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Dividend Strategy

Key Takeaways

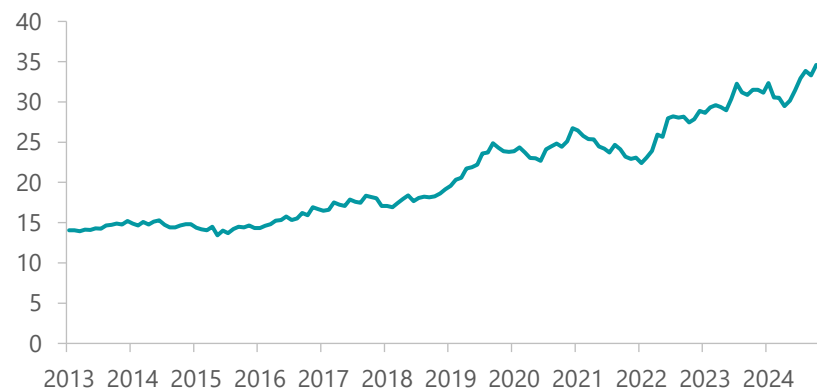
- ▶ The Strategy profited from its exposure to AI, though we lagged the index as our dividend mandate and our disciplined adherence to risk management has us underweight the IT sector.
- ▶ Our flexible approach to dividends distinguishes us and has served us well in growthier areas of the market.
- ▶ With investors continuing to be complacent in the face of historically high valuations, we maintain an emphasis on investments with more modest valuations; we believe this positions us both for better potential appreciation and lower downside risk.

Market Overview

The third quarter was a strong one for the stock market and ClearBridge Dividend Strategy. AI enthusiasm continued to propel the S&P 500 Index higher, as evidenced by sizable gains in the information technology (IT) sector as well as tech proxies in the communication services and consumer discretionary sectors. The Strategy profited from its exposure to AI, though we lagged the index as our dividend mandate and our disciplined adherence to risk management has us underweight the IT sector.

The market continues to be extremely concentrated. IT represents more than 30% of the total market (and that's without counting tech names reclassified into other sectors in recent years) and the top 10 names represent more than 40% of the total market, both all-time highs (Exhibits 1 and 2).

Exhibit 1: IT's Growing Weight in the S&P 500



As of Sept. 30, 2025. Source: ClearBridge Investments, FactSet.

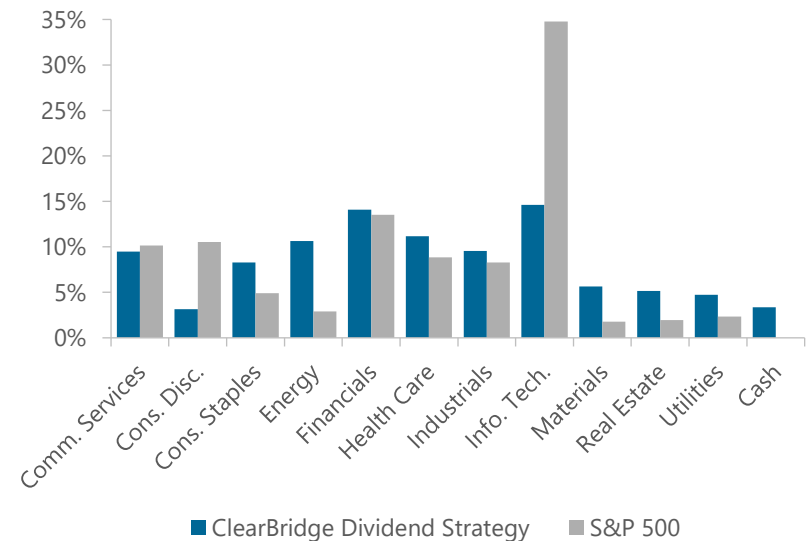
Exhibit 2: Sum of Top 10 Largest Weights in S&P 500 Index



As of Sept. 30, 2025. Source: ClearBridge Investments, S&P, FactSet, and Bloomberg.

With the market going “all-in” on the AI trade, we have maintained a more traditional approach to diversification, risk management and portfolio construction. Our positioning enables us to benefit nicely from our technology investments — such as TE Connectivity, a strong contributor on the strength of its AI-enabled sensors and embedded systems — but can reduce the risk of significant losses should enthusiasm for AI wane or hit an air pocket (Exhibit 3).

Exhibit 3: ClearBridge Dividend Strategy’s Diversification by Sector



As of Sept. 30, 2025. Source: ClearBridge Investments, FactSet.

Our flexible approach to dividends distinguishes us and has served us well in growthier areas of the market. Every stock we own pays a dividend, but we do not have a minimum yield threshold or one-size-fits-all method. We like stocks with long track records of consecutive dividend increases, but that is not a requirement. Over the years, several of our best contributors have been purchased shortly after

the companies initiated dividends. These stocks do not have dividend track records and often start with below-average payouts.

While we may buy stocks with low yields, we will only do so when the company is committed to growing its yield meaningfully over time. The dividend must be a key plank in the capital allocation philosophy, not merely a nominal nod to shareholders. Dividend investors with rigid playbooks — requiring minimum yields or multiyear histories of dividend increases — often miss these opportunities. In the last two years, we have moved quickly to buy Alphabet, Meta Platforms and T-Mobile after they initiated dividends. All three have proven quite profitable.

