



## Large Cap Growth Strategy



**Erica Furfaro**  
Managing Director,  
Portfolio Manager



**Margaret Vitrano**  
Managing Director,  
Portfolio Manager

### Key Takeaways

- ▶ Momentum carried markets higher on strong earnings and easing geopolitical concerns, while the Russell reconstitution and SpaceX's historic IPO significantly reshaped large cap growth benchmarks.
- ▶ The Strategy's move to a non-diversified mandate gives us greater flexibility to manage risk and express our highest-conviction views.
- ▶ Although the Strategy underperformed for the quarter, we believe benchmark changes, broader market participation and continued AI infrastructure leadership create a strong setup for alpha generation in the second half of 2026.

### Market Overview

Equity markets rallied in the second quarter, fueled by robust corporate earnings and optimism that a U.S.-Iran ceasefire would bring down commodity prices and temper geopolitical risk. Despite wavering sentiment for AI investments late in the period, the S&P 500 Index finished up 15.2%, its best quarterly showing since 2020, while the benchmark Russell 1000 Growth Index advanced 16.7%.

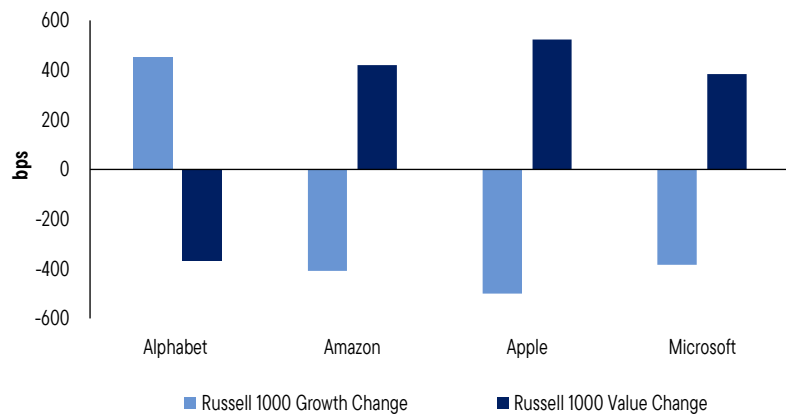
While markets are constantly evolving, we witnessed an acceleration of those normal fluctuations in June, highlighted by unprecedented changes to large cap benchmarks in the Russell U.S. Indexes Reconstitution and [SpaceX completing the largest initial public offering](#) in history.

The Russell rebalance substantially reduced the weighting of the Magnificent Seven in the Russell 1000 Growth Index (RLG), with Apple, Microsoft and Amazon shifting toward the Russell 1000 Value Index while Alphabet's weight increased (Exhibit 1). Factoring in the net effect of these changes, the index saw a reduction in top-heavy concentration, which we view as a welcome change. At the same time, the rebalance has caused the index to become more momentum-oriented, with Micron Technology entering the benchmark at an almost 400 basis point weighting the most immediate example. We began repositioning the portfolio for these changes in advance of the rebalance and, although we are confident in our positioning entering the third quarter, we will continue to refine our exposures as the market evolves. Our objective remains to express our highest-conviction ideas while also appropriately managing risk among benchmark holdings.

Effective in May 2026 following shareholder approval, the Strategy shifted its classification from diversified to non-diversified. This eliminates requirements that had previously capped holdings of 5% or

more from accounting for greater than 25% of assets. While the Strategy's investment objective hasn't changed, by becoming non-diversified we gain greater flexibility in how the portfolio is managed. This enables us to adjust to significant reductions in benchmark weightings for Microsoft and Amazon.com while not being prevented from adding back to those positions over time. Alphabet is another good example of the greater latitude we can apply to the portfolio, as we adjusted the position weighting from 3.5% at the end of March to 7.1% by the end of June in anticipation of the Russell rebalance.

Exhibit 1: Significant Mega Cap Benchmark Changes



Changes measure weighting of each stock on June 26 in each index. Source: FactSet.

### Portfolio Positioning

During the quarter we added to several existing positions in addition to Alphabet: Arista Networks, a leading maker of high-speed switches enabling high-speed data transfer within server racks; Blackstone, an alternative asset manager; and Tesla, an EV and battery storage manufacturer. With semiconductors becoming more than 30% of the RLG, we also initiated a position in Micron, a leading memory provider that we believe is well-positioned to benefit from growing AI infrastructure investment as AI data centers require significantly more memory than traditional computing systems. We see Micron as a differentiated way to gain exposure to the AI buildout while diversifying our semiconductor holdings.

