ClearBridge International Value ADR Portfolios

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** International stocks entered 2026 with a constructive backdrop but were caught up in an equity pullback following the outbreak of the Iran conflict. Despite this, international markets proved more resilient than their U.S. counterparts. The core MSCI EAFE Index declined 1.2% for the quarter compared to a 4.3% decline for the S&P 500. Value stocks outperformed meaningfully, as the MSCI EAFE Value Index returned 2.0%, while the MSCI EAFE Growth Index declined 4.7% as higher rates and concerns around AI disintermediation pressured richly valued growth stocks and drove rotation into defensive, cash-generative sectors such as energy and materials.
- **Contributors:** Holdings in Marubeni, Siemens Energy and TotalEnergies. Overweights to the energy and materials sectors, stock selection in industrials.
- **Detractors:** Holdings in Fujitsu and ICON, not owning ASML. Stock selection in materials, information technology (IT) and health care sectors.
- **Outlook:** We believe it is important not to lose sight of the broader set of growth drivers underpinning the case for international value stocks. Structural trends, including investment in energy security, defense and infrastructure, should support demand across industrial and real asset–oriented sectors, which are much larger components of non-U.S. markets.

Top Equity Issuers (% of Total)

Holding	Portfolio
Siemens Energy AG	3.10
Marubeni Corp	3.08
Intesa Sanpaolo SpA	2.91
Mitsubishi UFJ Financial Group Inc	2.86
Siemens AG	2.80
Lloyds Banking Group PLC	2.78
BNP Paribas SA	2.66
KBC Group NV	2.33
Shell PLC	2.32
Danone SA	2.16

Performance Review

- The Portfolios underperformed their MSCI EAFE benchmark in the first quarter, largely driven by headwinds to our materials and health care stocks, while positive contributions came from industrials and our overweight to the energy sector.
- Stock selection in materials weighed the most on relative performance. Wienerberger, an Austria-based producer of clay and concrete building materials, declined as weakness in residential construction across Europe and the U.S. continued to pressure volumes despite management's efforts to control costs. Holcim, a Switzerland-based global supplier of cement and building solutions, also detracted as rising energy costs and inflation concerns clouded the outlook for construction activity; speculation around potential regulatory changes also raised questions about the durability of its competitive advantage in low-carbon production.
- ICON, an Ireland-domiciled contract research organization, was another notable detractor. The stock came under pressure amid concerns around slowing demand and the potential for AI to disrupt traditional drug development models. An announced investigation into accounting practices further weighed on investor confidence and management credibility, and we exited the position during the quarter.
- Stock selection in industrials proved positive, largely driven by Siemens Energy, which contributed as investment in electrification and power infrastructure accelerated. Marubeni, a Japan-based trading company with significant exposure to commodities and industrial end markets benefited from higher prices — particularly in copper — amid supply constraints and structural demand tied to electrification and infrastructure investment.
- Several of our other holdings also benefited from the appreciation in commodities — particularly in energy. TotalEnergies, a France-based integrated oil and gas company, and Shell, a U.K.-based global energy major, were among the largest contributors as higher oil and natural gas prices supported earnings expectations and cash flow generation. Both companies continue to demonstrate strong capital discipline and shareholder return profiles, which were increasingly valued in a more uncertain macro environment.
- Regionally, the U.K. was a mixed contributor. Stock selection detracted, driven by consumer-oriented holdings such as catering company and food service provider Compass Group, which declined as moderating organic growth and a lack of upward guidance revisions disappointed elevated expectations, and Unilever, which came under pressure after it announced the sale of its food business, as investors were disappointed by the complicated plan and the long time it may take for the company to make up for lost efficiencies. Over the longer run, however, we believe this positions Unilever as a higher growth, pure play consumer products company that can see improvement in its valuation. These headwinds were more than offset by strength in defensive exposures, including utility National Grid, which benefited from its stable, regulated earnings profile, resulting in the U.K. contributing positively overall given the Portfolios' overweight.

Outlook

- The initial fog of war has shaken investor confidence toward international markets, particularly as higher energy prices and elevated inflation may keep central banks restrictive, tightening financial conditions, while a stronger U.S. dollar pressures global liquidity and emerging markets.
- However, we believe it is important not to lose sight of the broader set of growth drivers underpinning the case for international value stocks. Structural trends, including investment in energy security, defense and infrastructure, should support demand across industrial and real asset–oriented sectors, which are much larger components of non-U.S. markets.
- Additionally, the AI boom remains in early innings and is driving an investment cycle orders of magnitude beyond that of the prior few decades. As AI transitions from being a deflationary, margin-preserving tool to a productivity-enhancing growth driver, investors may also begin to reconsider which profit pools and business moats are truly defensible and seek broadening of exposure beyond U.S. mega cap technology. While uncertainty persists, we remain focused on these important secular themes and look for opportunities to deploy capital into leading beneficiaries as they become attractively valued.

Average annual total returns (%) - as of March 31, 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	-3.86	1.06	-3.86	17.24	9.27	6.37	5.04	3.61	2.28	3.46	4.02	9/30/1994
Pure Gross of Fees	-3.14	2.57	-3.14	20.71	12.53	9.55	8.18	6.72	5.35	6.56	7.14	9/30/1994
Benchmark 1	-1.24	3.56	-1.24	21.27	13.62	7.91	8.38	6.31	5.04	5.94	5.67	—
Benchmark 2	2.00	9.98	2.00	30.05	19.86	12.19	9.34	6.43	4.88	6.21	6.31	—

*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).
Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
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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

Moat is an advantage a company has which allows it to protect its market share and profitability.

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

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