



International Value Strategy



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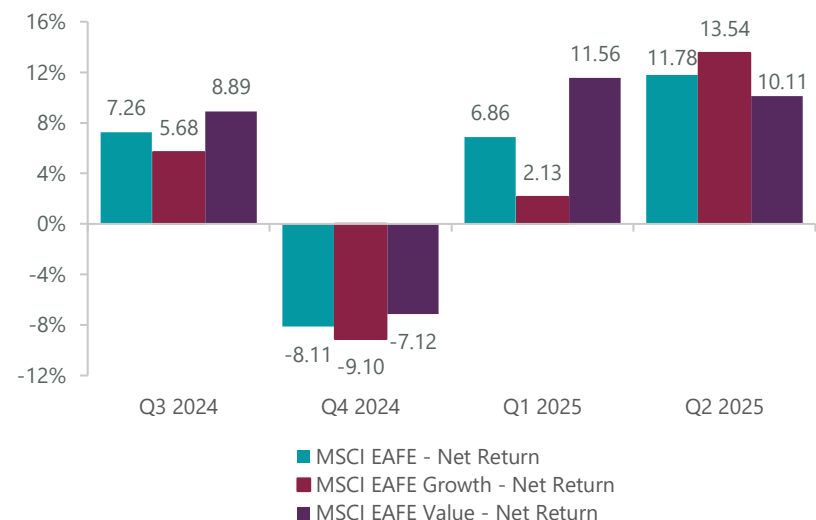
Key Takeaways

- ▶ Global equity markets posted positive returns in the second quarter, as a series of bilateral U.S. trade deals and prospect of greater fiscal stimulus in Europe overcame tariff concerns, signs of economic slowing and geopolitical tensions.
- ▶ The Strategy outperformed in the second quarter, boosted by strong stock selection in industrials and financials, as well as regional selection within emerging markets and Europe.
- ▶ An uncertain future allows us to venture beyond what is comfortable to find high-quality companies at a significant discount.

Market Overview

Global equity markets posted positive returns in the second quarter, with a series of bilateral U.S. trade deals and prospect of greater government spending in Europe overcoming tariff concerns, fears of economic slowing and geopolitical tensions. As a result, the core MSCI EAFE Index rose 11.8%, outperforming the 10.9% return of the S&P 500 Index. Strong performance in the more cyclical communication services and information technology (IT) sectors helped growth stocks reclaim market leadership with the MSCI EAFE Growth Index (13.5%) outperforming the MSCI EAFE Value Index (10.1%).

Exhibit 1: MSCI Growth vs. Value Performance



As of June 30, 2025. Source: FactSet.

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that the market for
international equities
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Early April saw a surge in market volatility following the announcement of “Liberation Day” tariffs applied across U.S. trading partners, almost all of which were much more severe and wide-ranging than expected. However, stocks rallied strongly the following week after the White House announced a 90-day delay in tariff implementation. The stabilizing of trade channels and easing of export controls brought relief and buoyed international stocks.

In Europe, Germany’s infrastructure spending bill and planned increases in defense spending by EU members provided a tailwind on the hopes that an increase in government stimulus would reignite the eurozone’s economy. Although these long-term plans are still in the incubation stage, both business and consumer confidence have begun to rise on the prospects.

Investors also closely watched central banks for their assessment of national and global economies as concerns of an economic slowdown grew. The U.S. Federal Reserve maintained steady rates but signaled a more dovish stance as inflation eased and labor market momentum slowed, while the European Central Bank cut rates in June as a response to softening inflation and weak eurozone growth. Meanwhile, the Bank of Japan paused its policy normalization as it awaits the outcome of tariff negotiations. Continued dovish monetary policy helped to further bolster international equities, especially in interest-rate-sensitive sectors like IT and real estate.

Despite broadly positive tailwinds, however, there continue to be a number of dark clouds on the horizon. In the U.S., businesses and consumers have begun to rein in spending amid a cloudy economic outlook. In China, the increase in goods production is more likely a result of businesses and consumers seeking to beat tariff implementation than a sustained pickup — potentially to the detriment of future orders. And, in the Middle East, a tenuous cease-fire between Israel and Iran requires only a spark to reignite into a conflict that could impact markets globally. However, we believe the outlook for international equities remains strong, with more positive catalysts than negative ones.

Quarterly Performance

The ClearBridge International Value Strategy outperformed its benchmark in the second quarter, boosted by strong stock selection within the industrials and financial sectors, as well as regional selection within emerging markets and Europe.

Our high-quality industrials companies rebounded from a soft first quarter and continue to see strong demand for products and services related to the long-term trends of electrification, the energy transition and infrastructure. One of our top contributors was Siemens Energy, a German power generation and transmission equipment company that continues to demonstrate strong operational and improving financial performance, bolstered by increased electrification investments globally.