Our participation in the SpaceX IPO also keeps the portfolio in step with a risk-on benchmark. A diversified aerospace and communications company, SpaceX competes in several large addressable markets with a significant technology lead versus peers. Its core competitive advantage is its proven ability to reuse rockets, which materially lowers the cost of delivering payloads into orbit. This capability is supported by the company's vertically integrated approach to rocket design, manufacturing and launch operations. By combining SpaceX's operations with Starlink, the dominant satellite Internet provider, the company plans to extend this playbook into AI infrastructure scaling orbital data center compute. SpaceX also has demonstrated the ability to lower the cost of scaling data center compute terrestrially through innovative techniques like onsite battery power generation. Moving

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Alphabet is an example of the greater latitude we can apply to the portfolio, as we doubled its weighting ahead of the Russell rebalance.

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forward, key questions are around execution as SpaceX scales its next generation of large payload rockets, enabling the company to unlock multiple new end markets.

To enable these moves, we substantially trimmed exposure to Amazon.com and Microsoft.

The Strategy also exited a position in Intuit due to growing concerns that AI could commoditize parts of its tax business. In order to maintain competitiveness, management appears to recognize the need to reinvest in the TurboTax platform, which we believe could weigh on forward guidance. We also see rising competition to Intuit's QuickBooks small business finance software platform from both traditional and AI peers. Our sale follows similar logic applied to other software companies over the past few years: exiting companies with weak or weakening core businesses that do not have a clear AI strategy to compete in an increasingly complex environment.

### Outlook

Amid this rapidly evolving market, the Strategy underperformed its benchmark for the quarter. Despite recent headwinds, the transformation of the RLG and the greater investment flexibility we have gained through the Strategy's transition to a non-diversified mandate gives us renewed confidence in our ability to deliver alpha for shareholders. While maintaining a well-rounded portfolio in a concentrated market with a focus on valuation, longer-term ownership and delivering consistent results through the business cycle, we have gained a more effective structure to capitalize on our best ideas. Being non-diversified will also allow us to better manage heightened volatility, especially at the top of the portfolio, with more potential mega cap IPOs on the horizon and the RLG now going through a reconstitution every six months.

In the second half of 2026, we will continue to recalibrate our portfolio exposures and evaluate the best ways to represent AI. One way to do this is by assessing the AI lifecycle: the first beneficiary in 2024 was GPU leader Nvidia; 2025 saw Broadcom take market share in custom silicon for AI applications; in 2026 leadership has shifted to AI infrastructure — the picks and shovels providers of memory and various needs for data centers. These companies are leading an information technology (IT) sector generating earnings growth that is twice as fast as the overall market. Such earnings power allays the risks of a growth stock bubble, although we remain concerned about when massive hyperscaler capex will produce a compelling return on investment.

We entered the year expecting a broadening market, a development sidelined by war in the Middle East. With the conflict nearing a resolution and commodity prices down, we believe the Fed could look past recent upticks in inflation and cut interest rates in the second half of 2026. We would expect such an easing of financial conditions to promote greater market participation and benefit focus areas like industrials.

## Portfolio Highlights

The ClearBridge Large Cap Growth Strategy underperformed its Russell 1000 Growth Index benchmark in the second quarter. On an absolute basis, the Strategy delivered positive contributions across six of the eight sectors in which it was invested (out of 11 sectors total). The primary contributor to performance was the IT sector while the health care and communication services sectors were the main detractors.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in the communication services, health care and industrials sectors, overweighted to the communication services and materials sectors and an underweight to the IT sector weighed on results. On the positive side, stock selection in the IT, consumer discretionary and consumer staples sectors, along with an underweight to consumer staples, contributed to performance.

On an individual stock basis, the largest relative detractors included Netflix and Intuitive Surgical as well as not holding Advanced Micro Devices, Lam Research and KLA. The largest relative contributors were Palo Alto Networks, ASML, Taiwan Semiconductor Manufacturing, Datadog and an underweight to Microsoft.

In addition to the transactions mentioned above, we [initiated a position in Boston Scientific](#) in the health care sector and [closed out of Parker-Hannifin](#) in the industrials sector and S&P Global in the financials sector.

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