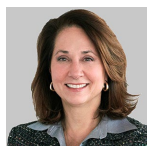




International Growth ACWI ex-US Strategy



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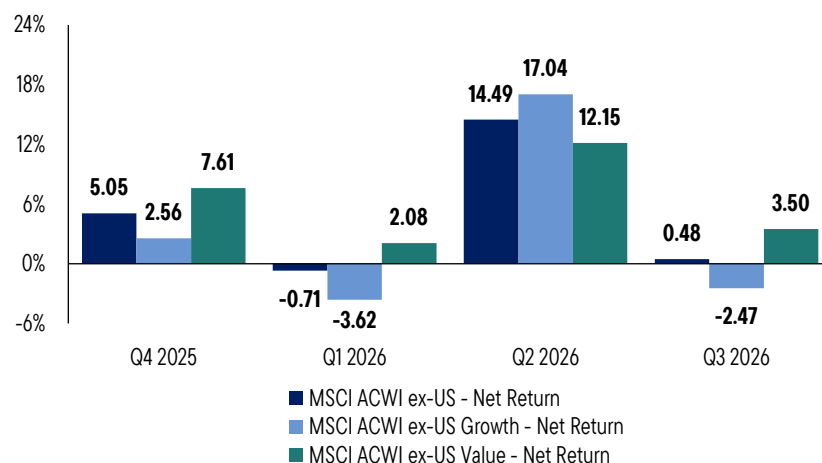
Key Takeaways

- ▶ International growth stocks underperformed value as a July unwind in momentum-driven AI trades reversed the previous quarter's gains, with the Strategy underperforming as its AI infrastructure holdings bore the brunt of the selloff.
- ▶ To balance our higher-beta AI exposure, we broadened our structural growth exposure in areas including energy and financials and repurchased several previously held secular growers at oversold levels.
- ▶ We view the growth selloff as sentiment-driven rather than fundamental, as AI holdings continue to deliver record results, and we remain committed to the secular AI trend while paying even greater attention to risk.

Market Overview

International equities delivered mixed results in the third quarter, with growth stocks pressured by a sharp selloff in momentum-driven AI companies while rising rates and inflationary effects supported value names. The benchmark MSCI All Country World Ex-U.S. Index advanced 0.5% for the quarter. Investment style dispersion was pronounced, with the MSCI ACWI Ex-U.S. Growth Index, falling 2.7% to trail the MSCI ACWI Ex-U.S. Value Index by over 600 basis points. Year to date, value (+18.5%) has outperformed growth (9.7%) by over 850 bps.

Exhibit 1: MSCI Growth vs. Value Performance



As of September 30, 2026. Source: FactSet.

International growth equities have also experienced concentrated leadership and been impacted by meaningful changes to the composition of the ACWI Ex-U.S. Growth and Value indexes during the May reconstitution.

Growth stocks have thus far this year been driven by AI buildouts across sectors including consumer staples, consumer discretionary, industrials and, of course, technology. Behind this were the industry concentrations, leveraged ETFs and hedge funds playing the non-U.S. AI trade. This was followed by a sharp reversal in July and into August as investors questioned the return on investment from historically high AI capex and unwound highly leveraged bets on the AI buildout.

Value stock performance, on the other hand, has been driven more by geopolitics and the implications of rising inflation and interest rates. These three factors have seen extremes in the last few years, in large part due to the geopolitical conflicts across Europe and the Middle East. Interest rates have risen due to the return of inflation fears while the macro backdrop remains uncertain. We believe this environment has been conducive to value companies that constitute a large part of the core ACWI Ex-U.S. Index.

Performance Overview

The July growth selloff accounted for the bulk of the ClearBridge International Growth ACWI Ex-US Strategy's underperformance versus its benchmark, with the heaviest losses occurring among the Strategy's IT, industrials and consumer discretionary holdings. An overweight to IT and an underweight to the strong-performing financials sector also hurt results. By the start of the third quarter, we had built what we viewed as good positioning, but we underestimated the degree of overexposure to AI-indexed stocks in the portfolio.

Notably, our active repositioning left the portfolio overweight in stocks that fell 20% to 40% in the third quarter. From an individual security standpoint, the largest relative detractors were AI infrastructure companies, many of which were among the Strategy's leading contributors in the previous quarter. These included semiconductor names Samsung Electronics, Infineon, Lasertec and ASM International. This cohort was at the center of the July AI unwind sparked by concerns around AI compute oversupply, execution of the latest high-bandwidth memory chips, cheaper Chinese AI models, doubts over AI capex returns and forced hedge fund deleveraging. Importantly, this was not an earnings problem: nearly every AI hardware company we own reported record results.

Similarly, high-voltage cable supplier Prysmian and battery manufacturer CATL are data center beneficiaries that were pulled down by reduced investor sentiment despite earnings continuing to be upgraded.

AI headwinds were partially offset by diversified contributions across our more value-like structural growth holdings. These included Mitsubishi UFJ and KBC in financials, which benefited from higher interest rates in Japan and Europe, respectively; Agnico Eagle Mines in materials and Woodside Energy, which were lifted by rising gold, crude

oil and natural prices. Meanwhile, the additions of semiconductor names SK Hynix and ASML post selloff were also a benefit.

Portfolio Positioning

Expanding our structural growth exposure and taking advantage of oversold conditions to repurchase secular growers we like were the themes of our quarterly trading activity. We believe these moves balance our higher-beta AI exposure and will enhance our ability to participate effectively across a range of market and macro conditions.

