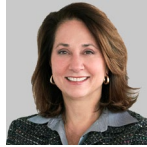
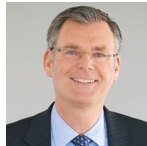




## Global Growth Strategy



**Elisa Mazon**  
Managing Director,  
Head of Global Growth,  
Portfolio Manager



**Michael Testorf CFA**  
Managing Director,  
Portfolio Manager



**Pawel Wroblewski CFA**  
Managing Director,  
Portfolio Manager

### Key Takeaways

- ▶ The Strategy outperformed in a challenging quarter for growth stocks outside the U.S., supported by our diversified health care exposure.
- ▶ Market downdrafts often present buying opportunities where market risk perceptions differ from our own. We see banks as such an area and took advantage of price weakness to add three new positions, highlighting an active period of repositioning.
- ▶ We are broadening out our geographic footprint with new names to take advantage of ideas where we still see significant upside in technology.

### Market Overview

Global equities delivered mixed results in the second quarter, supported by U.S. mega cap leadership and initial interest rate cuts in the European Union and Canada. The benchmark MSCI All Country World Index advanced 2.87% with a 4.28% gain for U.S. stocks as measured by the S&P 500 Index and a 5.0% rise for the MSCI Emerging Markets Index offsetting a 0.42% decline for the developed market MSCI EAFE Index.

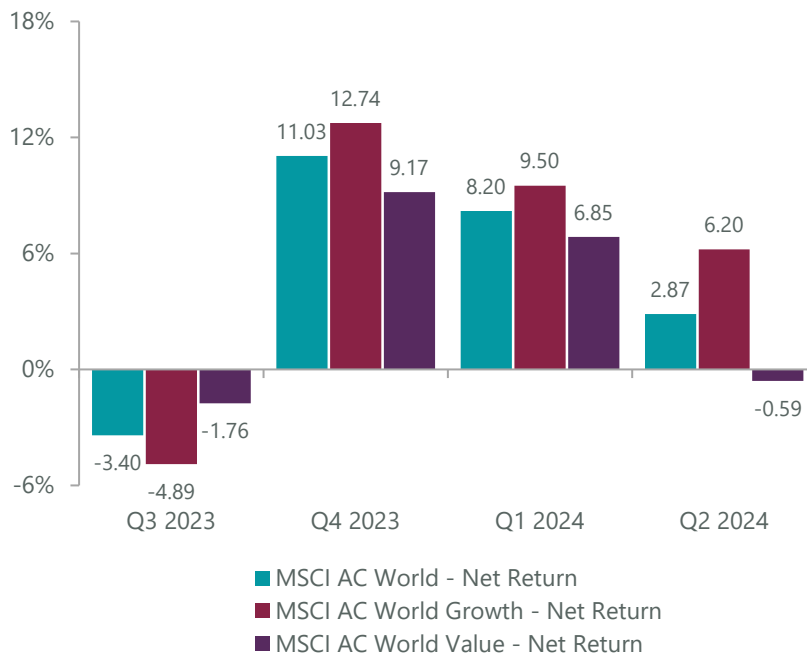
From a regional standpoint, in addition to emerging markets, North America and Asia Ex Japan delivered gains and outperformed the index while Europe Ex U.K. and Japan suffered losses for the quarter. Japan was negatively impacted by a falling yen and shorter-term investors taking significant profits early in the quarter. Unexpected snap elections called in France significantly impacted that market in June, dragging down one of the more significant economies in Europe.

Global growth stocks outperformed value stocks despite a rise in bond yields across most regions, lifted by significant strength in U.S. mega cap growth companies. The MSCI ACWI Growth Index rose 6.20%, outperforming the MSCI ACWI Value Index by 679 bps (Exhibit 1).

In the U.S., given strength in due to the momentum of generative AI demand in key stock results like Nvidia, growth dominance was even more pronounced. The Russell 1000 Growth Index outperformed the Russell 1000 Value Index by 1,050 basis points, marking the fourth time since 2020 that quarterly style dispersion exceeded 1,000 bps in favor of growth. Mega caps Apple, Alphabet, Amazon.com, Meta Platforms, Microsoft and Nvidia all outperformed the benchmark MSCI ACWI. The ClearBridge Global Growth Strategy was overweight

five of the names and equal weight in Apple, which helped drive outperformance for the quarter.

Exhibit 1: MSCI Growth vs. Value Performance



As of June 30, 2024. Source: FactSet.

In addition to the mega caps, the Strategy benefited from renewed strength in Taiwan Semiconductor (TSMC), the foundry of choice for chipmaker Nvidia and other AI silicon developers, as well as U.S.-based communication chip maker and software developer Broadcom.

Additional contributions came from diabetes and obesity indexed holdings Eli Lilly, Novo Nordisk and Zealand Pharma, biopharma companies Vertex Pharmaceuticals and Argenx as well as medical device makers Olympus and Alcon.

