



International Value Strategy



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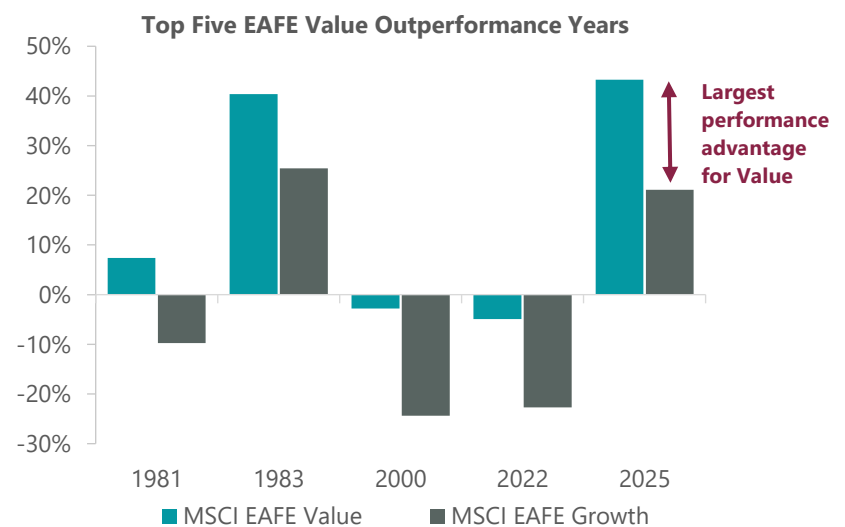
Key Takeaways

- ▶ International equities capped one of their strongest years on record in 2025, with value significantly outperforming growth amid unprecedented style dispersion.
- ▶ The Strategy outperformed in the fourth quarter, driven by stock selection in information technology and industrials, partially offset by financials.
- ▶ As leadership continues to broaden and valuation dispersion remains elevated, we believe the opportunity set for international value is increasingly compelling entering 2026.

Market Overview

International equity markets generated strong returns in the fourth quarter, capping a year marked by shifting leadership and unusually wide style dispersion. The core benchmark MSCI EAFE Index rose 4.9% in the quarter to finish up 31.2% for 2025, outperforming the S&P 500 Index's gains of 2.7% for the quarter and 17.9% for the year. International value had an even stronger year, with the MSCI EAFE Value Index returning 42.2%, handily outpacing its growth counterpart by over 2,100 bps, the widest dispersion among investment styles in the 50-year history of the index.

Exhibit 1: International Value Growth Dispersion at All-Time Highs



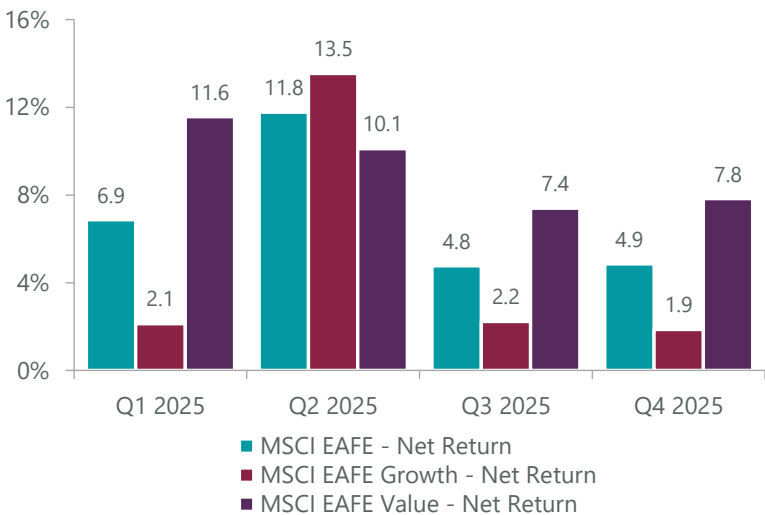
In the fourth quarter, market narratives remained heavily focused on artificial intelligence-related investment, reflected most visibly in the

Leadership broadened beyond U.S. mega cap growth, creating a favorable backdrop for international value.

outsized performance of technology-heavy markets such as Taiwan and South Korea. However, the quarter also saw continued strength across emerging markets, commodities and select value-oriented sectors, underscoring a gradual broadening in market participation. A weaker U.S. dollar and expectations for easier monetary policy helped support sentiment toward emerging markets and consumer-sensitive areas.

