



Global Growth Strategy



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Key Takeaways

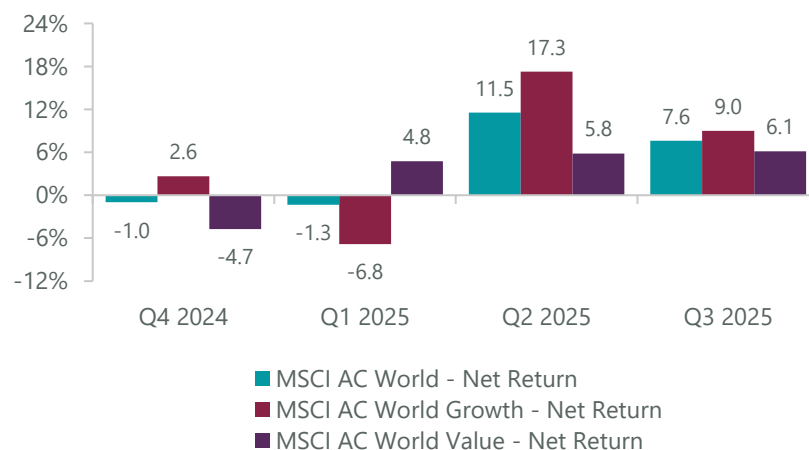
- We meaningfully repositioned our exposures to banks, adding three new positions, and generative AI infrastructure, adding five names with vital roles in the buildout of AI workloads.
- The Strategy delivered solid absolute performance but was held back primarily by weakness across the consumer discretionary and IT sectors.
- AI-driven momentum and economic policy tailwinds in the U.S. are being complemented by growth and equity-friendly measures in the main regions we target overseas, including a resurgent China.

Market Overview

Global equities delivered mixed results in the third quarter, as AI-driven momentum continued in the U.S. while the unbridled optimism that lifted European markets earlier in the year began to fade. The benchmark MSCI All Country World Index rose 7.6%. Emerging markets was the strongest region, outperforming despite a flat U.S. dollar, primarily due to strength in China and Taiwan. Japan and North America also outperformed while Asia Ex Japan mostly kept pace with the index. The U.K. and Europe Ex U.K., meanwhile, mustered gains but underperformed the index for the quarter with the European Central Bank appearing to be at the end of a monetary easing cycle.

Global growth stocks maintained their leadership, with the MSCI ACWI Growth Index rising 9.0% in USD compared to a return of 6.1% for the MSCI ACWI Value Index.

Exhibit 1: MSCI Growth vs. Value Quarterly Performance



As of Sept. 30, 2025. Source: FactSet.

Holdings in Europe Ex U.K. and Asia Ex Japan were sources of strength during the quarter.

In the U.S., which represents the largest weight in the benchmark and the Strategy, equity markets extended their post-Liberation Day rally, with major indexes reaching new record highs. Investor optimism was fueled by better-than-feared tariff outcomes, the passing of the One Big Beautiful Bill Act in July, anticipated interest rate cuts — the Federal Reserve delivered with a 25-bps cut in September and signaled further easing — and robust corporate earnings, particularly in mega cap stocks in the communication services, information technology (IT) and consumer discretionary sectors. Tech stocks surged as the AI boom continued to drive demand for semiconductors and AI infrastructure. In addition to lifting hyperscalers on the leading edge of AI deployment, this helped companies in the AI value chain in the utilities as well as more cyclical industrials and energy sectors. Hopes of a rate cut also helped cyclical sectors, including financials, which also benefited from renewed capital markets activity. Consumer discretionary strength was driven predominantly by Tesla, which rose as a compensation package locked in Musk as long-term CEO. Defensive consumer staples, health care and real estate sectors, meanwhile, trailed in the risk-on environment.

The strong momentum in Europe in the first half of 2025 — sparked by easing monetary policy, increased fiscal spending and a weaker U.S. dollar — slowed in the third quarter. While inflation has been gradually declining, with a 2.2% reading in September, it remains above the European Central Bank's 2% target, causing the central bank to signal its intention to pause after a 25-bps reduction in September and leaving its key interest rate at 1.75%. Second-quarter eurozone GDP grew by just 0.1% quarter over quarter, with Germany's output flat, while industrial activity continued to contract.

In Asia, Japan continued its controlled normalization of monetary policy but has begun to deal with reflation in its recovering services sector due to a tight labor market. Second-quarter GDP expanded modestly, boosted by tourism, while manufacturing activity remained restrained. Dealing with stubborn weakness in the real estate sector and sluggish consumer demand, the People's Bank of China (PBoC) cut two key lending rates in July. Chinese prices saw a mild recovery from near-deflation levels, while second-quarter GDP growth rose 5.2% year over year due to infrastructure spending and exports. The economy also got a boost from technology spending.

Performance Review

The ClearBridge Global Growth Strategy underperformed its core MSCI ACWI benchmark in the third quarter, primarily due to negative stock selection in the U.S. and emerging markets.

