

International Opportunities ADR

Marketing communication | As of 31 Mar 2026

Key takeaways

- During the first quarter, the International Opportunities ADR strategy underperformed the MSCI ACWI ex USA Growth Index.
- The portfolio's underperformance was driven by unfavorable stock selection in the information technology, consumer discretionary and industrials sectors.
- Our team continues to identify long-term structural growth opportunities in non-U.S. stocks against a favorable market backdrop outside the U.S.

Market review

Conflict in the Middle East dominated the period, fueling an energy price shock and broad market volatility. By quarter-end, the West Texas Intermediate (WTI) crude benchmark had nearly doubled to \$101.40 per barrel, while Brent crude reached \$118.40 per barrel. The price gap reflected greater oil security in the U.S. market as well as higher transportation costs. In Asia, refiners that typically rely on Middle Eastern crude priced against Brent sought alternative supplies, leading to increased demand for WTI.

The surge in energy costs reigned inflation concerns and complicated monetary policy considerations. The European Central Bank (ECB), Bank of Japan (BoJ) and Bank of England (BoE) all held rates steady during the quarter, as did the U.S. Federal Reserve. In contrast, the Reserve Bank of Australia hiked rates by 50 basis points (bps). While the Fed and BoE hewed to a wait-and-see approach regarding rate cuts, the ECB signaled potential hikes due to upside inflation risks, and the BoJ maintained its hawkish outlook, prioritizing inflation fighting over growth risks.

Non-U.S. equities struggled amid the geopolitical turmoil and spike in oil prices. Additionally, U.S. dollar strength reduced local-market returns when translated into dollars. That said, relative to U.S. stocks, non-U.S. markets held up better, thanks in part to a lower concentration in software and technology shares, which sold off sharply.

The developed market MSCI EAFE Index (-1.2%) posted a small decline, led by losses in the eurozone (-5.0%), including the largest markets of Germany (-8.5%) and France (-5.4%). The region's economic growth outlook softened as Germany lowered its 2026 forecasts, with the majority of the growth driven by government spending on infrastructure and defense. In contrast, the United Kingdom (+2.0%) ended in positive territory. Elsewhere, Japan's Nikkei 225 Index eked out a +0.5% gain, as the Japanese governing party's snap-election victory provided a market-friendly tailwind and the yen's weakness boosted Japanese exporters.

Meanwhile, the MSCI Emerging Markets (EM) Index ticked only incrementally lower (-0.2%), proving more resilient than the EAFE. South Korea (+16.5%) and Taiwan (+9.1%), which together make up more than one-third of the EM index by market capitalization, were buoyed by constructive AI sentiment before it tailed off in March. Despite a promising start in



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January, Chinese stocks — the largest component of the EM index at more than 25% of its market cap — ended the quarter -8.9% lower. Among major EM regions, Latin America (+14.6%) fared best in Q1, driven by its largest country market, Brazil (+19.1%). EM Europe (+1.2%) managed a modest rise, while EM Asia (-1.5%) declined.

Portfolio review

The International Opportunities ADR strategy underperformed its benchmark, the MSCI ACWI ex USA Growth Index, on a gross- and net-of-fees basis in the first quarter of 2026. Value stocks topped growth shares by +570 basis points (bps) for the period, as measured by the MSCI ACWI ex USA Value and Growth indexes, respectively. This massive delta followed a 2025 that saw value outperform growth by +1,392 bps for the full year, extending a five-year trend in which the market has shifted significantly to value. The Value index has beaten its Growth counterpart by +755 bps since early 2021. This disparity between value and growth was a key reason the strategy instituted a benchmark change in 2025, replacing the core ACWI ex USA index with the Growth version. Although the strategy had historically used the core index due to distribution purposes, that benchmark became less applicable for performance comparisons over the past five years given the strategy's tilt toward growth.

From a factor perspective, an underweight in high momentum and growth areas of the market detracted from the strategy's relative performance in Q1. The portfolio's overweight to size also detracted modestly, as large caps lagged. EM stock selection was a slight drag as well.

In terms of sectors, the largest detractor from the strategy's relative return was information technology, primarily a function of negative stock selection. Consumer discretionary and industrials also had an adverse impact, reflecting unfavorable stock-picking in both, and in the case of the poorly performing consumer discretionary sector, an overweight allocation. In contrast, communication services contributed the most, due entirely to a lack of exposure to this underperforming sector.

From a country standpoint, Japan detracted the most, the result of unsuccessful stock selection. South Korea also weighed meaningfully on relative performance, due to a lack of available ADRs for large benchmark constituents in the country that performed well. In contrast, the Netherlands was the top contributor thanks to a successful stock picks.

Brazil was also additive thanks to an overweight allocation to this outperforming market.

Contributors

Among individual names, not owning Chinese technology conglomerate Tencent Holdings, Ltd. contributed the most to the strategy's return versus the benchmark. Another top contribution came from portfolio constituent Itau Unibanco Holding S.A., a Brazilian financial services company. Brazil's stock market performed quite well during the period, providing a tailwind to Itau Unibanco shares as investors welcomed anticipated rate cuts in the country. The firm also posted healthy quarterly results while exercising strong capital discipline.

