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Global Value Improvers Strategy

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Key Takeaways

- Value stocks led a modest global advance in the third quarter, as higher oil prices lifted energy stocks and rising bond yields weighed on rate-sensitive areas of the market.
- The Strategy underperformed its benchmark, as negative stock selection in industrials, health care and communication services outweighed gains from financials and materials.
- We rebalanced our industrials overweight and information technology (IT) underweight after July's market correction as risk-reward now appears more attractive for many tech sector names.

Market Overview

Global equities posted modest gains in the third quarter, and value extended its lead over growth. The benchmark MSCI World Value Index returned 3.8%, extending its year-to-date lead over the MSCI World Growth Index, which finished flat.

Leadership shifted during the quarter: value led as a sharp momentum selloff in July unwound crowded positions in AI-related semiconductor and infrastructure stocks; growth rebounded in August on strong earnings and renewed AI optimism and continued to outperform in September as rising bond yields hit cyclical and rate-sensitive stocks.

Within the benchmark, renewed conflict in the Middle East drove oil prices sharply higher, making energy one of the strongest sectors. The Federal Reserve's first rate increase since 2023 and a sharp rise in Treasury yields weighed on rate-sensitive stocks, and utilities were the weakest sector. By region, the benchmark's Japanese constituents led, followed by the U.K. and North America, while continental Europe slipped.

Performance Overview

The ClearBridge Global Value Improvers Strategy underperformed its MSCI World Value Index benchmark during the third quarter, as weak stock selection in industrials, health care and communication services outweighed gains in financials and materials. Both stock selection and sector allocation detracted, but the quarter was overwhelmingly a stock selection story.

Industrials were the largest relative detractor, hurt by both our overweight and stock selection. Vertiv, which supplies power and thermal management equipment to data centers, and Siemens Energy, an energy technology company, fell in July alongside other AI-infrastructure peers. Chinese battery maker Contemporary Amperex

We prefer to own companies which have unique technology capabilities that sit at bottleneck points.

Technology (CATL) shares dropped on concerns that automakers are designing their own battery cells and adding suppliers. Building products maker Fortune Brands Innovations fell after second-quarter sales declined. These losses were partly offset by Hitachi, the top contributor, which raised its full-year forecast after strong first-quarter results, and farm and construction equipment maker CNH Industrial, which rallied on hopes that improving crop prices would drive a renewed agricultural equipment cycle.

Health care stock selection was the second largest drag, with several of our companies facing stock-specific headwinds. CVS Health declined despite strong second-quarter results, as concerns about 2027 Caremark membership and second-half earnings pressure weighed on the shares. AstraZeneca fell after a late-stage trial of a heart disease drug missed its goal in July and rumors surfaced that management was considering large M&A.

Within IT, our underweight to Microsoft weighed on relative results as the stock rose on strong results, and analog chipmaker Microchip Technology detracted after management signaled limited room for further gross margin expansion. Not owning Micron Technology, which declined in July as sentiment toward AI-related memory stocks weakened, and Intel, which fell after a large sale of new stock in August, partly offset these losses. In communication services, Alphabet became an area of concern as its large language model (LLM) development efforts have fallen behind peers.

Elsewhere, our overweight to utilities hurt as surging bond yields weighed on rate-sensitive stocks such as renewable power producer Brookfield Renewable.

Financials were the leading relative contributor. Spanish lender Banco Bilbao Vizcaya Argentaria (BBVA) rose on higher first-half profit, as strong loan growth in its two key markets of Mexico and Spain prompted a guidance increase for its Mexican operations, and the bank also announced an unexpected share buyback. We believe BBVA remains among the most profitable and fastest-growing banks in Europe, with a high relative shareholder yield.

Our holdings in real assets also helped. In materials, Teck Resources advanced as improving copper fundamentals pushed the metal to a record high in September, and energy company TotalEnergies rose as higher oil prices and a refining boom lifted profits. Not owning real estate stocks, which fell as bond yields rose, and an underweight to consumer discretionary, the benchmark's second-weakest sector, also benefited relative returns.

