

# ClearBridge Mid Cap Portfolios

Commentary | as of December 31, 2025

## Key Takeaways

- **Markets:** Mid cap equities were flat to slightly positive in the fourth quarter, with the Russell Midcap Index returning 0.16%. Market performance was shaped less by macroeconomic shocks and more by an increasingly narrow set of investor preferences, particularly late in the quarter, as momentum faded in several growth-oriented areas that had driven returns earlier in the year. Earnings reactions became more uneven, with stocks often moving sharply irrespective of underlying execution, reinforcing a market dynamic where sentiment and positioning frequently outweighed fundamentals. While certain cyclical and industrial recovery narratives stalled, dispersion beneath the surface of index-level results remained elevated, underscoring both the challenges and opportunities for active, company-specific investing.
- **Contributors:** Holdings in Expedia, Churchill Downs and Api Group. Stock selection in the the consumer discretionary sector, underweights to the communication services and real estate sectors.
- **Detractors:** Holdings in Alexandria Real Estate Equities, Chewy and Resideo Technologies. Stock selection in the information technology (IT), real estate and financials sectors.
- **Outlook:** As we look toward 2026, we believe the environment for mid cap equities is becoming incrementally more constructive, though uncertainty remains. The past several years have been characterized by an unusually narrow market, where a small subset of highly visible growth themes attracted the majority of investor attention, while many fundamentally sound businesses across the broader economy were overlooked. In our view, this dynamic contributed to a prolonged period of deferred investment and cautious decision making outside of a limited number of favored areas.

## Performance Review

- The Portfolios underperformed its benchmark (gross and net of fees) as broad-based market headwinds and uneven earnings reactions weighed on results, with strength in consumer discretionary partially offsetting pressure across several other sectors.
- IT detracted as investor sentiment toward software businesses weakened amid heightened sensitivity to earnings expectations and concerns around AI-driven disruption. Teledyne Technologies, a diversified industrial technology company, and Bentley Systems, an infrastructure-focused software provider, declined as expectations for near-term acceleration were pushed out. Dynatrace, a provider of application performance monitoring software, also detracted following conservative guidance.
- Real estate was another source of pressure, largely driven by the decline in Alexandria Real Estate Equities, a life-science-focused office REIT. The company's stock came under pressure as a slowdown in biopharma research spending and excess laboratory capacity weighed on leasing demand and rental growth expectations. We exited the position as ongoing uncertainty and a dividend cut reinforced our view that a recovery may take longer than previously anticipated.
- Consumer discretionary holdings were a bright spot for the portfolio. Light & Wonder, a gaming and entertainment company, rebounded following technical selling pressure related to its relisting to the Australian exchange, creating an attractive entry opportunity. Expedia, a global online travel platform, contributed as improved execution in its consumer business complemented continued strength in its business-to-business segment. New holding Churchill Downs, an owner and operator of gaming and racing assets, advanced as operating trends normalized following earlier weakness tied to the timing of the Kentucky Derby and softer consumer sentiment.
- While overall stock selection in industrials and health care weighed on results during the quarter, there were a number of encouraging areas of performance. In industrials, API Group, a provider of safety and specialty services, continued to deliver steady execution, margin improvement and consistent compounding growth. In health care, Argenx, an immunology-focused biotechnology company, advanced on continued commercial execution and pipeline progress.
- We initiated positions in Casella Waste Systems, a residential waste services provider with a high proportion of recurring revenue, following a transitory selloff tied to minor acquisition integration issues, and Tyler Technologies, a provider of mission-critical software to state and local governments, where a highly recurring revenue model and limited exposure to near-term AI disruption support durable long-term growth.
- On the sell side, we exited Corpay, a corporate payments company, as the emergence of stablecoin technologies introduced new uncertainty around portions of its payments business. We also exited DraftKings, a digital sports betting and gaming platform, as the rise of prediction markets introduced additional competitive uncertainty that altered our conviction in the company's medium-term business model.

## Outlook

- As we look toward 2026, we believe the environment for mid cap equities is becoming incrementally more constructive, though uncertainty remains. The past several years have been characterized by an unusually narrow market, where a small subset of highly visible growth themes attracted the majority of investor attention, while many fundamentally sound businesses across the broader economy were overlooked. In our view, this dynamic contributed to a prolonged period of deferred investment and cautious decision making outside of a limited number of favored areas.
- We are increasingly encouraged by signs that this imbalance may begin to ease. Improving clarity around policy, a more accommodative interest rate backdrop and supportive tax dynamics have the potential to reaccelerate business investment and earnings growth across a wider set of industries. Importantly, this does not require a dramatic shift in economic conditions; rather, a normalization of capital allocation and decision making could meaningfully benefit many mid cap companies with durable cash flows, attractive valuations and clear paths to improvement.

## Top Equity Issuers (% of Total)

Holding	Portfolio
API Group Corp	3.18
Casey's General Stores Inc	2.96
Churchill Downs Inc	2.83
EQT Corp	2.82
Clean Harbors Inc	2.79
Teledyne Technologies Inc	2.64
PPL Corp	2.61
Hartford Insurance Group Inc/The	2.42
Chewy Inc	2.36
Regal Rexnord Corp	2.34

- From a portfolio perspective, we are deliberately not positioning the portfolio for a single outcome. Instead, we are actively reallocating capital from areas where expectations appear more fully priced toward businesses that we believe have been underappreciated despite solid fundamentals. With dispersion elevated and valuation gaps wide across sectors such as industrials, health care, utilities and financials, we believe patient, bottom-up stock selection and balanced portfolio construction are well suited to the evolving opportunity set.

## 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	-4.74	-0.08	1.52	1.52	6.62	2.19	5.34	6.78	6.10	—	6.10	4/30/2004
Pure Gross of Fees	-4.03	1.41	4.56	4.56	9.80	5.25	8.49	9.97	9.28	—	9.27	4/30/2004
Benchmark	0.16	5.49	10.60	10.60	14.36	8.67	11.01	11.15	9.49	—	10.20	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Russell Mid Cap Index

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).**

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**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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The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe.

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Source: FTSE.

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