



International Value Strategy



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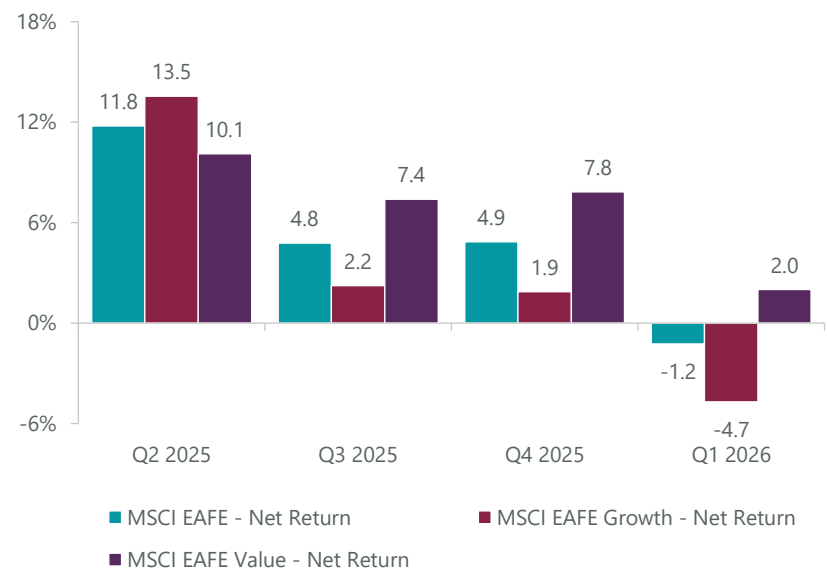
Key Takeaways

- ▶ International markets outperformed the U.S. as higher rates and rising energy prices amplified a rotation out of growth and into value-oriented sectors.
- ▶ The Strategy modestly underperformed in a volatile quarter, with gains from energy and emerging markets offset by stock-specific headwinds in materials and health care.
- ▶ Mostly side-stepping the negative momentum sweeping software and U.S. mega cap stocks, the Strategy benefited from holding a handful of AI winners.

Market Overview

International stocks entered 2026 with a constructive backdrop but were caught up in an equity pullback following the outbreak of the Iran conflict. Despite this, international markets proved more resilient than their U.S. counterparts. The core MSCI EAFE Index declined 1.2% for the quarter compared to a 4.3% decline for the S&P 500. Value stocks outperformed meaningfully, as the MSCI EAFE Value Index returned 2.0%, while the MSCI EAFE Growth Index declined 4.7% as higher rates and concerns around AI disintermediation pressured richly valued growth stocks and drove rotation into defensive, cash-generative sectors such as energy and materials.

Exhibit 1: MSCI Growth vs. Value Quarterly Performance



As of March 31, 2026. Source: FactSet.

It is important not to lose sight of the growth drivers underpinning the case for international value stocks.

The first quarter began with improving global growth expectations, supported by easing trade tensions, European fiscal stimulus and signs of stabilization in China. In Europe, prior rate cuts and Germany's infrastructure spending began to support confidence, while in Japan, a decisive election outcome strengthened the case for fiscal expansion and reform. China's recovery remained uneven, with weak consumption and ongoing property sector challenges, though early signs suggested the housing-driven deflationary cycle was bottoming, supported by stronger exports and investment in strategic industries such as AI and biotechnology. While optimism around AI adoption remained intact, there was a sharp bifurcation between perceived winners (hardware "picks and shovels") and losers (incumbent software and service intermediaries) that generally benefitted ex-U.S. markets due to their greater orientation toward hardware and infrastructure businesses.

This improving narrative was disrupted in March by the escalation of the Iran conflict, which drove a sharp increase in energy prices and introduced new macroeconomic uncertainty. Higher oil and gas prices acted as a tax on growth, pressuring consumers and corporate margins while amplifying inflation. Markets reacted accordingly, with energy-importing regions — particularly in Asia — underperforming alongside more cost-sensitive sectors such as real estate and consumer discretionary. The inflationary impact complicated the policy outlook, as central banks including the Federal Reserve and Bank of England signaled a more cautious approach to rate cuts, while a stronger U.S. dollar further tightened global financial conditions and contributed to a more volatile, macro-driven environment.

Portfolio Performance

The ClearBridge International Value Strategy mildly underperformed its MSCI EAFE benchmark in the first quarter, primarily due to weakness in Japan.

Stock selection in materials weighed the most on relative performance. Wienerberger, an Austria-based producer of clay and concrete building materials, declined as weakness in residential construction across Europe and the U.S. continued to pressure volumes despite management's efforts to control costs. Holcim, a Switzerland-based global supplier of cement and building solutions, also detracted as rising energy costs and inflation concerns clouded the outlook for construction activity; speculation around potential regulatory changes also raised questions about the durability of its competitive advantage in low-carbon production.

ICON, an Ireland-domiciled contract research organization, was another notable detractor. The stock came under pressure amid concerns around slowing demand and the potential for AI to disrupt traditional drug development models. An announced investigation

into accounting practices further weighed on investor confidence and management credibility, and we exited the position during the quarter.

