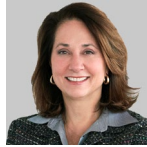




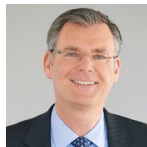
## International Growth ACWI Ex-US Strategy



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### Key Takeaways

- ▶ In a quarter with large style differentials between value and growth, the Strategy underperformed its core benchmark.
- ▶ We have selectively increased our exposure to stocks with value characteristics through our structural growth bucket, predominantly by increasing allocations to European and U.K. banks where we are seeing a step change in earnings.
- ▶ The Strategy saw strength in holdings supporting the buildout of AI workloads as well as several pharmaceutical makers, an improving area in health care that was a focus of activity in the quarter.

### Market Overview

International equities delivered solid gains in the fourth quarter to cap one of the best years for overseas stocks in decades. The core benchmark MSCI All Country World Ex-U.S. Index rose 5.1% in the quarter to finish up 32.4% for 2025, outperforming the S&P 500 Index's gains of 2.7% for the quarter and 17.9% for the year. The market rally was broad, with the MSCI Emerging Markets Index advancing 4.7% for the quarter and 33.6% for the year.

Outside the U.S., growth stocks delivered strong absolute returns but meaningfully underperformed value stocks for both the fourth quarter and full year. The MSCI ACWI Ex-US Growth Index rose 2.6% for the quarter, trailing the MSCI EAFE Value Index by 500 basis points.

In such a value-dominated period, the ClearBridge International Growth Ex-US Strategy underperformed its primary MSCI ACWI Ex-U.S. benchmark for the fourth quarter.

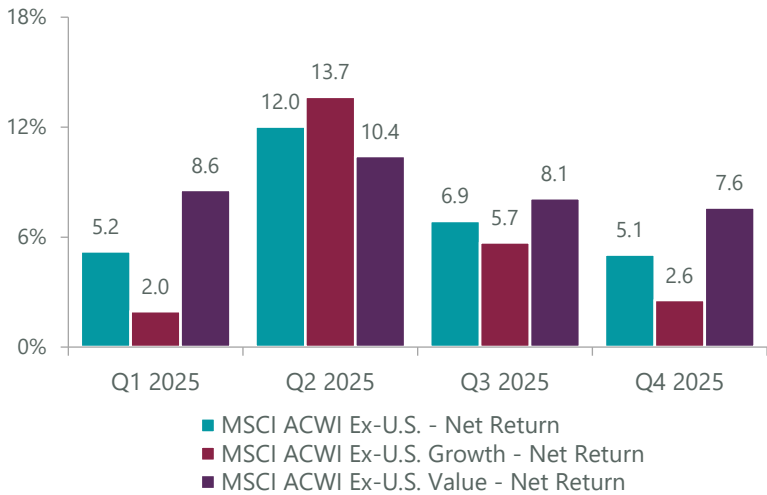
### Performance Highlights

Value has worked internationally because inexpensive stocks are the most direct beneficiaries of the enormous stimulus measures being approved in Germany, other parts of Europe and Japan. Growth stocks, in contrast, are a much smaller part of core benchmarks (Exhibit 1).

As a growth manager, we are selective in owning the companies that are typically thought of as value in our structural growth segment, which is only one part of our three growth areas. This structural growth bucket includes more cyclical stocks and

turnaround stories, enabling us to participate in most types of market environments. However, with a meaningful differential of value over growth in 2025, growth strategies will struggle to outperform a core benchmark with their value component. We have increased our structural growth exposure throughout the year, predominantly by increasing allocations to European and U.K. banks, where we are seeing a step change in earnings. U.K.-based NatWest Group was a leading contributor during the quarter, and we think banks can continue to work as we believe that interest rates will be stable and loan growth will likely increase along with higher fiscal stimulus and to fund AI and energy transitions. Those new loans will be more profitable with stable credit quality. Bank valuations remain inexpensive with excess capital and strong cash generation supporting high dividends.

Exhibit 1: MSCI Growth vs. Value Quarterly Performance



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

The Strategy saw strength in holdings supporting the buildout of AI workloads during the quarter. These were led by Germany’s Siemens Energy, a supplier of electrical equipment to power data centers, semiconductor equipment maker Tokyo Electron and Canada’s Celestica, a provider of technology solutions for cloud platforms.

Relative performance in the fourth quarter was negatively impacted by weakness in the consumer discretionary sector. Sea Limited, the Singapore-based e-commerce, gaming and fintech provider, was hurt by profit taking over potential increasing competitive concerns after the shares rose 80% in the first eight months of the year. Latin America e-commerce platform MercadoLibre remained weak due to concerns over the investment level needed to fend off increasing competition in Brazil.

Chinese biotech Zai Lab was down due to general weakness in the Chinese market as well as the push-out of its move to breakeven profitability into 2027.

