

ClearBridge Dividend Strategy ESG Portfolios

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** Despite trade wars, battlefield wars in Ukraine and the Middle East, declining earnings estimates and a deteriorating fiscal outlook, the S&P 500 Index rose 10.9% in the second quarter and is up 6.2% at the year's halfway mark.
- **Contributors:** Stock selection in the energy and IT sectors was positive.
- **Detractors:** An underweight to IT and an overweight to energy, as well as stock selection in the communication services, health care, industrials and consumer discretionary sectors weighed on relative results.
- **Outlook:** It seems to us that risks abound, yet asset prices do not reflect this. We continue to emphasize a diversified portfolio of high-quality companies compounding their dividends at attractive returns.

Performance Review

- Despite trade wars, battlefield wars in Ukraine and the Middle East, declining earnings estimates and a deteriorating fiscal outlook, the S&P 500 Index is up 6.2% at the year's halfway mark. Growth trounced value in the second quarter, led by Nvidia, which surged over 40%. The ClearBridge Dividend Strategy ESG, with its emphasis on quality, risk management and a disciplined approach to valuation, lagged in this momentum-driven tape.
- An overweight to energy and underweight to IT were the largest detractors in terms of sector attribution. Within these sectors positioning in natural gas-focused EQT and Kinder Morgan (in energy) was positive, while in IT an underweight to the underperforming Apple contributed positively along with active positions in Oracle and Broadcom. Not owning Nvidia detracted.
- Oracle beat estimates in its latest earnings report and raised its guidance, citing sizable acceleration in its cloud infrastructure revenues and growth expected to exceed that of hyperscaler peers.
- Renewed enthusiasm for AI buildouts has benefited Broadcom tremendously as its custom-designed chips have continued to gain broader adoption with hyperscalers as an alternative to Nvidia's dominant graphics processing units in AI applications. Broadcom shares also rallied with the reduction of retaliatory tariffs between the U.S. and China, which had weighed on semiconductor manufacturers.
- Medical devices, laboratory equipment and diagnostic products maker Becton Dickinson reported marginally slower than expected organic sales growth across its portfolio, in part driven by headwinds from its China operations and by a lower global research funding environment for its biosciences division; a slight reduction in expected earnings resulted in a dramatic multiple contraction.
- UnitedHealth Group saw a renewed selloff in May following a first-quarter earnings miss and guidance reduction as the company announced even further elevated cost pressure and the exit of the managed care company's CEO Andrew Witty.

Outlook

- It seems to us that risks abound, yet asset prices do not reflect this. We continue to emphasize a diversified portfolio of high-quality companies compounding their dividends at attractive returns. Touting diversification may sound trite, but in today's market it is no small feat. While the market has become incredibly concentrated, we have maintained a more traditionally diversified portfolio. Over the last eight years our average portfolio company has grown its dividend well in excess of inflation, and we see no reason that cannot continue. As inflation expectations become more entrenched and stagflation becomes a concern, dividend growth will become increasingly critical. Dividends act as an anchor to windward, managing our portfolio during bouts of volatility. With elevated uncertainty likely an enduring feature of the current era, the course we chart should serve us well.

Top Equity Issuers (% of Total)

Holding	Portfolio
Microsoft Corp	4.27
Williams Cos Inc/The	3.85
Broadcom Inc	3.47
Nestle SA	3.47
Sempra	3.17
Becton Dickinson & Co	2.86
Comcast Corp	2.80
Kinder Morgan Inc	2.59
Unilever PLC	2.56
T-Mobile US Inc	2.46

Sector Allocation (% of Total)

Sector	Portfolio
Information Technology	15.81
Financials	13.86
Health Care	12.47
Consumer Staples	8.76
Communication Services	7.94
Energy	7.81
Utilities	7.48
Materials	6.77
Other	15.92
Cash & Cash Equivalents	3.19

Average annual total returns (%) - as of June 30, 2025-PRELIMINARY

Product	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	3.74	4.10	4.10	12.48	11.58	11.09	8.39	—	—	—	8.55	2/28/2013
Pure Gross of Fees	4.50	5.64	5.64	15.82	14.90	14.39	11.63	—	—	—	11.79	2/28/2013
Benchmark	10.94	6.20	6.20	15.16	19.71	16.64	13.65	—	—	—	14.19	—

*Cumulative total returns

Benchmark(s)

Benchmark =S&P 500 Index

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Glossary

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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