risks.
- ASML was caught in the semiconductor-equipment reversal despite robust operating results, as elevated expectations, export-control uncertainty and growing Chinese competition weighed on the shares.
- TJX declined despite better-than-expected earnings as investors focused on softer performance at Marmaxx and a more cautious second-half margin outlook.
- An underweight to Microsoft detracted as Azure growth and Copilot adoption strengthened confidence in its AI monetization prospects, while not owning Palantir Technologies hurt as strong growth and higher full-year revenue guidance propelled its shares.
- During the third quarter, we increased our exposure to energy, adding to Diamondback Energy and initiating Cheniere Energy. We believe domestic oil and LNG production grows more valuable as infrastructure is increasingly weaponized and governments prioritize security of supply. We view this exposure as ballast for downside capture that preserves our ability to invest selectively in pro-growth, AI-levered opportunities if a market selloff creates them.

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	9.52
Apple Inc	8.18
Alphabet Inc	7.26
Amazon.com Inc	4.72
Microsoft Corp	4.49
ASML Holding NV	3.10
Eli Lilly & Co	2.75
JPMorgan Chase & Co	2.71
Thermo Fisher Scientific Inc	2.34
Johnson & Johnson	2.31

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	1.87	9.70	4.91	5.33	14.63	7.46	8.76	10.02	7.16	—	7.72	2/28/2003
Pure Gross of Fees	2.62	11.31	7.25	8.47	18.03	10.66	12.00	13.30	10.36	—	10.93	2/28/2003
Benchmark	2.30	17.85	12.75	15.74	22.89	13.79	15.33	15.68	11.21	—	11.90	—

*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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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.
For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

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. **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**.

Glossary

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

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. 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 portfolio's selection process. Holdings are subject to change.

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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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