



International Value Strategy



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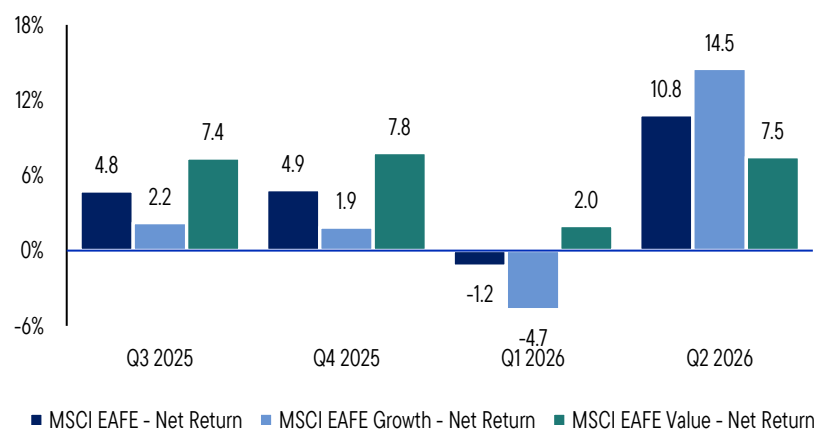
Key Takeaways

- ▶ Global equities rebounded sharply in the second quarter, led by renewed enthusiasm for AI infrastructure, resilient earnings and easing geopolitical stress late in the period.
- ▶ The Strategy strongly outperformed its benchmark, driven by stock selection in information technology and financials.
- ▶ We continue to see durable opportunities across energy security, AI infrastructure, grid modernization and industrial capex, while emphasizing valuation discipline, cash flow durability and balance sheet strength.

Market Overview

Global equities recovered strongly in the second quarter as investors looked through volatility following March's escalation of the U.S.-Iran conflict and refocused on resilient corporate earnings, improving growth expectations and the durability of the AI capital spending cycle. The MSCI EAFE Index returned 10.8% in the period. Growth's strong quarter helped it recover from first-quarter weakness; however, value stocks continued to outperform year to date.

Exhibit 1: MSCI Growth vs. Value Performance



As of June 30, 2026. Source: FactSet.

Performance was positive across developed markets. Japan remained supported by improving corporate fundamentals, governance reform, exporter strength and a steeper yield curve, while AI demand benefited selected industrial, electronics and automation companies. In Asia, AI supply chain strength and signs of stabilization in China supported sentiment, though consumer demand remained uneven. Continental

Europe advanced as Middle East de-escalation, resilient economic sentiment and infrastructure and electrification demand offset still-uneven growth. The U.K. lagged other developed regions, reflecting its defensive index composition, commodity sensitivity and softer domestic growth. Meanwhile, emerging markets posted even stronger gains than developed market peers, driven primarily by the tech-heavy South Korea and Taiwan markets, which remain key beneficiaries of the AI capex trade.

Energy was a major swing factor: easing geopolitical tensions and the announcement of U.S.-Iran negotiations led to lower oil prices in June, easing some inflation concerns. Even so, central banks remained cautious, with the Federal Reserve and the Bank of England holding rates steady while the European Central Bank and the Bank of Japan tightened policy, reinforcing a higher-for-longer global rate backdrop that we believe favors valuation discipline, cash flow durability and balance sheet strength.

Portfolio Performance

The ClearBridge International Value Strategy outperformed its MSCI EAFE benchmark in the second quarter, as strong stock selection in information technology (IT), financials and health care more than offset sector-level headwinds to energy and select industrial holdings.

Four of our top five individual contributors came from IT, participating in a semiconductor and AI-infrastructure-led rally that drove the benchmark sector sharply higher. Murata Manufacturing, a Japan-based electronic components manufacturer and leading supplier of multilayer ceramic capacitors, was the Strategy's top individual contributor, benefiting from tightening supply and stronger demand tied to AI servers, smartphones and automotive applications. South Korean semiconductor manufacturers SK Hynix and Samsung Electronics advanced sharply as persistent undersupply in DRAM and high-bandwidth memory markets supported pricing power and profitability. Germany's Infineon Technologies also contributed as the company raised full-year guidance, supported by stronger demand for power solutions for AI data centers and improved automotive order intake.

Financials were another area of strong stock selection, with select European banks benefiting from a higher-for-longer rate backdrop, steeper yield curves and continued confidence in capital return potential. Austrian bank BAWAG advanced as strong first-quarter results, a high return on equity and a low cost-income ratio reinforced investor confidence in its earnings durability, while Greece-based Piraeus and U.K.-domiciled Lloyds also contributed to strong performance in the sector.

