International Growth ACWI ex-US Strategy

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Key Takeaways

- International equities rebounded sharply, led by emerging markets and accelerating AI infrastructure investment, but the Strategy's differing AI holdings led to underperformance.
- We increased exposure to AI infrastructure beneficiaries across semiconductors, storage, networking, optical equipment and data center connectivity where supply constraints and pricing power are emerging.
- Positioning also shifted toward structural growth opportunities in Japan, where governance reforms and AI spending are driving improved fundamentals.

Market Overview

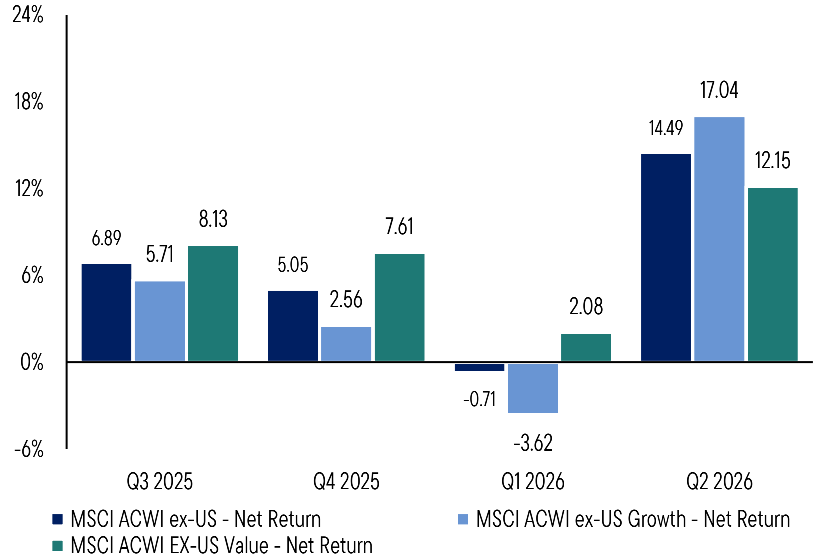
International equities rebounded in the second quarter as progress toward a resolution of the Iran conflict and an ongoing artificial intelligence (AI) infrastructure buildout led to double-digit gains across both developed and emerging markets. The benchmark MSCI All Country World Ex-U.S. Index rose 14.5%. Growth stocks regained leadership over value stocks outside the U.S., with the MSCI ACWI Growth Index gaining 17.0% to outperform the MSCI ACWI Value Index (+12.1%) by ~500 basis points (Exhibit 1).

From a regional standpoint, emerging markets (+24.1%) was the best performer, Japan (+14.2%) was mostly in line with the benchmark while Europe Ex-U.K. (+12.8%), North America (+6.0%), the United Kingdom (+4.1%) and Asia Ex Japan (+3.7%) underperformed.

Semiconductors were among the leading performers in an information technology (IT) sector that rose 64.0% for the quarter. Despite contributions from a range of semiconductor and AI infrastructure holdings across Asia and Europe, the ClearBridge International Growth ACWI Ex-US Strategy underperformed its MSCI ACWI Ex-U.S. benchmark primarily due to its IT exposure.

We view generative AI as no longer just about the most visible technology platforms — it is becoming a global supply chain bottleneck story. The scale of AI capital spending is overwhelming the existing manufacturing base for advanced computing, creating constraints across multiple IT product categories. These constraints have created an advantageous supply/demand environment for key suppliers that were the Strategy's best quarterly performers.

Exhibit 1: MSCI Growth vs. Value Performance



As of June 30, 2026. Source: FactSet.

Shares of system-on-a-chip maker MediaTek nearly tripled during the quarter as the Taiwan company saw encouraging results from its emerging AI accelerator chips business for customers including Alphabet. South Korea high-bandwidth memory maker Samsung Electronics, Dutch Semiconductor capital equipment makers ASM International and Japan chip manufacturing inspection systems firm Lasertec also delivered strong gains.

Related to the AI buildout, Italian fiber optic cable manufacturer Prysmian benefited from industry supply constraints, allowing the company to raise prices as demand continues to outpace supply. In addition, Japan's Softbank, a major investor in OpenAI and related large language models as well as AI infrastructure projects, also rose on positive momentum from accelerating AI capex and the prospect of mega cap IPOs for leading LLMs.