In evaluating our performance, we look to both participate in as many sectors as we feel have long-term growth prospects and outperform in those sectors through our three defined growth groups — secular, structural and emerging — each of which should perform well in different market environments. The second quarter was volatile from this growth/value perspective. Significant performance in the portfolio in both the more core and growth stocks, which typically fall in our secular and emerging growth groups, contributed to better quarterly performance. From this standpoint, we are encouraged by recent portfolio moves and results.

**Portfolio Positioning**

We have discussed the narrowness of market breadth, and global markets have seen limited participation, making it challenging to follow our convictions on ideas and maintain portfolios with broad,

sector allocations. Nevertheless, our transactions in the quarter were focused in areas that have been overshadowed by mega cap tech dominance.

U.S. waste management provider Republic Services, in the industrials sector, was our largest addition. Republic is a good through-the-cycle compounder in a consolidated, well-behaved industry. Given the somewhat cyclical nature of the industrial sector, this stock addition provides good ongoing stability to the portfolio as the end market is resilient to economic cycles with strong cash flow growth. It also benefits from high-returning sustainability investments in polymer recycling and renewable natural gas, which also improve Republic's emission and circularity profile.

Market downdrafts often present opportunities to buy companies where the market's perceptions of risk are not aligned with our own. We see banks as an area where we can take advantage of temporary price weakness due to idiosyncratic factors. We reduced our bank underweight with the additions of Spain's Banco Bilbao Vizcaya Argentaria (BBVA) and Italy's Intesa Sanpaolo. BBVA is a very profitable bank with strong market positioning and well-developed digital capabilities in its core markets. Mexico is the bank's largest profit pool and growth contributor as an underbanked market where the company wins profitable market share. Additionally, Mexico's new government isn't expected to significantly weigh on the banking sector. We believe BBVA's intended takeover of Spanish rival Sabadell will close in the first quarter of 2025, assuming all regulatory bodies and shareholders agree. The takeover will be accretive and result in BBVA consolidating its role as a powerful player in the Spanish market. We initiated, and have increased, our position on share price weakness related to takeover uncertainty.

Swiss electrical components maker ABB, in the structural growth bucket, was the largest addition. After its recent restructuring, ABB is a more streamlined business with better cost management and a more focused market position. Revenue growth should pick up in the medium term driven by strong secular demand trends. For example, the company's low and medium voltage solutions benefit from accelerating investments in electrification. Other solutions, like motor drives, are key technologies supporting energy efficiency improvements across most industrial processes.

Consumer-oriented names were another focus of our activity, highlighted by the purchase of U.K.-based household products maker Unilever and Spain's Puig Brands. We participated in the IPO of Puig, a prestige fragrance company known for its Carolina Herrera, Nina Ricci and Jean Paul Gaultier brands with strong revenue compounding from its fragrance portfolio, a category which is enjoying a new growth cycle especially among younger consumers and Asian consumers. Puig also has an advantaged margin structure and future margin expansion opportunities due to higher weights to owned brands and prestige price points.

French contact center software maker NICE was sold as the debate around AI's impact on its business has created exceptional price volatility. While we believe NICE will be a net winner, it will take time for AI revenue to build, weighing on near-term stock performance. The unexpected transition of its long-time CEO added another, more significant layer of uncertainty that caused us to look elsewhere for opportunities in technology. We also sold U.S. software maker Salesforce, which saw its shares derate after it missed first-quarter forecasts for current contract revenue and provided soft guidance for the current quarter.

We are broadening out our geographic footprint with new names to take advantage of ideas where we still see significant upside in technology. We repurchased Singapore-based Sea Limited, Lenovo Group in Hong Kong and SK Hynix in Korea. We have also taken note of signs of slowdowns in major end markets, autos as an example, to reduce positions where further weakness may not be appreciated, eliminating a recent small position in Mobileye Global.

In total, the period saw us initiate 11 new positions while eliminating 10 others. Our selling this quarter focused on reducing smaller positions impacted by higher-for-longer interest rates and with lower levels of market liquidity, and exiting positions that reached target prices or where our confidence in a structural turnaround had eroded. As always, our portfolio moves are to improve growth, reduce portfolio level risk and increase downside protection.

