ClearBridge Dividend Strategy ESG 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. Amid the significant turmoil, the ClearBridge Dividend Strategy ESG Portfolios outperformed the S&P 500 Index, which declined 4.33%.
- **Contributors:** Outperformance was driven primarily by stock selection in the health care, consumer discretionary and communication services sectors, overweights to energy, materials, consumer staples, utilities 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	4.64
Microsoft Corp	3.60
Nestle SA	3.27
Alphabet Inc	2.95
Texas Instruments Inc	2.94
Broadcom Inc	2.84
Air Products and Chemicals Inc	2.83
Kinder Morgan Inc	2.79
Apollo Global Management Inc	2.71
Johnson & Johnson	2.64

Performance Review

- Tactically, we benefited from our significant underweight to information technology (IT, which declined 9.2% in the S&P 500 during the quarter) and our significant overweight to energy (which surged 38.2% in the S&P 500). 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.
- In a choppy first quarter, we took advantage of market volatility to reduce some positions on strength and add others on weakness, upgrading our holdings and further diversifying the portfolio.
- Blackstone and Otis both sold off in the quarter, and we took advantage of those declines to welcome these old friends back into the portfolio. Alongside our purchase of Blackstone, we significantly increased our exposure to Apollo Global Management, as concerns around private-credit markets improved risk-reward profiles for both. While losses in credit will inevitably rise from current low levels, both companies are well-positioned to navigate the cycle. Their long-duration capital enables them to weather the ups and downs, while their copious dry powder positions them to play offense. Alternative asset management remains a growth industry, and we believe we are acquiring these two best-in-class franchises at attractive prices.
- As the leading elevator manufacturer, Otis is a best-in-class industrial company. While new construction activity ebbs and flows, Otis's earnings are predominantly derived from its aftermarket repair and maintenance business, which is not economically sensitive and grows every year. While AI will disrupt many industries, well-situated industrial companies should prove resilient and accrete value over time.
- We funded these purchases through monetizations of AI-related technology companies that benefited from feverish investor enthusiasm during the period. In IT, we exited Oracle and trimmed Broadcom.
- On the semiconductor side, we modestly reduced our position in Broadcom to fund our new investment in Taiwan Semiconductor (TSMC). While Broadcom remains well positioned, and we remain constructive on the stock, the risk-reward outlook has diminished as the shares have tripled over the last two years. Further, whereas TSMC prospers regardless of who wins the semiconductor race (TSMC manufacturers chips for all the major semiconductor companies), one can conceive of scenarios where Broadcom could become less relevant in the future.

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 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	-0.83	0.24	-0.83	7.56	10.87	7.10	8.57	—	—	—	8.34	2/28/2013
Pure Gross of Fees	-0.10	1.74	-0.10	10.77	14.17	10.29	11.81	—	—	—	11.57	2/28/2013
Benchmark	-4.33	-1.79	-4.33	17.80	18.32	12.06	14.16	—	—	—	13.84	—

*Cumulative total returns

Benchmark(s)

Benchmark =S&P 500 Index

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Glossary

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

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