Portfolio Positioning

The portfolio had been significantly overweight industrials over the past few years because we believed the sector was benefiting from the dual structural trends of electrification and AI infrastructure. However, facing the headwinds of inflationary pressures, potential data center moratoriums and relatively full valuations in the sector, the risk-reward appears less attractive now. Therefore we have reduced our industrials

exposure meaningfully, trimming Vertiv, Nexans, Hitachi, Siemens, Johnson Controls and exiting Siemens Energy entirely.

Despite trimming industrials, we remain positive on the AI capex theme, and after July's selloff it appeared that many names in the sector presented better risk-reward tradeoffs, prompting us to add to our tech holdings. For example, we spent the quarter building a position in Microsoft, the software and Azure cloud provider, which ended the quarter as the portfolio's largest holding. Microsoft has strong optionality in the new AI world with Azure in the infrastructure layer and Copilot in the application layer and was trading at only a market P/E multiple. We also initiated a position in Taiwan Semiconductor, the world's largest contract chip manufacturer, which we believe holds strong pricing power as the only producer of leading-edge chips at scale. Given the uncertainty around pace and magnitude of the AI capex cycle, we prefer to own companies like TSM that have unique technology capabilities that sit at the bottleneck points of the food chain.

Financials were another area where we saw attractive opportunities, as the sector remains reasonably valued with solid total return profiles. We reinitiated a position in Piraeus Bank, one of Greece's largest banks, which we had sold earlier in the year near our price target, as a subsequent pullback created what we view as an attractive entry point in a business whose fundamentals remain strong. We also initiated a position in Capital One, a U.S. credit card and consumer lender, on signs of steadily improving credit metrics within a resilient consumer base and synergies from its acquisition of Discover Financial Services. In health care, we added to Eli Lilly after another quarter of better-than-expected results and a raised outlook driven by demand for its Mounjaro and Zepbound treatments, which we believe should lead to higher earnings estimates.

Outlook

Macro and geopolitical uncertainty rose further in the third quarter, as the Iran conflict lifted oil prices, several major central banks raised rates and global bond yields rose sharply. Coupled with important budgetary negotiations in the U.K. and France, and the upcoming U.S. midterm elections in November, we expect heightened volatility to persist through the balance of the year. While we do not believe these developments change the structural themes underpinning our approach, we do think that market volatility may present opportunities to upgrade our holdings or refine exposure to particular secular themes. For example, in energy the persistence of two wars in important oil-producing regions has improved the sector's free cash flow outlook meaningfully and reinforced the importance of energy security. In the same vein, power demand continues to be robust despite utility share prices being pressured by rising bond yields — a setup that could prove opportunistic as we continue to be bullish on AI power demand. Additionally, within AI the inevitable slowing of capex growth will require a more nuanced approach to stock selection to identify targeted areas where growth can continue to accelerate or new opportunities that will arise in the evolving world of agentic AI.

As always, our process looks at these structurally improving areas through a disciplined valuation lens. In a market where correlations are low and leadership continues to narrow, we believe this combination of high-quality fundamental drivers with strong downside protection from valuation can drive steady returns through the upcoming period of heightened macro uncertainty.

Portfolio Highlights

The ClearBridge Global Value Improvers Strategy underperformed its MSCI World Value Index benchmark during the third quarter. On an absolute basis, the Strategy had positive contributions from five of the 10 sectors in which it was invested. The leading contributors were the IT and financials sectors, while the industrials and health care sectors detracted the most.

On a relative basis, overall stock selection and sector allocation both detracted from performance. Stock selection in the materials and financials sectors, a lack of exposure to the real estate sector and an underweight to the consumer discretionary sector benefited performance. Conversely, stock selection in the health care, industrials, communication services, energy and IT sectors and overweights to the utilities and industrials sectors weighed on relative results.

On a regional basis, stock selection in North America and the U.K., an overweight to Europe Ex U.K. and an off-benchmark allocation to emerging markets detracted from performance. Stock selection in Japan and an overweight to the U.K., meanwhile, contributed.

On an individual stock basis, the biggest contributors to relative returns were Hitachi, BBVA and TotalEnergies, as well as not owning Micron Technology and Intel. The largest detractors from relative returns were Vertiv, CATL, Fortune Brands Innovations and CVS Health, as well as an underweight to Microsoft.

