William Blair

Summary & Outlook

International Leaders ADR SMA Strategy

Market Overview

Global equities gained in the fourth quarter (the MSCI ACWI IMI returned +3.22% for the quarter and +22.06% in the year). Performance was supported by Federal Reserve interest rate cuts, strong corporate earnings, and increased investor optimism surrounding companies positioned to benefit from advancements in artificial intelligence. Non U.S. equities outpaced U.S. markets during the quarter, a trend that persisted throughout the year. Within style segments, growth stocks led performance in the U.S., while value stocks generally outperformed across most other developed markets.

U.S. equities posted positive results during the quarter (+2.33% for the quarter and +16.81% in the year as measured by the MSCI USA IMI). Market performance was supported by an additional 50 basis points of Federal Reserve rate cuts following the resumption of its easing cycle in September. The Federal Reserve's communication was more balanced than anticipated, reinforcing expectations for further rate reductions in 2026. Macroeconomic data also exceeded expectations, contributing to improved sentiment. Real GDP grew at an annualized rate of +4.3%, driven in part by a stronger than forecast +3.5% increase in consumer spending. Payrolls were a relative bright spot amid the broader labor market softening theme with the three-month moving average hitting a six-month high in November.

European equities gained (+5.92% for the quarter and +35.08% in the year as measured by the MSCI Europe IMI). Performance was supported by improving investor sentiment and asset reallocation toward European equities, driven by expectations of a more constructive macroeconomic backdrop heading into 2026. Inflationary pressures eased to 2%, matching the European Central Bank's target, driven largely by falling energy prices. As expected, the ECB kept policy rates unchanged in December. Additionally, the ECB revised the real GDP growth forecast for the eurozone to 1.4% for the full year 2025, up from its previous estimate of 1.2%, further boosting sentiment.

Emerging markets continued to advance during the period (+4.31% for the quarter and +31.38% in the year as measured by the MSCI EM IMI) led by technology-heavy markets of Korea and Taiwan. In contrast, Chinese equities declined in the quarter following a strong year (-7.71% for the quarter and +31.47% in the year as measured by MSCI China IMI) in part due to profit taking as well as ongoing concerns surrounding the property. Latin America delivered strong results (+7.26% for the quarter and 53.84% in the year as measured by the MSCI EM Latin America IMI) supported by broad-based regional strength. EMEA was also positive (+3.79% for the quarter and 28.89% in the year as measured by the MSCI EM EMEA IMI), aided by continued strength from South Africa.

Performance

The William Blair International Leaders ADR SMA Strategy (net of fees) underperformed its benchmark, the MSCI ACWI ex US IMI index during the fourth quarter.

Relative performance was primarily driven by stock selection in consumer discretionary, information technology, and financials. Within consumer discretionary, weakness in e-commerce, including Sea Limited and MercadoLibre, and Ferrari were the primary detractors. Sea Limited operates across e-commerce, digital financial services, and digital entertainment, through its apps Shopee, SeaMoney, and Garena, respectively. While Sea has been a strong year-to-date performer, along with consumer internet platforms benefiting from AI integration, it underperformed on profit-taking and valuation pressure on an earnings miss, despite high revenue growth in the fourth quarter on lower margins from e-commerce shipping subsidies. MercadoLibre, the leading e-commerce platform in Latin America, combines logistics, payments, and retail into a best-in-class ecosystem. MercadoLibre's shares were pressured by continued elevated investment and competitive intensity, which compressed margins and dampened investor sentiment. Luxury automaker Ferrari has underperformed on what we believe is poor communication regarding the rollout of its first fully electric vehicle and lower-than-expected sales, and a conservative decrease in margin guidance as the company had experienced a boom in high-margin customization additions to its limited volume. While we view the brand as one of the strongest globally, we are monitoring management's execution.

Within IT, stock selection was primarily negative on the omission of South Korean IT hardware companies SK Hynix and Samsung, which do not offer an ADR. The stocks appreciated in the period on expectations for continued demand from AI hyperscalers for leading-edge semiconductors and memory chips, despite weakness in the overall AI thematic.