Our financials holdings continued their strong performance, driven by banks such as Austria's BAWAG and U.K.-based Lloyds. Large European banks have been major beneficiaries of increasing liquidity as capital is reallocated from the U.S. onto the Continent. Beyond being well capitalized and having strong track records of returning capital to shareholders via dividends and share repurchases, our holdings in the sector should benefit from a steepening yield curve, better than expected loan growth and a lack of signs of credit impairment, in our view. While there is some concern that additional rate cuts in the EU could put pressure on our financials holdings, we are confident that our balanced exposure between banks' net interest income and fee-based revenue should offer resilience.

Health care proved an obstacle to relative performance, largely driven by stock-specific headwinds to our holdings Sanofi and Gerresheimer. French pharmaceutical company Sanofi came under pressure after it revealed disappointing trial data on a phase III trial for a chronic obstructive pulmonary disease (COPD) treatment amid a broader strategic push by the company to advance its internal research and development efforts over the past few years. Meanwhile, Gerresheimer, a German manufacturer of packaging solutions for the health care and cosmetic industries, continues to struggle to gain ground amid an industry-wide backlog of inventory due to overstocking during the COVID-19 pandemic. Despite these persistent headwinds, management has failed to make any meaningful headway during several takeover attempts, further frustrating investors.

From a regional standpoint, our holdings in South Korean companies Shinhan and SK Hynix contributed to outperformance in emerging markets. The companies rallied following the South Korean election, as uncertainty gave way to optimism as the new government is viewed as business and market friendly. Meanwhile stock selection in the U.K. detracted due to concerns that a slowing macroeconomic environment, sticky inflation and a lack of government stability would weigh on investor sentiment.

Portfolio Positioning

We added three new names and exited two during the quarter. One of our new holdings is Amrize, a building products company that was spun out of existing holding Holcim. Domiciled in Switzerland but with many of its operations in North America, the company specializes in cement, concrete and roofing products. Amrize's new management team were instrumental in developing and expanding these business lines within Holcim. With a strong balance sheet and solid margins, we think the company has various avenues for growth and margin improvement.

We also initiated a position in Valterra Platinum, a South African precious metals miner specializing in platinum group minerals. Valterra, which was recently demerged from mining giant Anglo

American, is poised to be a major beneficiary of the increasing demand for platinum due to its use in a variety of applications in electronics, infrastructure and other uses at a significantly higher margin profile than its peers.

We exited our position in New Oriental Education & Technology, a for-profit education and tutoring company in China, due to several quarters of poor performance that spurred questions about the company's long-term growth trajectory. We also exited French electrical company Schneider Electric — which has performed very strongly both fundamentally and in terms of share price — as we believe that the company has reached a fair valuation.

Outlook

The world has certainly given investors much to ponder over the coming months: When, and to what extent, will the Federal Reserve cut rates? What will be the effect of tariffs on inflation and global economic growth? Will European countries enact further defense and infrastructure spending? Will the Chinese government enact further measures should growth continue to be anemic? Although we have some educated guesses, we simply don't know what the future holds. All we can do is lean on our investment philosophy and process to prepare for various outcomes.

Uncertainty, however, often leads to opportunity. As value investors, an uncertain future allows us to venture beyond the boundary of what is known and comfortable to find high-quality companies trading at a large enough discount to more than compensate for the risk. Uncertain demand and competitive dynamics have begun to shake the market's confidence in previous market darlings in industries such as luxury goods, food and beverages, and health care. The rapid change in the trajectory of the U.S. dollar has begun to raise concerns surrounding the earnings of companies that have been significant beneficiaries of the dollar's previous strength. We believe these concerns will present us with attractive opportunities in the future.

Portfolio Highlights

The ClearBridge International Value Strategy outperformed its MSCI EAFE benchmark during the second quarter. On an absolute basis, the Strategy had gains across nine of the 11 sectors in which it was invested, with the industrials and financials sectors being the greatest contributors and the health care sector being the largest detractor.

On a relative basis, overall stock selection and sector allocation effects contributed to performance. Specifically, stock selection in the industrials, financials, consumer discretionary and materials sectors, an underweight to the health care sector and overweight to the IT sector proved beneficial. Conversely, stock selection in and an underweight to the consumer discretionary sector and stock selection in the health care sector weighed on performance.

On a regional basis, stock selection in emerging markets, Europe ex U.K. and Japan benefited performance. Stock selection in the U.K., overweights to the U.K. and emerging markets and an underweight to Asia Ex Japan weighed on performance.

On an individual stock basis, Siemens Energy, SK Hynix, Shinhan Financial Group, Holcim and Nexans were the leading relative contributors to performance. The largest relative detractors were Willis Towers Watson, Sanofi, Gerresheimer, ICON and Shell.

During the quarter, in addition to the transactions mentioned above, the Strategy initiated a new position in Makita in the industrials sector.

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