



Sean Bogda, CFA
Managing Director,
Portfolio Manager



Grace Su
Managing Director,
Portfolio Manager



Jean Yu, CFA, PhD
Managing Director,
Portfolio Manager

International Value Strategy

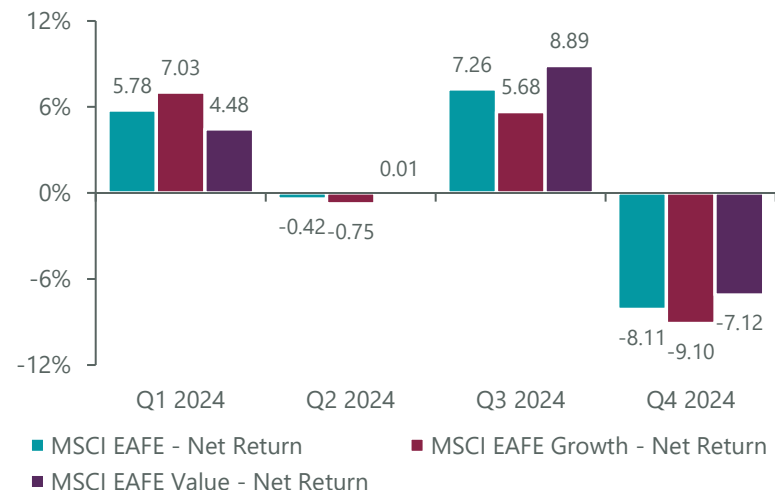
Key Takeaways

- ▶ International markets broadly retreated during the quarter due to political uncertainties in the U.S. and Europe and a strong rally by the U.S. dollar following a hawkish rate cut by the Fed.
- ▶ The Strategy traded down alongside its benchmark index in the fourth quarter as idiosyncratic headwinds to our IT holdings overcame positives in the industrials and financials sectors.
- ▶ Stocks that combine high cash yields with strong pricing power enable earnings growth even in a high-interest-rate and inflationary setting, enhancing the defensibility and resilience of our portfolio.

Market Overview

International equities struggled during the fourth quarter due to concerns that the re-election of U.S. President Donald Trump could spark tariff wars, political instability in Europe and a stronger U.S. dollar following a hawkish rate cut from the Fed. However, a market broadening following a post-election rally in the U.S. offered a measure of resilience to value equities, which outperformed growth, with the MSCI EAFE Value Index returning -7.12% versus -9.10% for the MSCI EAFE Growth Index and -8.11% for the MSCI EAFE Index. (Exhibit 1).

Exhibit 1: MSCI Growth vs. Value Performance



As of Dec. 31, 2024. Source: FactSet.

The Trump victory spurred a rally in U.S. markets over the prospect of more business-friendly policies and deregulation, but it also increased investor concerns over potential tariff wars. However, political uncertainty wasn't limited to the U.S.: both Germany and France saw coalition governments collapse, South Korea was briefly placed under martial law and the new U.K. Labour government's inaugural budget failed to inspire confidence, all resulting in a selloff across numerous developed markets. The world's second-largest economy, China, limped to the end of a disappointing year as policymakers largely failed to follow through on the outsize stimulus measures announced in the third quarter, pushing bond yields lower as deflationary fears remained front-and-center for investors.

Meanwhile, the Federal Reserve elected to cut interest rates at its December meeting for another 25 basis points, totaling 100 basis points for the year. However, Chairman Powell's commentary lowered expectations of further easing in 2025, making this a hawkish rate cut strengthening the U.S. dollar.

Quarterly Performance

The ClearBridge International Value Strategy traded down alongside its benchmark index in the fourth quarter, underperforming as idiosyncratic headwinds to our holdings in the information technology (IT) sector overcame positive contributors from our holdings in the industrials and financials sectors.

Our top IT detractor was Korea-based Samsung, which manufacturers consumer electronics, IT hardware and mobile communications. Samsung has fallen behind rivals in the development of high bandwidth memory (HBM) chips used in AI processors, and extended spending to achieve certifications for its data center chips has led to lowered earnings expectations. We believe that Samsung's exposure to the HBM market still provides compelling opportunities due to the persistently undersupplied nature of the market, and that recent investments in HBM fabrication should help it eventually return to an even footing versus its competitors.