In addition to the transactions discussed above, we initiated new positions in International Flavors & Fragrances in the materials sector, Reddit in the communication services sector and Diamondback Energy in the energy sector. We exited positions in Fortune Brands Innovations in the industrials sector, NextEra Energy in the utilities sector, AIG in the financials sector and Gerresheimer in the health care sector.

ESG Highlights: Investors Reinvigorated About Climate

Held annually in New York alongside the United Nations General Assembly, Climate Week brings together investors, companies, policymakers, researchers and civil society organizations to discuss climate risks and solutions. ClearBridge attends these events to deepen our understanding of emerging sustainability issues, compare perspectives with experts across industries and identify developments that could be material to our portfolio companies.

This work complements the company-level research and engagement performed throughout the year by ClearBridge analysts and portfolio managers. We seek to understand how environmental and social factors

affect costs, competitive positioning, access to resources, regulatory exposure and long-term value creation.

Our overarching observation from this year's Climate Week was that investors appear reinvigorated about climate. Conversations focused on the mechanisms through which climate and sustainability issues are already affecting businesses: energy affordability, resource efficiency, infrastructure resilience, insurance availability, community acceptance and economic competitiveness.

Not surprisingly, AI was central to almost all of these discussions. Participants debated not only the environmental footprint associated with data-center growth, but also AI's potential "handprint": how the technology might enable scientific advances, optimize power systems, improve industrial processes and accelerate the development of lower-carbon technologies. Energy efficiency was a key pillar of AI's potential positive effects on climate, although we acknowledge projections far out into the future remain highly theoretical. All in all, while stakeholders debate the pros and cons of AI center development — and headlines over the summer have overwhelmingly highlighted the cons — AI infrastructure is on track to be built: the question for investors is how it can be built responsibly.

Food Security and Responsible Mining Remain Material

Although AI and data centers dominated the week, sustainable food and human rights in mining were also important areas of focus for ClearBridge.

For sustainable food, the central question is what happens when geopolitical disruption and climate variability affect agricultural inputs at the same time. Recent disruptions to fertilizer production and trade illustrate the issue. Nitrogen-based fertilizer must be available during relatively inflexible planting windows; a delayed shipment cannot necessarily be recovered later in the growing season. If fertilizer shortages or higher prices coincide with an El Niño-related disruption to rainfall and temperature patterns, the effects could extend from farm input costs to crop yields, commodity prices and food inflation.

This is an example of climate acting as a threat multiplier. It also highlights the importance of supply-chain diversification, soil health, efficient fertilizer use and agricultural technologies that help farmers adapt to more volatile conditions. For investors, historical weather and production patterns may be less and less useful for assessing agricultural risk. At Climate Week we discussed how JPMorgan's food-security analysis emphasizes how fertilizer disruptions, planting windows and climate variability can combine to create longer-lasting food-system pressures.[1] AI is a potent source of innovation in this regard: ClearBridge holding US Foods, for example, uses AI-driven inventory forecasting to cut food waste.

For mining, the key question is how investors can connect community-level impacts to the companies in their portfolios and turn that information into actionable engagement. This is particularly important in

[1] Dr. Sarah Kapnick, "Climate Intuition: Food security under pressure: Iran conflict disruptions and a brewing El Niño." May 21, 2026.

industrial parks and complex mineral supply chains, where responsibility may be distributed among mine owners, operators, tenants, suppliers, customers, lenders and public-sector partners. Investors need information that sometimes embodies a complex balance: comparable across portfolios but sufficiently detailed to identify specific harms, responsible parties and potential remedies. Discussions focused on the Indonesian nickel supply chain in light of the EU Battery Regulation, which requires greater supply chain traceability, carbon footprint disclosure and environmental and human rights due diligence for battery materials sold in the EU and is relevant for EV and battery companies that source nickel such as China's CATL and Tesla.

