International Value ADR

Marketing communication | As of 31 Dec 2025

- **During the fourth quarter, the International Value ADR strategy outperformed its primary benchmark, the MSCI EAFE Index, as value-oriented stocks outperformed growth. The strategy also outperformed the MSCI ACWI ex-U.S. Index.**
- **Relative to the EAFE benchmark, the strategy benefited from security selection in the financial and consumer discretionary sectors and France, while selection in the Netherlands and the energy sector detracted.**
- **Despite the threat of higher U.S. tariffs, our outlook for international equities remains positive, supported by accelerating European infrastructure spending and signs of recovery in China.**

Market review

Global stock markets continued their strong performance in the fourth quarter, with major U.S., European and Japanese markets reaching new all-time highs. Investor optimism was supported by Federal Reserve (Fed) rate cuts in October and December, the frenzy surrounding artificial intelligence (AI), reduced tariff concerns and solid earnings expectations, offsetting European fiscal uncertainties and a softening U.S. labor market. The MSCI EAFE Index recorded a quarterly gain of 4.9% and posted its best annual return since 2003, advancing 31.0% for the year. The quarter's solid results can be attributed to European markets, which rose 6.2%, and a strong quarter in emerging markets (EM), which gained 4.7%. The U.S. market's advance was propelled by a shift toward value stocks, especially pharmaceutical and materials companies, while the EAFE Index was helped by stronger financial earnings. The EAFE Value outperformed EAFE Growth by approximately 6%. The MSCI ACWI ex-U.S. Index gained 5.05% for the quarter and 32.39% for the year.

Europe rebounded during the quarter, supported by the strong performance of financial shares on resilient economic growth and signs that the European Central Bank's monetary policy has successfully held inflation near the 2% target. In fact, euro-area adjusted loan growth registered 3% year-over-year in November 2025 compared with 2.8% in October, supporting confidence in an improved economic outlook. Growth appears to be broad based, as both corporate and household lending have improved. Moreover, signs of a more serious Ukraine peace plan have emerged, raising hope that post-war reconstruction could lift future infrastructure spending.

In Asia, confidence in the Japanese economic recovery and improved corporate governance continued to boost the market. While the Tokyo Stock Price Index (TOPIX) was only up 2.5% in dollar terms, the weaker yen meant that local investors benefited from an 8.5% rise the market. At the start of the quarter, investors feared that the deteriorating relationship between Japan and China may hurt the economy, following comments by Japan's Prime Minister, Sanae Takaichi. However, the weaker yen combined with rising technology and overseas spending appears to have soothed

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those concerns. The improved economic outlook combined with future inflation fears also gave the Bank of Japan confidence to raise interest rates again in December by 25 basis points to 0.75%, the highest level in 20 years, marking another step away from decades of near-zero borrowing costs.

Beyond the equity market, global inflation fears lifted the prices of precious metals such as gold and silver, as well as other commodities such as copper, during the quarter. Commodity indices achieved strong total returns during the quarter, driven by exceptional returns in industrial metals, and particularly precious metals, which tend to benefit from Fed rate cuts, offsetting limited negative returns in the energy sector. An ounce of silver, for example, rose by more than 50%, hitting an intra-quarter all-time high of $80, while gold ended the quarter up 12%, also reaching an all-time high of $4,530. An ounce of silver is currently trading at a higher price than a barrel of oil.

Portfolio review

During the quarter, the International Value ADR strategy outperformed the benchmark MSCI EAFE Index on a gross and net of fees basis. The strategy also outperformed the MSCI ACWI ex-U.S. Index. Cyclical sectors led global markets in the fourth quarter, as value stocks in the utilities, health care, financials and materials sectors delivered the bulk of the gains, offsetting weakness in communication services. While AI-driven technology stocks outperformed in the United States, the MSCI Information Technology Index slightly underperformed the MSCI EAFE, given its limited exposure to AI-related leaders. The MSCI Financials Index outperformed during the quarter on strong fourth quarter 2025 earnings results for financial companies and positive expectations for 2026. From a sector perspective, the strategy's security selection and overweight in the financial sector contributed the most to outperformance relative to the EAFE, while selection in the energy sector detracted. On a country basis, security selection in France and Germany contributed the most, while selection in the Netherlands and out-of-benchmark exposure to China detracted. Although the U.S. dollar traded in a relatively tight range during the quarter, U.S. stagflation fears helped boost copper prices and global mining companies in the portfolio such as Vale and Anglo American.

Contributors

Broadly speaking, European banks were strong contributors to the portfolio. Societe Generale outperformed on better-then-expected earnings and cost performance across all divisions throughout the year. Management has begun returning excess capital above the 13% CET1 target established at its September 2023 Capital Markets Day. The company's earnings growth is being driven by company-specific factors, including French branch network rationalization, guided €200-300 million year-over-year improvement in BoursoBank profits in fiscal-year 2026 driven by lower customer incentive spending, integration gains in Ayvens from the LeasePlan acquisition, and declining integration expenses. The stock, trading at only a 0.8x P/B ratio, also continued to trade at a discount to the European banking sector.

