



International Growth EAFE Strategy



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Key Takeaways

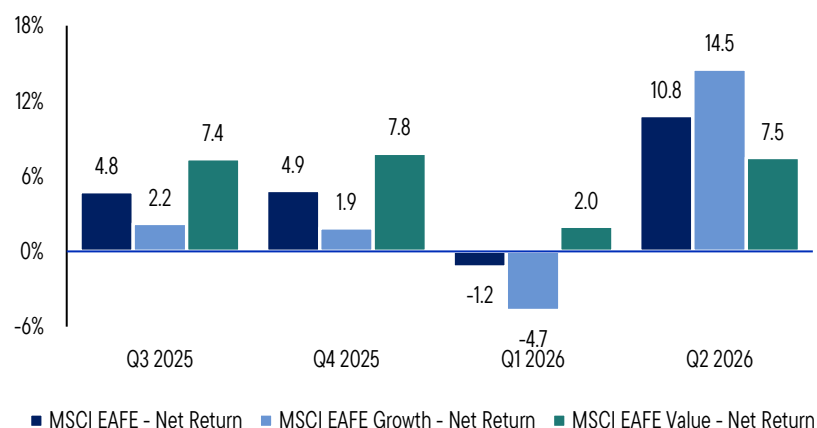
- ▶ International equities rebounded sharply, with growth stocks and AI-linked technology driving outperformance for the Strategy.
- ▶ We increased exposure to AI infrastructure beneficiaries across semiconductors, storage, networking, optical equipment and data center connectivity where supply constraints and pricing power are emerging.
- ▶ Positioning also shifted toward structural growth opportunities in Japan, where governance reforms and AI exposure are driving improved fundamentals.

Market Overview

International equities rebounded in the second quarter as progress toward a resolution of the Iran conflict and an ongoing artificial intelligence (AI) infrastructure buildout led to double-digit gains across both developed and emerging markets. The core benchmark MSCI EAFE Index rose 10.8% while the MSCI Emerging Markets Index advanced 24.1%. Growth stocks regained leadership over value stocks outside the U.S., with the MSCI EAFE Growth Index gaining 14.5% to outperform the MSCI EAFE Value Index (+7.5%) by 700 basis points. Growth has now closed most of the performance gap year to date but still trails value by over 1,300 bps for the trailing 12 months.

From a regional standpoint, Japan (+14.2%) and Europe Ex-U.K. (+12.8%) were the best performers while the United Kingdom (+4.1%) and Asia Ex Japan (+3.7%) lagged the index.

Exhibit 1: MSCI Growth vs. Value Performance

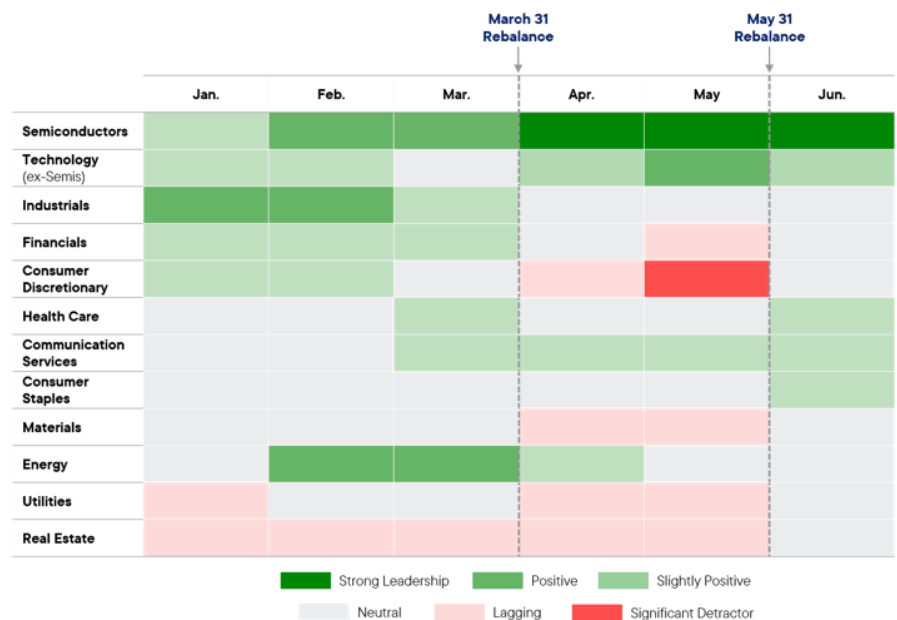


As of June 30, 2026. Source: FactSet.

Semiconductors were among the leading performers in an information technology (IT) sector that rose 55% for the quarter. Spurred by a range of semiconductor and AI infrastructure holdings across Asia and Europe, the ClearBridge International Growth EAFE Strategy outperformed its primary MSCI EAFE benchmark for the quarter.

The Strategy mildly trailed its secondary MSCI EAFE Growth benchmark due to the increasing narrowness of the growth market, which was characterized by both continued AI momentum and reversals in areas like media. The index was also rebalanced in March and May, which was one of our motivations for heightened trading activity in the first half of the year.