Our AI holdings offset weakness among a handful of industrials names including U.K. defense contractor BAE Systems and Australian logistics provider Brambles. The Strategy was also hurt by not owning several IT stocks in the index that soared due to AI demand, including memory names SK Hynix and Kioxia; we purchased the latter in late June.

Portfolio Positioning

Consistent with our broader positioning, activity increased exposure to AI infrastructure beneficiaries, expanded our Japan allocation and selectively repositioned the portfolio toward companies with stronger long-term structural growth opportunities while harvesting gains in holdings where valuations had become more fully reflected.

A primary objective of our purchases was to increase participation in areas of the AI infrastructure buildout where supply constraints are creating pricing power or durable demand growth. Alongside new investments in Kioxia, Infineon, Celestica, Nokia and Halma, we also initiated positions in Shin-Etsu Chemical, Schneider Electric and Keyence and. Japan's Shin-Etsu Chemical is a leading supplier of semiconductor materials benefiting from continued demand for advanced chip manufacturing.

Germany's Schneider Electric continues to benefit from accelerating investment in electrical infrastructure supporting AI data centers, while Keyence's factory automation and sensing technologies position the company to capitalize on increased industrial automation.

We expanded exposure to financials through new investments in UBS Group, Barclays, Toronto-Dominion Bank and Bank of Montreal. While we reduced exposure to certain European financials after strong performance, these additions provide attractive long-term growth opportunities supported by improving capital returns, wealth management and North American banking franchises. We also repurchased Hong Kong Exchanges, which provides exposure to improving capital markets activity across Asia.

Within industrials and related sectors, we initiated positions in Canadian Pacific Kansas City and Vestas Wind Systems. Canadian Pacific offers a unique North American rail network with long-duration earnings growth opportunities while Vestas remains well positioned to benefit from continued investment in renewable energy infrastructure

Consumer positioning also evolved during the quarter. We established new investments in French luxury goods maker Hermes International, Japanese omnichannel retailer Shinsegae and seasonings maker Ajinomoto, reflecting our preference for companies with durable brands, pricing power and attractive long-term earnings growth. In health care, we initiated a position in Switzerland's Novartis, whose improving pharmaceutical pipeline and capital allocation provide an attractive combination of growth and resilience.

Funding for these purchases came from a combination of profit taking and exits from positions where either valuations had become less compelling or our conviction had diminished. These included Brambles, Unilever, Spotify, MercadoLibre, BYD, Alcon, UCB, Tesco and Heidelberg Materials.

Outlook

We see several structural drivers supporting international equities, including continued attractive valuations versus the U.S., the potential for further U.S. dollar weakness, improving earnings growth as geopolitical tensions ease and increasing flows toward as broadening increases beyond U.S. mega caps. The biggest driver of this momentum is a global AI capital spending cycle that 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.

Regionally, Japan has developed into our highest-conviction opportunity. Its emergence from decades of deflation, a more pro-business policy environment and ongoing Tokyo Stock Exchange governance reforms are creating a multi-year improvement in corporate profitability and shareholder returns. These structural changes are driving higher returns on equity through balance sheet optimization, share buybacks, improved capital allocation and stronger corporate governance. We have increased our exposure, particularly within industrial companies benefiting from electrification, the energy transition and defense spending.

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

During the second quarter, the ClearBridge International Growth ACWI Ex-US Strategy underperformed its MSCI ACWI Ex-U.S. Index benchmark. On an absolute basis, the Strategy produced positive contributions across eight of the 10 in which it was invested (out of 11 total), led by IT, industrials and financials, while energy and materials detracted.

Relative to the benchmark, overall sector allocation detracted from performance. In particular, stock selection in IT, financials and materials, an underweight to IT, overweights to consumer staples, health care, consumer discretionary and industrials, and the Strategy’s cash position weighed on results. Conversely, stock selection in communication services, consumer discretionary and health care, as well as an underweight to energy, contributed to performance.

On an individual stock basis, the primary contributors to relative returns were MediaTek, ASM International and Samsung Electronics in the IT sector as well as Prysmian and SK Square in the industrials sector. The main detractors from relative returns were not holding SK Hynix and ASML, Brambles and BAE Systems in the industrials sector and Agnico Eagle Mines in the materials sector.

In addition to the transactions mentioned above, we initiated positions in Prudential in the financials sector, SK Square and Mitsubishi Electric in the industrials sector, Nutrien in the materials sector and Anheuser-Busch InBev in the consumer staples sector. We exited positions in PT Unilever Indonesia in the consumer staples sector and 3i in the financials sector.