FRANKLIN TEMPLETON | ClearBridge

ClearBridge Large Cap Value ESG Portfolios

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** U.S. equities rebounded in the second quarter amid de-escalation of Middle East tensions and a rotation back into AI stocks. Two-thirds of the benchmark Russell 1000 Value Index's 13.9% gain came from the information technology (IT) sector, led by a surge in memory semiconductor and optical/networking stocks. This very narrow market made it a challenging quarter for a diversified portfolio of higher-quality stocks.
- **Contributors:** Stock selection in energy, communication services and health care and underweights to energy, consumer staples and communication services contributed the most. Intel continues to prove out its turnaround plan as its foundry business appears poised to gain new customers as soon as 2027, and its leading server CPU business is sold out as agentic AI drives more demand for general purpose compute.
- **Detractors:** Underperformance came from not owning, or being underweight, the narrower group of commodity-sensitive businesses in the memory, optical and electronic manufacturing services space whose earnings power has been repriced very quickly. Stock selection in IT and industrials, an IT underweight and overweights to materials and health care detracted the most.
- **Outlook:** A core tenet of the Fund is that we largely avoid making top-down bets or try to time macro events; we focus on high-quality businesses with durable competitive advantages and reasonable valuations that can drive superior returns throughout the cycle.

Top Equity Issuers (% of Total)

Holding	Portfolio
JPMorgan Chase & Co	4.29
Amazon.com Inc	3.98
Intel Corp	3.83
Johnson & Johnson	3.64
Williams Cos Inc/The	3.37
Taiwan Semiconductor Manufacturing Co Ltd	2.85
Alphabet Inc	2.84
CVS Health Corp	2.67
Eaton Corp PLC	2.54
Apple Inc	2.53

Performance Review

- U.S. equities rebounded in the second quarter amid de-escalation of Middle East tensions and a rotation back into AI stocks. Two-thirds of the benchmark Russell 1000 Value Index's 13.9% gain came from the information technology (IT) sector, led by a surge in memory semiconductor and optical/networking stocks. This very narrow market made it a challenging quarter for a diversified portfolio of higher-quality stocks.
- Underperformance came from not owning, or being underweight, this narrower group of commodity-sensitive businesses in the memory, optical and electronic manufacturing services space whose earnings power has been repriced very quickly. Historically, these have been low-quality commodity businesses that posted negative profitability during the past downcycle. We don't believe "this time is different," and we expect these businesses will experience similar (or worse) fates as new supply comes online in the 2027/2028 timeframe.
- While we didn't have exposure to these lower-quality AI stocks, we continue to hold AI-exposed companies with much more durable franchises. For example, Taiwan Semiconductor and Broadcom were both positive contributors as their technologies remain best in class and demand continues to exceed supply. Intel also continues to prove out its turnaround plan as its foundry business appears poised to gain new customers as soon as 2027, and its leading server CPU business is sold out as agentic AI drives more demand for general purpose compute.
- We would also note that this extreme risk taking in the market has led to a large selloff in the high-quality defensive stocks that make up the backbone of our portfolio. Given the lower inherent volatility of these businesses, we believe strongly that they will produce superior through-cycle returns, and we have been aggressive in adding to stocks that we believe are trading well below their intrinsic value.

Outlook

- The opportunity coming out of the quarter, in our view, is not to chase everything that worked. It is to use the reset in quality and defensive stocks to upgrade the portfolio, while doing the work on the narrower AI supply-chain businesses where the facts may have changed. That is an optimistic set-up for our process because prospective returns have improved in the kinds of companies we generally want to own.
- The portfolio response is offensive, but still quality-first. We are leaning into areas where valuation, balance sheet strength and earnings durability are improving, including select life sciences tools, managed care, industrials and AI-adjacent businesses with credible free cash flow.
- At the same time, we are not abandoning the Strategy's discipline. The companies we want to own should have durable competitive advantages, pricing power, strong balance sheets and the ability to compound through the cycle. Where a business still depends on commodity pricing, aggressive supply assumptions or peak-cycle margins, we need to be paid for that risk.
- Put differently, we want to be more aggressive because the starting point is better, while keeping the hurdle rate for portfolio inclusion high. The work now is to separate genuine franchise improvement from cyclical earnings momentum, add to quality businesses that have been indiscriminately sold and only expand in AI supply-chain names where normalized returns justify the risk. That is a good setup for our process.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of June 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	10.61	10.43	10.43	16.11	11.31	5.98	9.14	8.81	6.45	–	6.31	4/30/2004
Pure Gross of Fees	11.40	12.05	12.05	19.55	14.62	9.14	12.40	12.05	9.63	–	9.49	4/30/2004
Benchmark	13.87	16.26	16.26	27.12	17.79	11.17	11.52	11.47	8.79	–	9.27	–

*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

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

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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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