London-based oil and gas company Shell plc was also a sizable contributor. Soaring oil prices helped drive the company's shares higher, aided by trading activity and refining margins. Additionally, Shell continued to focus on shareholder value, with ongoing share buybacks and the sale of its Jiffy Lube franchise seen as investor-friendly moves.

Dutch photolithography manufacturer ASML Holding NV made a significant contribution. ASML raised its forward-looking guidance in the quarter and reported an above-consensus increase in net income, reflecting the need for infrastructure to support AI chip demand.

Detractors

On a company-specific basis, Japanese communications technology equipment manufacturer Fujitsu Ltd. was the leading detractor from the strategy's relative performance. Investors grew increasingly wary of potential AI disruption of the firm's traditional systems integrator business model. In addition, Fujitsu shares were hurt by a drop in company earnings and a smaller-than-anticipated share buyback.

Irish-American sports betting and entertainment company Flutter Entertainment was the next- largest detractor. The firm posted disappointing earnings results and weak forward guidance during the period. And despite strong market share, the firm's FanDuel franchise experienced slowing growth and increased competition from prediction markets.

Indian financial services provider HDFC Bank Ltd. detracted meaningfully as well. The firm was hampered by broader market weakness, as India was the benchmark's second-worst performer for the quarter. HDFC's stock price

was further hurt by the resignation of the company's part-time chairman and concerns about corporate governance.

Portfolio positioning

At quarter-end, the strategy's largest overweights were in consumer discretionary and consumer staples, followed by utilities, information technology and financials. In contrast, communication services, industrials, health care and energy were the top underweights. Geographically, the leading country overweights were Hong Kong, France and Brazil, while the biggest underweights were China (offsetting some of the Hong Kong overweight), South Korea and the United Kingdom.

Eight portfolio positions were eliminated and nine were added during the quarter, continuing the approach favored by the new portfolio management team, which assumed responsibility for the strategy in February 2025. The team continues to position the portfolio with a slightly higher market capitalization profile and further into the growth style box. Over the course of the quarter, the portfolio's sector weights increased the most in information technology, and decreased the most in consumer discretionary. With regard to countries, the team boosted exposure to Germany the most, while the largest reduction was to the U.K. Lastly, the strategy's EM underweight now stands at -750 bps.

Outlook

We remain constructive on non-U.S. markets. European banks rallied in 2025 thanks to their robust capital bases and healthy profit margins. Tailwinds from steep yield curves and financing demand for AI-related capex largely remain in place and could be amplified by banks' plans to use AI to jumpstart productivity as investors call for increased return on equity. We believe markets have yet to fully price in these catalysts. We are also constructive on European defense stocks. Following decades of underinvestment, the European defense industry is transitioning into a multiyear, structural rearmament super-cycle. Against this backdrop, stocks of select defense contractors offer compelling opportunities. Ground combat manufacturers are currently reporting record backlogs, while aerospace contractors are positioned as essential providers of critical capabilities.

In Japan, potential resilience in the face of higher energy prices reinforces the long-term investment case for stocks. The Japanese government has released emergency oil reserves and extended gasoline subsidies to reduce the burden on businesses and households. Looking ahead, Prime Minister Sanae Takaichi's multiyear budget measures are designed to spur infrastructure investment and promote stable economic growth. Moreover, following pressure from activist investors, Japanese companies have begun to unwind corporate cross-shareholdings — stocks of publicly traded companies held by strategic partners, competitors and affiliates. This shift has helped boost share buybacks and shareholder returns.

Emerging markets (EM) continue to warrant allocation primarily for their diversification benefits and long-term demographic advantages, rather than expectations of near-term outperformance. EM equities remain structurally underindexed on a long-term basis, but the central question regarding their performance trajectory remains the evolution of U.S.-China relations. Strategic positioning across semiconductors, power infrastructure and commodities may help investors benefit across a range of potential outcomes as the dynamic between the White House and Beijing unfolds. For China specifically, 2026 is a pivotal year as it marks the beginning of its latest five-year economic plan, setting its strategic direction through 2030. Additionally, forward-looking earnings per share (EPS) growth for EM companies has risen substantially in recent months, driven by Samsung and SK Hynix in South Korea.

Given the unpredictability of shifting Middle East headlines, we would not be surprised to see countries stockpiling oil if the conflict proves prolonged. Energy prices could therefore remain higher for longer, which may keep inflation above consensus expectations and weigh on demand. As for earnings, analyst estimates in Europe and Asia may not yet fully reflect the meaningful risks from the war and its resulting impacts, so we're monitoring for potential downward revisions and how markets may respond. On balance, we continue to identify high-quality names in countries and regions outside the U.S. where growth trends look favorable, creating opportunities for investors with diversified, long-term investment strategies.

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Minimum investment is \$100,000.

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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. With 1,853 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. **Volatility** is the fluctuation in market value of a portfolio or other security. The greater a portfolio's volatility, the wider the fluctuations between its high and low prices. **It is not possible to invest directly in an index.** Clients should consult their financial professional regarding unknown financial terms and concepts.

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