



International Growth ACWI Ex US Strategy



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Key Takeaways

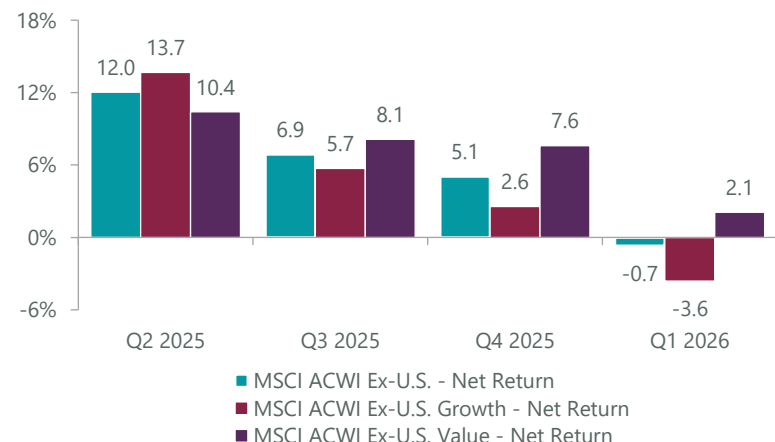
- ▶ Geopolitical shocks stalled a solid start to the year for international equities, with value stocks holding up much better than growth as commodity prices soared and inflation risks rose.
- ▶ The Strategy underperformed its core benchmark due to limited energy exposure and a March selloff in higher-beta financials, consumer discretionary and technology holdings.
- ▶ We see a better setup for the Strategy as growth's valuation premium narrows and we reposition into newer areas of growth outside technology.

Market and Performance Overview

International equities declined meaningfully in March as the U.S.-Israeli military conflict with Iran escalated materially through the month, leading to mixed results for the first quarter after two positive months. The benchmark MSCI All Country World Ex-U.S. Index finished down 0.7% yet extended its leadership over the S&P 500 Index (-4.3%). Value stocks outside the U.S. continued to exhibit strength, with the MSCI ACWI Ex-U.S. Value Index managing a gain of 2.1% for the quarter, outperforming the MSCI ACWI Ex-U.S. Growth Index (-3.6%) by 580 basis points.

While international markets had been preparing for a period of lower rates, which would have been beneficial to growth stocks generally, rates began to move higher following the start of the Middle East conflict. Equity markets are still grappling with long-term implications of these moves and, most importantly, their duration.

Exhibit 1: MSCI Growth vs. Value Performance



As of March 31, 2026. Source: FactSet.

With continued headwinds from value leadership, especially in energy, the ClearBridge International Growth ACWI Ex-US Strategy underperformed its core MSCI ACWI Ex-U.S. benchmark for the quarter.

A major obstacle affecting relative performance was a lack of traditional energy exposure in a three-month period that saw the energy sector soar 28.5%. Given the selloff in March, higher-beta names in areas such as financials, consumer discretionary and information technology (IT) names were most impacted.

The Iran conflict created immediate oil and gas supply disruptions that directly affect an energy-dependent Europe already struggling with the cutoff of Russian energy due to the war in Ukraine. Closure of the Strait of Hormuz also raised the risk of higher inflation from commodity price spikes and caused the European Central Bank to reverse course on what was expected to be a continued program of rate cuts. These rapid and dramatic changes, combined with profit taking after strong performance in 2025, sent the financials sector down 3.6% in the core benchmark for the quarter and pressured portfolio holdings Adyen, Intesa Sanpaolo and NatWest Group, all of which were sold, while India's HDFC Bank was hurt by generally negative sentiment in its home market.

Banks, particularly European banks — which represent our largest exposure — saw some profit taking after a standout 2025 and have also served as a source of funding for banks in other regions, insurance companies and stock exchanges, all of which are perceived as more defensive. Notably, Australian and Canadian banks have shown resilience, being less affected by rising oil and gas prices or potential rationing. Over the quarter, we trimmed some of our banking exposure as several holdings approached their target prices.

The launch of Claude Cwork and other generative AI tools in the quarter heightened concerns that AI-native solutions could alter competitive dynamics in IT, increase pricing pressure, extend the sales cycle or compress long-term growth rates. As a result, the software sector — historically viewed as stable and durable due to high recurring revenue and strong retention — experienced broad-based multiple contraction. This dynamic impacted nearly all software companies, including those we believe are relatively well-positioned to benefit from AI or are less susceptible to disruption. We reduced the portfolio's software exposure in the quarter, including the sale of Germany's SAP.

Despite this short-term weakness, we are optimistic about the outlook for international growth stocks and confident that the work we have put into the portfolio in recent quarters positions the Strategy very well for improved outcomes going forward. After an extended period of value outperformance, we believe growth stocks have given up much of their valuation premium.

Portfolio Positioning

We saw indiscriminate selling in March across our investable universe, especially among what we consider emerging growth companies with higher revenue growth and innovative business models that carry higher risk. We used the spike in volatility to repurchase shares of video streamer Spotify.

