



**Grace Su**  
Managing Director,  
Portfolio Manager  
*ClearBridge Investments, LLC*



**Jean Yu CFA, Ph.D.**  
Managing Director,  
Portfolio Manager  
*ClearBridge Investments, LLC*

## Global Value Improvers Strategy

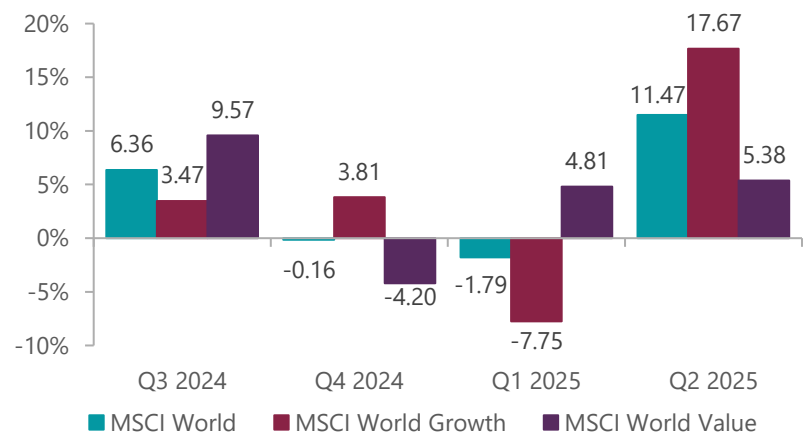
### Key Takeaways

- ▶ Global equity markets posted positive returns in the second quarter, as a series of bilateral U.S. trade deals and the prospect of greater fiscal stimulus in Europe overcame tariff concerns, signs of economic slowing and geopolitical tensions.
- ▶ The Strategy outperformed its benchmark, lifted by strong contributions from our industrials and IT holdings.
- ▶ Momentum behind ESG policy has slowed on both sides of the Atlantic. However, we continue to find compelling opportunities where multiple structural forces converge and where we are already well positioned.

### Market Overview

Global equity markets posted positive returns in the second quarter, with a series of bilateral U.S. trade deals and the prospect of greater government spending in Europe overcoming early-quarter tariff volatility, concerns over slowing economic growth and elevated geopolitical tensions. The core MSCI World Index rose 11.5%, with dollar weakness contributing to the strong returns, and outperformed the S&P 500 Index (10.9%). Strong results from Nvidia and other AI-exposed companies drove a reversal of the first quarter’s AI selloff. Strength among these stocks helped growth stocks reclaim market leadership in the second quarter; the MSCI World Growth Index (17.7%) outperformed the MSCI World Value Index (5.4%) by over 1,200 basis points – approximately the same amount value outperformed growth in the first quarter (Exhibit 1).

Exhibit 1: MSCI World Growth vs. Value Performance



As of 30 June 2025. Source: FactSet.

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We believe that the market for improvers remains strong and has more positive catalysts than negative ones.

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Early April saw a surge in market volatility following the announcement of “Liberation Day” tariffs applied across U.S. trading partners, almost all of which were much more severe and wide-ranging than expected. However stocks rallied strongly the following week after the White House announced a 90-day delay in tariff implementation.

In Europe, Germany’s infrastructure spending bill and planned increases in defense spending by EU members provided a tailwind to European markets on the hopes that an increase in government stimulus would help reignite the eurozone’s economy. Although these long-term plans are still in the incubation stage, both business and consumer confidence have begun to rise on the prospects.

Investors also closely watched central banks for their assessment of national and global economies as concerns of an economic slowdown grew. The U.S. Federal Reserve maintained steady rates but signaled a more dovish stance as inflation eased and labor market momentum slowed, while the European Central Bank cut rates in June as a response to softening inflation and weak eurozone growth. Meanwhile, the Bank of Japan continued its gradual policy normalisation. This pivot toward a more dovish policy helped to further bolster international equities, especially in interest-rate-sensitive sectors like technology and real estate.

Despite broadly positive tailwinds, however, there continue to be a number of dark clouds on the horizon. In the U.S., businesses and consumers have begun to rein in spending amid a cloudy economic outlook. In China, the increase in goods production is more likely a result of businesses and consumers seeking to beat tariff implementation than a sustained pickup — potentially to the detriment of future orders. And, in the Middle East, a tenuous cease-fire between Israel and Iran requires only a spark to reignite into a conflict that could impact markets globally. This environment requires us to take a more agile and adaptive approach toward managing our portfolio.

