

ClearBridge Small Cap Growth Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** The first quarter of 2026 underscored the importance of narratives, with rapidly evolving technological and geopolitical dynamics drowning out company fundamentals and disproportionately driving market direction. While the Russell 2000 Growth Index declined 2.8% for the quarter, the reality is that its headline performance masks a far bumpier ride as January strength gave way to February weakness before a sharp drawdown in March. After an extended period of narrow performance dominated by a concentrated group of large-cap technology companies and their small and mid cap lookalikes, the first quarter saw returns began to broaden out. Interestingly, despite a rising rate environment to conclude the quarter, smaller cap, value-oriented and cyclical areas of the market outperformed.
- **Contributors:** Holdings in XPO, Bloom Energy and Lattice Semiconductor. Stock selection in industrials, consumer staples and materials.
- **Detractors:** Holdings in Klaviyo, Wingstop and ICON. Stock selection in financials, consumer discretionary and IT sectors.
- **Outlook:** In this environment, we believe it is critical to continue to emphasize our consistently rigorous, bottom-up approach to identifying companies with durable competitive advantages in large and growing markets, strong balance sheets and clear idiosyncratic paths to revenue and profitability growth that can help insulate them from broader macro volatility.

Performance Review

- The ClearBridge Small Cap Growth Portfolios outperformed their Russell 2000 Growth Index benchmark during the first quarter, reflecting strong stock selection across multiple sectors, particularly in industrials and consumer staples amid increasing uncertainty around AI disruption and uneven retail spending trends.
- Contributions in industrials reflected a mix of both long-standing positions and newer investments. Performance was largely balanced between broad-based strength across a variety of industries — particularly the aerospace and defense, data center power and infrastructure and transportation industries— as well as company-specific execution stories and exposure to improving or attractive growth markets. For instance, long-term holding RBC Bearings continues to demonstrate best-in-class execution on profitability improvements while revenue has benefited from exposure to aerospace, defense, and select industrial end markets. XPO, a less-than-truckload transportation provider, is benefiting from implementing an array of strategies to improve service quality, mix and pricing. This is helping profitability while positioning for a possible uptick in freight demand and activity.
- Positive stock selection in consumer staples was led by Casey's General Stores and BJ's Wholesale Club, defensive compounders whose value-focused business models continue to see resilient consumer demand, particularly amid an increasingly uncertain macro environment.
- While our holdings in the information technology (IT) sector were an overall performance headwind, performance among IT subsectors diverged meaningfully. Several semiconductor and hardware holdings, like Lattice Semiconductor, an provider of low-power programmable analog semiconductors, continued to perform quite well. The company benefited from improving sentiment around cyclical end markets as well as growing recognition of its role in emerging applications within AI servers and robotics.
- Several of our consumer discretionary and financial holdings were pressured due to concerns that they could be exposed to AI disruption. This included Global-e Online, a cross-border e-commerce platform, and Shift4 Payments, a hospitality/restaurants-focused payments provider, which were impacted both by fears they could be replaced by AI agents and debates around the health of the consumer. Meanwhile, several of our consumer discretionary businesses, such as restaurant holdings Wingstop and Dutch Bros, faced additional pressures from a weak demand environment among lower-income consumers.
- We continued to deliver strong new idea generation with seven new portfolio additions in the quarter: Charles River Laboratories, Ensign Group, Glaukos, Rambus, Scholar Rock, Vaxcyte and York Space Systems.

Outlook

- We believe the investment landscape remains characterized by a high degree of uncertainty across macroeconomic, geopolitical and technological dimensions. The path of inflation and interest rates, the durability of a recovery in cyclical end markets and the ultimate impact of AI on a wide range of business models all remain difficult to predict while the potential range of outcomes has widened.
- In this environment, we believe it is critical to continue to emphasize our consistently rigorous, bottom-up approach to identifying companies with durable competitive advantages in large and growing markets, strong balance sheets and clear idiosyncratic paths to revenue and profitability growth that seeks to help insulate them from broader macro volatility.
- We continue to critically reassess long-standing assumptions around business model durability, particularly in areas where AI and technological innovation may result in industry disruption. While some of the market selloff may prove overdone, we believe it highlights the importance of incorporating a wider range of potential outcomes into our analysis. We believe that the combination of the Portfolios' strong historical focus on constructing a portfolio across a wide spectrum of growth profiles, along with our intensive risk management process, can allow us to navigate the dynamic straits of the current market.

Top Equity Issuers (% of Total)

Holding	Portfolio
Bloom Energy Corp	3.60
RBC Bearings Inc	3.43
Lattice Semiconductor Corp	3.30
XPO Inc	2.75
Fabrinet	2.58
BWX Technologies Inc	2.51
Casey's General Stores Inc	2.23
Element Solutions Inc	2.16
Construction Partners Inc	2.10
PJT Partners Inc	1.88

Average annual total returns (%) - as of March 31, 2026

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	-1.34	-3.88	-1.34	15.87	3.01	-2.85	7.54	7.03	—	—	9.19	10/31/2008
Pure Gross of Fees	-0.60	-2.43	-0.60	19.30	6.10	0.08	10.76	10.23	—	—	12.45	10/31/2008
Benchmark	-2.81	-1.63	-2.81	23.58	12.27	1.62	9.79	9.09	—	—	11.32	—

*Cumulative total returns

Benchmark(s)

Benchmark = Russell 2000 Growth 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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The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe.

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Source: FTSE.

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