

ClearBridge International Growth ADR Portfolios

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** International equities maintained positive momentum in the second quarter as Europe signaled progress on fiscal stimulus and reform measures and investment flows into the region increased. The benchmark MSCI EAFE Index advanced 11.8%, besting its U.S. counterpart, the S&P 500 Index (+10.9%), for the second-straight quarter. Non-U.S. currencies continued their rally against the dollar. In a sign of strengthening local market conditions outside the U.S., the MSCI EAFE Small Cap Index jumped 16.6% while the MSCI Emerging Markets Index advanced 12.0%.
- **Contributors:** Holdings in Siemens Energy, Mitsubishi Heavy Industries, Tokyo Electron and Safran. Stock selection in the industrials and consumer staples sectors.
- **Detractors:** Holdings in LVMH, argenx, London Stock Exchange Group and AstraZeneca. Stock selection in the financials, health care and consumer discretionary sectors.
- **Outlook:** The regions where we invest across the globe continue to make progress on growth and equity-friendly policies. Earnings growth among European stocks is improving with forecasts for double-digit EPS growth over the next year.

Performance Review

- Improving sentiment over global trade following President Trump's early April Liberation Day U.S. tariff announcement raised investor appetite for risk, helping international growth stocks outperform their value counterparts for the first time since the first quarter of 2024. The MSCI EAFE Growth Index gained 13.5% for the period, besting the MSCI EAFE Value Index by over 340 basis points.
- The Portfolios underperformed their MSCI EAFE benchmark on a gross basis as weakness in the U.K. and an overweight to emerging markets offset solid contributions in Canada, Europe Ex U.K. and Japan
- New addition Siemens Energy, a German electricity equipment and services provider, saw its shares rerate thanks to robust second-quarter results, a record order backlog and raised full-year forecasts. Companies tied to increasing defense spending in Europe and Japan were also solid contributors, led by Mitsubishi Heavy Industries, Airbus and Safran.
- Companies supporting the buildout of generative AI capabilities did well, led by semiconductor equipment makers Tokyo Electron and ASML.
- One of the hardest hit areas has been health care due to upheaval in U.S. health care administration, funding and trade policies plus a weak dollar, hurting European biopharmaceutical names Novo Nordisk, argenx and AstraZeneca.
- Other detractors included French luxury goods maker LVMH and London Stock Exchange Group.
- We are finding attractive opportunities in the grocery industry with our largest purchase during the quarter being Tesco, the leading grocery chain in the U.K. We also increased exposure to European power upgrades and defense spending with additions of German utility E.ON and U.K. defense contractor BAE Systems.
- Concerns over the U.S. economy and U.S. dollar led us to sell higher dollar-weighted companies at high prices, including Irish building materials supplier CRH, and redeploy the proceeds into more domestic businesses that can benefit from the fiscal stimulus in Europe.

Outlook

- The regions where we invest across the globe continue to make progress on growth and equity-friendly policies. While still early days in the development of more stimulative economic and regulatory policies, earnings growth among stocks in the pan European Stoxx 600 has begun to improve with forecasts for double-digit EPS growth over the next year.
- In addition to a more independent EU that has pledged to improve its competitiveness through governance reform and greater investment in research and development, Japan is also taking steps to modernize its economy. Despite its leadership in consumer electronics and robotics, the country has traditionally lagged other regions in digitizing its broader economy. The Japanese government is leading a massive push to transform business functions still done on paper to the cloud and has instituted deadlines for this transition. Companies like IT consulting and software company Nomura Research Institute are helping lead the move to the cloud.
- We believe China is also becoming more investable, with its push to develop a self-sufficient health care system leading to a burgeoning homegrown biotechnology industry. The world's second-largest economy has the necessary institutional commitment to R&D and life sciences infrastructure to become a profitable global competitor to Western biopharmaceutical companies. We are actively looking at the key players in this rapidly developing market.

Top Equity Issuers (% of Total)

Holding	Portfolio
SAP SE	3.76
Sony Group Corp	3.15
Siemens Energy AG	2.87
Sea Ltd	2.80
Tokyo Electron Ltd	2.58
NatWest Group PLC	2.39
RELX PLC	2.38
Tesco PLC	2.37
Danone SA	2.33
Intesa Sanpaolo SpA	2.32

Sector Allocation (% of Total)

Sector	Portfolio
Industrials	20.39
Financials	19.73
Information Technology	13.46
Consumer Discretionary	12.34
Health Care	11.33
Consumer Staples	7.88
Communication Services	6.53
Materials	3.24
Utilities	1.55
Cash & Cash Equivalents	3.55

Average annual total returns (%) - as of June 30, 2025-PRELIMINARY

Product	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	11.58	15.42	15.42	14.50	12.79	6.70	7.02	7.84	6.21	4.07	5.56	9/30/1996
Pure Gross of Fees	12.13	16.56	16.56	16.81	15.07	8.86	9.19	10.03	8.37	6.20	7.71	9/30/1996
Benchmark	11.78	19.45	19.45	17.73	15.97	11.16	6.51	7.51	5.81	4.51	5.41	—

*Cumulative total returns

Benchmark(s)

Benchmark =MSCI EAFE Index-NR

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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%).

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The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Earnings per share (EPS) is a commonly used measure of a company’s profitability.

The **STOXX® Europe 600** is a broad measure of the European equity market.

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