Our largest purchase was South Korea memory chip maker SK Hynix, a global leader in DRAM, NAND and the fast-growing area of high bandwidth memory (HBM) to power AI workloads. The shares sold off sharply in the July rotation out of AI infrastructure, creating an attractive entry point into a company whose fundamentals remain sound as it is a beneficiary of an ongoing supply shortage. In semiconductors, we also repurchased ASML, the global leader in extreme ultraviolet lithography scanners critical to advanced semiconductor manufacturing.

German enterprise software maker SAP was another larger purchase. After selling out of our position in April amid concerns that agentic AI could structurally disrupt the software-as-a-service (SaaS) industry, our view has since evolved. The evidence increasingly suggests SAP is better positioned to benefit from AI than most SaaS companies, given the mission-critical nature of its offering, deeply embedded customer relationships and ownership of uniquely valuable enterprise data and business context. We believe the company can become a key orchestration layer for enterprise agents through its expanding AI capabilities.

In Japan we returned to entertainment names Sony and Nintendo. Nintendo's valuation has been compressed due to rising DRAM and component costs that have created concerns around Nintendo Switch 2 profitability and installed-base growth, while a disappointing software pipeline has weighed on enthusiasm for the new console cycle. We believe much of the cost pressure is already reflected in expectations, and Nintendo is managing it effectively through pricing and supply-chain actions. Other repurchases included Tokio Marine due to its large overseas business portfolio and support from a Berkshire Hathaway investment; and Thomson Reuters on the potential for AI monetization of its proprietary legal and accounting data.

We exited several names that reached our price targets, including Swedish mining equipment manufacturer Sandvik, which was lifted by strong organic order growth and margin expansion. The sale of Japanese retailer Pan Pacific International was driven by the company's aggressive expansion into supermarkets, which will keep earnings growth lower than initially expected.

In financials, we exited UK-based global bank HSBC after a strong performance that moved the stock close to our target price and to avoid potential headwinds from the Chinese government crackdown on potential tax evasion of Chinese citizens. We also exited Japanese

conglomerate Orix, as it too approached our target price, and Bank of Montreal to focus on opportunities with better possible upside.

Outlook

We view the third-quarter selloff in AI-related portfolio holdings as rotational and sentiment driven — mainly the unwinding of the Situational Awareness and related hedge funds in the U.S. — as their fundamentals remain robust. We continue to participate in the long-term AI capital expenditure opportunity while maintaining our focus on companies where we believe growth can translate into durable earnings, attractive returns on capital and sustainable shareholder value.

Maintaining this meaningful and deliberate exposure to the AI theme while managing a prudent level of risk and sector weightings in the portfolio is where we are spending a lot of our time right now. AI remains a powerful trend with intermediate-term tailwinds — areas of the AI infrastructure buildout where scarcity and supply or service bottlenecks are creating pricing power and/or new sources of demand. This is occurring across not only semiconductors, but also advanced packaging, storage, networking and optical infrastructure. The global AI capital spending cycle is benefiting companies across Japan, South Korea, Taiwan and parts of Europe.

As active investors attuned to secular growth trends, we are willing to make substantial changes to improve our participation in such trends. While we saw some early signs of success from these efforts in the second quarter, we acknowledge that not all portfolio holdings will be immediately recognized for their growth attributes. This is where diversification and duration can work to our advantage.

Thematic impacts such as AI have become much more pervasive than in the past and it is leading us to regularly measure the correlation of our portfolio to different stocks in the benchmark and make adjustments accordingly. For example, we have reduced our overweights to IT, consumer discretionary and financials while establishing exposure to energy.

We are also upgrading our investment resources to better navigate a very narrow, trend-driven international equity market. We are using new tools and collaborating with ClearBridge's data science team to more closely monitor risk factors, evaluate our portfolio activity and more effectively leverage shared research across the firm.

Looking ahead, we expect AI to evolve beyond today's infrastructure beneficiaries into a much broader enterprise productivity theme. While the portfolio continues to invest across the AI supply chain — including semiconductor equipment, electrical infrastructure, utilities, cable manufacturers and other "picks-and-shovels" businesses — we believe the next phase of AI will be driven by adoption across financial services, health care, manufacturing and other industries, creating significant productivity gains and new business models.

Portfolio Highlights

The ClearBridge International Growth ACWI Ex US Strategy underperformed its MSCI All Country World Ex-U.S. benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions from four of the 10 sectors in which it was invested (out of 11 sectors total). The leading contributors were the financials and materials sectors, while the industrials and IT sectors detracted the most.

On a relative basis, stock selection in industrials, financials, consumer discretionary, health care and IT detracted from performance. Underweights to energy and financials also weighed on results.

On an individual stock basis, the largest contributors to relative returns were SK Hynix, Agnico Eagle Mines, SK Telecom, Mitsubishi UFJ Financial Group and an underweight to ASML. The largest detractors were Contemporary Amperex Technology, ASM International, Samsung Electronics, Infineon Technologies and Nokia.

In addition to the transactions mentioned above, we repurchased Benelux biopharmaceutical makers UCB and Argenx in health care while also adding Sartorius Stedim Biotech and Samsung Biologics, Lenovo Group in IT, UniCredit, London Stock Exchange Group and OTP Bank Nyrt in financials, Novonosis and Linde in materials, as well as Leonardo, Komatsu and Techtronic Industries in industrials. We exited positions in KBC Group and HDFC Bank in financials, SK Square, Siemens Energy and Prysmian in industrials, SK Telecom in communication services, Engie in utilities, Hermes and Laopu Gold in consumer discretionary, Danone and Ajinomoto in consumer staples and WuXi AppTec in health care.

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