



## Product Commentary

## Performance Review

- Chinese equities advanced during the first quarter of 2025 on the back of continued stimulus measures from regulatory authorities. The China 2025 Government Work Report's focus on technology was viewed by many investors as a sign of support, which sent technology-related stocks higher. The Chinese government's plans to boost consumption across a multitude of sectors were also revealed.
- For the quarter, the fund returned 10.80% at NAV, while the benchmark, the MSCI China All Shares Index-NR, returned 9.22%.

## QUARTERLY KEY PERFORMANCE DRIVERS

- Smartphone and consumer electronics maker Xiaomi's shares rose amid investor optimism over the launch of the new models of its premium electric vehicle (EV); furthermore, the company benefited from the rally in Chinese technology stocks. Xiaomi has made progress with its EV segment, thereby adding to its brand power.
- Alibaba Group Holding is a Chinese e-commerce company that provides brands and merchants with the infrastructure to acquire and sell to customers online. Its share price rose following its earnings results announcement for the December quarter and its optimism and commitment to invest in artificial intelligence (AI). Its earnings increased, resulting from a rebound in its core online retail business and rapid expansion in AI-driven cloud services.
- New Oriental Education & Technology Group is a private education company in China offering education programs, test preparation courses and educational literature. Its share price fell after it released financial results for the quarter ended 30 November 2024 that was lower than consensus expectations and provided a conservative profit guidance for the subsequent quarter.

## Outlook &amp; Strategy

- The imposition of US tariffs on Chinese goods has dominated recent headlines. However, the Chinese economy has been preparing for tariffs since the first trade war during US President Donald Trump's first term, and we think that China is thus relatively better prepared compared to other economies. China also has a large domestic market, providing the country with more scope to offset trade slowdowns through monetary measures and fiscal policy. That said, we are cognizant that it will be more challenging for China to negotiate a deal with the United States as there are multiple issues outside of trade—such as national security and technology transfer—that need to be addressed as well.
- Recent measures underline policymakers' commitment to manage troubles in the real estate market and to boost domestic consumption. Combined with interest-rate cuts and other stimulus efforts, the shift in policy makes us optimistic about economic growth going forward. We remain hopeful that China will continue to roll out progressive policies to support domestic industries, and we continue to prefer companies that cater to the needs of domestic consumers.
- China's economic outlook remains challenging, and concerns about China's economic recovery continue to linger. We believe that the shares of select China-based companies have been oversold due to weak investor sentiment and that fundamentals remain generally strong. In our view, corporate earnings recovery and the central bank's monetary easing are two factors that should aid equity returns. Generally healthy corporate and household balance sheets should also help to boost equities, along with evidence that interest rates have peaked. Although risks such as geopolitical tensions remain, we are of the view that positive fundamental factors should continue to drive long-term returns.
- Taking a long-term view, we believe the valuations of Chinese equities remain attractive. Over the past few years, Chinese stocks have faced significant pressure and have been largely overlooked by investors. However, the pivot in the government's policy support appears to have sparked a notable shift in investor sentiment, which is evident among both domestic and foreign investors. In addition to boosting market confidence, the policy support has also led many investors to re-evaluate the growth potential of Chinese companies. Valuations, which had been largely suppressed, in our view, are now being reassessed, with many investors recognizing the underlying value and growth prospects of certain companies.
- Despite the continuing volatility, we believe market sentiment towards China has clearly improved. That said, we still approach investing with a well-rounded perspective. We remain cognizant of the key risks in the fund's investment universe, and we are keeping a close eye on geopolitical tensions and government policies. We abide by our bottom-up investment approach and leverage our on-the-ground presence and extensive network for a balanced view. This network goes beyond just companies, channel checks and independent research providers. We continue to keep a watchful eye on changes in the investment environment to identify opportunities.

## Product Details

Inception Date	09/20/1994
Benchmark	MSCI China All Shares Index-NR
Ticker	TDF
CUSIP	88018T101

## Product Description

The fund seeks long-term capital appreciation by investing at least 45% of its total assets in the equity securities of Chinese companies.

## Performance Data

### Average Annual Total Returns<sup>1</sup> (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception (09/20/1994)
Templeton Dragon Fund Inc (NAV Returns) <sup>a</sup>	2.32	10.80	25.65	-4.82	-1.80	0.83	6.99
Templeton Dragon Fund Inc (Market Price Return) <sup>a</sup>	4.14	15.42	26.53	-6.10	-1.40	1.54	7.67
MSCI China All Shares Index- NR	1.39	9.22	28.47	0.07	2.07	0.97	-

**Performance shown represents past performance and is no guarantee of future results.** Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. When applicable, performance would have been lower if fees had not been waived in various periods. The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the fund's portfolio. Index data is provided for comparison purposes only. The fund is not managed against an index. Returns for periods of less than one year are not annualized. Please visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.

The total annual operating expenses are as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. **NAV** is total assets less total liabilities divided by the number of shares outstanding. **Market Price**, determined by supply and demand, is the price an investor purchases or sells the fund. The Market Price may differ from a fund's NAV. **Premium / Discount** reflects the difference between the NAV and the Market Price of the fund, and represents the amount that the fund is trading above or below its NAV, expressed as a percentage of the NAV.

Net Returns (NR) include income net of tax withholding when dividends are paid. The **MSCI China All Shares Index-NR** captures large- and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips, P-chips and foreign listings (e.g., ADRs). The index aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. 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.

## Portfolio Diversification

### Top Equity Issuers

% of Total	%
<b>Top Holdings</b>	
TENCENT HOLDINGS LTD	10.91
ALIBABA GROUP HOLDING LTD	8.29
CHINA CONSTRUCTION BANK CORP	5.26
XIAOMI CORP	4.96
MEITUAN	3.91
FOCUS MEDIA INFORMATION TECHNOLOGY CO LTD	3.44
TRIP.COM GROUP LTD	3.35
BYD CO LTD	3.25
FUYAO GLASS INDUSTRY GROUP CO LTD	3.07
INSTITUTIONAL FIDUCIARY TRUST - MONEY MARKET PORTF	3.03

## Investment Team

**Nicholas Chui, CFA**  
Years with Firm 1  
Years Experience 15

**Eric Mok, CFA**  
Years with Firm 26  
Years Experience 26

**Tony Sun**  
Years with Firm 5  
Years Experience 10

1. Periods shorter than one year are shown as cumulative total returns.

## 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**. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Hong Kong and Taiwan could be adversely affected by its political and economic relationship with China. 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 portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. The managers' **environmental social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance.

## Important Legal 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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**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](http://www.franklintempleton.com). Please read it carefully.**

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a. Gross expenses are the fund's total annual operating expenses as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect voluntary fee waivers, expense caps and/or reimbursements. Voluntary waivers may be modified or discontinued at any time without notice.

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