FRANKLIN TEMPLETON | ClearBridge

ClearBridge International Growth ADR Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** International equities produced mixed results as a sharp reversal in momentum-driven AI stocks pressured growth companies while rising rates and inflation concerns supported value. The MSCI EAFE Index gained 0.8%, while the MSCI EAFE Growth Index fell 2.5%, trailing the MSCI EAFE Value Index by 680 basis points.
- **Contributors:** Komatsu, Agnico Eagle Mines, Recruit Holdings, not holding Murata Manufacturing and Nestle.
- **Detractors:** Prysmian, Kioxia, Infineon, Tokyo Electron and AstraZeneca,. Stock selection in information technology (IT), industrials, health care.
- **Outlook:** We believe the third-quarter AI-related selloff was primarily rotational and sentiment driven. We remain focused on durable growth businesses positioned to benefit from AI investment, while diversifying exposure and managing portfolio risk in a narrow, trend-driven market.

Performance Review

- International growth equities were pressured by a sharp unwind in AI-related momentum stocks during July and into August. Concerns about the return on historically high AI capital expenditures, compute oversupply, high-bandwidth memory execution, lower-cost Chinese AI models and hedge fund deleveraging drove a reversal in companies that had led earlier in the year.
- The MSCI EAFE Growth Index fell 1.7% in July while the MSCI EAFE Value Index gained 5.7%, the second-largest monthly differential favoring value in the past 10 years. Year to date, value has outperformed growth by more than 790 basis points.
- The Portfolios' performance was hurt by an overweight to IT, an underweight to the strong-performing financials sector and exposure to AI infrastructure companies that declined sharply. Changes to the composition of the EAFE Growth and Value indexes during the May reconstitution also affected relative results.
- While the portfolio had meaningful exposure to the AI investment cycle, benchmark leadership extended into higher-beta, cyclical businesses whose historical return characteristics had generally not met our investment criteria.
- The largest individual detractors were semiconductor holdings Kioxia, Infineon, Tokyo Electron. High-voltage cable supplier Prysmian also detracted as investor sentiment weakened despite continued earnings upgrades. Nearly every AI hardware company held in the portfolio reported record results, underscoring that the quarter's pressure reflected a technical and sentiment-driven correction rather than an earnings shortfall.
- Diversified contributions from more value-like structural growth holdings partially offset these declines. Japanese industrial equipment manufacturer Komatsu benefited from a beat and raise quarter on solid construction and mining demand. Agnico Eagle Mines and Woodside Energy gained alongside higher gold, crude oil and natural gas prices. Recruit Holdings was resilient despite concerns that AI could disintermediate its job-board businesses.
- We expanded structural-growth exposure and selectively repurchased secular growers following oversold conditions. SAP was the largest addition after our view evolved on its AI opportunity; we believe its mission-critical offering, embedded customer relationships and proprietary enterprise data position it to benefit from enterprise AI adoption. Other repurchases included Hong Kong Exchanges & Clearing, Canadian Pacific Kansas City and Thomson Reuters. In health care, we purchased Novartis and sold Roche following Roche's disappointing multiple sclerosis trial results.
- We exited Swedish mining equipment manufacturer Sandvik after it reached our price target following strong appreciation, organic order growth and margin expansion. We sold out of Japanese convenience store operator Pan Pacific International due to supermarket acquisitions that will slow earnings growth.

Outlook

- We view the third-quarter selloff in AI-related holdings as rotational and sentiment driven. We continue to participate in the long-term AI capital expenditure cycle through companies with durable earnings potential, attractive returns on capital and sustainable shareholder value creation.
- AI infrastructure demand continues to create scarcity, supply bottlenecks and pricing power across semiconductors, advanced packaging, storage, networking and optical infrastructure. This global investment cycle is benefiting companies across Japan, South Korea, Taiwan and parts of Europe.
- We expect AI's next phase to extend beyond infrastructure into broader enterprise adoption across financial services, health care, manufacturing and other industries. We are also strengthening our risk-monitoring tools and collaboration with ClearBridge's data science team to better evaluate portfolio correlations, activity and risk factors in a narrow international equity market.

Top Equity Issuers (% of Total)

Holding	Portfolio
ASML Holding NV	6.69
Schneider Electric SE	3.15
Taiwan Semiconductor Manufacturing Co Ltd	2.84
SAP SE	2.53
Cie Financiere Richemont SA	2.52
Banco Santander SA	2.46
Hoya Corp	2.37
AstraZeneca PLC	2.35
Siemens Energy AG	2.32
Atlas Copco AB	2.16

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-6.72	2.90	-3.22	-3.74	9.45	1.16	6.61	6.89	3.88	4.92	4.36	9/30/1996
Pure Gross of Fees	-6.01	4.43	-1.04	-0.84	12.71	4.20	9.79	10.08	6.99	8.06	7.49	9/30/1996
Benchmark 1	0.81	11.72	10.33	15.69	18.40	9.32	9.07	8.50	5.38	7.10	5.86	–
Benchmark 2	-2.53	11.63	6.38	8.36	13.90	4.33	7.81	8.12	5.45	6.80	5.03	–

*Cumulative total returns

Benchmark(s)

Benchmark 1=MSCI EAFE Index-NR

Benchmark 2=MSCI EAFE Growth Index-NR

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
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What are the Risks?

All investments involve risks, including possible loss of principal. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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Important Information

Effective March 1, 2026, the MSCI EAFE Growth Index was added as an additional benchmark for the portfolio.

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