Consumer weakness also played a role in financials underperformance where 3i Group, is a U.K.-based private equity and infrastructure investment firm, underperformed on its primary asset, discount retailer Action. The stock was down in the fourth quarter on weak same-store sales on consumer weakness in France. The stock de-rated meaningfully as it was broadly held and had been a strong performer in recent years. We continue to hold our position, as we view it as an opportunity to hold Costco 20 years ago and see significant upside as Action considers a U.S. expansion, where we believe it could disrupt the discount retail market. This was offset by strong performance within European banks including Barclays and Banco Bilbao Vizcaya Argentaria (BBVA). Barclays is a U.K.-based global universal bank with major businesses in consumer, corporate, and investment banking with a strong presence in the U.K. and the U.S.

A strong management team has embarked on a new business plan to dispose of non-core assets and focus on the core lending and investment banking divisions which has returned the business to the top tier of quality banks globally. We believe the investment bank is underappreciated, given that a high portion of revenue is recurring with upside potential from stronger deal flow. BBVA is a leading Spanish banking group with strong positions in retail and commercial banking across Spain, Mexico, and South America. The company benefits from structural growth in emerging markets and has demonstrated disciplined risk management and solid capital ratios. The stock appreciated on the tailwind of a steepening yield curve but outperformed many of its peers through exceptional fundamentals, including record profits driven by its digital transformation efforts, which drove an interim dividend and increased share buybacks. Barclays, which was purchased in the period, also appreciated on macro tailwinds for European banks and strong earnings growth momentum in the core divisions including U.K. corporate lending and mortgages that are fundamental to our thesis.

Relative performance was also offset by stock selection in healthcare, including exposure to Sandoz Group, and regional allocation on underweights to EM and DM Asia including Japan in favor of European and U.K. positioning. Sandoz, which was spun out of Novartis in 2023, is a global leader in off-patent medicines spanning generics and biosimilars. The stock appreciated on a combination of an announced agreement and strong fundamental results including 12% organic growth in biosimilars, which now make up 30% of sales, with a strong pipeline for launches in the next fiscal quarter. Sandoz announced an agreement with EirGenix to gain exclusive rights to commercialize biosimilar pertuzumab worldwide with expected sales of over $4 billion. This deal helps address concerns of an air pocket in the stock following a period of successful launches in 2025 and a strong pipeline to begin 2026. Although recent results modestly missed expectations, management reaffirmed full-year guidance, signaling confidence in second-half performance. Multiple biosimilar launches are expected later this year, and the firm remains focused on expanding EBITDA margins through sales mix optimization, network streamlining, and continued transformation efforts.

Positioning

During the quarter, there was a notable increase in healthcare exposure primarily through purchases of Argenx and Galderma. Argenx develops biologic drugs used to treat rare diseases caused by the immune system attacking the body where unmet needs are high. Argenx has an FcRn inhibitor (Vyvgart) that is shown to have higher efficacy, better tolerability, longer duration, and better delivery versus the current standard of care, and has ~25%-50% share depending on the disease. Vyvgart is commercialized for two indications and is approved for a third indication in Japan (U.S. Phase III trials underway), and we expect it to expand into four additional indications over the next three years, with multiple Phase III readouts in 2026. Argenx has the highest return on research capital among global mid and large-cap companies and has a pipeline of other earlier-stage treatments. The strength of the expected approval pipeline and superiority to existing treatments drives our expectations of expanding sales and margins on the better scaling of the cost base. Galderma is a global leader in dermatology across multiple channels, including therapeutic, a broad aesthetics portfolio, and an OTC dermatology branded-skincare line, Cetaphil. Galderma has the most complete portfolios across aesthetics with the most advanced long-acting Botox products in Dysport, fillers, and biostimulators, which provide a one-stop shop for the growing medical spa/esthetician market where it has the leading position globally. Galderma's key driver of growth and competitive edge is its commercial strength allowing for broad and deep penetration across multiple markets. The company outsources its R&D to partners, which allows it to cap R&D spend and for significant operating leverage and margin expansion. While it trades at a premium multiple, we see the growth and margin expansion opportunities unmatched in healthcare, with defensive characteristics that help insulate Galderma in a potential macro slowdown.

