



Mid Cap Growth Strategy



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Key Takeaways

- ▶ Mid cap growth equities posted modest gains in the third quarter, navigating a complex environment shaped by monetary policy shifts, stabilizing earnings and improving investor sentiment.
- ▶ The Strategy outperformed its benchmark, as strong contributors within IT and consumer staples sectors overcame detractors within consumer discretionary sector.
- ▶ The third quarter was a reminder that leadership within mid growth stocks is selective, not broad. While near-term volatility is likely to remain a feature of markets, we believe the Strategy is well-positioned to benefit from its fundamental, bottom-up philosophy.

Market Overview

Mid cap growth equities posted modest gains in the third quarter, navigating a complex macro environment shaped by monetary policy shifts, stabilizing earnings and improving investor sentiment. The U.S. Federal Reserve's decision to cut rates in September marked a meaningful pivot toward easing, helping to alleviate discount rate headwinds, particularly supportive for rate-sensitive sectors, and to catalyze renewed interest in cyclical and innovation-led areas of the market. Despite these positives, growth trailed value for the quarter, with the benchmark Russell Midcap Growth Index returning 2.8% compared to the 6.2% and 5.3% for the Russell Midcap Value Index and Russell Midcap Index, respectively.

Investor sentiment continued to build as the passage of the One Big Beautiful Bill and incremental progress on trade agreements helped to ease policy uncertainty, allowing companies to begin executing previously delayed strategic decisions. Earnings estimates, which had been previously revised downward, broadly stabilized, with pockets of resilience in technology and AI-related sectors. While parts of the economy continued to "bounce along the bottom," particularly in non-residential construction and discretionary segments, the anticipated post-Liberation Day downturn has so far failed to materialize. Instead, we are encouraged by early signs of recovery and normalization in corporate decision making, setting the stage for a more constructive environment heading into year end.

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Portfolio Performance

The ClearBridge Mid Cap Growth Strategy outperformed its benchmark in the third quarter, primarily driven by stock selection in the information technology (IT), consumer staples and health care sectors, slightly tempered by detractors from the consumer discretionary and financials sectors.

Within IT, AppLovin was the standout performer. The company, which provides mobile app user acquisition and app monetization platforms, saw its shares surge during the quarter as investors responded positively to strong second-quarter earnings and growing optimism around its emerging e-commerce business, which is expected to launch in the fourth quarter. We believe that its AI-driven demand generation capabilities remain best-in-class, positioning the company for incremental cash flow growth. Monolithic Power Systems also contributed meaningfully. The analog semiconductor company benefited from idiosyncratic execution and renewed confidence in its positioning within the AI supply chain, dispelling earlier concerns about market share erosion.

Consumer staples also contributed positively, led by strong gains in Performance Food Group, which advanced on constructive activist engagement and speculation around a potential strategic combination with US Foods. Consistent top contributor Casey's General Stores also continued its streak, benefiting from resilient in-store traffic and margin expansion.

Our holdings in the consumer discretionary sector weighed on performance, and particularly our restaurant holdings, which saw increased concerns over consumer spending. Chipotle Mexican Grill faced difficult comps amid a management transition and pulled back alongside its fast-casual restaurant peers, with losses further exacerbated by narratives surrounding growing market competition and saturation. Likewise, Wingstop also declined as real-time spending data has pointed to softer third-quarter spending trends. However, the sector did include a bright spot in Expedia, which operates online travel platforms, whose stock rallied on strong B2B bookings and margin expansion driven by advertising monetization.

Financials also proved a modest drag on performance, with several holdings under pressure from macro volatility and company-specific disappointments. Tradeweb Markets proved our largest detractor in the sector as its market share gains have shown signs of slowing against its primary competitors, despite robust core business fundamentals. Corpay, a payments company that helps businesses consumers manage vehicle-related, lodging and corporate payments, declined due to concerns over the company's exposure to South American economies and uncertainty over how it will negotiate an environment where stablecoins become a bigger presence — a reason that led us to ultimately exit the position. Finally, Shift4

Payments, a software and payment processing solutions company, saw a similar pullback by its customers in the restaurant and hospitality industries over weaker consumer discretionary spending.

Portfolio Positioning

We added communication services company Roblox, the leading user-generated gaming platform. Roblox is experiencing a fundamental re-acceleration in growth due to improved discovery algorithms and AI driving faster game development and growing opportunities in advertising. With a dominant position from its network effects, a plethora of creator tools and the ability to grow its virtual economy, we believe that Roblox will continue to drive strong top-line revenue growth. Secular tailwinds such as expansion into older age demographics and internationally, as well as margin expansion opportunities as existing user engagement continues to grow, also position the company well.

We also initiated a position in APi Group, in the industrials sector, which is a leading provider of safety, specialty and industrial services. The company is executing well on organic growth initiatives and has demonstrated a strong ability to compound earnings through disciplined M&A. We believe APi's exposure to secular growth areas such as fire protection and infrastructure services, combined with its scalable business model, offers attractive long-term upside.

On the sell side, we exited our position in Deckers Outdoor in the consumer discretionary sector. While the company has historically executed well across its footwear brands, including HOKA and UGG, increasing competitive pressures in the sneaker market led us to search for a more balanced risk-reward profile elsewhere.

Outlook

The third quarter was a reminder that leadership within mid growth stocks is selective, not broad. While a handful of companies with differentiated technology, strong pipelines or disruptive business models have been rewarded, others continue to struggle with slowing demand or competitive pressures. We expect this pattern of heightened dispersion to persist.

Against this backdrop, our focus remains on identifying businesses with secular growth drivers that can compound through varied market environments. In technology, this means companies positioned at the heart of digital transformation or AI-driven innovation; in health care, it means innovators with differentiated therapies and platforms addressing large unmet needs; and in industrials we see long-term potential in those using technology and scale to build more efficient, resilient businesses.

While near-term uncertainty is likely to remain a feature of markets, we believe the Strategy is positioned to benefit from those

companies able to sustain durable growth in earnings and cash flow, and we are confident that our selective approach can continue to add value in a number of different economic backdrops.

Portfolio Highlights

The ClearBridge Mid Cap Growth Strategy outperformed its benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions across seven of the 11 sectors in which it was invested. The leading contributors were the IT and health care sectors, while the financials sector proved the greatest detractor.

On a relative basis, overall stock selection contributed the most to performance. Specifically, stock selection in the IT, consumer staples, health care and energy sectors, as well as an underweight to the financials sector, proved beneficial. Conversely, stock selection in the consumer discretionary, communication services, industrials, financials and real estate sectors weighed on performance.

On an individual stock basis, the biggest contributors to relative returns during the quarter were AppLovin, United Rentals, Performance Food, Baker Hughes and not owning Gartner. The largest detractors from relative returns were Chipotle Mexican Grill, Monday.com, Roblox, Tradeweb Markets and not owning Astera Labs.

In addition to the transactions mentioned above, we exited positions in Keysight Technologies in the IT sector, Trade Desk in the communication services sector and IDEX in the industrials sector.

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