### Quarterly Performance

The ClearBridge Global Value Improvers Strategy outperformed its benchmark in the second quarter, with stock selection in the industrials and IT sectors bolstered by broader macro tailwinds including a weakening U.S. dollar and a repatriation of capital from the U.S. by overseas investors. Our underweight to the IT sector detracted from performance as high demand and investment in data centres and AI continued and concerns about the threat from China’s cheaper DeepSeek generative AI model subsided. The portfolio was able to deliver relative gains against the benchmark during the week following the Liberation Day, when volatility spiked to levels below only the peaks reached during the Global Financial Crisis and COVID. Such volatility spikes are often real world tests of portfolio resilience.

Stock selection in the industrials sector proved one of the strongest contributors to performance for the period. Our high-quality industrials companies rebounded from a soft first quarter and continue to see strong demand for products and services related to the long-term trends of electrification, the energy transition and infrastructure. In fact, these enabling businesses are how we participate in the AI growth through a value approach — owning the “picks and shovels” essential to build the AI infrastructure. Siemens Energy, a German power generation and transmission equipment company, continues to demonstrate strong operational and improving financial performance, bolstered by the tailwinds of the world-wide drive toward increased electrification investments and AI data centre demand for power generation equipment. Likewise, Nexans, a French company that makes cable systems for offshore wind farms, subsea interconnections and power transmission, rebounded on earnings that showed strong organic revenue growth — especially in its high-voltage electrification business.

Our IT holdings also generated positive performance, led by U.S.-based Microchip Technology. Microchip, which manufactures microcontrollers and microprocessors for a wide variety of end uses, saw its share price rise after releasing fourth-quarter fiscal results that exceeded analyst expectations and raising its first-quarter revenue target due to strong bookings and inventory reduction as management believes its end markets have reached a cyclical bottom. Oracle also saw its share price lifted by a combination of strong quarterly earnings, surging cloud and AI momentum and news of a new contract that would significantly raise revenues when begun in 2028.

As the weakest sector of the benchmark in the second quarter, health care proved particularly challenging to navigate as tariff worries, uncertainty regarding the Most Favored Nation (MFN) clause enacted in the U.S. and rising funding costs have led to a more conservative spending environment across the sector. This only exacerbated the pressure on shares of Gerresheimer, a German manufacturer of packaging solutions for the health care and cosmetic industries, which continues to struggle in stabilising sales amid an industry-wide backlog of inventory due to overstocking during the COVID-19 pandemic. In addition to sales challenges, many investors have soured on the stock as Gerresheimer management has failed to make any headway on several takeover attempts.

### **Portfolio Positioning**

Portfolio activity was relatively calm in the quarter with only two changes: exiting Uber Technologies and adding Corcept Therapeutics. Uber, the world’s leading rideshare platform, has strong fundamentals and a free cash flow inflection underway — catalysts that we believe the market has recognised. Accordingly, recent price appreciation has reduced our assessment of the

company's upside potential, and concerns over the rollout of autonomous self-driving taxis by competitors led us to step away in favor of other opportunities. We bought Corcept, a biotech company specialising in the management of cortisol levels that now appear to have wider implications across endocrinologic, oncologic, metabolic and neurological disorders than previously understood. With a successful and profitable drug already in the market, we believe that the ongoing development and rollout of its improved product will further expand the treatment's potential and solidify Corcept's competitive moat.

### Outlook

From our vantage point of investors with a long history of integrating ESG factors in the investment process, we're seeing several structural shifts that are reshaping the ESG landscape:

First, momentum behind ESG policy has slowed on both sides of the Atlantic. In the U.S., parts of the Inflation Reduction Act are being walked back, especially around renewables and EV support. This has dampened policy clarity and constrained global coordination on climate. Europe, while still committed to decarbonisation, is recalibrating — placing greater emphasis on industrial competitiveness in response to U.S. protectionism and Chinese industrial scale. That means ESG investments increasingly must compete for capital against national priorities like energy security, reshoring and technology leadership. The result is more selective capital allocation, with greater scrutiny on business cost, resilience and geopolitical alignment.

Second, there is growing recognition that the 1.5°C pathway is now out of reach, and the world is rapidly heading toward 2°C of global warming above pre-industrial levels. Mitigation remains essential — but adaptation is becoming just as urgent. Infrastructure in vulnerable regions, and even in areas once considered stable, now requires redesign to withstand more heat, floods and volatility. This not only includes coastlines and tropics, but also bridges, transport networks, water systems and energy infrastructure across temperate regions.

