ClearBridge
A Franklin Templeton Company

Global Value Improvers Strategy

Grace Su
Managing Director,
Portfolio Manager

Jean Yu CFA, Ph.D.
Managing Director,
Portfolio Manager

Key Takeaways

- International markets proved relatively resilient in a volatile quarter, with value outperforming as higher rates and energy prices drove rotation away from growth.
- The Strategy trailed its benchmark in a strong quarter for value, as stock-specific weakness in financials and industrials outweighed gains in energy, utilities and health care.
- We continue to see energy security and independence as multi-decade, secular investment themes creating durable opportunities across generation, infrastructure and efficiency.

Market Overview

Global equities entered 2026 with a constructive backdrop but experienced a volatile start to the year, as markets first reacted to growing concerns around the bifurcation of winners and losers in the artificial intelligence (AI) trade then were dealt another blow with the escalation of the U.S.–Iran conflict. Despite the pullback, international markets proved more resilient than their U.S. counterparts, with the core MSCI World Index declining 3.6% compared to a 4.3% decline for the S&P 500 Index. Value stocks outperformed meaningfully, as the benchmark MSCI World Value Index returned 1.2% while the MSCI World Growth Index declined 8.5%. This outperformance of both value and international stocks was largely due to the market's efforts to price in the effects of AI disintermediation, where perceived losers such as software and services firms saw their high valuations decline dramatically and investors sought out hardware "picks and shovels" and hard asset stocks with lower risk of obsolescence, both of which are well represented in the benchmark.

Macro-driven market behavior further compounded these tailwinds. The escalation of tensions in the Middle East, including disruptions to energy supply through the Strait of Hormuz, drove a sharp increase in oil and natural gas prices and a repricing of both inflation and growth expectations. This complicated the outlook for central bank policy and contributed to elevated volatility across global markets, reinforcing investor preference for businesses with more tangible earnings power and exposure to real assets.

While geopolitical tensions served as an immediate catalyst, they also brought into sharper focus a broader and more enduring dynamic: the global push toward energy security and independence. This is not a new trend, but recent events have accelerated its' importance, as governments and corporations increasingly prioritize resilient, domestically oriented energy systems. We view these as multi-decade, secular investment themes that are reshaping capital allocation across industries and regions, and ones we are actively invested in across the portfolio.

> Energy independence is no longer cyclical — it is a multi-decade investment priority reshaping global capital allocation.

This opportunity spans the full energy value chain through several of our holdings. France's Nexans is enabling grid expansion and interconnection through high-voltage cable systems critical for integrating renewable energy. Germany's Siemens Energy is benefiting from rising demand for power generation and transmission equipment as countries invest in more resilient infrastructure. U.S.-based Vertiv supports energy efficiency through advanced power and cooling solutions, particularly in data centers where electricity demand continues to accelerate. Domestically, NextEra Energy and Brookfield Renewable are expanding renewable capacity, while EQT contributes to energy independence as a leading natural gas producer and is well-positioned to supply the growing buildout of U.S. LNG export capacity that is helping diversify energy supply in Europe and Asia. Together, these companies highlight how energy security has evolved into a broad investment theme extending well beyond near-term geopolitical events.

Portfolio Performance

The ClearBridge Global Value Improvers Strategy trailed the MSCI World Value Index benchmark in the first quarter. Weakness was most pronounced across financials, industrials and select consumer-facing businesses, while exposure to health care, energy and utilities provided a partial offset.

Within financials, a less favorable interest rate backdrop weighed on performance as rising energy prices complicated the path for monetary easing. Wells Fargo declined on interrelated investor concerns over economic growth, consumer sentiment and a flattening yield curve, all largely related to the Iran war. Spain-domiciled Banco Bilbao Vizcaya Argentaria (BBVA) came under pressure following strong performance in 2025 as investor sentiment was weighed down by a post-earnings selloff due to higher-than-expected credit provisions in key markets such as Turkey and Mexico, alongside elevated costs and a weaker capital ratio.

Industrials detracted as a mix of cyclical pressures and shifting narratives weighed on sentiment. Fortune Brands Innovations underperformed as weak housing demand, limited adoption of connected products and ongoing China headwinds led to disappointing earnings and reduced guidance. Siemens AG, which spun off Siemens Energy several years ago to focus on industrial automation and software, declined as concerns around the potential impact of AI on enterprise software models pressured valuation multiples despite stable fundamentals. In Japan, Hitachi pulled back following strong prior performance as momentum reversed amid broader macro uncertainty.

Within communication services, weakness was driven by Walt Disney, where a mixed earnings report — including declining net income and softness in key segments — led to a reassessment of near-term growth prospects. This was partially offset by the Strategy's underweight to Meta Platforms, whose stock declined during the quarter as investors reacted to legal challenges, elevated AI-related spending and broader macro pressures.