Emerging markets
are taking the baton
on the weak dollar
and running with it,
outperforming
developed markets.

From a sector standpoint, stock selection in consumer discretionary and IT detracted the most from results. Within consumer discretionary, Chinese EV maker BYD declined after cutting its domestic 2025 sales targets and reporting its first drop in monthly shipments in 18 months. Latin e-commerce and fintech provider MercadoLibre sold off as the company is extending its free shipping and reducing merchant fees. These initiatives, while potentially boosting volume, could weigh on near-term profitability. Not owning Tesla, which continued its sharp rebound from depressed levels earlier in the year, also detracted from relative results.

Within IT, Canada's Constellation Software was pressured as M&A deployment has been slower than expected while AI disruption remains an overhang across much of the application software sector. Japanese semiconductor equipment maker Tokyo Electron fell sharply after quarterly earnings and revenue missed forecasts, leading us to exit the position.

Holdings in Europe Ex U.K. and Asia Ex Japan were sources of strength during the quarter, as was the Strategy's communication services sector exposure. Within communication services, online gaming platform Roblox benefited from multiple tailwinds, including demographic expansion into older cohorts that increases its addressable market significantly. The company's international expansion is showing strong momentum, particularly in Asia Pacific markets with infrastructure investments paying off.

Belgian biotech UCB moved higher on robust first-half results, strong uptake of recently launched treatments Bimzelx for psoriasis and Rystiggo for an autoimmune condition, and positive Phase 3 clinical trials for a seizure disorder. A Bimzelx competitor in an indication for an autoinflammatory skin condition has had less than compelling data, boosting UCB's position in this disease area. Shares of Australian location and safety software provider Life360 rose strongly on a beat-and-raise second quarter.

Portfolio Positioning

The Strategy added 17 new positions in the quarter while closing nine others. We repositioned our bank exposure, swapping new holding Banco Santander for BBVA and adding HSBC and KBC Group. Spain-based Santander has a similar footprint as BBVA, but without the deal risk. The company is streamlining its geographic footprint and business lines from high-capital-consuming to low-capital-consuming operations. Santander's cost-cutting measures should promote a sustainably lower cost/income ratio, which, combined with its other effects, should improve profitability.

HSBC has an outstanding franchise in Hong Kong and the U.K. and is well-placed to capture the structural growth opportunity in fast-growing Asian wealth management. HSBC benefits from a strong inflow of mainland Chinese money due to the larger investment opportunities

and higher rates which the Hong Kong dollar enjoys through its peg with the U.S. dollar. We believe the market underestimates the company's return potential, which is supported by one of the highest dividends and share buyback programs among global banks.

We also repurchased shares of KBC, a diversified banking and financial services provider catering to consumers and businesses in Belgium, the Czech Republic and smaller Eastern European markets. The company's assets under management are growing and fee revenues are growing above net interest income. We believe its cross-selling model successful in Belgium can be replicated in other markets. KBC's strong capital position also allows for capital distributions or a bolt-on acquisition.

We also sharpened our exposure to the [secular trend of Gen AI development](#) by adding several cloud and related "picks and shovels" names across geographies. U.S.-based Oracle has transformed itself into a major cloud hyperscaler with server configurations designed to scale quickly to run AI workloads, with advanced networking capabilities and cost savings compared to competitors. Under the Stargate initiative, the company is expected to generate over \$30 billion annually starting in 2028 through its expanded partnership with OpenAI, solidifying its status as a key AI infrastructure supplier.

Canada's Celestica is another high-conviction AI infrastructure play, benefiting from hyperscaler capex growth, rising networking intensity and the shift toward white-box architectures. Its connectivity and cloud solutions segment is poised for 20%+ annual revenue growth, supported by deepening AI-related engagements and next-gen compute deployments. With accelerating earnings and margin expansion, we believe Celestica offers a differentiated, underappreciated way to gain exposure to the structural AI infrastructure buildout.

Synopsys is a leader in electronic design automation (EDA) software and custom chip designs. The company is a strong compounder that operates in a large and growing duopoly market driven by increased complexity of semiconductor chips, including growth of custom silicon. The company's EDA software and tools are mission critical and difficult to replicate by customers in-house or by a new market entrant, providing a measure of defense to its high-margin business model. Despite a difficult quarter for the stock following a report that showed weaker than expected revenues, Synopsys is a positive long-term beneficiary of increased AI investment.

Irish-based HVAC services provider Johnson Controls features an attractive blend of self-help, structural margin upside and exposure to data centers, central to the AI buildout, all of which can drive earnings upside and a multiple rerating. The company has been chronically mismanaged throughout its history and we view its recent appointment of an ex-Danaher executive as CEO to be a significant catalyst for the company.

Lastly on the AI front, Japanese investment holding company Softbank has an ownership stake in many technology companies — including chip maker ARM Holdings, a key developer of custom silicon for AI customers, and the privately held OpenAI — and trades at a meaningful discount to its NAV.

