

ClearBridge Value Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** The first quarter of 2026 was defined by heightened macro-driven volatility, as markets contended with geopolitical shocks, shifting rate expectations and evolving economic expectations. Against this backdrop, value stocks outperformed meaningfully, with the benchmark Russell 1000 Value Index returning 2.1% and the Russell 1000 Index and the Russell 1000 Growth Index falling 4.2% and 9.8%, respectively. Elevated valuations within growth equities left them more susceptible to multiple compression as interest rate expectations moved higher and uncertainty increased, while value-oriented sectors — particularly those tied to energy and other real assets — benefited from rising commodity prices and improving earnings expectations.
- **Contributors:** Holdings in Chevron and Micron Technologies and ConocoPhillips. Stock selection in health care and materials and an overweight to energy.
- **Detractors:** Holdings in Fairfax Financial, Salesforce and not owning Exxon Mobil. Stock selection in the energy, information technology (IT) and financials sectors.
- **Outlook:** We are beginning to see signs of a potential broadening in market leadership, with sectors tied to more tangible demand drivers such as energy and industrials appearing better supported. While the near-term path is likely to remain uneven, this environment should continue to create opportunities for disciplined, long-term investors.

Performance Review

- The Portfolios generated positive absolute returns (gross of fees) in a quarter that saw a broad pullback in equities but trailed their Russell 1000 Value benchmark as stock selection in the information technology (IT) and consumer staples sectors overcame positive contributions from our holdings in health care and materials.
- In IT, weakness in software and IT services reflected growing investor uncertainty around AI's potential for disruption to traditional service platforms and its subsequent impact on business models and spending priorities. Enterprise-focused software and services companies, including Salesforce and Amdocs, came under pressure as investors reacted to signs of moderating demand and more cautious forward outlooks, alongside concerns that incremental AI-related investment and sales spending could limit further margin expansion. We exited both positions during the quarter.
- In consumer staples, negative performance was largely driven by our position in energy drink company Celsius. Rising competitive pressures following Costco's launch of a lower-priced private-label energy drink raised fears of demand disruption and pricing pressure; concerns that future inflationary pressures could hurt consumer spending also weighed on shares.
- In energy, strong performance of several of our holdings and our overweight to the sector overcame the drag from not owning Exxon Mobil. Energy providers Chevron, ConocoPhillips and EQT, along with energy infrastructure provider SLB, were supported by a sharp increase in oil, gasoline and natural gas prices driven by geopolitical tensions in the Middle East. This helped strengthen the earnings outlook for upstream producers and the overall outlook for energy infrastructure both in the Middle East (damaged energy assets will need to be rebuilt) and outside the Gulf.
- Health care was a notable area of strength during the quarter, benefiting both from positive contributions within the portfolio and from its perceived defensive characteristics amid the broader market volatility. Johnson & Johnson delivered better-than-expected results, driven by strong performance from key pharmaceutical products and resilient demand across its medtech business. This combination of solid execution and defensive positioning helped support the stock during periods of broader market weakness.
- Materials was another contributor to relative performance, as rising input prices and tightening supply conditions as well as supply constraints and geopolitical developments drove improving pricing dynamics across key markets. Corteva advanced as tightening global fertilizer markets — exacerbated by disruptions to natural gas and fertilizer supply chains in the Middle East — improved pricing power across the agricultural value chain. Similarly, Freeport-McMoRan benefited from higher copper prices, driven by a combination of improving demand expectations and ongoing supply constraints.
- We were particularly active within the health care sector during the quarter, initiating new positions in Eli Lilly, Alnylam Pharmaceuticals and Boston Scientific. In each case, our activity reflects a focus on taking advantage of dislocations created by short-term uncertainty and reallocating capital toward more attractive long-term opportunities.

Outlook

- Looking ahead, the market environment remains uncertain, with macroeconomic and geopolitical developments likely to continue driving volatility. While conditions have stabilized from recent extremes, key risks remain unresolved — particularly around energy markets, inflation and interest rates — and sustained commodity strength could weigh on growth while keeping inflation elevated. At the same time, relatively compressed risk premiums leave markets sensitive to new information and prone to sharp shifts in sentiment.
- We are also beginning to see signs of a potential broadening in market leadership, with sectors tied to more tangible demand drivers such as energy and industrials appearing better supported. While the near-term path is likely to remain uneven, this environment should continue to create opportunities for disciplined, long-term investors. 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

Top Equity Issuers (% of Total)

Holding	Portfolio
Alphabet Inc	4.56
Fairfax Financial Holdings Ltd	3.49
Johnson & Johnson	3.46
Bank of America Corp	3.30
Chevron Corp	2.99
Amazon.com Inc	2.37
Micron Technology Inc	2.16
Walt Disney Co/The	2.05
EQT Corp	1.98
Gilead Sciences Inc	1.95

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.

- 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 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	0.12	2.99	0.12	10.32	12.01	6.19	7.27	5.88	4.67	4.03	6.46	12/31/1993
Pure Gross of Fees	0.86	4.52	0.86	13.61	15.34	9.36	10.47	9.05	7.81	7.15	9.63	12/31/1993
Benchmark	2.10	5.99	2.10	15.87	14.31	9.43	10.58	10.47	8.12	8.06	9.62	—

*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).

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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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

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

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. Source: FTSE.

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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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