Positive contributions were concentrated in areas more directly leveraged to rising energy prices and infrastructure investment. TotalEnergies was a key contributor as higher oil and natural gas prices supported earnings expectations and cash flow generation, while its disciplined capital allocation and shareholder return profile were increasingly valued. EQT similarly benefited from higher energy prices, strengthening the outlook for upstream producers. Within industrials, Siemens Energy and Vertiv contributed as investment in electrification and power infrastructure accelerated.

Regionally, the U.K. was the largest detractor from relative performance. Weakness was driven by consumer-oriented holdings such as Compass Group, which declined as moderating organic growth and a lack of upward guidance revisions disappointed elevated expectations, and Unilever, which came under pressure after it announced the sale of its food business, as investors were disappointed by the complicated plan and the long time it may take for the company to make up for lost efficiencies. In the long run, however, we believe this positions Unilever as an higher growth, pureplay consumer products company that can see improvement in its valuation.

These headwinds were partially offset by strength in defensive exposures, including National Grid, which benefited from its stable, regulated earnings profile, and AstraZeneca, which delivered strong performance supported by pipeline momentum and a favorable growth outlook.

Portfolio Positioning

We initiated a position in Danske Bank, Denmark's largest financial institution and a leading Nordic banking group. We believe the company's return of accumulated excess capital to shareholders is underappreciated, while current earnings expectations appear overly conservative given the potential for improved loan growth and continued operational efficiency.

We exited our position in Greek Bank Piraeus, which was approaching our price target and also subject to a corporate action resulting in the de-listing of its ADR shares following a reverse merger with its Greek-listed entity. The shares have subsequently corrected alongside the market pullback, so we continue to monitor for opportunities to re-engage as we believe the business fundamentals remain strong.

Outlook

While macro and geopolitical uncertainty remains elevated, we believe the current environment continues to reinforce several of the key structural themes underpinning our investment approach. Most notably, the events of the quarter have further validated the importance of energy security and independence as multi-decade, secular investment themes. What was once largely framed through the lens of sustainability or policy has increasingly become an economic and strategic imperative, driving sustained investment across energy production, infrastructure and efficiency. We expect this to support a broad set of companies positioned along the value chain, many of which are already represented within the portfolio.

At the same time, market leadership continues to broaden beyond a narrow set of growth-oriented companies. As interest rates remain higher for longer and macro conditions remain fluid, we believe investors will continue to prioritize valuation, cash flow durability and balance sheet strength. This creates a more favorable backdrop for value-oriented strategies and for companies undergoing operational and financial improvement.

While near-term volatility is likely to persist, we remain focused on identifying high-quality businesses with improving fundamentals that are aligned with these longer-term trends. We believe this approach positions the Strategy well to navigate the current environment while capturing opportunities created by ongoing market dislocations.

Portfolio Highlights

The ClearBridge Global Value Improvers Strategy underperformed its MSCI World Value benchmark during the first quarter. On an absolute basis, the Strategy had gains across five of the 10 sectors in which it was invested (out of 11 sectors total), with the energy sector being the greatest contributor and the financials sector the largest detractor.

On a relative basis, overall stock selection effects weighed on performance, but were partially offset by positive sector allocation effects. Stock selection in the financials, industrials, consumer staples, communication services, consumer discretionary, IT and energy sectors weighed on performance. Conversely, stock selection in the health care sector, overweight allocations to the industrials and utilities sectors and underweights to the financials and communication services sectors proved beneficial.

On a regional basis, stock selection in the U.K., Japan and North America, overweights to Europe Ex U.K. and emerging markets and a lack of exposure to Asia Ex Japan detracted from performance. Stock selection in Europe Ex U.K. and an overweight to the U.K contributed.

On an individual stock basis, TotalEnergies, Vertiv, EQT, Siemens Energy and CNH Industrial were the greatest contributors to relative performance. The largest relative detractors were Well Fargo, BBVA, Siemens AG, Fortune Brands Innovations and not owning Exxon Mobil.

In addition to the transactions mentioned above, we exited a position in Magnum Ice Cream in the consumer staples sector.

ESG Highlights: Materiality Drives Stewardship Insights

ClearBridge's approach to ESG integration remains rooted in a simple but enduring principle: material environmental, social and governance factors are integral to long-term value creation. As the global sustainability landscape evolves amid shifting regulatory priorities, geopolitical complexity and rapid technological change, our approach continues to emphasize fundamental research, active ownership and a disciplined focus on materiality.

Our 2026 Stewardship Report highlights how this philosophy is translating into tangible outcomes, underscoring both the breadth of our engagement activity and the depth of our ESG integration across portfolios.

A defining feature of ClearBridge's ESG integration is our proprietary ClearBridge Materiality Framework™, which identifies the ESG factors most relevant to each sector and subsector. Engagement priorities are derived from this framework at the company level, ensuring that these efforts focus on issues that are financially material and aligned with our fiduciary duty.