## Outlook

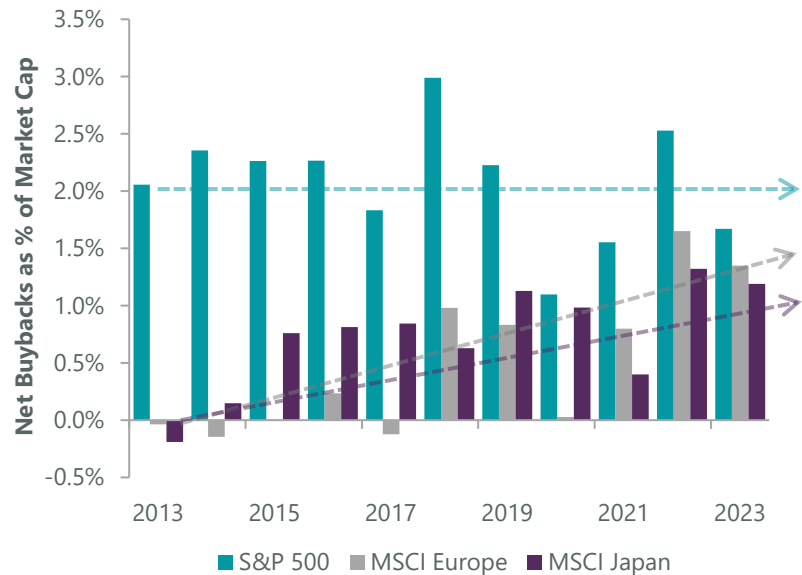
AI-related momentum was a key driver of performance in the second quarter while parts of the market lacking an AI connection underperformed despite no change to fundamentals. We have managed through several similar momentum periods over our tenure and have delivered long-term results for shareholders by staying true to our valuation approach to growth, which emphasizes diversification across three buckets of growth companies (emerging, secular and structural). While maintaining meaningful exposure to AI, we continue to be opportunistic in areas of the market where valuations remain compelling.

The ECB took the lead in cutting rates during the quarter, which could provide temporary relief for sectors that have been pressured by higher costs of capital. While inflation remains sticky in the eurozone and further cuts could be data dependent, EU regulators set a positive tone with the move. Stabilization in the U.K. following the early July election of a centrist leader from the Labour Party could also be supportive of equities. Japanese equities took a breather in the second quarter from a currency- and reform-supported rally, but we expect actions taken by the government and exchanges to improve corporate returns and encourage greater equity ownership will continue to flow through to better earnings. Buybacks are also on the rise in Europe and Japan, which could offer

a catalyst to help close the lingering performance gap between U.S. and international equities (Exhibit 2).

Chinese equities rebounded in the second quarter from an extended malaise, but we have no immediate plans to invest directly in the Chinese market beyond our existing holdings in Zai Lab and Hong Kong-based AIA Group. The Chinese economy may not get materially worse from here, nor do we feel it will get materially better until the ongoing housing problems are resolved, something that will take more time than the market believes. Certain industries are being targeted for growth at the expense of others. We have many stocks on our radar screen and most of our portfolio holdings have a portion of their business in China. The political rhetoric toward Europe, Japan and the U.S. and the companies that are key investors in that market remain unfavorable, something that in our mind is incongruous with developing a cohesive growth strategy. The U.S. political election season is also likely to highlight rhetoric unfavorable to continued investor fund movements into China.

Exhibit 2: Buybacks on the Rise



As of Dec. 31, 2023. Sources: FactSet, MSCI, S&P.

While the Federal Reserve has pared back their easing efforts until gaining more confidence on the path of inflation, central bankers outside the U.S. have already begun to ease monetary conditions. While frequency and timing remain uncertain, we see eventual rate cuts from the Fed acting as a stabilizer for the economy. We believe this transition sets up well for our portfolio of growth stocks with strong fundamentals and specific value creation strategies.

### Portfolio Highlights

During the second quarter, the ClearBridge Global Growth Strategy outperformed its MSCI ACWI benchmark. On an absolute basis, the

Strategy experienced gains across six of the nine sectors in which it was invested (out of 11 total), with the IT sector the primary contributor while the industrials sector was the main detractor.

On a relative basis, overall sector allocation contributed to performance. In particular, overweights to the IT and communication services sectors, an underweight to materials and stock selection in the health care and consumer discretionary sectors drove results. Conversely, stock selection in the IT, industrials and consumer staples sectors and an overweight to health care detracted from performance.

On a regional basis, stock selection in emerging markets and North America, primarily the U.S., supported performance while stock selection in Europe Ex U.K. and an overweight to Europe Ex U.K. proved detrimental.

On an individual stock basis, the largest contributors to absolute returns in the quarter included Nvidia, Apple and Taiwan Semiconductor Manufacturing in the IT sector, Alphabet in the communication services sector and Eli Lilly in the health care sector. The greatest detractors from absolute returns included positions in Salesforce, Accenture and NICE in IT, Walt Disney in communication services and Inspire Medical Systems in health care.

In addition to the transactions mentioned above, we initiated positions in Inspire Medical Systems in the health care sector and Bureau Veritas in the industrials sector. Additional sales included Accenture in the IT sector, Deutsche Telekom in communication services, AbbVie, UnitedHealth Group and Stryker in health care, Trex in industrials as well as Nestle and Grupo Bimbo in consumer staples.

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