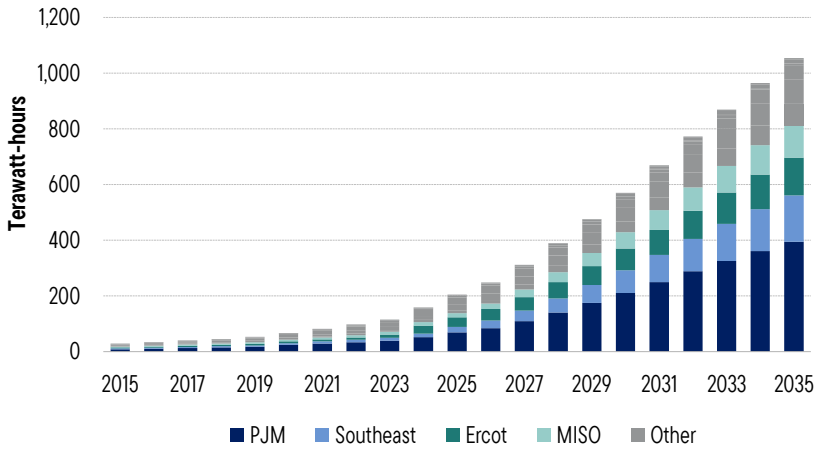
Sustainability Is a Key Gating Factor for Data Centers and AI

The scale of anticipated AI infrastructure development is intensifying pressure on power systems and local resources. BloombergNEF estimates U.S. data-center power demand could reach 118 gigawatts by 2030 and that data centers could account for roughly one-fifth of U.S. electricity consumption by 2035 (Exhibit 2).

Meeting that demand will require substantial new generation and grid infrastructure. Yet long interconnection timelines, transmission constraints and equipment shortages are already affecting where and how quickly projects can proceed. Developers are exploring nuclear power, on-site generation and other behind-the-meter solutions, but each option introduces its own cost, emissions and community considerations.

Power is not the only constraint. Communities are asking whether data centers will increase electricity bills, consume scarce water, create persistent noise or require infrastructure whose costs are ultimately borne by residents. They also want to understand the local benefits, including employment, tax revenue and investments in public infrastructure.

Exhibit 1: Data Centers' Growing Electricity Consumption



Source: BloombergNEF, DC Byte. Note: Pipeline includes capacity under construction, committed and early stage. MISO is Midcontinent Independent System Operator, Ercot is Electric Reliability Council of Texas and PJM is Pennsylvania–New Jersey–Maryland Interconnection.

These concerns can delay or prevent development. Sustainability is therefore becoming a practical requirement for translating demand for AI into operating data-center capacity.

Microsoft Raises the Standard for Development

Microsoft, a holding in several ClearBridge portfolios, offers a good example of how hyperscalers are responding. Its community-first infrastructure framework addresses several of the issues that can determine whether a project earns local support. The company has committed to paying the electricity and grid-infrastructure costs associated with its facilities rather than passing them through to residential ratepayers. It is working with utilities to forecast demand, contract for new generation and fund necessary transmission and substation improvements. The company is also targeting a 40% improvement in data-center water-use intensity by 2030 and has begun deploying closed-loop cooling designs that do not require potable water for cooling.

Data center sustainability and economics are becoming closely aligned.

The framework extends beyond environmental performance to include social dimensions. Microsoft has committed to paying full local property taxes, supporting workforce training and investing in schools, libraries and community organizations. It also plans to provide greater local transparency about water use and replenishment.

These measures don't eliminate every impact associated with data-center development, but they illustrate the higher standard increasingly required of developers: mitigate costs, provide measurable local benefits and engage communities early. Microsoft's community-first framework reflects the growing recognition that technical capacity alone is insufficient to secure a project's social license to operate.[2]

Equinix Focuses on Long-Term Community Trust

A recent engagement with Equinix, another ClearBridge portfolio holding, provides the perspective of a data-center owner and operator. In September 2026 we asked whether faster anticipated capacity growth threatened Equinix's goal of covering 100% of its power consumption with renewable energy by 2030. The CEO told us the commitment had not changed, noting both Equinix's own priorities and demand from customers seeking to meet their sustainability commitments.

We also discussed community opposition to new data centers in general. Equinix views itself as a long-term neighbor rather than a temporary developer because it expects to own and operate its facilities for decades. This creates an incentive to establish durable relationships with local stakeholders.

Equinix also distinguishes its average approximately 65-megawatt retail colocation facilities from the hundreds-of-megawatts — and sometimes gigawatt-scale — campuses attracting the greatest scrutiny. While that difference does not remove the need for responsible development, it shows why investors should consider a facility's scale, design and operating model when evaluating community risk.