Exhibit 2: Growth Sector Leadership Narrowed as 1H Progressed



Relative contribution to benchmark return, MSCI EAFE Growth Index: January – June 2026.
As of June 30, 2026. Source: FactSet.

We view generative AI as no longer just about the most visible technology platforms — it is becoming a global supply chain bottleneck story. The scale of AI capital spending is overwhelming the existing manufacturing base for advanced computing, creating constraints across multiple IT product categories. These constraints have created an advantageous supply/demand environment for key suppliers that were the Strategy's best quarterly performers.

Semiconductor capital equipment maker Tokyo Electron doubled in the quarter while Dutch semi cap names ASML and ASM International as well as Japan's Lasertec also delivered strong gains. Taiwan Semiconductor, the world's largest foundry for high-end chips, was up strongly as it continued to gain pricing power due to its near monopoly on production and advanced technology.

Related to the AI buildout, Italian fiber optic cable manufacturer Prysmian benefited from industry supply constraints, allowing the company to raise prices as demand continues to outpace supply. In addition, Japan's

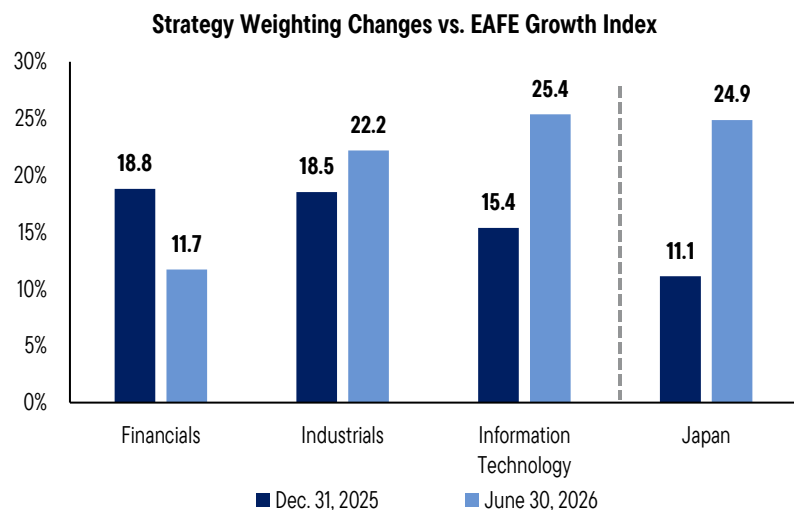
Softbank, a major investor in OpenAI and related LLM and AI infrastructure projects, also rose on positive momentum from accelerating AI capex and the prospect of mega cap IPOs for leading LLMs.

Our AI holdings offset weakness among a handful of industrials names including U.K. defense contractor BAE Systems, Australian logistics provider Brambles and Japanese engineering and defense conglomerate Mitsubishi Heavy Industries. The Strategy was also hurt by not owning several IT stocks in the index that soared due to AI demand, such as Japanese memory manufacturer Kioxia, which we purchased in late June.

Portfolio Positioning

The Strategy initiated 14 new positions during the second quarter while exiting 11 others. These actions significantly increased our IT, industrials and Japan exposure while trimming back financials. The moves were more magnified compared to the MSCI EAFE Growth Index, where we increased the portfolio's IT overweight to nearly 500 bps brought our Japan exposure to an overweight versus the benchmark for the first time in 12 years.

Exhibit 3: Key Strategy Moves



As of June 30, 2026. Source: FactSet.

A primary motivation of our purchases was to increase exposure to a theme with intermediate-term tailwinds: areas of the AI infrastructure buildout where scarcity and supply or service bottlenecks are creating pricing power and/or new sources of demand.

One of the most visible areas where [supply/demand imbalance is enabling companies to raise prices is in semiconductors](#). Memory manufacturers like Japan's Kioxia are seeing higher margins for NAND memory, which powers AI inference workloads. Generative AI is reshaping NAND from a cyclical storage commodity into a strategic data center bottleneck, with agentic AI and token growth among the factors driving demand. Analog chip makers such as new addition Infineon are also benefiting from AI-driven demand for power

management circuits to regulate voltage for specific server workloads, enabling the German company to push through two price hikes in the second quarter alone.

The scale of AI capital spending is creating constraints across other IT product categories including advanced packaging, storage, networking and optical infrastructure. This is benefiting Ibiden, a French manufacturer of advanced packaging equipment for semiconductors and related materials for industrial applications as well as Ireland-based data storage provider Seagate Technology, a key supplier of the hard drives supporting AI data infrastructure, where demand for low-cost, high-capacity storage is structurally rising.

Canada's Celestica manufactures "white box" networking switches that can be paired with chips and software from other vendors. These systems offer lower hardware costs and greater flexibility, enabling hyperscalers to customize their AI networking infrastructure and use it as a competitive differentiator.