These purchases were offset by reductions to consumer positioning, financials, and Japanese exposure. Consumer exposure was reduced through the sale of Unilever in staples and Pan Pacific in discretionary. Unilever is the 10th-largest global consumer staples company with over 400 brands. A new CEO was put in place in 2023, and we expected his growth action plan to drive stronger performance in the years ahead by leveraging the company's strong brand portfolio and distribution and cost advantages. The position was exited in favor of other opportunities as the turnaround hasn't increased earnings power to the levels we expected, and on broad weakness in consumer demand globally. Additionally, a coming spin-off of the ice cream business increased risk of near-term underperformance. Pan Pacific is a Japanese holding company that operates retail stores under three main segments: domestic discount stores including flagship Don Quijote, domestic general merchandise in its Apita format, and a smaller overseas business. We view the company as a stable earnings compounder with potential upside from a rebound in tourism and increased operational efficiencies, but the position was exited following a period of strong performance as we saw additional upside as limited.

In financials we exited Tokio Marine Holdings, which is one of the world's largest and longest-standing insurance organizations providing property, casualty, life, reinsurance, and related financial services globally. The position was sold as we looked to reduce insurance exposure in the portfolio in favor of other opportunities including Barclays.

Outlook

In many ways we expect 2026 to be a continuation of 2025. In terms of growth and returns, the U.S. will no longer be the only game in town, as it was in the 2010s. We believe we are now clearly in a new investment regime, one we have dubbed as "the revenge of the tangibles" which embodies a confluence of developments that we expect to continue for the next several years. The global economy has reentered a building phase, building out artificial intelligence capabilities, energy and other physical infrastructure, and national defense. This comes as we're moving from a unipolar world order with the U.S. as the undisputed No. 1, to a multipolar one with China on the ascent and a broad response to "America First" policies that is effectively leading to more national and regional supply chains around the globe.

Investment regimes can be long in duration, with the previous building regime lasting from the mid-1990's through the mid-2000s, right before the global financial crisis (GFC) when fiber optic cable was being laid around the Earth's surface and under the oceans, and mobile telephony technology and infrastructure were being updated

from voice to digital. The second large force was China leveraging its newfound export economy to build and completely modernize its urban housing stock and infrastructure. That period of building gave rise to the most recent regime, the harvesting of that buildout which includes the rise of social media, e-commerce platforms, ride-share platforms, and streaming platforms—anything that required or was enabled by the buildout of the internet as we know it today.

Every couple of decades, the world is due for a renewed building cycle, and we believe we are now in the midst of one. AI is now being commercialized and is likely to bring meaningful efficiency gains to virtually every type of business. This will require vast numbers of data centers around the world, increased compute power (semiconductors and hardware), and a lot more electricity than our relatively outdated grids can produce. Simultaneously, geopolitics are pointing to a broader thematic of localization led by the U.S. The response from allies and adversaries alike has been a recognized need for domestic or regional supply chains and upgraded national security which has taken on a "do it yourself" mentality and is driving up defense investment globally.

