

ClearBridge International Growth ADR Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** International equities delivered solid gains in the fourth quarter to cap one of the best years for overseas stocks in decades. The core benchmark MSCI EAFE Index rose 4.9% in the quarter to finish up 31.2% for 2025, outperforming the S&P 500 Index's gains of 2.7% for the quarter and 17.9% for the year. The market rally was broad with the MSCI Emerging Markets Index advancing 4.7% for the quarter and 33.6% for the year.
- **Contributors:** Holdings in Siemens Energy, NatWest Group, AstraZeneca, Tokyo Electron and Celestica.
- **Detractors:** Holdings in Sea Limited, Sony, Tencent and Zai Lab and. Stock selection in the health care and consumer discretionary sectors.
- **Outlook:** Lower interest rates will certainly help growth stocks, but we think that to reassert market leadership – specifically in technology software and hardware – it will come down to improved earnings.

Performance Review

- Outside the U.S., growth stocks delivered strong absolute returns but meaningfully underperformed value stocks. The MSCI EAFE Growth Index rose 1.9% for the quarter, trailing the MSCI EAFE Value Index by 590 basis points. In such a value-dominated period, the Portfolios underperformed (gross and net of fees) its primary MSCI EAFE benchmark.
- As a growth manager, we are selective in owning the companies typically thought of as value in our structural growth segment. We have increased this exposure, predominantly by increasing allocations to banks, where we are seeing a step change in earnings. U.K.-based NatWest Group was a leading contributor during the quarter, and we think banks can continue to work as we believe that interest rates will be stable and loan growth will likely increase along with higher fiscal stimulus and to fund AI and energy transitions.
- The Portfolios saw strength in holdings supporting the buildup of AI workloads. These were led by Germany's Siemens Energy, a supplier of electrical equipment to power data centers, semiconductor equipment maker Tokyo Electron, Canada's Celestica, a provider of technology solutions for cloud platforms, and Taiwan Semiconductor, the world's largest contract manufacturer of high-end chips.
- Relative performance was negatively impacted by weakness in the consumer discretionary sector. Sea Limited, the Singapore-based e-commerce, gaming and fintech provider, was hurt by profit taking over potential increasing competitive concerns after the shares rose 80% in the first eight months of the year. Japan's Sony, whose diversified media, entertainment and technology businesses are headlined by its PlayStation franchise, was hurt by a sharp rise in DRAM prices that created margin pressure in the company's gaming division.
- Media and technology conglomerate Tencent was caught up in general weakness in the Chinese market while Zai Lab was down over the push out of its move to breakeven profitability into 2027.
- The health care sector has overall underperformed for the year, although selective stocks within the portfolio did quite well. European biopharmaceutical makers Argenx and UCB as well as the U.K.'s AstraZeneca, meanwhile, were bright spots and we view many of these companies as a compelling innovation source, notably in biotechnology.

Outlook

- Better earnings can drive growth stocks higher, and we see challenges to future earnings for growth companies falling into three categories: tariffs, technology and transition. These issues have created volatility around earnings and impacted more highly rated growth stocks. Many of these are in the secular growth bucket and should see a reassertion of growth as the advantages from AI begin to come through and new ways of monetizing their businesses emerge to drive growth rates higher. Lower interest rates will certainly help stocks, but we think that to reassert market leadership – specifically in technology software and hardware – it will come down to improved earnings.
- Despite a relative performance comeback for international equities in 2025, valuations remain historically attractive compared to their U.S. peers. Overseas markets continue to offer growth franchises with best-in-class business models and innovation comparable to the U.S. but at more reasonable multiples. International companies are clear leaders across industries such as semiconductor equipment, biopharmaceuticals, luxury goods and advanced manufacturing and are well-positioned amid the current secular trends of AI and broader defense spending.

Top Equity Issuers (% of Total)

Holding	Portfolio
ASML Holding NV	4.01
Siemens Energy AG	3.39
AstraZeneca PLC	3.20
SAP SE	2.98
Sony Group Corp	2.97
NatWest Group PLC	2.65
Taiwan Semiconductor Manufacturing Co Ltd	2.63
Danone SA	2.56
Intesa Sanpaolo SpA	2.54
HSBC Holdings PLC	2.54

Average annual total returns (%) - as of December 31, 2025-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	-0.54	2.88	18.20	18.20	11.17	1.72	6.87	5.68	4.71	3.78	4.59	9/30/1996
Pure Gross of Fees	0.20	4.41	21.70	21.70	14.47	4.77	10.06	8.84	7.84	6.90	7.73	9/30/1996
Benchmark	4.86	9.86	31.22	31.22	17.22	8.92	8.18	6.64	5.58	5.37	5.66	—

*Cumulative total returns

Benchmark(s)

Benchmark = MSCI EAFE Index-NR

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

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Glossary

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

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