FRANKLIN TEMPLETON

ClearBridge

ClearBridge International Value ADR Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** International equity markets generated strong returns in the fourth quarter, capping a year marked by shifting leadership and unusually wide style dispersion. The core benchmark MSCI EAFE Index rose 4.9% in the quarter to finish up 31.2% for 2025, outperforming the S&P 500 Index's gains of 2.7% for the quarter and 17.9% for the year. International value had an even stronger year, with the MSCI EAFE Value Index returning 42.2%, handily outpacing its growth counterpart by over 2,100 bps, the widest dispersion among investment styles in the 50-year history of the index.
- **Contributors:** Holdings in Siemens Energy, Hitachi, Fujitsu. Stock selection in the IT, materials and consumer staples sectors.
- **Detractors:** Holdings in Daito Trust Construction, Sony and Tencent. Stock selection in financials and real estate sectors and an underweight to the health care sector.
- **Outlook:** We enter 2026 with a more stable macro environment than this time last year. Inflation has moderated globally, giving central banks room to ease, while fiscal programs — from U.S. industrial and infrastructure spending to expanded European budgets and targeted Chinese stimulus — continue to support economic activity. With the effective U.S. tariff rate already having peaked, companies that absorbed tariff-related cost pressures in 2025 should lap those headwinds, creating modest tailwinds for growth.

Top Equity Issuers (% of Total)

Holding	Portfolio
Intesa Sanpaolo SpA	3.24
Siemens Energy AG	3.20
Hitachi Ltd	3.19
Fujitsu Ltd	3.17
Siemens AG	3.14
Lloyds Banking Group PLC	2.86
Mitsubishi UFJ Financial Group Inc	2.61
AXA SA	2.54
Airbus SE	2.48
KBC Group NV	2.43

Performance Review

- The Portfolios outperformed their benchmark in the fourth quarter, driven by stock selection in information technology (IT) and industrials, but partially offset by financials. Our positioning in companies aligned with long-term structural themes — such as digital AI infrastructure, the energy transition and capital markets normalization — proved especially beneficial.
- IT was a significant contributor to relative performance. In Japan, Fujitsu, an IT services and solutions provider, advanced as corporate digitization efforts and labor shortages drove demand for efficiency-enhancing technologies. German semiconductor manufacturer Infineon Technologies AG, meanwhile, saw its stock rise on strong fiscal 2025 earnings, as its new data center business has expanded rapidly to become a meaningful growth driver and helped to offset continued sluggishness on the automotive side.
- Industrials also contributed, supported by long-term infrastructure and electrification themes. Siemens Energy, a German manufacturer of power generation and transmission equipment, continues to benefit from rising demand for grid upgrades and gas turbines as utilities expand electricity generation capacity to meet data center power needs. Offsetting some of these gains was CNH Industrial, a global manufacturer of agricultural and construction equipment, which detracted as elevated channel inventories and depressed farm incomes weighed on near-term results; however, we remain encouraged by management's efforts to improve profitability through the cycle.
- Stock selection in the financials sector weighed on relative performance. Tokio Marine Holdings, a Japanese property and casualty insurance group, saw its shares decline in the fourth quarter as investors engaged in profit taking following strong prior gains and reassessed valuation across insurance stocks, despite the company's continued solid earnings profile and disciplined capital return initiatives. However, these headwinds were partially offset by Lloyds Banking Group, a U.K.-focused retail and commercial bank, which performed well as investor concerns around budget-related risks proved overdone and investor focus returned to the company's strong earnings visibility and capital return profile.
- From a regional perspective, relative performance was supported by strong results in Europe ex U.K., reflecting favorable stock selection amid continued investment in infrastructure and electrification, and an overweight to Asia Ex Japan. Meanwhile, stock selection in Japan detracted, as gains in technology-related holdings were offset by weakness in interest-rate-sensitive areas, including Daito Trust Construction, which underperformed as higher policy rate expectations and cost inflation pressured margins.
- We established a position in Roche, a Switzerland-based global biopharmaceutical and diagnostics company. Positive Phase III data across multiple late-stage programs meaningfully mitigates upcoming patent expirations later this decade, while mid-single-digit revenue growth, an improving pipeline in areas such as obesity and Alzheimer's, and a discounted valuation relative to peers support our view that the stock offers rerating potential as execution improves.
- We exited our position in Hikma Pharmaceuticals, a U.K.-domiciled pharmaceutical company specializing in generic and injectable medicines after a guidance cut associated with its injectables business expansion reduced our confidence in the near-term earnings outlook. Following a long holding period, we believe capital is better allocated to other health care and pharmaceutical opportunities with clearer visibility and more attractive risk-reward profiles.