Other significant additions included U.S. ad software developer AppLovin, which is seeing significant growth and market share gains from its proprietary Axon targeting engine that empowers mobile app developers — primarily gaming studios — to monetize their apps; and e.l.f. Beauty, a cosmetics maker with strong U.S. retail placement and compelling expansion opportunities in skincare and across international markets.

We were disciplined sellers, with the largest closeouts besides Tokyo Electron being U.S. freight rail operator Union Pacific due to concerns about economic activity and the pending merger with Norfolk Southern, and Visa on rising worries about the risks of stablecoins to its business. Online pet retailer Chewy, meanwhile, hit our price target while social media platform Reddit was also nearing its price target.

Outlook

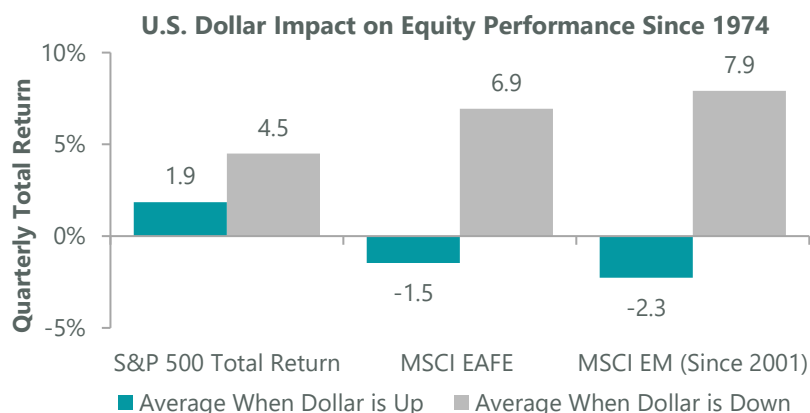
The U.S. market looks to maintain its positive momentum, pulled along by increasing AI capital spending commitments by hyperscalers, solid corporate earnings and an improving policy outlook both on the monetary and fiscal sides. The regions where we invest outside the U.S. continue to make progress on growth and equity-friendly policies. While still early days in the development of more stimulative economic and regulatory policies, earnings growth among stocks in the pan European Stoxx 600 has begun to improve with forecasts for double-digit EPS growth over the next year.

Broader macro trends, [like a weakening U.S. dollar](#), are also shifting in favor of overseas companies. Emerging markets are taking the baton on the weak dollar and running with it, as evidenced by their outperformance versus developed markets in the third quarter. We have maintained steady exposure to the asset class and have recently been expanding our emerging markets weighting with a return to China (Exhibit 2).

We believe that China, the world's second-largest economy, is poised for growth due to its push to develop not only a standalone AI and technology universe but also a self-sufficient health care system. The latter priority has led to a burgeoning homegrown biotechnology industry. We expanded our participation here with the purchase of WuXi AppTec, a leading contract development and manufacturing organization for biotech companies. WuXi AppTec has a track record of developing peptide and small molecule drugs with better efficiency and at much lower costs than competitors. Meanwhile,

China's bellwether tech and Internet names have been gaining share in domestic consumer markets.

Exhibit 2: A Sluggish Dollar Bodes Well for International Equities



Data as of Sept. 30, 2025. MSCI EAFE and MSCI EM are net returns; MSCI EM data starts in 2001. Sources: FactSet, S&P, MSCI. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Portfolio Highlights

During the third quarter, the ClearBridge Global Growth Strategy underperformed its MSCI ACWI Index benchmark. On an absolute basis, the Strategy produced positive contributions across five of the seven sectors in which it was invested (out of 11 total), with the IT sector the top contributor and the consumer discretionary sector the main detractor.

On a relative basis, overall sector allocation contributed to performance but was offset by negative stock selection effects. In particular, stock selection in consumer discretionary, IT, financials, health care and industrials weighed on results. On the positive side, stock selection in the communication services sector and an IT overweight aided performance.

On a regional basis, stock selection in emerging markets, North America, Japan and the U.K. hurt performance, while stock selection in Asia Ex Japan and Europe Ex U.K. proved beneficial.

On an individual stock basis, the largest contributors to relative returns in the quarter were Roblox in communication services, Celestica and Life360 in IT, UCB in health care and Prysmian in industrials. The greatest detractors from relative returns included positions in Constellation Software and Tokyo Electron in IT, MercadoLibre and BYD in consumer discretionary and not owning Tesla.

In addition to the transactions mentioned above, we initiated positions in Alcon and ProMedicus in health care, Laopu Gold in consumer discretionary, TransDigm Group in industrials and Performance Food Group in consumer staples while also receiving shares of Sony Financial Group in a spinoff. We also closed

positions in Inspire Medical Systems in health care, DocuSign in IT and Coca-Cola FEMSA in consumer staples.

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