From a macroeconomic perspective, growth continued to slow in Europe, particularly across manufacturing-related industries, though services activity remained resilient and equity markets generally held up well. In China, signs of stabilization in manufacturing activity supported risk appetite, while the U.S. consumer remained comparatively resilient. Despite the “everything rally” that characterized much of 2025, the fourth quarter highlighted how expectations, positioning and valuation continue to play an outsized role in driving relative outcomes.

Exhibit 2: MSCI Growth vs. Value Quarterly Performance



As of Dec. 31, 2025. Source: FactSet.

Quarterly Performance

The ClearBridge International Value Strategy outperformed its benchmark in the fourth quarter, driven by stock selection in information technology (IT) and industrials, but partially offset by financials. Our positioning in companies aligned with long-term structural themes — such as digital AI infrastructure, the energy transition and capital markets normalization — proved especially beneficial.

IT was the largest contributor to relative performance. In South Korea, SK Hynix and Samsung Electronics, leading semiconductor manufacturers, benefited from higher memory prices and strong pricing and volume growth as global data center buildouts accelerated, driving meaningful earnings momentum across the

memory complex. In Japan, Fujitsu, an IT services and solutions provider, advanced as corporate digitization efforts and labor shortages drove demand for efficiency-enhancing technologies.

Industrials also contributed, supported by long-term infrastructure and electrification themes. Siemens Energy, a German manufacturer of power generation and transmission equipment, continues to benefit from rising demand for grid upgrades and gas turbines as utilities expand electricity generation capacity to meet data center power needs. Offsetting some of these gains was CNH Industrial, a global manufacturer of agricultural and construction equipment, which detracted as elevated channel inventories and depressed farm incomes weighed on near-term results; however, we remain encouraged by management's efforts to improve profitability through the cycle.

Stock selection in the financials sector weighed on relative performance. Rakuten Bank, a Japanese digital banking platform, declined as higher deposit acquisition costs weighed on near-term profitability, despite our view that these investments will ultimately support a sticky customer base and benefit from rising domestic interest rates. However, these headwinds were partially offset by Lloyds Banking Group, a U.K.-focused retail and commercial bank, which performed well as investor concerns around budget-related risks proved overdone and investor focus returned to the company's strong earnings visibility and capital return profile.

From a regional perspective, relative performance was supported by strong results in Europe ex U.K., reflecting favorable stock selection amid continued investment in infrastructure and electrification. Emerging markets also proved positive, with strength in our Korean holdings offsetting profit taking in China-related exposures, including Tencent, which we believe will continue to be a significant beneficiary of the buildout in AI applications. Meanwhile, stock selection in Japan detracted, as gains in technology-related holdings were offset by weakness in interest-rate-sensitive areas, including Daito Trust Construction, which underperformed as higher policy rate expectations and cost inflation pressured margins.

Portfolio Positioning

During the quarter, we initiated several new positions that reflect our focus on improving fundamentals at attractive valuations.

We established a position in Roche, a Switzerland-based global biopharmaceutical and diagnostics company. Positive Phase III data across multiple late-stage programs meaningfully mitigates upcoming patent expirations later this decade, while mid-single-digit revenue growth, an improving pipeline in areas such as obesity and Alzheimer's, and a discounted valuation relative to peers support our view that the stock offers rerating potential as execution improves.

We also initiated a position in Merck KGaA, a Germany-based science and technology company with businesses spanning life sciences, health care and electronics. While portions of its health care segment have faced near-term revenue pressure, recent acquisitions and a deep pipeline offer longer-term upside, and we believe the market is underappreciating a cyclical recovery in its life sciences and electronics businesses as order trends stabilize and management confidence improves.

