FRANKLIN TEMPLETON | ClearBridge

ClearBridge International Growth ADR ESG Portfolios

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** International equities rebounded in the second quarter as easing geopolitical tensions and accelerating AI infrastructure investment fueled broad gains across developed and emerging markets. The MSCI EAFE Index rose 10.8% as growth stocks regained leadership, with the MSCI EAFE Growth Index outperforming the MSCI EAFE Value Index by 700 basis points. Japan (+14.2%) and Europe ex-U.K. (+12.8%) led regional returns, while information technology surged 55% on continued semiconductor and AI-related strength.
- **Contributors:** Tokyo Electron, ASML, ASM International, Lasertec, Prysmian.
- **Detractors:** Brambles, AstraZeneca, Hoya, E.On and an underweight to Kioxia.
- **Outlook:** We believe maintaining diversified exposure across the AI ecosystem and other durable growth themes positions the Portfolios well to participate in the next phase of international equity leadership.

Performance Review

- The Portfolios outperformed their MSCI EAFE Index benchmark as holdings benefiting from the accelerating global AI infrastructure buildout overcame weakness in financials and health care.
- We believe generative AI has evolved beyond the largest technology platforms into a global supply chain story. The scale of AI capital spending continues to create bottlenecks across semiconductors, networking and optical infrastructure, strengthening pricing power for many companies held in the portfolio.
- Semiconductor capital equipment holdings were among the Fund's strongest contributors. Tokyo Electron doubled during the quarter, while ASML, ASM International and Lasertec generated strong gains as customers accelerated spending on advanced manufacturing capacity. Taiwan Semiconductor also advanced as its technology leadership and dominant market position continued to support pricing power and a growing production backlog.
- Companies supporting AI infrastructure also performed well. Italian cable manufacturer Prysmian benefited from persistent shortages across fiber optic infrastructure, while SoftBank advanced on growing optimism surrounding AI capital spending, OpenAI-related investments and the potential for future large-scale AI public offerings.
- The Portfolios were hurt by underperformance in health care, with U.K. pharmaceutical maker AstraZeneca down on the FDA's failure to approve a new breast cancer treatment, and Japanese medical device and semi cap equipment maker Hoya lower on an earnings miss.
- Australian logistics provider Brambles weakened as investors rotated away from defensive compounders toward higher-beta AI beneficiaries. Softer global freight activity and concerns over moderating pallet volumes also weighed on sentiment.
- German utility E.ON was also hurt by the AI rotation as regulated utilities lagged more cyclical and technology-oriented sectors amid improving risk appetite. which fell
- Relative performance was also negatively impacted by not owning several AI-related benchmark constituents that appreciated sharply, most notably Japanese memory manufacturer Kioxia, which we added late in the quarter.
- The Portfolios increased exposure to IT, industrials and Japan while reducing financials. New investments focused on businesses benefiting from structural AI infrastructure demand where supply constraints are creating pricing power or expanding long-term growth opportunities.
- We added several semiconductor-related companies that we believe are well positioned for the next phase of AI adoption. Kioxia is benefiting from improving NAND memory pricing as AI inference workloads increase demand for advanced storage, while Infineon continues to benefit from rising demand for power management semiconductors used in AI servers.
- We also expanded exposure across other critical AI infrastructure categories. Seagate Technology is benefiting from increasing data storage requirements, Celestica from AI networking deployments and Nokia from expanding optical networking infrastructure.
- Within financials, we repositioned the portfolio toward businesses with stronger long-term growth opportunities. We realized gains in NatWest Group and Intesa Sanpaolo after earnings momentum moderated and redeployed capital into UBS Group, where we expect more favorable capital requirements to support higher shareholder returns. We also exchanged AXA for Prudential, reflecting our positive outlook for wealth management demand across Asia.

Outlook

- On the ESG front, as the regulatory landscape evolves for social media platforms, active stewardship on youth safety, content moderation and disclosure can help assess whether companies are managing emerging legal, reputational and operational risks effectively.
- The global AI capital spending cycle remains our highest conviction investment theme. While today's beneficiaries include semiconductor equipment, networking, optical infrastructure, utilities and electrical equipment suppliers, we expect AI adoption to broaden across financial services, health care, manufacturing and many other industries, creating meaningful productivity gains and new business models.
- Regionally, Japan remains our highest-conviction opportunity. Its emergence from decades of deflation, improving corporate governance, shareholder-friendly reforms and supportive fiscal policies continue to drive higher returns on equity and stronger capital allocation. We have increased exposure accordingly, particularly within industrial companies benefiting from electrification, the energy transition and defense spending.

Top Equity Issuers (% of Total)

Holding	Portfolio
ASML Holding NV	6.94
Taiwan Semiconductor Manufacturing Co Ltd	3.86
Prysmian SpA	3.45
Schneider Electric SE	3.09
Siemens Energy AG	3.04
AstraZeneca PLC	2.94
Sandvik AB	2.77
Tokyo Electron Ltd	2.52
Cie Financiere Richemont SA	2.45
Hoya Corp	2.36

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Average annual total returns (%) - as of June 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	11.94	4.27	4.27	6.89	8.61	2.05	7.91	5.54	—	—	6.02	8/31/2009
Pure Gross of Fees	12.74	5.82	5.82	10.09	11.85	5.11	11.13	8.69	—	—	9.19	8/31/2009
Benchmark 1	10.82	9.44	9.44	20.23	16.44	9.05	9.66	6.93	—	—	7.31	—
Benchmark 2	14.53	9.14	9.14	13.65	11.47	4.88	8.61	6.79	—	—	7.55	—

*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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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. The managers' **environmental, social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance.

Glossary

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

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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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