[2] https://blogs.microsoft.com/on-the-issues/2026/01/13/community-first-ai-infrastructure/

Johnson Controls Improves Cooling Efficiency

ClearBridge's recent engagement with Johnson Controls (JCI) highlighted how equipment suppliers can help address the physical constraints on data centers. JCI's thermal-management offering includes cold plates, coolant distribution units, chillers and air-cooled technologies. Because it owns several major cooling subsystems, the company can optimize the entire cooling architecture rather than focusing only on the efficiency of an individual component. This system-level approach becomes more important as computing density rises and cooling represents a larger share of facility power requirements.

JCI's technologies can also respond directly to local environmental concerns. Its cooling solutions can generally be configured for zero-water operation. Magnetic-bearing technology can reduce mechanical noise as well as energy consumption, while major product lines are available with low- and ultra-low-global-warming-potential refrigerants. In certain applications, absorption chillers can use waste heat in place of electricity as a primary energy source.

The engagement reinforced that data center sustainability and economics are becoming closely aligned. Reducing the power, water and noise associated with cooling can lower operating costs while making projects more acceptable to utilities, regulators and neighboring communities.

Vertiv Helps Make Power-Dense AI Feasible

As AI chips increase rack-level power density, data centers require tightly integrated power and thermal-management systems. Vertiv's closed-loop cooling technologies are well suited to higher-density computing and can reduce dependence on continual water consumption. Its broad offering also allows customers to integrate cooling and power systems more easily — an increasingly important consideration as infrastructure becomes more complex.

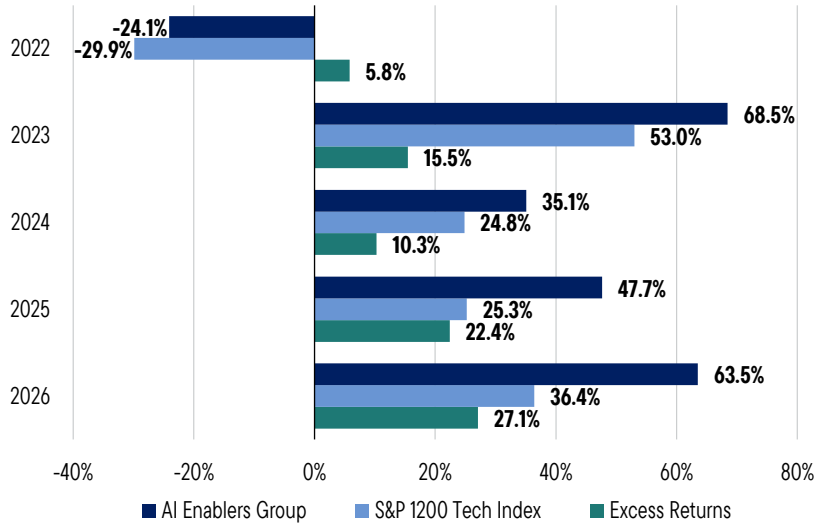
Modular construction is another part of the solution from Vertiv. Its prefabricated OneCore platform brings multiple systems together before they reach the construction site, reducing on-site complexity and helping customers bring computing capacity online faster. Its global service network, real-time monitoring and predictive maintenance capabilities support reliability and efficient operation over the facility's life.

Vertiv's example illustrates that the sustainability of AI infrastructure is not limited to how electricity is generated. It also depends on how efficiently power is delivered, heat is removed, water is managed and complex facilities are constructed and maintained.

Conclusion

AI's rapid expansion is creating investment opportunities across technology, utilities, construction and industrial infrastructure. As it is also exposing physical and social constraints, the need to deploy more efficiency could be a tailwind for AI Enablers (Exhibit 3).

Exhibit 2: AI Efficiency Enabler Group Returns by Year



As of September 22, 2026. Source: Bloomberg Intelligence.

ClearBridge's research seeks to understand these constraints across the data-center value chain. With developers and operators, we ask whether energy and water commitments can keep pace with growth and how local communities will share in the benefits. With equipment suppliers, we examine total system efficiency, water requirements, refrigerants, noise, reliability and speed to deployment.

A common thread: sustainability is increasingly the mechanism connecting AI demand with practical development. Companies able to lower resource requirements, protect ratepayers, address community concerns and deliver reliable capacity may be better positioned to support — and benefit from — the next phase of AI infrastructure growth.

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