During the quarter, we benefited from our positions in Broadcom and Oracle, both of which are major players in AI. Our experiences with these two names are emblematic of our broader approach to investing. Each was bought on its own merits, based on a positive assessment of its fundamental outlook married with a constructive underwriting of its risk/reward. We purchased them in 2020, well before AI became an investable theme. Over the years, both companies have executed well in their traditional categories and taken advantage of opportunities in AI as they have unfolded. We could not have predicted the phenomenal courses either has charted in navigating the AI wave, but by investing in great companies with talented management teams, we have profited handsomely. Both stocks surged in September on robust earnings and outlooks.

Defense holdings Northrop Grumman, RTX and recent addition L3Harris Technologies performed well in an environment of heightened geopolitical tensions. Sempra's recent moves to focus on its regulated U.S. utilities businesses and strengthen its overall financial position spurred its shares higher. Consumer staples such as Nestle and Coca-Cola took a back seat in a risk-on market, as did Comcast, due to heightened competitive pressures in broadband. From a sector perspective, our overweights to consumer staples, real estate and materials all detracted from performance.

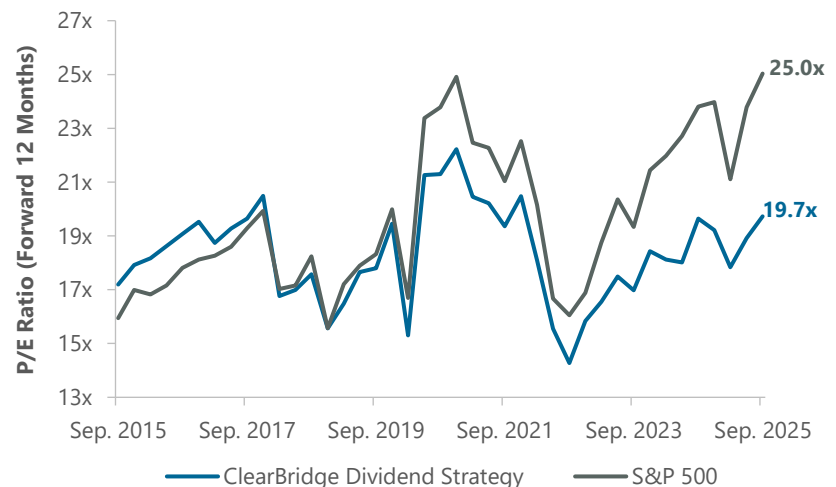
We initiated new positions in global insurance broker Marsh & McLennan, and Old Dominion Freight Line, a less-than-truckload (LTL) shipping company. Marsh & McLennan is a high-quality compounder, overly discounted due to transitory softness in industry pricing. We funded a portion of the purchase by trimming Travelers, managing our overall insurance-related exposure. Travelers remains a terrific insurance company and a core holding, but the valuation on a price-to-book ratio has become less favorable as the stock has run. Old Dominion Freight Line is a best-in-class industrial company with a pristine balance sheet, strong profitability and fabulous returns. Earnings are currently burdened by a weak volume environment, providing an attractive entry point. Within transports, we also increased our position in Union Pacific, as we are constructive on its proposed merger with Norfolk Southern.

After Oracle's strong quarterly earnings sparked a sharp increase in the share price, we took profits and reduced our position size materially. We continue to be constructive about Oracle's outlook, but we believe that optimism is accurately reflected in the shares. As both UnitedHealth and Diageo underwent leadership changes amid uneven fundamental execution, we trimmed both holdings.

Outlook

As we head into the final quarter of the year, our outlook is mixed. The economy remains resilient and looks likely to muddle through, provided the government shutdown is not prolonged. Valuations, however, are on the fuller side, restraining the outlook for capital appreciation. With investors continuing to be complacent in the face of historically high valuations, we continue to emphasize investments with more modest valuations. The gap between the valuation of our portfolio and the market remains as wide as it has ever been. We believe this positions us both for better potential appreciation and lower downside risk (Exhibit 4).

Exhibit 4: ClearBridge Dividend Strategy Trading at a Meaningful Discount



As of Sept. 30, 2025. Source: ClearBridge Investments, FactSet.

The combination of higher tariffs, a weaker dollar and a smaller labor pool increases the risk that inflation will remain higher for longer than investors expect. Should inflation prove sticky, dividend growth will be a boon to investors.

We believe dividend growers are the perfect all-weather investment. Dividends cushion the bumps of volatile markets, provide much-needed income in low-return environments, and preserve and grow purchasing power in inflationary environments. We believe our companies are well-positioned to deliver continued increases, and we feel good about our holdings.

Portfolio Highlights

The ClearBridge Dividend Strategy underperformed its S&P 500 Index benchmark during the third quarter. On an absolute basis, the Strategy saw positive contributions from nine of 11 sectors in which it was invested for the quarter. The IT, industrials and health care sectors were the main positive contributors, while the consumer staples and real estate sectors were the detractors.

On a relative basis, underperformance was driven primarily by sector allocation. In particular, an underweight to IT and an overweight to consumer staples detracted. Stock selection in the communication services and real estate sectors also detracted, while stock selection in the industrials, IT, health care and utilities sectors proved beneficial.

On an individual stock basis, the main positive contributors to relative returns were Oracle, Sempra, Amazon.com (not held), TE Connectivity and Northrop Grumman. Positions in Nvidia (not held), Apple, Alphabet, Tesla (not held), and Nestle were the main detractors from relative returns in the quarter.

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