We see especially compelling opportunities where multiple structural forces converge, where we are already well-positioned and are excited to see more opportunities emerging:

- **Renewables and energy storage:** After a painful reset driven by rising rates and shifting subsidies, renewables now sit at the intersection of three secular drivers — the need for clean energy, the push for energy security and the soaring power demand from AI and data infrastructure. In many regions, new generation capacity is no longer optional, while solar, wind and battery storage offer scalable, secure and carbon-free solutions.
- **Energy-efficiency enablers:** Companies that help others use less energy such as Vertiv, which delivers thermal management

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These are not just ESG stories but instead sit at the heart of converging trends: rising energy costs, data centre buildouts, net-zero goals and infrastructure adaptation.

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systems critical for data centre cooling (an area where power use is spiking) or Johnson Controls, which helps modernise building systems for smarter, lower-emission operations, are ideally positioned in this new regime. These are not just ESG stories but they also sit at the heart of converging trends: rising energy costs, data centre buildouts, net-zero goals and infrastructure adaptation. In a world with capital constraints and climate risk, efficiency is no longer a nice-to-have — it's a competitive edge.

- Grid modernisation: Investment in power grids checks multiple boxes. It enables decarbonisation by connecting renewable supply, lowers long-term energy costs, and is essential to handle rising loads from AI infrastructure while also building resilience into systems facing climate-driven disruptions. In many cases, it's a "multi-benefit" project that aligns economic, environmental and strategic priorities.

### **Portfolio Highlights**

The ClearBridge Global Value Improvers Strategy outperformed its MSCI World Value Index benchmark during the second quarter. On an absolute basis, the Strategy had gains in eight of the 10 sectors in which it was invested (out of 11 total). The industrials sector was the greatest contributor while the health care sector was the main detractor.

On a relative basis, overall stock selection contributed to performance but was slightly offset by sector allocation effects. Stock selection in the industrials, IT, energy, communication services and utilities sectors as well as an overweight to the industrials sector proved beneficial. Conversely, underweight allocations to the IT and communication services sectors weighed on performance.

On a regional basis, stock selection in North America (mainly the U.S.), Europe Ex U.K. and Japan as well as overweights to emerging markets, Europe Ex U.K. and the U.K. and an underweight to North America proved beneficial. Conversely, stock selection in emerging markets detracted from performance.

On an individual stock basis, Siemens Energy, Nexans, Microchip Technology, Hitachi and Oracle were the leading contributors to relative returns during the quarter. The largest detractors were Fiserv, ICON, Gerresheimer, Fortune Brands Innovations and AstraZeneca.

### **ESG Highlights: Climate Strategy is Business Strategy**

For almost 40 years ClearBridge has been incorporating climate risks and opportunities into our fundamental investment strategy. As climate has become more and more relevant in our portfolios, we have taken steps to enhance our process and ensure material climate metrics are appropriately captured.

Company engagements are a key pillar in ClearBridge's climate strategy as we seek to understand and manage company-specific climate-related risks and opportunities. ClearBridge engagements on

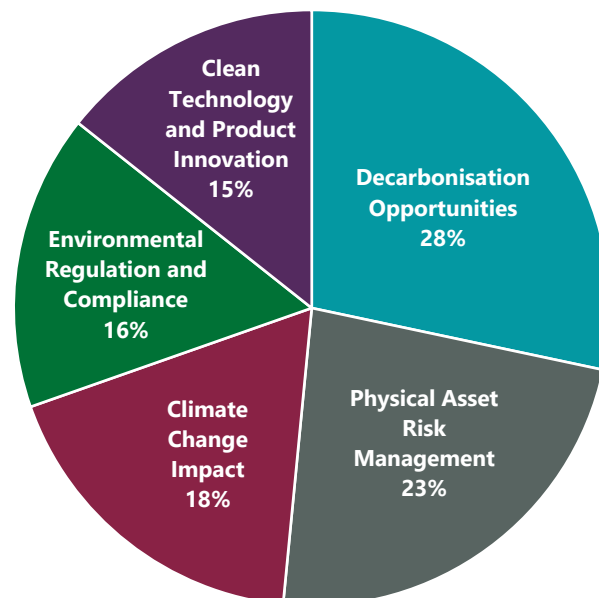
environmental, social and governance (ESG) topics generally have two overlapping objectives:

- 1. Research:** Gaining a better understanding of ESG issues that could impact our investment thesis
- 2. Impact:** Encouraging specific changes at the company to better align its operations with sustainability best practices

Across these two objectives, our engagements span many different climate-related topics (Exhibit 2), with engagements primarily focused on higher-emitting sectors.