In 2025, several key themes emerged as focal points of engagement:

- Decarbonization and climate adaptation
- Critical minerals and human rights
- Biodiversity and natural resource management
- Responsible AI and data governance
- Governance and shareholder rights

These themes reflect both structural global trends and evolving investor priorities. For example, climate-related engagements increasingly addressed not only emissions reduction but also adaptation and resilience topics, such as grid modernization, water management and disaster preparedness. Companies like DTE Energy, a utility making grid modernization and storm hardening investments, and Eaton, which builds backup power and electrical resilience systems, illustrate how investments in infrastructure resilience can support both sustainability outcomes and long-term earnings durability.

Similarly, the energy transition has elevated the importance of critical minerals, where demand for copper, lithium and rare earths is driven by electrification, AI infrastructure and renewable energy deployment. ClearBridge engagements in this area extend beyond environmental impact to include human rights, supply chain practices and community relations, particularly through collaborative initiatives such as PRI Advance, with which we have engaged with mining companies Antofagasta and Freeport-McMoRan.

The integration of new teams across regions in 2025 further strengthened the ClearBridge Materiality Framework™ by incorporating new insights from emerging markets, the U.K. and Australia. This global perspective enhances our ability to identify best practices, anticipate risks and engage companies more effectively across diverse regulatory and operating environments.

Insights from Global Engagements

ClearBridge's global engagement activity provides a number of practical examples of how ESG considerations translate into investment insights and outcomes. Across regions, the most frequently addressed ESG factors in 2025 included energy transition risks, environmental impacts of operations, community relations, employee health and safety, capital allocation and executive compensation.

Several engagements illustrate our pragmatic approach focused on long-term value creation and positive change:

- **Amazon.com (U.S.):** Engagements focused on labor practices, safety and environmental efficiency. As of the first quarter of 2025, the company reported a 65% reduction in lost-time injuries over the last five years, progress toward net-zero by 2040 and improvements in logistics efficiency and renewable energy use. These developments demonstrate how operational improvements can enhance both social outcomes and cost efficiency at scale.
- **ASML (Netherlands):** Discussions centered on water usage, energy efficiency and supply chain emissions. While direct water usage is limited, engagement highlighted increasing regulatory and regional risks — water is a material topic due to increasing regulatory scrutiny, particularly in the Netherlands, and in Taiwan and the U.S. water stress is now considered a medium-level risk — reinforcing the importance of forward-looking risk management even where current exposure appears modest.
- **Walmart (U.S.):** Engagement emphasized workforce development, wages and human rights in the supply chain. The company's focus on internal upskilling and technology-enabled human rights monitoring illustrates how social considerations can strengthen operational resilience and labor productivity.
- **Toronto-Dominion Bank (Canada):** We engaged the company against the backdrop of U.S. regulatory scrutiny tied to material deficiencies in TD's anti-money laundering (AML) program and

proxy advisor recommendations to withhold votes from board members. ClearBridge's nuanced voting decision in favor of contested directors took into account a meaningful board refresh in 2025 and momentum in remediation; it also reflected insights gained through direct dialogue, highlighting the value of active ownership beyond standardized proxy recommendations.

- **Freeport-McMoRan (U.S.):** Engagement on emissions, water management and human rights demonstrated the complexity of balancing environmental performance with operational realities in resource-intensive industries. Progress on emissions reduction initiatives and disclosure improvements supported continued investment conviction while identifying areas for further engagement.
- **Companhia Paranaense de Energia (Brazil):** Engagements centered on governance transformation following privatization. Improvements in board independence, disclosure practices and strategic focus highlight how governance reform can unlock value and improve investor confidence in emerging markets.
- **MercadoLibre (Latin America):** Engagement on data privacy and cybersecurity led to improved disclosures and attainment of ISO 27001 certification — an independent, third-party audit confirming an organization's information security system manages data security risks effectively. This progression highlights how governance and technology-related ESG factors are increasingly central to maintaining customer trust and supporting growth in digital platforms.

Responsible AI and Emerging ESG Themes

One of the most rapidly evolving areas of ESG analysis in 2025 was responsible AI. As AI adoption accelerates across industries, factors such as data privacy, ethical use of AI, labor implications and environmental impacts such as energy and water consumption from data centers have grown in importance in our analysis.

This reflects the increasing importance of technology-driven risks and opportunities in sustainability analysis. Responsible AI is now viewed as a material factor influencing competitive positioning, regulatory exposure and stakeholder trust. ClearBridge's approach emphasizes balancing innovation with accountability, seeking to ensure that companies adopt AI in ways that are transparent, secure and aligned with long-term societal value.

Conclusion

The 2026 Stewardship Report highlights a year of continued progress for ClearBridge's ESG platform, characterized by global engagement activity and deeper integration of material sustainability factors into investment decision making. As global markets continue to evolve, our approach positions us to navigate complexity while identifying opportunities that align sustainability with shareholder value.

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