

International Equity Series

Primary Shares: TFEQX Service Shares: TFESX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** The MSCI All Country World Index of stocks generated positive returns in US-dollar terms for the second quarter of 2025. Emerging market equities outperformed developed market equities, while global growth stocks outperformed global value stocks.
- **Detractors:** Stock selection in the energy, health care and communication services sectors, as well as an overweight in energy, detracted from performance relative to the MSCI All Country World ex-US Index-NR for the second quarter of 2025.
- **Contributors:** An underweight in the consumer staples sector contributed to relative performance.
- **Outlook:** Our approach prioritizes long-term quality, consistency and compounding, even when it occasionally results in short-term underperformance relative to the fund's benchmark. As always, our primary focus remains on constructing resilient portfolios that we believe can deliver compelling returns through full market cycles.

Performance Review

- The second quarter of 2025 began with US President Donald Trump's early April announcement of "reciprocal" tariffs that were more severe than expected, leading to significant financial market volatility. However, global trade tensions subsequently eased as the United States delayed planned tariff hikes, reducing investor fears of a global recession. The onset of the Israel-Iran conflict in mid-June had minimal impact on global equity markets, although oil price volatility briefly rose due to concerns of a broadening conflict. Against this backdrop, the MSCI All Country World Index of stocks generated positive returns in US-dollar terms as nine out of the 11 global equity sectors advanced, led by the information technology, communication services and industrials sectors. Emerging market equities outperformed developed market equities, while global growth stocks outperformed global value stocks.
- Stock selection in the energy, health care and communication services sectors, as well as an overweight in energy, detracted from performance relative to the MSCI All Country World ex-US Index-NR for the second quarter of 2025.
- China-based Alibaba Group Holding, a multinational company specializing in e-commerce, retail, internet and technology, was a significant detractor for the quarter. We view the stock as a proxy for China's consumption. We believe Alibaba should benefit from improved management execution in regrowing both its domestic e-commerce and cloud businesses. Additionally, management has committed itself to significantly growing shareholder returns over fiscal years 2025 through 2027.
- An underweight in the consumer staples sector contributed to relative performance for the quarter.
- JD Sports Fashion, a leading athletic retailer with a dominant UK business and a growing US and European presence, was a significant relative contributor for the quarter. Its valuation continues to look appealing to us compared to our expectations of earnings growth as the company expands in the United States and Europe.
- Geographically, stock selection in the eurozone was the largest detractor from relative performance for the quarter. Stock selection and an underweight in Japan contributed to relative results.

Outlook

- The strong performance of global equities in the second quarter was largely unexpected, particularly given the turbulent start following Trump's April 2 tariff announcements. Like many investors, we could not have predicted such an outcome. However, we believe we effectively leveraged sharp shifts in market sentiment and our analysis of company valuations as a result of our long-term investment approach and focus on resilient businesses.
- Looking ahead, we maintain a positive outlook on the earnings trajectories of our holdings. Solid near- and long-term earnings growth expectations are supported by secular themes such as artificial intelligence adoption and bank deregulation, strong pricing power, favorable shifts in business mix, and cyclical recoveries in selected markets. We believe this anticipated growth is tangible and increasingly evident through expanding order books, profit-margin enhancements and reinvestment strategies.
- Importantly, our aim is not solely to participate in equity market uptrends but also to mitigate downside risks. In our view, many lower-quality businesses appearing "inexpensive" carry hidden vulnerabilities, including poor capital allocation, structural inefficiencies, or sensitivity to market sentiment and execution missteps. Our approach prioritizes long-term quality, consistency and compounding, even when it occasionally results in short-term underperformance relative to the fund's benchmark.
- As always, our primary focus remains on constructing resilient portfolios that we believe can deliver compelling returns through full market cycles.

Morningstar Rating™

Overall Rating as of June 30, 2025



**(4-Star) Primary
Shares**
**(3-Star) Service
Shares**

As of 06/30/2025 the fund's Primary Shares shares received a 4 star and Service Shares shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 339, 320 and 235 Foreign Large Value funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Top Equity Issuers (% of Total)

Holding	Fund
DEUTSCHE TELEKOM AG	3.70
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	2.91
MIZUHO FINANCIAL GROUP INC	2.87
STANDARD CHARTERED PLC	2.78
MITSUBISHI ELECTRIC CORP	2.77
ROYAL BANK OF CANADA	2.50
SANOFI SA	2.36
SHELL PLC	2.33
EBARA CORP	2.32
ING GROEP NV	2.28

Sector Allocation (% of Total)

Sector	Fund
Financials	19.36
Industrials	16.59
Information Technology	10.63
Health Care	8.63
Energy	8.30
Consumer Discretionary	7.95
Materials	7.86
Communication Services	4.90
Other	5.73
Cash & Cash Equivalents	10.06

Average annual total returns and fund expenses (%) - as of June 30, 2025

Class	CUSIP	Ticker	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross Expenses	Net Expenses	Inception Date
Primary Shares	880210505	TFEQX	11.57	20.98	20.98	20.64	19.03	13.90	5.89	7.66	1.03	0.98	10/18/1990
Service Shares	880210869	TFESX	11.47	20.78	20.78	20.30	18.90	13.74	5.73	4.72	1.25	1.20	9/18/2006
Benchmark 1	—	—	12.03	17.90	17.90	17.72	13.99	10.13	6.12	—	—	—	—
Benchmark 2	—	—	11.78	19.45	19.45	17.73	15.96	11.16	6.51	—	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=MSCI All Country World ex US Index-NR

Benchmark 2=MSCI EAFE Index-NR

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com. Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 04/30/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

What are the Risks?

All investments involve risks, including possible loss of principal. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. To the extent the fund invests in companies in a specific **country or region**, the fund may experience greater volatility than a fund that is more broadly diversified geographically. The **investment style** may become out of favor, which may have a negative impact on performance. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Glossary

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

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Morningstar Rating™: Source: Morningstar®, 06/30/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Primary Shares shares received a Morningstar Rating of 4, 4 and 3 and fund's Service Shares shares received a Morningstar Rating of 4, 3 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Primary Shares and Service Shares shares only. Other share classes may have different Morningstar ratings.

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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.