Outlook

- We enter 2026 with a more stable macro environment than this time last year. Inflation has moderated globally, giving central banks room to ease, while fiscal programs — from U.S. industrial and infrastructure spending to expanded European budgets and targeted Chinese stimulus — continue to support economic activity. With the effective U.S. tariff rate already having peaked, companies that absorbed tariff-related cost pressures in 2025 should lap those headwinds, creating modest tailwinds for growth.
- Several themes are likely to shape markets in 2026:
- A less synchronized monetary backdrop: The global monetary backdrop is increasingly mixed rather than uniformly accommodative. While selective rate cuts may emerge in regions such as the U.K. and parts of Europe, other central banks — including Japan and Australia — appear more inclined toward tightening or maintaining restrictive settings, and the path for U.S. policy remains uncertain. In this environment, growth outcomes are likely to be shaped less by synchronized easing and

more by regional and sector-specific dynamics, with rate-sensitive housing, utilities and infrastructure benefiting where policy flexibility exists and fiscal support and structural investment sustaining activity elsewhere.

- Leadership expands beyond mega cap AI: While AI remains foundational, power, logistics and efficiency improvements are becoming equally important investment themes. Companies that enable the next phase of the AI cycle — rather than those solely capturing its front-end demand — are well-positioned. Regionally, China continues to build out its own AI infrastructure. As companies there are more limited in resources, they must look to quickly monetize their investments. Companies like Tencent are finding ways to profit from these investments now but still continue to trade at large discounts to similarly positioned companies in the U.S.
- Emerging markets retain meaningful value: Although outside our benchmark, EM remains one of the more attractively valued areas globally, trading at a roughly 40% discount to the U.S. Disinflation offering monetary flexibility, countries like Brazil and Mexico on firmer fiscal footing and an easing dollar should support flows, bolster returns and create a more fertile ground for potential alpha generation.
- The U.K. looks compelling: Attractive valuations, improving inflation dynamics and falling gilt yields have created a supportive backdrop — particularly for its concentration of service-oriented industries that should benefit from AI and are spared tariff headwinds and threats of excess capacity of Chinese exports.
- M&A could provide an additional tailwind: Deregulation, strategic repositioning and the prospect of lower interest rates may support an uptick in M&A globally. Companies will likely act more decisively in an environment with reduced policy uncertainty.
- With a more balanced macro backdrop, healthier geographic diversification and an expanding set of fundamental catalysts, 2026 presents a potentially attractive opportunity than the narrowly led markets of recent years. The companies best positioned from here are those driving meaningful internal financial and operational improvements that can support long-duration value creation.

Average annual total returns (%) - as of December 31, 2025

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	5.12	9.99	30.00	30.00	13.11	9.03	5.03	4.02	2.91	3.04	4.19	9/30/1994
Pure Gross of Fees	5.89	11.60	33.81	33.81	16.47	12.28	8.17	7.14	5.99	6.13	7.31	9/30/1994
Benchmark	4.86	9.86	31.22	31.22	17.22	8.92	8.18	6.64	5.58	5.37	5.75	—

*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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Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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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

Disinflation is a temporary slowing of the pace of price inflation and is used to describe instances when the inflation rate has reduced marginally over the short term.

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

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

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