We exited Gerresheimer, a German manufacturer of specialty packaging for the pharmaceutical and cosmetics industries, after losing confidence in management's ability to execute a turnaround following repeated profit warnings and operational missteps. We believe capital is better deployed in opportunities with clearer pathways to improvement.

Outlook

We enter 2026 with a more stable macro environment than this time last year. Inflation has moderated globally, giving central banks room to ease, while fiscal programs — from U.S. industrial and infrastructure spending to expanded European budgets and targeted Chinese stimulus — continue to support economic activity. With the effective U.S. tariff rate already having peaked, companies that absorbed tariff-related cost pressures in 2025 should lap those headwinds, creating modest tailwinds for growth.

Several themes are likely to shape markets in 2026:

A less synchronized monetary backdrop: The global monetary backdrop is increasingly mixed rather than uniformly accommodative. While selective rate cuts may emerge in regions such as the U.K. and parts of Europe, other central banks — including Japan and Australia — appear more inclined toward tightening or maintaining restrictive settings, and the path for U.S. policy remains uncertain. In this environment, growth outcomes are likely to be shaped less by synchronized easing and more by regional and sector-specific dynamics, with rate-sensitive housing, utilities and infrastructure benefiting where policy flexibility exists and fiscal support and structural investment sustaining activity elsewhere.

Leadership expands beyond mega cap AI: While AI remains foundational, power, logistics and efficiency improvements are becoming equally important investment themes. Companies that enable the next phase of the AI cycle — rather than those solely capturing its front-end demand — are well-positioned. Regionally, China continues to build out its own AI infrastructure. As companies there are more limited in resources, they must look to quickly monetize their investments. Companies like Tencent are finding ways to profit from these investments now but still continue to trade at large discounts to similarly positioned companies in the U.S.

Emerging markets retain meaningful value: Although outside our benchmark, EM remains one of the more attractively valued areas globally, trading at a roughly 40% discount to the U.S. Disinflation offering monetary flexibility, countries like Brazil and Mexico on firmer fiscal footing and an easing dollar should support flows, bolster returns and create a more fertile ground for potential alpha generation.

The U.K. looks compelling: Attractive valuations, improving inflation dynamics and falling gilt yields have created a supportive backdrop — particularly for its concentration of service-oriented industries that should benefit from AI and are spared tariff headwinds and threats of excess capacity of Chinese exports.

M&A could provide an additional tailwind: Deregulation, strategic repositioning and the prospect of lower interest rates may support an uptick in M&A globally. Companies will likely act more decisively in an environment with reduced policy uncertainty.

With a more balanced macro backdrop, healthier geographic diversification and an expanding set of fundamental catalysts, 2026 presents a more attractive opportunity than the narrowly led markets of recent years. The companies best positioned from here are those driving meaningful internal financial and operational improvements that can support long-duration value creation.

Portfolio Highlights

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

On a relative basis, overall stock selection effects contributed positively to outperformance. In particular, stock selection in the IT, industrials and materials sectors and an underweight to the communication services sector proved beneficial. Conversely, stock selection in the financials and health care sectors and an underweight to the health care sector weighed on performance.

On a regional basis, stock selection in Europe Ex U.K. and strategic suballocations to South Korea within emerging markets, as well as an underweight to Asia Ex Japan, benefited performance. An overweight to North America and stock selection in Japan weighed on performance.

On an individual stock basis, SK Hynix, Samsung Electronics, Fujitsu, Lloyds Banking and Siemens Energy were the greatest contributors to relative performance. The largest relative detractors were Rakuten Bank, CNH Industrial, Tencent, Daito Trust Construction and a Roche underweight.

During the quarter, in addition to the transactions mentioned above, the Strategy inherited a position in Magnum Ice Cream in the

consumer staples sector following its spinoff from holding Unilever and initiated a new position in Brookfield Renewable in the utilities sector. We exited positions in Sony Financial and JTC in the financials sector, Akeso and Hikma Pharmaceuticals in the health care sector and COVER in the communication services sector.

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