In the health care sector, pharmaceutical company Roche Holding contributed as its valuation discount has begun to narrow. The market is increasingly recognizing the growth balance between biosimilar erosion of the company's legacy drugs and the improved performance of its new products. Roche maintains a robust pipeline with moderate risk, and recent launches of Ocrevus, Vabysmo and Hemlibra should accelerate sales growth over the medium term. The regulatory environment in the United States also appears to be improving, with a reasonable outcome expected regarding drug pricing negotiations and potential tariffs. Deals made with the Trump administration over "Most Favorable Nation" drug pricing have proven manageable rather than punitive. With the stock trading at 0.92x EV/NPV and a strong Phase 3 pipeline, we believe multiple opportunities exist for the valuation discount to compress further and generate additional shareholder value.

Deutsche Post was a positive contributor as earnings showed signs of improvement and the company confirmed 2025 EBIT guidance exceeding €6 billion, with mid-term EBIT exceeding €7 billion. Despite the challenging environment, the company is experiencing sequential improvement in fourth-quarter 2025 Air/Express market volume and pricing trends. While Deutsche Post may face revenue headwinds in 2026 from changes in the European Union's (EU) de minimis duty-free threshold regulations, we expect cost-cutting initiatives, supply chain growth, potential new demand surcharges and a second-half 2026 volume improvement could more than offset these pressures.

Detractors

European energy stocks, including Technip Energies, were generally weaker during the quarter. The company's third-quarter 2025 results missed consensus expectations at both the revenue and EBITDA levels, although quarterly results in the energy services sector are inherently volatile. Moreover, the suspension of the Lake Charles liquified natural gas (LNG) project in the United States, announced in September 2024, further pressured the shares. The suspension came amid concerns about rising costs and looming oversupply in the LNG market. Despite these headwinds, we remain optimistic that the company can achieve its long-term operating profit margin target of 10%. We also believe Technip Energies will benefit in 2026 from recently secured contracts for Commonwealth LNG, Coral Norte, Rovuma LNG and North Field West.

European defense stocks, including Thales, were generally weaker during the quarter as Ukraine peace initiatives appear increasingly likely to achieve some form of resolution. Moreover, ongoing difficulties in French budget negotiations may constrain potential increases to France's defense budget. Despite the stock's weakness, the company announced better-than-expected third-quarter 2025 sales and orders. Management also confirmed fiscal-year 2025 guidance for organic sales growth of 6-7% and adjusted EBIT margins of 12.2%-12.4%. We expect growing defense budgets and an improved cyber outlook will support the stock in 2026.

Following strong performance in the third quarter, Alibaba stock gave back some of its gains and underperformed the EAFE benchmark. The company continues to offer strong expectations for earnings growth, albeit at a slower pace than previously anticipated, due to component shortages affecting cloud revenue growth and quarterly fluctuations in internal AI cloud usage. The company remains one of China's leading AI-related companies, as accelerated demand—especially from financial services, industrials and e-commerce enterprises—has led management to revise upward its capital expenditure outlook. Declining losses from price competition in its quick commerce segment should be a positive factor in 2026. Over time, management expects that larger scale, an improving mix toward higher valued-added agentic AI applications and operational efficiencies will support further margin improvement.

Portfolio positioning

During the quarter, we initiated a new position in Vale, the Brazilian iron ore and copper producer. The company is the world's third-largest metals and mining company, the largest iron ore producer globally and the second-largest nickel producer. We believe the company is well positioned to benefit from iron ore prices stabilizing around $100 per metric ton, as production from depleting mines is offset by new capacity coming online. Moreover, Vale should benefit from copper expansion toward 700 kilotonnes by 2035 and achievement of its nickel breakeven target by fiscal-year 2026. The company trades at an attractive valuation, including a 6.8x price-to-earnings (P/E) ratio on fiscal-year 2026 estimates, an 8.1% free cash flow yield and a 1.2x P/B ratio, while generating an estimated 17% return on equity (ROE).

We also initiated a new position in Nidec, a global leader in brushless DC motors, which offer superior power efficiency, quieter operation and enhanced durability compared to traditional motors. The company holds leading market share across multiple product categories, including hard disk drive motors, optical disk drive motors, smartphone vibration motors, brushless motors for inverter air conditioners and automotive electric power steering systems. Nidec continues to benefit from growing demand for power-efficient motors driven by increasingly stringent environmental regulations.

The stock had declined to multi-year low valuations following several accounting irregularities, resulting in removal from the Nikkei and TOPIX indexes and placement on the "Securities on Special Alert" list on the Tokyo Stock Exchange. The stock decline was exacerbated by mechanical selling from passive index funds.

