FRANKLIN TEMPLETON | ClearBridge

ClearBridge Large Cap Value ESG Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** US stocks continued to rise in the third quarter, with returns shaped by two major macro forces: the oil supply shock stemming from tensions in the Middle East driving oil prices higher and, partly a result of this, higher inflation expectations and bond yields. The benchmark Russell 1000 Value Index returned 2.6%. The Fed raised interest rates for the first time since 2023 in September and grew more hawkish in its forecasts, implying another hike in 2026; the 10-year Treasury yield finished the quarter up roughly 70 basis points at 5.3%. Sector performance in the index was mixed, with energy leading on higher oil prices, information technology (IT) and communication services lifted by hyperscaler strength, health care continuing its rebound and consumer and rate-sensitive sectors flat to down as a result of inflation and rate pressure.
- **Contributors:** On an individual stock basis, the largest contributors to relative returns were Thermo Fisher Scientific, Waters, McKesson and not owning IBM and Cisco Systems. On a relative basis, stock selection in industrials and financials contributed to performance. A lack of exposure to real estate, an overweight to health care and an underweight to consumer staples also contributed to performance.
- **Detractors:** The largest detractors were CVS Health, XPO, Williams, WEC Energy and an underweight to Microsoft. Stock selection in IT, energy, materials and health care detracted from performance.
- **Outlook:** We continue to favor quality businesses with durable franchises, strong balance sheets and proven management teams, purchased with valuation discipline and assembled through risk-aware portfolio construction. Whether the economy accelerates or weakens, we believe these companies can compound earnings or provide downside mitigation. As narrow leadership and speculative, lower-quality performance recede, we expect the portfolio's diversified quality orientation to become increasingly valuable and apparent.

Top Equity Issuers (% of Total)

Holding	Portfolio
Apple Inc	6.11
Amazon.com Inc	5.17
JPMorgan Chase & Co	4.35
Microsoft Corp	3.89
Johnson & Johnson	3.80
Williams Cos Inc/The	3.09
Intel Corp	2.73
Eaton Corp PLC	2.57
Charles Schwab Corp/The	2.42
Parker-Hannifin Corp	2.29

Performance Review

- Stock selection in information technology, health care, energy and materials detracted most, while stock selection in industrials and financials helped. The lack of real estate exposure and an underweight to consumer staples also supported relative results. A narrow rally in higher-beta, lower-quality securities and selected AI-related companies remained a difficult backdrop for our diversified quality orientation.
- Microsoft advanced as strong Azure growth and increasing Copilot adoption reinforced confidence in its ability to monetize AI investment; although we added to the position, we remained underweight following a substantial increase in the stock's benchmark weight. CVS weakened despite strong results and higher guidance as investors focused on pressure in its 340B business, expected Caremark membership declines and related litigation. We maintained our overweight, seeing a path to margin expansion as Medicare Advantage profitability recovers.
- Thermo Fisher rose on stronger-than-expected results, improving customer activity and higher full-year guidance. McKesson benefited from strong results and a raised outlook supported by prescription volumes and growth in oncology and specialty pharmaceuticals. Waters, which we added to during the quarter, showed encouraging early synergies from its acquisition of Becton Dickinson's biosciences and diagnostic solutions businesses.
- We reduced Taiwan Semiconductor after the Russell rebalance lowered benchmark semiconductor exposure and initiated Nvidia, which we view as a high-quality, cash-generative franchise with an increasingly attractive valuation. We trimmed Intel early in the quarter and later added back exposure after a selloff. In consumer staples, we exited PepsiCo and initiated Coca-Cola, favoring Coca-Cola's brands, global reach and pricing power.

Outlook

- We continue to adhere to our philosophy of seeking quality businesses with durable franchises, strong balance sheets and proven management teams, purchased with valuation discipline and assembled through risk-aware portfolio construction. We believe this discipline is particularly important given elevated valuations and the market's increasingly narrowing focus on lower-quality AI players, which up until the June Russell rebalancing represented a meaningful and growing part of the benchmark. Over the past year, the outperformance of high-beta, lower-quality, more commoditized stocks over lower-beta, higher-quality stocks has produced what we view as a historic low-quality, or "junk," rally.
- While that environment has obscured the portfolio's defensive characteristics, we like the setup going forward. If the economy accelerates, the quality franchises we favor should be positioned to compound earnings, while improved investor confidence could help close their valuation discounts. If the economy weakens, their durable business models, balance-sheet strength and earnings resilience should provide downside mitigation after a period in which those characteristics have received little recognition from the market.
- We do not have a strong conviction that either economic scenario must prevail; our positioning reflects our view, rather, that the current combination of narrow market leadership, unusually strong performance of speculative stocks and rapidly expanding valuations among cyclical AI beneficiaries will not persist indefinitely. In a market with broader leadership and greater emphasis on earnings durability, cash generation and balance-sheet strength, we believe the portfolio's diversified quality orientation should become increasingly valuable and apparent.

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	-1.09	9.41	9.24	10.00	12.02	6.06	8.76	10.04	6.18	—	6.19	4/30/2004
Pure Gross of Fees	-0.35	11.02	11.67	13.28	15.35	9.23	12.00	13.32	9.35	—	9.36	4/30/2004
Benchmark	2.61	16.81	19.27	23.81	20.07	11.92	11.43	12.98	8.60	—	9.29	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Value Index

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

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Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

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The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe.

Source: FTSE.

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