

# ClearBridge Small Cap Fund

Class C: LMASX Class A: LMSAX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** Despite an optimistic start to the year, the threat of tariffs and trade policy changes under the new Trump administration and a rotation out of AI-related tech stocks spurred volatility and uncertainty that sent equities lower for the first quarter. A risk-off mentality weighed particularly hard on small cap stocks, generally thought to be more fragile than their larger cap peers, resulting in the benchmark Russell 2000 Index returning -9.48%, nearly 500 basis points lower than the Russell 1000 Index and over 500 basis points lower than the S&P 500 Index. Concerns over the economic ramifications of new tariffs, declining consumer sentiment and obfuscation of the trajectory of interest rates and earnings helped value stocks seize leadership from growth stocks with the Russell 2000 Value Index returning -7.74% compared to the -11.12% of the Russell 2000 Growth Index.
- **Contributors:** Holdings in Corcept Therapeutics, Intra-Cellular Therapies, MP Materials. Stock selection in the health care, consumer discretionary and materials sectors.
- **Detractors:** Holdings in Allegiant Travel, PROG, Encore Capital. Stock selection in industrials, financials, consumer staples.
- **Outlook:** While small cap businesses are thought to be generally more fragile than their larger-cap counterparts, they are also more domestically focused, meaning that in a prolonged trade war, they may turn out to be even more attractive at these valuations.

## Performance Review

- The Fund outperformed (without sales charges) its Russell 2000 Index benchmark during the first quarter.
- Despite the prospect of higher rates and continued policy uncertainty from new and controversial leadership at the Department of Health and Human Services, the health care sector was the primary contributor to both absolute and relative returns in the first quarter
- Our top individual performer during the period was Corcept Therapeutics, which manufacturers drugs used to treat severe endocrinologic, oncologic, metabolic and neurologic disorders, saw its share price surge late in the quarter after it announced positive data from a Phase 3 trial for ovarian cancer indication of its drug. This represents a potentially significant market expansion opportunity, and further positive data may propel its drug to become a leading treatment for ovarian cancer.
- Industrials company Allegiant Travel is an airline and hospitality company specifically catering to leisure travelers. The company's share price declined after the company announced that it was reducing the value of its Sunseeker Resort. Additionally, headwinds to the company's stock included the resignation of its Chief Operating Officer in early March and economic uncertainty may put additional pressure on consumer spending — particularly with regards to leisure and discretionary purchases.
- We made a number of adjustments during the period including swapping our exposure in WaFd for Columbia Banking System - the holding company for Umpqua Bank, which provides banking, mortgage and other financial services – and within health care by adding Privia and exiting Lantheus.

## Outlook

- The outlook for small caps is muddled by uncertainty about the U.S. economy under new tariff rules, just as it is for large caps.
- The difference is that small caps have ended the first quarter in the bottom decile of relative valuation versus large caps after years of underperformance. Since tariffs were announced, that difference has only widened.
- While small cap businesses are thought to be generally more fragile than their larger-cap counterparts, they are also more domestically focused, meaning that in a prolonged trade war, they may turn out to be even more attractive at these valuations.

## Top Holdings (% of Total)

Holding	Fund
Corcept Therapeutics Inc	3.13
Murphy USA Inc.	2.40
Bank OZK	1.88
Wintrust Financial Corp	1.77
Home BancShares Inc/AR	1.76
National Bank Holdings Corp	1.74
Portland General Electric	1.67
Matador Resources Co.	1.65
Verona Pharma PLC	1.64
GATX Corporation	1.62

## Sector Allocation (% of Total)

Sector	Fund
Financials	19.52
Industrials	14.49
Health Care	13.97
Consumer Discretionary	10.56
Information Technology	9.80
Real Estate	7.01
Materials	6.53
Energy	5.75
Other	10.20
Cash & Cash Equivalents	2.17

## Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	
Class C	524686474	LMAXX	-6.37	-6.37	-2.94	-1.62	12.54	5.34	9.28	-7.31	-7.31	-3.85	-1.62	12.54	5.34	9.28	1.86	1.85	—	1.00	12/30/1985
Class A	524686482	LMSAX	-6.21	-6.21	-2.20	-0.87	13.40	6.14	11.58	-11.37	-11.37	-7.59	-2.81	12.07	5.51	11.17	1.10	1.07	5.50	—	2/3/2009
Benchmark	—	—	-9.48	-9.48	-4.01	0.52	13.27	6.30	—	-9.48	-9.48	-4.01	0.52	13.27	6.30	—	—	—	—	—	

## Benchmark(s)

Benchmark = Russell 2000 Index

**Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit [franklintempleton.com](http://franklintempleton.com).

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 12/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Maximum sales charges have been updated as of August 15, 2022, please refer the Fund's prospectus for more information.

## What are the Risks?

All investments involve risks, including possible loss of principal. Equity securities are subject to price fluctuation and possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. The investment style may become out of favor, which may have a negative impact on performance. The manager may consider environmental, social and governance (ESG) criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

## Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

The **Russell 1000 Index** measures the performance of the large-cap segment of the U.S. equity universe. Source: FTSE.

The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE.

The **Russell 2000 Value Index** measures the performance of the small-cap value segment of the U.S. equity universe. Source: FTSE.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

## Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. Source: FTSE.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

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**Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at [www.franklintempleton.com](http://www.franklintempleton.com). Please read it carefully.**