FRANKLIN TEMPLETON | ClearBridge

ClearBridge Small Cap Growth Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** Small-cap growth reversed sharply in the third quarter as rising oil prices, stubborn inflation and an increase in interest pressured long-duration equities and capital-dependent smaller companies. AI remained central, but investor enthusiasm became more selective: crowded semiconductor and infrastructure trades sold off, while potential adoption beneficiaries across health care, industrials, payments and consumer gained attention. Industrials and information technology (IT) lagged, whereas health care proved relatively resilient, aided by M&A, improving fundamentals and prospective AI benefits.
- **Contributors:** On an individual stock basis, the leading contributors to relative returns were Zeta Global, Caris Life Sciences, Cactus, Charles River Laboratories and Varonis Systems. Stock selection in the health care, IT and energy sectors contributed positively.
- **Detractors:** The primary detractors were Allegro MicroSystems, Dutch Bros, Argan, Universal Technical Institute and BWX Technologies. Stock selection in the consumer discretionary and industrials sectors, as well as an overweight to the industrials sector, weighed on performance.
- **Outlook:** We remain focused on businesses with visible organic growth, improving free cash flow, limited refinancing needs and pricing power as macro uncertainty reshapes the small-cap opportunity set.

Top Equity Issuers (% of Total)

Holding	Portfolio
Lattice Semiconductor Corp	2.88
Xometry Inc	2.55
Zeta Global Holdings Corp	2.20
Varonis Systems Inc	2.17
RBC Bearings Inc	2.11
Moog Inc	1.98
Allegro MicroSystems Inc	1.92
RadNet Inc	1.77
Cactus Inc	1.77
Element Solutions Inc	1.75

Performance Review

- The portfolio declined alongside its Russell 2000 Growth Index benchmark and underperformed during the third quarter. Strong stock selection in health care and software, together with contributions from energy holdings such as Cactus, was more than offset by weakness in consumer discretionary and industrials holdings and by semiconductor investments caught in the AI-trade unwind.
- Consumer discretionary was the largest relative detractor. Elevated gas prices and pressure on lower-income and younger consumers weighed on Dutch Bros and Wingstop, while Universal Technical Institute detracted after lowering guidance on weaker high school enrollment starts. We believe much of the restaurant pressure is cyclical rather than structural, though we continue to monitor customers and competitive dynamics.
- Industrials also weighed on results as our overweight to the benchmark's weakest sector compounded weakness in several large holdings. RBC Bearings and BWX Technologies de-rated with aerospace, defense and nuclear peers despite continued execution, while Xometry gained as marketplace growth accelerated for a fourth consecutive quarter.
- Information technology results diverged sharply. Allegro MicroSystems and Lattice Semiconductor gave back first-half gains as the AI infrastructure trade unwound, but software holdings were meaningful contributors. Zeta Global delivered another beat-and-raise quarter on adoption of its AI agent, while Varonis benefited from takeover-interest reports and greater focus on data protection.
- Health care was our strongest relative contributor, reflecting stock selection across biotechnology, life-science tools and diagnostics. Protagonist Therapeutics and TG Therapeutics reported strong commercial results, while Caris Life Sciences surged on earnings and favorable preliminary Medicare pricing. Charles River Laboratories and Medpace rebounded as bookings exceeded expectations amid an improving biotech funding and biopharma spending backdrop.

Outlook

- The third quarter was a reminder that the small cap recovery remains fragile and unfortunately at times susceptible to factors outside of our companies' control. We take solace that the third quarter is seasonally a more challenging one for the asset class, and such sharp quarters of relative underperformance versus large caps often presages a very strong fourth quarter performance in relative and absolute terms.
- The near-term path is admittedly dependent on several difficult to predict variables: the trajectory of energy prices, whether inflation continues to moderate, how far the Federal Reserve ultimately tightens and potential impacts from the upcoming midterm elections. In this environment, we believe generalized exposure to AI or to cyclical recovery is no longer sufficient.
- Companies with visible organic growth, positive and improving free cash flow, limited refinancing needs and pricing power should be increasingly advantaged, while businesses reliant on falling rates, repeated financing or distant profitability may face continued pressure. This is the type of market in which our guiding principles — exercising "judgment and patience" to maintain the right balance of opportunity and risk while owning appropriately capitalized companies with substantial long-term growth opportunities — should matter most.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 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	-11.62	7.05	5.62	2.91	8.55	-2.32	6.98	9.09	—	—	9.34	10/31/2008
Pure Gross of Fees	-10.94	8.63	7.98	5.99	11.79	0.62	10.18	12.34	—	—	12.60	10/31/2008
Benchmark	-9.39	13.90	10.71	12.05	17.55	4.72	9.90	11.94	—	—	11.80	—

*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).

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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

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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

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

Source: FTSE.

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