The health care sector has overall underperformed for the year, although selective stocks within the portfolio did quite well as U.S. policy and most favored nation pricing discussions were taking place well into the end of the year. Most of these issues are moderating today as corporations have adjusted selective pricing of products and capital spending to U.S. demands. European biopharmaceutical makers Argenx and UCB as well as the U.K.'s AstraZeneca, meanwhile, were bright spots in the pharmaceutical side of health care. The medtech side of the sector has remained fairly weak, as large companies with broad portfolios geographically have faced worries about their U.S. growth rates as well as emerging China competition.

While health care stocks have been weak, we view many of them as a compelling innovation source, notably in biotechnology. Some of these companies do not yet have commercial revenue but are developing new products (for example, China has been aggressively developing and licensing out early stage antibody drug conjugates that target cancer cells; these could be the next clinical breakthrough large cap pharmaceuticals companies are seeking).

### Portfolio Positioning

We initiated eight new positions during the quarter while exiting 12 others.

New addition Roche reported positive Phase 3 data in the fourth quarter for giredestrant in breast cancer and fenebrutinib in multiple sclerosis, paving the way for new treatments with peak sales opportunities of \$5 billion each. These two products should enable the Swiss biopharmaceutical and diagnostics company to grow revenues through the loss of exclusivity period for several cancer and MS drugs and secure its place among the pharmaceutical companies that can grow revenue for the next 10+ years.

European discount airline Ryanair was a repurchase after many years. The company is benefiting from several catalysts that could drive positive earnings surprises, including an improving industry structure that should allow for: expansion and increasing market share; operational efficiency improvements; capacity shortages and favorable fuel prices; as well as management confidence in passenger growth and profitability.

Trane Technologies was among the portfolio's larger sales. Our investment thesis changed due to weakness in the overall HVAC market rather than Trane specifically, with residential and "light commercial" HVAC sales declining much deeper than expected, making it difficult to reach our sales growth expectations for the high-multiple stock. Within industrials, we remain focused on Siemens Energy, where we believe data centers will remain supportive for earnings revisions.

We also exited Italian bank UniCredit as it reached its price target, as well as a small position in Nemetschek, a German software maker serving construction, engineering and design customers, which we sold to get ahead of the AI disruptions faced by application software companies.

## Outlook

Better earnings can drive growth stocks higher, and we see challenges to future earnings for growth companies falling into three categories: tariffs, technology and transition. These issues have created volatility around earnings and impacted more highly rated growth stocks. Many of these are in the secular growth bucket and should see a reassertion of growth as the advantages from AI begin to come through and new ways of monetizing their businesses emerge to drive growth rates higher. Lower interest rates will certainly help stocks, but we think that to reassert market leadership — specifically in technology software and hardware — it will come down to improved earnings.

Investors have shunned China since COVID, so much so that indexes were being created ex-China. However, while China is a complicated market with many local players and several exchanges, the innovation there is not only rapid, but it also happens at much lower prices. The next five years of Chinese industrial policy will see companies consolidate and dominate at the higher end of the value chain across industries like pharmaceuticals, battery materials/storage, solar energy and technology. With lower valuations and a move to higher profitability overall, this is a market where we need to have exposure.

Exhibit 2: China Valuations Compelling



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

Increased non-U.S. defense spending is here to stay as the role of NATO evolves from a regime of U.S. leadership to more spending and participation from European members. We have seen a rebuilding of

inventories in the European Union and efforts to maintain a steady supply of defense infrastructure. Japan has also increased its defense spending and its new prime minister has a priority in ensuring there is a strong military to counter new and existing threats on its own.

Despite a relative performance comeback for international equities in 2025, valuations remain historically attractive compared to their U.S. peers. Overseas markets continue to offer growth franchises with best-in-class business models and innovation comparable to the U.S. but at more reasonable multiples. International companies are clear leaders across industries such as semiconductor equipment, biopharmaceuticals, luxury goods and advanced manufacturing and are well-positioned amid the current secular trends of AI and broader defense spending.

### Portfolio Highlights

During the fourth quarter, the ClearBridge International Growth ACWI Ex-US Strategy underperformed its MSCI ACWI Ex-U.S. Index benchmark. On an absolute basis, the Strategy produced positive contributions across six of the 10 sectors in which it was invested (out of 11 total), with the IT and financials sectors the top contributors while the consumer discretionary sector was the chief detractor.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in consumer discretionary, health care, financials and industrials and an overweight to consumer discretionary weighed on results. On the positive side, stock selection in consumer staples and an underweight to communication services contributed to performance.

On an individual stock basis, the largest contributors to relative returns in the quarter were SK Hynix and Celestica in IT, Siemens Energy in industrials, NatWest Group in financials and not holding Alibaba. The greatest detractors from relative returns included positions in Sea Limited, MercadoLibre and Coupang in consumer discretionary, Zai Lab in health care and 3I Group in financials.

In addition to the transactions mentioned above, additions were KBC Group and Nu Holdings in financials, L'Oreal and PT Unilever Indonesia in consumer staples, ASML in IT and Sandvik in industrials. Among our largest sales were Antofagasta in materials, Argenx in health care, Lenovo in IT, Fujikura in industrials as well as Tokio Marine and Sony Financial Group in financials.

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