ClearBridge’s model for ESG integration, which includes ESG discussions as part of fundamental company research led by our investment teams, allows climate-related engagements to be thoughtful and well-rounded discussions on climate topics. As the following examples show, our analysts and portfolio managers cover very different topics in discussions with companies in very different sectors while still focusing both on companies’ climate strategies and the connection of these strategies to the companies’ business case.

Exhibit 2: Top Environmental Factors Engaged Upon in 2024



As of 31 December 2024. Source: ClearBridge Investments.

#### Amazon.com: A Fully Integrated Approach to Climate

In September 2024, ClearBridge joined Amazon for a group discussion with the company’s ESG and Energy Sustainability teams as part of Climate Week to discuss Amazon’s environmental strategy. Amazon went into the many components of its company-wide initiative to achieve net zero by 2040. Each business unit — grocery, studios, AWS — has dedicated sustainability leads, with a team led by Head of Energy and Sustainable Operations Chris Roe ensuring carbon goals are embedded in annual plans and reviewed by

leadership. In setting its strategy, Amazon focuses on metrics specific to different business units like carbon per dollar of gross merchandise value (GMV) in retail and per unit of compute in AWS. Amazon has also launched a \$2 billion fund to accelerate decarbonisation technologies into commercial products.

Cost and carbon are highly correlated in Amazon's climate strategy as retail operations get more efficient. Major challenges include reducing Scope 1 emissions from middle-mile logistics, where diesel trucks remain a bottleneck. However, progress is evident in last-mile delivery: 680 million packages were delivered by EVs in the previous year. Efficiency gains in packaging have also led to a 40% reduction in packaging waste over nine years.

Internally, Amazon uses climate risk models to anticipate energy usage and drive real estate design. Factors in the models include generative AI's future energy needs, growth of Amazon's fleet, locations of logistics facilities and water availability for different sites.

While ClearBridge encourages emissions reduction targets aligned with the Science-Based Targets initiative (SBTi), Amazon appears to have a responsible approach of setting internal science-based targets per business unit, although these are not formally verified by the SBTi. Amazon does, however, work with both SBTi and academics to align with International Energy Agency pathways. The company avoids offsets for interim targets, reserving removals like direct air capture for residual emissions — which are expected to be mostly Scope 3 by 2040.

This discussion provided us with a better understanding of Amazon's climate strategy and we remain positive about its climate efforts. Our biggest takeaway was how well resourced and data driven Amazon's climate efforts are from an organisational standpoint, driving down the cost/carbon impact per dollar of value with the value metrics being defined at a segment level: e.g., carbon footprint per unit of compute for AWS or per dollar of GMV in Retail.

#### Microsoft: Powering AI Responsibly

In November 2024, ClearBridge held a call with Microsoft's sustainability investor liaison to discuss shareholder concerns on energy efficiency, as with the huge growth of AI has come a massive demand in energy as well. We discussed Microsoft's AI energy needs and its goals to become carbon negative. Microsoft reconfirmed its commitment to achieving its climate goals with its recently announced power purchase agreement for nuclear power with Constellation Energy, which involves restarting Three Mile Island. Microsoft clarified it won't own or operate this facility, but will be a customer of Constellation, with which Microsoft has maintained strong supplier conduct statements. When asked about safety concerns, Microsoft explained the reactor slated to be restarted was functioning safely and effectively for decades before being turned off for economic reasons in 2018. This represents a significant part of

Microsoft's commitment to nuclear power. The company sees this agreement as part of achieving its 2030 and 2050 carbon emissions targets (for net negative emissions).

As it relates to renewables, Microsoft continues to encounter the issue of intermittency (as do peers). It is conducting research on power battery storage and other mechanisms to solve this issue and includes deals for wind and solar in its portfolio approach to its power generation needs.

We were encouraged to hear Microsoft is still committed to bringing carbon emissions back down as energy needs increase. Since this engagement, Microsoft has also announced many agreements to purchase offsets, as the energy efficiency of AI, particularly in data centres, is still a challenge. We continue to see Microsoft's climate strategy as leading among peers and will continue to engage with the company on this topic.

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