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Growth Strategy

Key Takeaways

- ▶ The Strategy solidly outperformed in the quarter, helped by not only continued momentum in our AI levered names but also exposure to a number of other thematic bets such as the rise in defense spending globally and increased demand for cryptocurrencies.
- ▶ We maintained a balanced and disciplined approach to portfolio construction, taking profits on strength in stocks that have seen significant multiple expansion, trimming areas of outsize risk and exiting positions where our thesis is no longer valid.
- ▶ While many stocks have begun to price in a more optimistic monetary and regulatory environment, we remain cognizant of a number of economic and geopolitical risks. Our focus is managing a portfolio that can capture idiosyncratic upside in bullish periods in the market while also providing downside protection during times of volatility.

Market Overview

U.S. equities continued their upward momentum in the third quarter, with the S&P 500 Index up 8.1%. The benchmark Russell Midcap Growth Index rose 2.8%. Investor optimism was fueled by better-than-feared tariff outcomes, the passing of the One Big Beautiful Bill Act in July, anticipated interest rate cuts — the Federal Reserve delivered with a 25-bps cut in September and signaled further easing — and robust corporate earnings.

The ClearBridge Growth Strategy outperformed the benchmark for the second straight quarter, supported by a broad base of contributors, reflecting our commitment to diversified growth rather than a reliance on a few standout names or contributing factors. Performance was again propelled by exposure to leading themes such as artificial intelligence (AI) and cryptocurrency, with holdings like Broadcom, AppLovin, Palantir and Robinhood delivering notable gains. But the portfolio's strength extended beyond these areas, underscoring the value of balanced positioning.

Strategy performance was driven by a combination of strong stock selection and strategic sector positioning. Broadcom, a multidecade holding that remains the Strategy's top position, stood out after announcing a fourth customer for its specialized XPU chips geared to AI workloads, underscoring its leadership in

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the [market for custom silicon in AI applications](#), which is seeing robust overall demand. Palantir also contributed meaningfully, as its role in infrastructure software positioned it to capitalize on the accelerating adoption of AI across industries. These exposures were complemented by gains in financials, where Robinhood saw notable share growth, fueled by increased interest in cryptocurrency and a series of new product launches.

Strength was not limited to IT and financials. In industrials, defense contractor L3Harris benefited from heightened demand for spending on air and missile defense as well as appetite for investment in communication and space capabilities. Media company TKO delivered a solid quarter and struck an attractive seven-year deal with Paramount for its UFC rights, highlighting the value for premium content.

The quarter saw pockets of weakness among consumer discretionary holdings like Chipotle, CAVA and Airbnb, reflecting macro uncertainty and a softer spending environment. However, the Strategy remains meaningfully underweight the sector. Additionally, we had bright spots in consumer staples such as the outperformance of off-priced retailer TJX. The company's stock reached new highs after delivering strong same-store sales and margin expansion this quarter, nicely exemplifying the resilience and durability we seek in our steady compounders.

Application software names such as HubSpot and ServiceNow also faced pressure as concerns around AI disintermediation continued to weigh on the sector. That said, we have reduced our exposure to this area within technology.

Portfolio Positioning

We remained consistent in our playbook — trimming winners on strength and reallocating capital into newer opportunities with attractive risk-reward profiles. The Strategy added four new positions during the quarter, adding further diversification from a stock and sector perspective, and continuing to reduce underweights to areas such as consumer discretionary and industrials.

Our largest addition was On Holding, a disruptive Swiss designer of premium footwear and apparel that currently has ~2% share of the global athletic footwear market. We believe the company is well-positioned to continue gaining market share through a combination of growing its brand awareness and wholesale presence. We also see room for it to increase its brick-and-mortar footprint and expand beyond running into new sports and apparel categories. While consumer spending cycles and competition remain risks, we are encouraged by the company's premium-positioned brand, which is currently resonating with consumers.

