FRANKLIN TEMPLETON | ClearBridge

ClearBridge International Value ADR Portfolios

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** Value, energy and financials led a modest third-quarter gain in international equities, while a late-July selloff in AI-linked chip stocks and rising bond yields weighed on technology and rate-sensitive areas.
- **Contributors:** Holdings in Shinhan Financial, Cenovus Energy and Mitsubishi UFJ Financial, and not owning ASML and Kioxia. Stock selection in financials, an overweight to energy and an underweight to IT.
- **Detractors:** Holdings in Murata Manufacturing, Infineon Technologies, Danone, Amrize and Brookfield Renewable. Stock selection in IT, industrials and health care.
- **Outlook:** As always, we remain focused on high-quality businesses with improving fundamentals aligned with a diversified set of long-term secular themes.

Performance Review

- Stock selection in IT, industrials and health care outweighed strong results in financials and an overweight to energy.
- Within IT, Japanese electronic components maker Murata Manufacturing and Germany's Infineon Technologies declined as the AI hardware trade unwound. Infineon fell even after reporting record quarterly sales driven by its AI data center business. Not owning ASML, Kioxia and Tokyo Electron partly offset these losses.
- In materials, building products companies Amrize and Wienerberger detracted as construction end markets remained subdued and higher rates pushed out expectations for a more meaningful housing recovery. Several of our longer-duration defensive holdings also faced headwinds. In consumer staples, Danone declined despite solid first-half sales growth, as an infant formula recall and Middle East-related commodity costs weighed on earnings growth expectations.
- Industrials proved a mixed bag during the period. Hitachi rose after reporting positive earnings led by its power grids business and raising its full-year forecasts. However, Chinese battery maker CATL declined on intensifying competition in the EV battery market, as did Siemens Energy as the AI trade unwound, despite record quarterly sales, margins and orders.
- Financials were the largest contributor to relative performance. Shinhan Financial posted record quarterly net profit and approved another share buyback. Mitsubishi UFJ Financial became Japan's most valuable company in July on expectations that Bank of Japan rate increases would lift earnings. Greek lender Piraeus Bank reported record first-half profit and, with Greece reclassified as a developed market, rejoined the Stoxx Europe 600 Index in September.
- Our overweight benefited as oil prices climbed, and Canadian oil sands producer Cenovus Energy reported record oil sands production and strong free cash flow in the second quarter, while integrated major Shell also contributed.
- By region, stock selection in Europe Ex U.K., Japan and the U.K. and underweights to Japan and Asia Ex Japan weighed on performance. Conversely, an underweight to Europe Ex U.K. and exposure to emerging markets contributed.

Outlook

- The third quarter showed how quickly crowded positioning in the AI trade can unwind. We remain constructive on the long-term prospects of the AI infrastructure buildout, but we expect continued volatility as investors weigh the scale of that spending and how it is financed. An energy shock tied to the Iran conflict has pushed the ECB, the BoJ and the Fed toward tighter policy, reinforcing a higher-for-longer rate backdrop that we believe favors valuation discipline, cash flow durability and balance sheet strength. We see scope for relief toward year-end and into 2027 as energy comparisons ease and long-term yields embed a term premium that could compress.
- The quarter's rotation has created what we view as an attractive opportunity in long-term growers that sold off on near-term headwinds. Utilities and infrastructure owners such as National Grid, Brookfield Renewable and Brookfield Infrastructure were among the hardest hit by rising yields, yet their growth runways, driven by grid investment, electrification and rapidly rising power demand from data centers, have arguably lengthened. In health care and consumer staples, select franchises have de-rated to valuations that we believe already discount near-term pricing and volume pressures.
- Political uncertainty ahead of the 2027 presidential election has widened the discount on French-listed equities. Global franchises such as Airbus, TotalEnergies, Danone, Nexans and AXA generate only a modest share of their revenue in France, yet trade as if they were proxies for French sovereign risk, and we believe that offers an opportunity to own high-quality global businesses at attractive valuations. A higher-for-longer rate environment also supports the earnings power of well-capitalized banks in Japan, South Korea and Europe, and we continue to find self-help stories that remain underappreciated by the market.

Top Equity Issuers (% of Total)

Holding	Portfolio
Mitsubishi UFJ Financial Group Inc	3.58
Siemens AG	3.28
Taiwan Semiconductor Manufacturing Co Ltd	2.88
Lloyds Banking Group PLC	2.86
BNP Paribas SA	2.84
Shell PLC	2.61
KBC Group NV	2.57
Anglo American PLC	2.46
Marubeni Corp	2.37
Hitachi Ltd	2.19

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	-1.00	8.85	4.65	10.02	12.90	7.91	5.38	5.69	2.62	4.58	4.24	9/30/1994
Pure Gross of Fees	-0.26	10.45	6.99	13.29	16.25	11.13	8.53	8.85	5.70	7.71	7.36	9/30/1994
Benchmark 1	0.81	11.72	10.33	15.69	18.40	9.32	9.07	8.50	5.38	7.10	5.94	–
Benchmark 2	4.27	12.08	14.32	23.26	22.98	14.32	10.06	8.69	5.14	7.25	6.59	–

*Cumulative total returns

Benchmark(s)

Benchmark 1=MSCI EAFE Index-NR

Benchmark 2=MSCI EAFE Value 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.

Glossary

A **buyback** is the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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The **MSCI EAFE Index** is a free float-adjusted market capitalization-weighted index designed to measure developed market equity performance, excluding the U.S. and Canada. The **MSCI EAFE Value Index** is designed to measure performance of stocks exhibiting overall value style characteristics in developed markets, excluding the U.S. and Canada.

Net Returns (NR) include income net of tax withholding when dividends are paid.

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