Health care also contributed, largely driven by German pharmaceutical and life sciences company Merck KGaA. The stock benefited from positive earnings results, as its life sciences division continued to recover from several years of destocking and its electronics division saw stronger semiconductor-related demand.

The sharpest sector-level offset came from energy. Shell, TotalEnergies and Cenovus Energy came under pressure as easing geopolitical tensions in the Middle East and the announcement of negotiations between the U.S. and Iran resulted in a pullback in oil and natural gas prices, reducing near-term cash flow support for commodity-sensitive producers and integrated energy companies.

Several of our industrial holdings also came under pressure during the quarter. Marubeni, a Japan-based trading and industrials company, pulled back after strong first-quarter performance as investors reassessed commodity-sensitive and cyclical exposures. French rail transport systems manufacturer Alstom also fell as revised margin expectations, rolling-stock execution issues and cash flow concerns pressured the shares; we exited the position during the quarter.

Regionally, emerging markets exposure was the largest contributor to relative performance, led by South Korean semiconductor manufacturer SK Hynix, with additional contributions from Europe Ex U.K., where Anheuser-Busch InBev benefited from better-than-expected earnings and improving beer volume trends. North America exposure was the largest regional detractor, driven by weakness in Brookfield Renewable following a mixed earnings report and Willis Towers Watson as investors grew more cautious on the company's near-term growth outlook.

Portfolio Positioning

One of the largest additions was HSBC, a U.K.-domiciled bank with market-leading positions in Asia and Hong Kong. The company's leading position in Asian wealth management provides a structural growth driver, while self-help from dramatic portfolio reshaping and cost-cutting initiatives remains underappreciated by the market, in our view.

We also used weakness in energy to initiate a position in Cenovus, a Canadian oil sands company that offers an attractive combination of visible production growth, strong free cash flow generation and additional upside from integration and cost synergies at an attractive valuation. A constructive medium-term view on oil prices further supports accelerating free cash flow per share and shareholder returns through buybacks.

Defense was another area where we found a compelling mismatch between fundamentals and valuation. We initiated a position in CSG, a Czech defense company well positioned to benefit from the structural increase in European defense spending and the multi-year ammunition replenishment cycle, whose valuation remains materially below global defense peers.

On the sell side, we exited Bureau Veritas in the industrials sector, as execution challenges left the business less resilient to macro pressures than we had expected, while the growth of AI raises additional concerns about revenue models that are headcount intensive.

Outlook

Since macro and geopolitical uncertainty remain elevated, investors have crowded into the AI capex trade as it appears to be the one dominant theme where there is the comfort of relative certainty. The portfolio has benefited from this optimism through our semiconductor, industrial equipment and utility holdings, and we generally remain constructive on the long-term prospects of this AI infrastructure buildout.

At the same time, capital flows remain concentrated among AI beneficiaries, leaving valuations across broad areas of the market more attractive for contrarian, long-term investors. In Europe, defense-related shares have retraced meaningfully from last year's surge despite the unresolved war in Ukraine and continued uncertainty in the Middle East. Infrastructure and construction-related companies have also lagged amid concerns over inflation and rates, though we believe Germany's infrastructure spending plans remain intact and that funding should begin to be deployed this year. More globally, health care and consumer stocks remain deeply out of favor, pressured first by tariff uncertainty and more recently by concerns over consumer spending and limited product innovation. We are finding several leading franchises in these sectors where the risk/reward appears compelling given current investor positioning.

As always, during periods of heightened uncertainty, we remain focused on identifying high-quality businesses with improving fundamentals that are aligned with a diversified set of long-term secular themes. We believe this approach positions the Strategy well to navigate volatility while capturing opportunities created by ongoing market dislocations.

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 seven of the 11 sectors in which it was invested, with the IT sector being the greatest contributor and the energy sector the largest detractor.

On a relative basis, overall stock selection contributed to performance. Stock selection in the IT, financials, health care and consumer staples sectors, as well as underweights to communication services and health care, proved beneficial. Conversely, an overweight to energy and stock selection in the industrials, real estate and consumer discretionary sectors weighed on performance.

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

On an individual stock basis, Murata Manufacturing, SK Hynix, Samsung Electronics, Infineon Technologies and BAWAG were the greatest contributors to relative performance. The largest relative detractors were Marubeni, Alstom and not owning ASML, Tokyo Electron and Kioxia.

In addition to the transactions mentioned above, we initiated positions in Novo Nordisk and argenx in the health care sector, and CATL in the industrials sector. We exited positions in UCB in the health care sector, TravelSky Technology in the consumer discretionary sector and Magnum Ice Cream in the consumer staples sector.

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