Also in the disruptor category, we added Roblox, the leading user-generated gaming platform that serves over 100 million daily

active users globally. Roblox is experiencing a re-acceleration in growth due to improved discovery algorithms and AI driving increased velocity of game development. We believe Roblox will continue driving strong revenue growth, helped by user expansion into older cohorts and international markets, as well as growth levers, such as advertising, that are still early stage. With high incremental margins, we expect continued margin expansion and improving returns as engagement and revenue rise.

Natera, in the health care sector, is a molecular diagnostics company that specializes in cell-free DNA testing across oncology, women's health and organ health. We believe Natera has a long runway for growth as adoption of minimal residual disease (MRD) testing, a nascent post-cancer treatment area, increases. The company has multiple opportunities to broaden its MRD portfolio and extend its reach globally. While Natera is investing heavily in oncology today, its core women's health business is currently profitable, allowing the company to be self-funded.

Finally, XPO, the fourth-largest less than truckload (LTL) provider in North America, adds to our cyclical growth exposure. Under new leadership, including the addition of a chief operating officer with 25+ years of experience in the LTL industry, the company is improving service levels and should be able to drive better pricing. Combined with an improved business mix and new additional services, XPO is poised to expand margins. While the company would benefit from renewed transport demand, its self-help efforts should enable XPO to outperform peers should a tepid freight environment persist.

True to our focus on balance and managing downside risks, we also stayed disciplined in exiting positions where our investment thesis had evolved from its original premise, which was the case with our exits from UnitedHealth Group and Accenture.

Managed care provider UnitedHealth Group has been in the portfolio for several decades, providing steady returns to shareholders over much of that time. We had already trimmed the position significantly over the last several years at meaningfully higher prices than the stock is currently trading today, as the outlook for growth in its key Medicare Advantage business had become more challenged. We further reduced the position earlier this year on increased cost pressure and regulatory risk. While UnitedHealth should have an opportunity to stabilize its benefits business in the upcoming annual pricing cycle and we are encouraged by returning CEO Stephen Helmsley's strong operating track record, we are concerned that the challenges the company faces, particularly at its health services unit Optum, will take time to address. Given this, we took action to exit the remainder of our position.

We also exited IT consultant Accenture as DOGE-related spending cuts are weighing on the company's federal business and creating uncertainty for Accenture's fiscal year outlook. As such, we opted to reallocate capital toward higher-conviction opportunities such as newer positions Axon and Howmet Aerospace.

Outlook

Looking ahead, we remain focused on maintaining a balanced portfolio that can capture upside in strong markets while providing downside protection during periods of volatility. While monetary easing and potential regulatory changes could provide tailwinds in 2026, we appreciate that many stocks have begun to price in a more optimistic environment and remain cognizant of a number of economic and geopolitical risks that could derail the market's current momentum.

While consistent in applying our orientation as long-term investors, we remain vigilant in monitoring stock-specific and sector allocations, trimming positions in areas facing headwinds or where valuation has become more extended and reallocating capital to opportunities with more attractive risk-reward profiles. This disciplined approach ensures that the Strategy maintains a healthy balance between offensive growth drivers and defensive stability, positioning it to perform well across a range of market scenarios.

Portfolio Highlights

The ClearBridge Growth Strategy outperformed its Russell Midcap Growth Index benchmark in the third quarter. On an absolute basis, the Strategy produced gains across seven of the nine sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while the consumer discretionary sector was the main detractor.

Relative to the benchmark, stock selection and sector allocation contributed to performance. In particular, stock selection in IT and financials and an overweight to communication services drove results. Conversely, stock selection in the communication services, consumer discretionary, health care and materials sectors detracted from results.

On an individual stock basis, the leading relative contributors to performance were AppLovin, TE Connectivity, Broadcom, Robinhood Markets and L3Harris Technologies. The primary detractors were Vertex Pharmaceuticals, Chipotle Mexican Grill and HubSpot, our underweight to Roblox and not owning Astera Labs.

In addition to the transactions mentioned above, we closed positions in Paylocity in industrials and Ultragenyx Pharmaceutical in health care.

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