FRANKLIN TEMPLETON | ClearBridge

ClearBridge Dividend Strategy Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** With two radical developments unfolding in the last three months — the war in Iran and AI's accelerating displacement of software engineers and the software industry — the first quarter was truly a quarter where it felt like decades happened. Despite the significant turmoil, the ClearBridge Dividend Strategy Portfolios outperformed, remaining largely flat gross of fees while the S&P 500 Index declined 4.3%.
- **Contributors:** Outperformance was driven primarily by stock selection in the health care and communication services sectors, overweights to energy, materials, consumer staples and real estate, and underweights to IT and consumer discretionary.
- **Detractors:** Stock selection in consumer staples, energy and real estate detracted.
- **Outlook:** Our diverse portfolio emphasizes high-quality companies with low risk of disintermediation supported by strong financial characteristics and reasonable valuations. We anticipate continued dividend growth, driving increased cash returns and providing a meaningful offset to inflation. Volatile times also contain a silver lining, offering us the opportunity to take advantage of dislocations to high-grade the portfolio. We believe we are well-positioned for the current environment.

Top Equity Issuers (% of Total)

Holding	Portfolio
Williams Cos Inc/The	4.65
Exxon Mobil Corp	3.76
Microsoft Corp	3.63
Texas Instruments Inc	2.93
Alphabet Inc	2.91
Broadcom Inc	2.88
Nestle SA	2.87
Air Products and Chemicals Inc	2.85
Apollo Global Management Inc	2.70
Public Storage	2.26

Performance Review

- Tactically, we benefited from our significant underweight to information technology (IT, which declined 9.2% in the quarter) and our significant overweight to energy (which surged 38.2%). Strategically, we benefited from our commitment to broad diversification amid a market that has become massively concentrated.
- As users of Claude Code multiplied in the first quarter, the S&P 500 software sector declined 24% — a staggering amount for what appeared to be a fundamentally sound industry. We currently own just one software stock — Microsoft — and one stock — ADP — with a small, and we believe well-defended, software exposure.
- While AI unleashed volatility in the digital world, the war with Iran unleashed volatility in the physical world. Given our large investment in energy, the portfolio benefited from the resulting rise in oil prices.
- While we maintain a large overweight to energy, we have taken advantage of rising stock prices to exit two of our holdings, EQT and Enbridge. We have focused our energy investments in our highest-conviction ideas: Williams and ExxonMobil. EQT always represented more of a tactical investment in an improving U.S. natural gas market, rather than a long-term investment in a franchise energy company. We made substantial profits in EQT over a four-year holding period and have decided to move on.
- After a long and profitable investment in Enbridge, we sold the position to concentrate our pipeline investments in Williams, which possesses a superior balance sheet and growth outlook. Further, with the U.S. pursuing confrontational trade policies toward Canada, the risks to Canadian companies dependent upon exports to the U.S. are elevated. Our investment in Williams is predicated on growing North American natural gas production and surging power demand from data centers. Rising oil prices have little direct impact on the company and its business should continue chugging along, regardless of the outcome with Iran.
- ExxonMobil, however, as the largest private oil producer in the world, directly benefits from the events in the Persian Gulf. Higher oil prices will drive bumper earnings and cash flows, but that is not the only thing Exxon has going for it. Exxon's robust production growth from low-cost basins will propel volume increases and margin expansion through the end of the decade. We have modestly trimmed our position as the stock has soared, but we maintain a significant investment in the company.

Outlook

- While the U.S. is protected from the worst impacts of the energy disruption, higher prices are driving higher inflation. The longer these prices remain elevated, the more persistent and challenging the inflation and interest rate outlook will become. A slowing global economy combined with higher inflation and interest rates could present strong headwinds to markets in 2026. We continue to emphasize broad diversification and will exercise caution navigating the twin challenges of AI disruption and the war in Iran.
- Our diverse portfolio emphasizes high-quality companies with potentially low risk of disintermediation supported by strong financial characteristics and reasonable valuations. We anticipate continued dividend growth, driving increased cash returns and providing a meaningful offset to inflation. Volatile times also contain a silver lining, offering us the opportunity to take advantage of dislocations to high-grade the portfolio. We believe we are well-positioned for the current environment.

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	-0.68	-0.22	-0.68	8.26	11.09	8.05	8.77	8.82	7.18	—	7.03	5/31/2003
Pure Gross of Fees	0.06	1.27	0.06	11.49	14.40	11.27	12.01	12.06	10.38	—	10.23	5/31/2003
Benchmark	-4.33	-1.79	-4.33	17.80	18.32	12.06	14.16	13.29	10.53	—	10.83	—

*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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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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