Our high-quality industrials companies with exposure to the long-term trends of electrification, the energy transition and infrastructure continue to see strong demand. This included Siemens Energy, whose strong, growing backlog of projects related to these trends, along with its attractive margins, has helped boost its projected earnings growth and share price.

Several of our financials holdings also significantly contributed to performance, particularly Japanese banks Rakuten and Mitsubishi UFJ Financial. Alongside a broad sector rally on the prospects of a more friendly regulatory backdrop under the Trump administration, Japanese banks benefited from anticipation of higher interest rates as Japan continues to see beneficial signs of inflation in wages and prices after decades of deflation. Combined with this supportive

Our high-quality industrials, with exposure to the long-term trends of electrification, the energy transition and infrastructure, continue to see strong demand.

macro backdrop, Rakuten's success in growing deposits and Mitsubishi UFJ's strong earnings led both stocks to re-rate higher during the quarter.

Portfolio Positioning

We added a new position in Piraeus Financial, the largest Greek bank. We believe that the company's strong franchise in corporate and small business lending, combined with a low average funding costs, should help it generate substantial loan growth at higher rates than other European banks.

We also adjusted our exposure to the U.K. homebuilding market, selling our position in Vistry and adding Bellway. Despite initial optimism over Vistry's planned transformation from a cyclical homebuilder to a project-based business with higher visibility and solid returns, management's downward revisions to projections from cost overruns eroded our confidence. We recycled our exposure into Bellway, which we believe to be one of the most consistent U.K. homebuilders, with a well-developed organic growth focus and strong land bank.

Outlook

International equity markets have faced significant headwinds as capital has flowed into the U.S. from around the world. However, this shift has led to attractive valuations, lower market concentration and less momentum-driven speculation in international markets — factors that create a more normalized environment and offer abundant opportunities.

Europe exhibits many attractive attributes to value investors, particularly given the reduced expectations stemming from growth challenges driven by declining Chinese demand for European goods, under-indexed exposure to generative AI and elevated energy costs. We believe this leaves room for upside potential broadly if these headwinds weaken or dissipate. Likewise, we continue to identify attractive opportunities in Japan, following substantial increases in our Japan weighting in 2024. After decades of deflation, Japan's economy is normalizing, marked by sustained wage growth, price inflation and positive nominal GDP growth, while corporate governance reforms further bolster the case for Japanese equities. With the Bank of Japan planning to raise interest rates, it could unlock trillions of yen currently tied up in zero-yield government bonds into the equity market, aided by increasing domestic consumption driven by real wage growth.

While opportunities abound, significant risks – including political uncertainties in the U.S., Europe and Asia – could impede economic expansion and equity market gains. In this environment, stocks such as U.K. water utility United Utilities and French health care company Sanofi that combine high cash yields with strong pricing power,

enabling earnings growth even in a high-interest-rate and inflationary setting, enhance the defensibility and resilience of our portfolio, especially those trading at significant discounts to their intrinsic value.

Portfolio Highlights

The ClearBridge International Value Strategy underperformed its MSCI EAFE benchmark during the fourth quarter. On an absolute basis, the Strategy had losses across all 11 sectors in which it was invested with the health care and IT sectors being the greatest detractors.

On a relative basis, overall stock selection detracted from performance but was partially offset by positive sector allocation effects. Specifically, stock selection in IT, consumer discretionary and communication services sectors weighed on returns. Conversely, stock selection in the industrials and materials sectors contributed.

On a regional basis, stock selection in emerging markets, the U.K. and North America weighed on relative performance. Conversely, stock selection in Europe Ex U.K. and Japan and overweights to emerging markets and North America were beneficial.

On an individual stock basis, Rakuten Bank, Mitsubishi UFJ Financial, Siemens Energy, THK and Airbus were the leading contributors to absolute returns during the quarter. The largest detractors were Vistry, Samsung Electronics, Nexans, Anheuser-Busch InBev and Sanofi.

During the quarter, in addition to the transactions mentioned above, the Strategy initiated a new position in Bureau Veritas in the industrials sector and exited a position in Smith & Nephew in the health care sector.

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