Stock selection in industrials proved mixed. Airbus, the France-based global manufacturer of commercial aircraft, detracted following a reduction in delivery guidance driven by ongoing supply chain constraints, particularly among engine suppliers. While end-market demand remains robust, persistent bottlenecks have delayed production timelines and pushed out deliveries, weighing on near-term earnings visibility. Siemens AG, a Germany-based provider of industrial automation and software solutions, also detracted as concerns around the potential impact of AI on enterprise software models pressured sentiment despite stable underlying fundamentals.

Top contributor Marubeni, a Japan-based trading and industrials company, helped to partially offset these headwinds. Its significant exposure to commodities and industrial end markets drove strong performance, benefiting from higher prices — particularly in copper — amid supply constraints and structural demand tied to electrification and infrastructure investment.

Several of our other holdings also benefited from the appreciation in commodities — particularly in energy. TotalEnergies, a France-based integrated oil and gas company, and Shell, a U.K.-based global energy major, were among the largest contributors as higher oil and natural gas prices supported earnings expectations and cash flow generation. Both companies continue to demonstrate strong capital discipline and shareholder return profiles, which were increasingly valued in a more uncertain macro environment.

Within IT, South Korean semiconductor manufacturers Samsung Electronics and SK Hynix were key contributors. Both companies are leading producers of DRAM and high-bandwidth memory used in data centers and AI applications. Persistent undersupply in memory markets has driven strong pricing power and profitability and, despite increased industry capital expenditures, long lead times for new fabrication capacity are expected to keep supply tight through at least 2027. However, our underweight allocation to Japan, and particularly our more selective exposure to AI beneficiaries outside Japan, weighed on performance, further complicated by IT services provider Fujitsu declining due to concerns around AI disruption.

Portfolio Positioning

Within financials, we initiated a position in Danske Bank, Denmark's largest financial institution and a leading Nordic banking group. We believe the company's return of accumulated excess capital to shareholders is underappreciated, while current earnings expectations appear overly conservative given the potential for improved loan growth and continued operational efficiency.

This was partially funded by our exit of Rakuten Bank, a Japan-based digital banking platform, following renewed discussions around the reorganization of its parent company's fintech operations, creating governance and dilution risks alongside an increasingly competitive deposit growth backdrop.

We improved the quality of our exposure to industrials and factory automation by swapping Japanese holding THK for fellow Japanese industrial SMC. Having seen a recovery in end-market demand and the divestiture of a lower-margin business, motion control manufacturer THK approached our estimate of fair value, prompting us to reallocate into SMC, a manufacturer of pneumatic equipment. SMC's higher-quality business and strong market position offer greater upside potential, and we believe current valuations reflect trough conditions following a prolonged industry downturn, with a recovery in demand and lower capital intensity expected to drive improved margins and cash flow.

Outlook

The initial fog of war has shaken investor confidence toward international markets, particularly as higher energy prices and elevated inflation may keep central banks restrictive, tightening financial conditions, while a stronger U.S. dollar pressures global liquidity and emerging markets.

However, we believe it is important not to lose sight of the broader set of growth drivers underpinning the case for international value stocks. Structural trends, including investment in energy security, defense and infrastructure, should support demand across industrial and real asset-oriented sectors, which are much larger components of non-U.S. markets.

Additionally, the AI boom remains in early innings and is driving an investment cycle orders of magnitude beyond that of the prior few decades. As AI transitions from being a deflationary, margin-preserving tool to a productivity-enhancing growth driver, investors may also begin to reconsider which profit pools and business moats are truly defensible and seek broadening of exposure beyond U.S. mega cap technology. While uncertainty persists, we remain focused on these important secular themes and look for opportunities to deploy capital into leading beneficiaries as they become attractively valued.

Portfolio Highlights

The ClearBridge International Value Strategy underperformed its MSCI EAFE benchmark during the first quarter. On an absolute basis, the Strategy had gains across four of the 11 sectors in which it was invested, with the energy sector being the greatest contributor and the consumer discretionary sector the largest detractor.

On a relative basis, overall stock selection effects weighed on performance, but were partially offset by positive sector allocation effects. Stock selection in the materials, health care and utilities sectors weighed on performance. Conversely, stock selection in the IT and real estate sectors, as well as overweights to the energy and materials sectors, proved beneficial.

On a regional basis, stock selection in Japan, Europe Ex U.K. and the U.K. and an underweight to Asia Ex Japan detracted from performance. An overweight to emerging markets, underweight to Europe Ex U.K. and stock selection in North America contributed positively.

On an individual stock basis, Marubeni, Samsung Electronics, TotalEnergies, SK Hynix and not owning SAP were the greatest contributors to relative performance. The largest relative detractors were Fujitsu, ICON, Airbus, Siemens and not owning ASML.

During the quarter, in addition to the transactions mentioned above, we initiated positions in Smurfit Westrock in the materials sector, Brookfield Infrastructure Partners in the utilities sector and TFI International in the industrials sector. We exited positions in Sanofi in the health care sector and Cellnex Telecom in the communication services sector.

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