We are also seeking out companies supporting energy security and benefiting from increased fiscal spending in Europe; these include defense stocks and those enabling electric grid infrastructure such as new buy French utility Engie. Supporting our expectation of higher infrastructure spending in Europe as well was the purchase of U.K.-based global mining company Rio Tinto, the world's largest miner by revenue and second largest by profit. While its business has historically been dominated by iron ore, more than half of its future profits will be generated from copper, aluminum, lithium and other industrial metals in high demand.

In addition, we continued to move more meaningfully into Japan with five new positions that reflect our confidence in a number of tailwinds: the country is an outlier in developed markets in that interest rates are rising, which should meaningfully boost net interest margins for banks; ongoing governance reforms are driving higher returns on equity and increasing shareholder-friendly actions such as stock buybacks; and expansionary fiscal policy under the consolidating Takaichi administration that should support domestic demand, defense spending and technology investment.

Our Japan additions included ORIX, which provides capital and financing to public and private sector clients and operates its own real estate and renewable energy assets; Pan Pacific International Holdings, an operator of discount retail chains; and Sumitomo Electric Industries, a manufacturer of electrical components that power grid connection, transmission and data networking equipment. Sumitomo replaces Fujikura in the industrials sector. A portion of these buys came were funded from the sale of European aerospace and defense contractor Airbus, which was approaching our price target.

Within IT, we are roughly neutral to the semiconductor capital equipment industry after taking some profits among the strong-performing ASML and Tokyo Electron, which we exited during the quarter. We diversified exposure to this critical picks and shovels area of AI buildouts with the first-quarter additions of ASM International and Lasertec. ASM is the leader in atomic layer deposition, a precise deposition technique required in the most advanced semiconductors. The Dutch company's main clients are logic foundries Taiwan Semiconductor, Samsung (a new addition to the portfolio providing memory exposure) and Intel, as well as memory foundries SK Hynix (sold to fund the purchase of Samsung) and Micron Technology. Foundries and wafer fab equipment

providers like the ASM work closely, which gives the firm insight into the customer's innovation and product road maps. Japan's Lasertec is a pure-play leader in inspection and measurement equipment that is well-positioned to benefit from the emerging growth drivers of extreme ultraviolet (EUV) memory adoption and AI infrastructure. We took advantage of an attractive entry point given that the company is at trough earnings with order recovery ahead.

In China, we added Contemporary Amperex Technology, a market leader in EV batteries and energy storage solutions, which received a sentiment boost over energy security questions due to the Iran conflict.

The sales of Japanese IT consultant Nomura Research Institute and U.K. business information provider RELX were driven in part by negative sentiment over AI disintermediation risks that are currently overwhelming the fundamentals of these businesses. We exited Israeli security software maker Check Point because our thesis on revenue growth acceleration is taking longer to play out than expected. We also sold Swedish alternative asset manager EQT.

Outlook

War has changed cost economics around the world, which we know is not good for Europe due to its energy dependence, as we saw during the early stages of the Russia-Ukraine war. How long this lasts and what the result will be has yet to be determined, especially with Iran controlling the Strait of Hormuz, and we must look at potential impacts across several areas. We are analyzing how inflationary pressures from higher commodity prices could impact consumers, as well as what they mean for input prices for industrial and materials companies.

We have also been carefully vetting the portfolio to be better in tune with the current risk environment and ensure we are appropriately positioned for the next leg of growth. We have reduced our IT overweight while continuing to add to utilities and materials. We see these structural companies as the new growth stocks and have seen early signs validating our thesis. We have also been moving more meaningfully into Japan, and to a lesser extent Australia, highlighting an overall priority to add in places where we see inexpensive valuations and rising earnings.

While the Strategy has very limited exposure to oil and gas stocks — which acted as a major performance headwind in the quarter — we are also looking at our energy exposure, achieved through owning utilities and select industrials, as a way to play defense and be well-positioned to participate in a period of surging power demand. This contributed to our decision to add a position in Australian LNG company Woodside Energy during the quarter.

Portfolio Highlights

During the first quarter, the ClearBridge International Growth ACWI Ex-US Strategy underperformed its MSCI ACWI Ex-U.S. benchmark. On an absolute basis, the Strategy produced positive contributions across three of the 11 sectors in which it was invested: industrials, materials and utilities. The consumer discretionary and financials sectors were the chief detractors.

Relative to the benchmark, overall stock selection and sector allocation detracted from performance. In particular, stock selection in financials, IT, consumer discretionary, communication services and consumer staples sectors, an overweight to the consumer discretionary sector and a lack of exposure to the energy sector weighed on results. Stock selection in the health care and industrials sectors proved beneficial.

On an individual stock basis, the largest contributors to returns were Agnico Eagle Mines in materials, Siemens Energy, Prysmian and BAE Systems in industrials and E.On in utilities. The greatest relative detractors were HDFC Bank in the financials sector, Sea Limited in the consumer discretionary sector, Samsung Electronics in the IT sector, Tencent in the communication services sector and Ryanair in industrials.

In addition to the transactions mentioned above, we repurchased shares in HOYA and Galderma in health care, AIA Group in financials and Atlas Copco in industrials and initiated new positions in MediaTek and SK Telecom in IT. The Strategy also closed positions in Roche in health care, Celestica and Constellation Software in IT, AXA in financials, Sony, Hermes and Coupang in consumer discretionary and Vonovia in real estate .

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