FRANKLIN TEMPLETON

ClearBridge

# ClearBridge Dividend Strategy Portfolios

Commentary | as of December 31, 2025

## Key Takeaways

- **Markets:** 2025 marked the third consecutive year of this AI-driven cycle. The market-cap-weighted S&P 500 Index rose 17.9% in the year, while the equal-weighted S&P 500 Index gained just 11.4%. The Magnificent Seven, this market's nucleus, rose 24.9% in 2025. While performance comparisons will vary based on the time period, cap-weighted and equal-weighted indexes have produced similar returns over long periods of time.
- **Contributors:** Stock selection in consumer staples, a health care overweight and IT underweight proved beneficial.
- **Detractors:** Quarterly underperformance was driven primarily by stock selection in the communication services, IT, materials and real estate sectors.
- **Outlook:** We anticipate the AI debate will carry over in 2026 and we will continue to participate in AI in a measured and disciplined way. Yet, as other investors continue to myopically focus on AI, we expect to find additional idiosyncratic opportunities in overlooked corners of the market. We believe these seeds will bear fruit in the years to come.

## Performance Review

- The S&P 500 managed a 2.7% gain in the fourth quarter, while the Strategy captured roughly half of that.
- On the plus side, consumer staples holdings such as Nestle, Coca-Cola and Unilever and a health care overweight shined as concerns of a tech bubble grew.
- On the downside, we are underweight Alphabet and Apple, two Magnificent Seven stocks that performed well, and overweight Oracle, which gave back some of its large gains from earlier in 2025. Increasing competitive dynamics in the wireless industry also weighed on T-Mobile.
- 2025 marked the third consecutive year of this AI-driven cycle. The market-cap-weighted S&P 500 Index rose 17.9% in the year, while the equal-weighted S&P 500 Index gained just 11.4%. The Magnificent Seven, this market's nucleus, rose 24.9% in 2025. Since ChatGPT launched three years ago, the cap-weighted S&P 500 has delivered nearly twice the gains of its equal weighted peer. The Magnificent Seven, meanwhile, has surged a staggering 332%.
- While performance comparisons will vary based on the time period, cap-weighted and equal-weighted indexes have produced similar returns over long periods of time.
- In 2025, and throughout the last three years, the ClearBridge Dividend Strategy has enjoyed healthy gains, in part due to its investments in AI participants like Alphabet, Broadcom, Meta Platforms, Microsoft and Oracle.
- We have not gained as much as the cap-weighted S&P 500, our benchmark, however, as we maintain diversification to prevent the portfolio from becoming overly concentrated.
- Market conditions in 2025 provided opportunities in companies we have long followed and admired such as: Automatic Data Processing (a fourth-quarter addition), Inditex, L3Harris, Marsh & McLennan, Old Dominion Freight Lines and TE Connectivity. We also took advantage of situations in select existing holdings to significantly increase our positions in Air Products, Exxon Mobil and Union Pacific. All represent high-quality franchises in attractive industries underwritten based on reasonable cash returns. It is an eclectic bunch, sourced from bottom-up analysis, not a trend-following, top-down approach.
- Given our approach to investing — conservative, diversified and risk-averse — AI is not central to our portfolio. Indeed, no one sector or trend will ever be central to the ClearBridge Dividend Strategy.
- In momentum-driven, concentrated markets, diversification inherently impacts relative performance comparisons. Of course, it also limits losses when that trade, inevitably, unwinds.

## Outlook

- We anticipate the AI debate will carry over in 2026 and we will continue to participate in AI in a measured and disciplined way. Yet, as other investors continue to myopically focus on AI, we expect to find additional idiosyncratic opportunities in overlooked corners of the market. We believe these seeds will bear fruit in the years to come. The Strategy, meanwhile, continues to trade at a significant discount to the broader market while exhibiting robust dividend growth on average. With market concentration and valuations at or near all-time highs, we remain committed to diversification and valuation discipline. These principles have served investors well in the past; we believe they will continue to serve us well in the years ahead.

## Top Equity Issuers (% of Total)

| Holding | Portfolio |
|---|---|
| Microsoft Corp | 3.87 |
| Exxon Mobil Corp | 3.75 |
| Broadcom Inc | 3.73 |
| Williams Cos Inc/The | 3.29 |
| Alphabet Inc | 3.17 |
| Nestle SA | 2.86 |
| Becton Dickinson & Co | 2.69 |
| Texas Instruments Inc | 2.63 |
| JPMorgan Chase & Co | 2.43 |
| Air Products and Chemicals Inc | 2.43 |

## Average annual total returns (%) - as of December 31, 2025

| 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 | 0.46 | 5.31 | 9.56 | 9.56 | 11.60 | 9.16 | 9.31 | 9.19 | 7.40 | – | 7.14 | 5/31/2003 |
| Pure Gross of Fees | 1.21 | 6.87 | 12.82 | 12.82 | 14.92 | 12.41 | 12.57 | 12.45 | 10.60 | – | 10.34 | 5/31/2003 |
| Benchmark | 2.66 | 11.00 | 17.88 | 17.88 | 23.01 | 14.42 | 14.82 | 14.06 | 11.00 | – | 11.17 | – |

*Cumulative total returns

## Benchmark(s)

Benchmark =S&P 500 Index

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## Glossary

The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

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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