Finland's Nokia has transformed itself over the last decade from primarily a wireless and telecom provider into a leading supplier of long-haul optical and lasers that enable high-speed data connectivity over longer distances. With key rival Ciena at capacity, Nokia is expanding its own production capabilities fivefold to meet accelerating demand for connecting multiple data centers into AI clusters. U.K.-based technology conglomerate Halma also has a rapidly growing optical photonics business that allows hyperscalers to enhance the connectivity of AI chips and servers within and across data centers. The company's design and installation business has doubled in revenue over the last two years and is projected to grow approximately 30% annually going forward.

Another theme during the quarter was the repositioning of our financials exposure. We took profits in U.K. bank NatWest Group and Italian bank Intesa Sanpaolo as earnings progression has slowed and to focus on companies with long-term growth drivers at more attractive valuations like Swiss investment bank and wealth manager UBS Group. UBS is expected to announce more favorable capital requirements later in the year, which should lead to higher capital returns. We also swapped French insurer AXA Group for U.K. insurer Prudential, which has improved distribution and streamlined its platforms in Asia. We expect strong inflows from mainland China and Hong Kong clients who want to diversify wealth away from real estate.

In addition, we harvested gains in German exchange and financial data provider Deutsche Boerse and also sold Dutch payments provider Adyen. Some of the proceeds from these shifts were also directed into increasing our industrials exposure, where our focus is on machinery, electrical and aerospace/defense companies.

Other notable moves included the sale of Chinese digital conglomerate Tencent, an out-of-benchmark position that helped fund the increase of our Japan exposure. The sale also highlights our efforts to trim exposure to momentum-driven emerging markets. Unilever was sold as the index has consistently de-emphasized the consumer staples sector

and the complicated nature of the sale of its spreads business to McCormick, which will likely pressure earnings growth in the next year.

Outlook

We see several structural drivers supporting international equities including continued attractive valuations versus the U.S., the potential for further U.S. dollar weakness, improving earnings growth as geopolitical tensions ease and increasing flows toward as broadening increases beyond U.S. mega caps. The biggest driver of this momentum is a global AI capital spending cycle that is benefiting companies across Japan, South Korea, Taiwan and parts of Europe. As active investors attuned to secular growth trends, we are willing to make substantial changes to improve our participation in such trends. While we saw some early signs of success from these efforts in the second quarter, we acknowledge that not all portfolio holdings will be immediately recognized for their growth attributes. This is where diversification and duration can work to our advantage.

Regionally, Japan has developed into our highest-conviction opportunity. Its emergence from decades of deflation, a more pro-business policy environment and ongoing Tokyo Stock Exchange governance reforms are creating a multi-year improvement in corporate profitability and shareholder returns. These structural changes are driving higher returns on equity through balance sheet optimization, share buybacks, improved capital allocation and stronger corporate governance. We have increased our exposure, particularly within industrial companies benefiting from electrification, the energy transition and defense spending.

Looking ahead, we expect AI to evolve beyond today's infrastructure beneficiaries into a much broader enterprise productivity theme. While the portfolio continues to invest across the AI supply chain — including semiconductor equipment, electrical infrastructure, utilities, cable manufacturers and other “picks-and-shovels” businesses — we believe the next phase of AI will be driven by adoption across financial services, health care, manufacturing and other industries, creating significant productivity gains and new business models.

Portfolio Highlights

During the second quarter, the ClearBridge International Growth EAFE Strategy outperformed its MSCI EAFE Index benchmark. On an absolute basis, the Strategy produced positive gains across seven of the 10 sectors in which it was invested (out of 11 total). The primary contributors were the IT, industrials and financials sectors, while energy was the lone detractor.

We have been monitoring on a regular basis and reporting to our clients on the performance of the MSCI EAFE (core), MSCI EAFE Value and MSCI EAFE Growth indexes in order to provide context on market movements for growth investors.

Relative to the MSCI EAFE Index, overall sector allocation contributed to performance while stock selection detracted modestly. In particular, selection in communication services, industrials and consumer

discretionary contributed to performance, as did an overweight to IT and an underweight to energy. Conversely, selection in IT and materials as well as an underweight to financials and overweight to health care detracted from performance.

Relative to the MSCI EAFE Growth Index, overall stock selection and sector allocation detracted from performance. Selection in IT, materials and consumer discretionary and overweights to utilities, consumer staples and energy weighed on results. On the positive side, selection in financials and communication services, an overweight to IT and underweight to industrials contributed to performance.

On an individual stock basis, the largest contributors to relative returns were Tokyo Electron, ASML, Taiwan Semiconductor and ASM International in IT and Prysmian in industrials. The greatest relative detractors were Kioxia in IT, BAE Systems and Brambles in industrials, Agnico Eagle Mines in materials and Hoya in health care.

In addition to the transactions mentioned above, the Strategy repurchased ABB, Recruit Holdings, Atlas Copco and Mitsubishi Electric in industrials and added Anheuser-Busch InBev in consumer staples. We also closed positions in SAP in IT, Agnico Eagle Mines and Heidelberg Materials in materials and Wuxi AppTec in health care.

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