To fund the Vale position, we eliminated our holding in BHP Group because we were concerned that the company's ongoing investment in the Jansen potash mine and potential expansion-focused merger and acquisition activity could pressure returns.

The portfolio ended the period with overweights in the materials, financials, industrials and energy sectors while remaining predominantly underweight in the defensive sectors of the market such as health care, utilities and real estate, as well as information technology, consumer discretionary and communication services.

From a country perspective, the portfolio maintained overweights in the Netherlands via securities such as ING Groep and Technip Energies, and Germany, including Deutsche Post and Siemens. The portfolio also kept out-of-benchmark positions in the emerging market of Brazil through positions in Embraer and Itau Unibanco, and Canada through Agnico Eagle Mines and Nutrien. Meanwhile, the portfolio's most notable country underweights at quarter end were in Japan and Australia.

Outlook

The market optimism that lifted the fourth quarter of 2025 has carried into early 2026, underpinned by resilient growth, slowing inflation, lower interest rates, reduced policy uncertainty and growing investor conviction that the

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AI surge reflects genuine economic transformation rather than a speculative bubble. The bullish sentiment is reinforced by the Fed's apparent willingness to tolerate inflation above its 2% target and to counter economic or labor weakness with additional rate cuts. The optimism has supported a broadening of equity markets beyond technology, as ongoing fiscal spending combined with new spending from President Trump's tax-cut bill supports a solid macroeconomic outlook.

While valuations are not the sole driver of near-term returns, P/E multiples expanded globally in 2025 as most central banks began cutting interest rates. The AI boom and fiscal stimulus in the EU and Japan also contributed to multiple expansion. Following this revaluation, P/E ratios are elevated relative to historical averages across most regions, with the United States and India showing the most stretched valuations.

The majority of 2025 returns were driven by multiple expansion, especially in EM and Europe, where valuations were more attractive at the start of 2025. With U.S. P/E ratios already elevated, earnings growth was the primary driver of returns in that region. In Europe, the cyclicals-to-defensives P/E ratio appears stretched, although this largely reflects elevated valuations in technology and defense stocks, which are benefiting from structural tailwinds.

Looking ahead, U.S. mid-term elections could introduce some political uncertainty, while Brazil's general election is potentially the only other major global political event on the calendar. In 2026, a weaker U.S. dollar could provide a tailwind for international equity performance, as central banks continue to gradually reduce their holdings of dollar-denominated assets. According to the IMF's Currency Composition of Official Foreign Exchange Reserves, the dollar's share of global reserves fell to 56.9% in the third quarter—the lowest since 1994—from 57.1% in the second quarter and 58.5% in the first quarter.

The U.S. dollar's status as the dominant reserve currency has historically enabled the country to sustain large trade and budget deficits by facilitating cheaper borrowing. However, continued erosion of this reserve status could reduce demand for dollar-denominated debt, potentially making these twin deficits increasingly difficult to sustain while providing support for precious metals and commodity prices.

As we construct the portfolio from the bottom up, we remain comfortable with our overweight positions in the financials, industrials and materials sectors. Within financials, we favor banks for several reasons: attractive valuations, strong CET1 capital ratios that support increased buybacks even in a lower-rate environment, and potential for industry consolidation in Europe as a long-term catalyst. Our largest overweight is in insurance, which offers more defensive characteristics. While insurance pricing has moderated from recent peaks, it remains supportive of property and casualty returns.

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Minimum investment is $100,000.

Important information on risk

All investments carry a certain degree of risk, including possible loss of principal, and there is no assurance that an investment will provide positive performance over any period of time. Equity investments are subject to market risk or the risk that stocks will decline in response to such factors as adverse company news or industry developments or a general economic decline. This strategy may invest in American Depositary Receipts (ADRs). ADRs do not eliminate the currency and economic risks for the underlying shares in another country. U.S. companies with a significant portion of their assets and/or operations located outside of the U.S. are also eligible for investment. Investing internationally presents risks such as political risk, exchange rate risk and inflationary risk, which includes the risk of economic change, social unrest, changes in government relations and different accounting standards. Investing in securities of developing countries involves greater risk than, or in addition to, investing in developed foreign countries. Value style investing presents the risk that the holdings or securities may never reach their full market value because the market fails to recognize what the portfolio management team considers the true business value or because the portfolio management team has misjudged those values. In addition, value style investing may fall out of favor and underperform growth or other style investing during given periods.

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Glossary

The **MSCI ACWI ex USA Index** captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The **MSCI Europe Index** captures large- and mid-cap representation across 15 developed markets countries in Europe. The **MSCI China Index** is designed to capture large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks.The MSCI China Index represents approximately 85% of China free float-adjusted market capitalization and evolves to reflect the changingequity market. The **S&P 500® Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **It is not possible to invest directly in an index**. Clients should consult their financial professional sregarding unknown financial terms and concepts.

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