

# **ClearBridge**

# **ClearBridge International Value ADR Portfolios**

Commentary | as of September 30, 2025

## **Key Takeaways**

- Markets: Global equity markets generated positive returns in the third quarter, as continued progress on tariff
  negotiations between the U.S. and its trade partners helped to soften lingering macro uncertainty and shift attention
  toward the possibility of further Federal Reserve rate cuts. As a result, the benchmark MSCI EAFE Index rose 4.8%, but
  trailed the 8.1% return of the S&P 500 Index. Despite a late-quarter rally for information technology (IT) and more cyclical
  areas of the market, value stocks ultimately outperformed their growth counterparts, with the MSCI EAFE Value Index
  returning 7.4% while the MSCI EAFE Growth Index returned 2.2%.
- Contributors: Holdings in Tencent, Anglo American and Maribeni. Stock selection in the financials, materials and health care.
- . Detractors: Holdings in Hitachi, CNH, not owning ASML. Stock selection in industrials, IT and consumer discretionary.
- Outlook: From levels of extreme pessimism earlier in the year caused by the DeepSeek scare and initial tariff shock, global markets have rallied strongly as "worst case" outcomes have been removed from probability nodes and underlying economic growth remains resilient. Looking forward to 2026, there appears to be continued optimism as investors point to the Fed's easing cycle, European infrastructure spending and potential Chinese stimulus measures as potential future catalysts.

# **Top Equity Issuers (% of Total)**

Holding	Portfolio
Intesa Sanpaolo SpA	3.25
Siemens AG	3.20
Hitachi Ltd	2.87
Fujitsu Ltd	2.86
Siemens Energy AG	2.79
Mitsubishi UFJ Financial Group Inc	2.78
AXA SA	2.68
Airbus SE	2.61
Lloyds Banking Group PLC	2.59
Danone SA	2.45

## **Performance Review**

- The Portfolios outperformed their benchmark in the third quarter, supported by several of our high-conviction holdings
  across financials, materials and health care. Our positioning in companies aligned with long-term structural themes such
  as digital infrastructure, the energy transition and capital markets normalization proved especially beneficial.
- Financials remained a key driver of outperformance, led by European banks including BBVA and Piraeus, as well as Japan's
  Mitsubishi UFJ Financial Group (MUFG). Although regionally diverse, our financials holdings are broadly benefiting from
  homogenous trends including inflecting loan growth, cost discipline and a benign credit cycle.
- In particular, BBVA created optionality via a standalone strategy if its offer to acquire Sabadell is not consummated. MUFG
  gained from reflationary tailwinds in Japan as well as its overseas exposure through Morgan Stanley. While strong recent
  performance has helped the sector rebound from undervaluation extremes, we continue to be optimistic about the longterm opportunities in light of outsize earnings growth and double-digit shareholder yields.
- Emerging markets exposure was another bright spot overall, benefiting from strong contributions from South Korea's Shinhan
  Financial and Greek bank Piraeus. Chinese communication services company Tencent, which operates value-added services
  including online advertising, fintech, online gaming and social networking, also delivered gains supported by accelerating
  growth in advertising and gaming R&D, as well as continued momentum in its fintech and cloud segments.
- Our health care holdings also positively contributed to outperformance, largely driven by our holding in Belgian-headquartered pharmaceutical company UCB, which develops products and solutions for the treatment of neurology, inflammation and immunology diseases. The stock price rallied following the announcement of rival MoonLake's weak trial data for a skin-disease drug, boosting confidence in UCB's competitive position, and amid promising clinical updates for its own pipeline. Meanwhile, Irish contract research organization ICON also delivered a strong performance, reporting solid gross business wins that expanded its backlog potential signs of improvement in what has been a challenged environment for clinical research services
- Negative stock selection in industrials was driven primarily by U.K.-based CNH Industrial, which declined amid weaker North American agricultural demand and dealer destocking. Despite these cyclical pressures, CNH continues to advance its turnaround and enhance productivity and emissions efficiency through innovations in precision agriculture. Hitachi also paused after strong prior gains but remains a leading example of value creation in Japan, with management focused on sustaining growth and returns.
- Additionally, our consumer discretionary holdings detracted from performance. Arcos Dorados, the world's largest
  independent McDonald's franchisee, reported robust top-line earnings but came under pressure as a rising price of beef
  costs in Brazil squeezed corporate margins while unfavorable foreign exchange impacts from Latin American economies
  added further headwinds. Luxury goods retailer Burberry, meanwhile, faced investor skepticism around its turnaround
  execution
- We exited Capgemini, in the IT sector, as concerns grew around structural disruption from AI. While we initially viewed its
  challenges as cyclical, we now see potential long-term cannibalization of its core IT services.
- We also sold SAP, which delivered solid second-quarter results but failed to meet elevated investor expectations. The stock
  had re-rated significantly, and concerns around software spending in an Al-driven environment prompted our exit.
- One of our new holdings is Amrize, a building products company that was spun out of existing holding Holcim. Domiciled in Switzerland but with many of its operations in North America, the company specializes in cement, concrete and roofing products. Amrize's new management team were instrumental in developing and expanding these business lines within Holcim. With a strong balance sheet and solid margins, we think the company has various avenues for growth and margin improvement

#### **Outlook**

From levels of extreme pessimism earlier in the year caused by the DeepSeek scare and initial tariff shock, global markets
have rallied strongly as "worst case" outcomes have been removed from probability nodes and underlying economic growth
remains resilient. Looking forward to 2026, there appears to be continued optimism as investors point to the Fed's easing

cycle, European infrastructure spending and potential Chinese stimulus measures as potential future catalysts.

- Within this backdrop of momentum-driven markets, elevated valuations leave considerably less room for error. Importantly, we see growing dispersion in valuations across sectors and regions, with non-U.S. markets still offering a more attractive risk-reward setup. Also of interest is the extreme pessimism and underperformance of the health care sector, where stocks could see some relief if destocking headwinds abate and political pressure can be de-escalated through negotiation. Taking a contrarian view here could prove to be a defensive hedge during an eventual market selloff.
- In times when markets are euphoric, remaining disciplined with respect to process and valuation are critical. We remain committed to our bottom-up approach, focusing on companies with strong balance sheets and resilient business models trading at significant discounts to intrinsic value.

#### Average annual total returns (%) - as of September 30, 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	4.61	15.99	23.64	12.39	18.57	12.42	4.92	4.15	2.86	2.89	4.05	9/30/1994
Pure Gross of Fees	5.38	17.68	26.35	15.73	22.08	15.76	8.06	7.27	5.94	5.97	7.17	9/30/1994
Benchmark	4.77	17.10	25.14	14.99	21.70	11.15	8.17	6.75	5.54	5.06	5.64	_

<sup>\*</sup>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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Reflation is a fiscal or monetary policy designed to expand a country's output and curb the effects of deflation.

The S&P 500 Index features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: 

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