

ClearBridge Value Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** U.S. equities finished a strong 2025 with more subdued gains in fourth quarter, with the S&P 500 Index rising 2.7% from October through December to end the year up 17.9%. Information technology (IT) stocks led the benchmark 1000 Value Index in the fourth quarter, followed closely by communication services and health care, which saw positive performance thanks to lower policy uncertainty, improved earnings, attractive valuations and a pickup in M&A (mergers and acquisitions) activity. Despite a 25-basis-point cut in the federal funds rate in December, elevated long-term yields weighed on two sectors: real estate and utilities—the latter also suffering as the artificial intelligence (AI) trade pulled back.
- **Contributors:** Holdings in Micron Technology, Freeport-McMoRan and OneMain. Stock selection in materials, IT and an overweight to health care.
- **Detractors:** Holdings in Corcept Therapeutics, Fiserv and Charter Communications. Stock selection in the health care, financials and communication services sector and an underweight to the IT sector.
- **Outlook:** With value spreads near historic extremes and AI adoption poised to broaden economic benefits, we see an attractive probability gap that creates meaningful upside potential for valuation-driven investors.

Performance Review

- The Portfolios mildly underperformed their benchmark in a quarter that broadly favored value over growth, as declines in health care overcame strength from technology and materials stocks.
- Stock selection in the health care sector was the greatest detractor from relative returns in the fourth quarter, largely owing to the decline in drug developer Corcept Therapeutics, whose stock fell following the release of a FDA Response Letter for its relacorilant program, citing the need for additional evidence to support approval. With the prospect of the company having to lean more heavily on its legacy products, which are under pressure from greater generic competition, we elected to exit the position.
- Our top performer was Micron Technology, which continued to extend its strong 2025 performance following attractive earnings results and upbeat guidance due to accelerating AI-driven demand, tightening memory supply and improving pricing dynamics across DRAM and high-bandwidth memory markets. Performance was also bolstered by copper miner Freeport McMoRan, whose shares advanced alongside the commodity price on improving global growth expectations, a weaker U.S. dollar and continued optimism around long-term demand tied to electrification and energy transition trends.
- Newmont (NEM), in the materials sector, engages in the production and exploration of gold properties, as well as the exploration for copper, silver, zinc, lead, and other metals. The company's share price moved higher alongside gold prices during the quarter. Additionally, we believe that the market is beginning to recognize discount in the company's share price given the current price of gold and attractive free cash flow generation.
- Fiserv (FI), in the information technology sector, provides payment and financial services technology. The company's stock declined after reporting disappointing third quarter results, missing earnings expectations, cutting full-year guidance and announcing a leadership shake-up, which raised investor concerns about growth and execution.
- Charter Communications (CHTR), in the communication services sector, operates as a broadband connectivity and cable operator company serving residential and commercial customers. The company's stock declined after reporting weak third quarter results with subscriber losses, missing earnings expectations and announcing workforce reductions, which heightened investor concerns about growth and rising costs.
- In the fourth quarter, we made several changes within our financials holdings. For example, we swapped our exposure within regional banks by replacing M&T Bank with Fifth Third Bancorp. We believe that Fifth Third is poised to accelerate its growth by combining its best-in-class digital strengths with recently acquired Comerica's middle-market franchise in fast-growing, attractive regions in the Southeast, Texas and California, ultimately upgrading our overall return profile.

Outlook

- At a broad level we underestimated the resilience of the market and the economy to the year's two big volatility events: the reveal of Chinese AI model DeepSeek and President Trump's Liberation Day. Both caused volatility to spike and relative performance pain despite ultimately proving incredibly short lived. The commonality in both is that we underestimated the structural resilience of the U.S. economy and the operating leverage that continues to support best-in-the-world free cash flow (FCF) margins for U.S. companies.
- On a broad level, the market continues to price value stocks relative to growth at a level that implies value has little chance of leading. Despite a couple of good years, value spreads have remained trapped at the cheapest 10% of their history. We think the catalyst for value's escape will, ironically, come from AI adoption. 2026 will be the year that AI has to justify the immense and accelerating capital investment. To do this, it will need to be diffused more broadly across the economy, driving material productivity gains and higher profit margins. If this occurs, it could narrow the margin, return and earnings growth gap between tech stocks and AI adopters, including value stocks not priced for this structural upside.
- Ultimately, we believe that the crucible of 2025 has helped sharpen our positioning for 2026. We are actively focused on finding AI adoption in sectors and industries where it is not currently priced, giving us exposure to the upside scenarios as we compound higher growth in a value wrapper. For the downside, we are focused on companies generating free cash flow and with strong balance sheets. We have also continued to decrease individual stock volatility where we cannot reduce it as part of our portfolio construction. Finally, we are overweight real asset sectors such as energy and materials, which should do well in an inflation scenario while also compounding business value from robust ongoing free cash flow generation.

Top Equity Issuers (% of Total)

Holding	Portfolio
Alphabet Inc	4.42
Bank of America Corp	3.76
Fairfax Financial Holdings Ltd	3.69
Johnson & Johnson	2.95
Amazon.com Inc	2.54
Micron Technology Inc	2.47
Chevron Corp	2.22
EQT Corp	2.21
Walt Disney Co/The	2.18
CVS Health Corp	2.04

- Our main goal is to get back to making active valuation-disciplined investing look simple again, even if it isn't easy. While we approach every new year with humility and a focus on process discipline, we think positioning for many possible futures is critical in a market priced for a narrow set of outcomes — especially when the alternatives have much higher probabilities than what the market has priced. In an increasingly passive world crowded into the same few stocks and sectors, we think that this is a key source of differentiated returns for active, probability-driven managers like us.

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	2.87	6.41	8.85	8.85	11.28	8.95	7.07	6.32	4.91	3.82	6.50	12/31/1993
Pure Gross of Fees	3.62	7.98	12.10	12.10	14.59	12.20	10.27	9.49	8.05	6.94	9.68	12/31/1993
Benchmark	3.81	9.34	15.91	15.91	13.90	11.33	10.53	10.78	8.32	7.71	9.63	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Value 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. **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

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

The **federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. Also known as the "fed funds rate".

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe.

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Source: FTSE.

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