This response drives stronger and broader national growth around the world:

> In Europe, it means investing in national and pan-European physical and digital energy infrastructure, as well as removing barriers to trading within the bloc. Entrepreneurship has increased; the continent's highly skilled and increasingly entrepreneurial labor force has been generating more start-ups than the U.S. in each of the last five years . What is needed is domestically generated financial capital, which the European Commission already identified earlier in 2025. Change in Europe tends to be slow, but the continent is undeniably moving toward incentivizing more growth after years of focus on fiscal austerity. Germany, the single-largest economy within the Euro Area, abandoned its decades-old, self-imposed fiscal austerity in favor of investing in national infrastructure and defense. Although the size of the fund at €500 billion relative to Germany's €4.5 trillion economy is enormous, the infrastructure upgrade is urgently needed. The fiscal multiplier from this spending is likely to be significantly in excess of 1, meaning that for every €1 spent, the returns to the economy will be several times higher. Much of the government funds in Germany and elsewhere in Europe are increasingly likely to be spent purchasing from domestic producers: "Made in Europe" is now an explicit policy aim across the continent.
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> China today is either at the forefront or rapidly moving to the forefront of virtually every new technology and innovation imaginable, including AI, nuclear power, humanoid robots, autonomous mobility, and biotech. This comes with a more services driven domestic consumption, as China moves up the GDP per capita scale. The government is beginning to embrace this, removing impediments protecting local champions and allowing sector and industry consolidation, such that the winners can earn attractive margins. While housing will remain an impediment to consumer spending in 2026, the government is cleaning up its balance sheet, and local government financing vehicles are scheduled to be wound down by June 2027.
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> For other emerging markets, there are echoes of the previous building cycle, which means supplying more of the commodities necessary to build out AI and physical infrastructure.
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> Increased spending on defense is global phenomenon, building out and in many cases duplicating national defense capabilities using the most modern technologies available. Military supremacy is no longer about tanks and brawn, but about drones and low-Earth-orbit-enabled satellite connectivity; it is about autonomous systems, both defensive and offensive and the ability to leverage leading technology including AI. Spending and technological evolution is happening across regions, in Europe, as well as in the Asia-Pacific in Australia, Japan, South Korea, and China. This is not to say that U.S. and rest of the western hemisphere won't participate in this. Indeed, they are, and in many cases, they are still leading.

As quality growth investors, a regime shift and return to tangible assets requires an embrace of that dynamic and a focus on the rate of change of improvement along with the overall level of quality and growth. If an indicator of quality is the return on a business's invested capital, tangible companies have a larger capital base and may appear less attractive from a quality perspective on the combination of that larger base and a prolonged period of lower growth. However, investing in equities is all about the rate of change in the improvement. And so, the improvement in quality could be extraordinarily rewarding, in terms of generating return, and that growth often leads the improvement in quality and the subsequent improvement in the return on invested capital, a combination that can result in attractive returns.

For example, banks in Europe have not earned an attractive return since the GFC. This is in part because central banks forced conservative capital allocation policies as a response to the economic damage done. Now that penance appears to have been paid, banks were among best performing areas of the market last year in Europe. Why? It's in part because of the changes that banks have been allowed to make to generate a more attractive return. They've been allowed to merge buy back stock, and produce rates of growth that are much higher than we saw in the previous regime.

In summary, the world is evolving to a new phase of building. This revenge of the tangibles will drive a broadening of growth across industries and regions. More growth from more places means more investment opportunities from basically every corner of the globe, and a broadening of returns outside the U.S. from the narrow digital services leadership regime we have seen since the early 2010s. We as quality growth investors are embracing that opportunity, broadening our aperture and focusing on the rate of change of improvement.

International Leaders ADR SMA Strategy

Fourth Quarter 2025

Composite Performance (%)	Qtr	YTD	1 Yr	Annualized 3 Yr	5 Yr	10 Yr	Since Inception (Jan 1 03)
International Leaders ADR SMA (Gross of fees)	**0.80**	**20.43**	**20.43**	**12.88**	**3.23**	**7.60**	**7.95**
International Leaders ADR SMA (Net of fees)	**0.05**	**16.92**	**16.92**	**9.57**	**0.18**	**4.44**	**4.78**
MSCI AC World ex-US IMI Index	4.76	31.96	31.96	17.10	7.77	8.37	8.29
MSCI EAFE Index	4.86	31.22	31.22	17.22	8.92	8.18	7.78

https://williamblair.com/~/media/Downloads/IM/Composite_Disclosures.pdf

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Index

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