FRANKLIN TEMPLETON

Templeton Dragon Fund Inc

TDF | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Chinese equities fell for the third quarter of 2026, but performance across sectors diverged.
- **Detractors:** The fund underperformed its benchmark, the MSCI China All Shares Index, for the quarter, primarily due to stock selection and an underweight in Information Technology and stock selection in Health Care and Industrials.
- **Contributors:** Stock selection in Materials, Consumer Discretionary and Consumer Staples contributed to relative performance for the quarter.
- **Outlook:** We believe that Chinese equities have the potential to outperform further. With an improving earnings outlook and attractive valuations, we believe the risk to reward ratio tilts to the upside.

Performance Review

- Chinese equities fell for the third quarter of 2026, but performance across sectors diverged. State-backed interventions in the equity market helped to support returns. However, there was a downturn towards the end of the period. The country's recapitalization plan impacted the share prices of banks and insurers. The lack of a major breakthrough in US-China talks also weighed on Chinese equities.
- The fund underperformed its benchmark, the MSCI China All Shares Index, for the quarter, primarily due to stock selection and an underweight in Information Technology and stock selection in Health Care and Industrials.
- GigaDevice Semiconductor, a fabless semiconductor supplier that provides microcontrollers (MCUs), flash, sensor and analog products, was the top relative detractor for the period. Its shares slumped after a six-month lockup expired, allowing some previously restricted shares to be traded.
- Stock selection in Materials, Consumer Discretionary and Consumer Staples contributed to relative performance for the quarter.
- Zijin Gold International, a gold exploration, mining and processing company that produces gold ingots, alloys and concentrates, was the strongest relative contributor during the period as its share price benefitted from several catalysts this quarter, including strong first-half results, and subsequently in a sectoral movement in Asian gold stocks. The exceptional results were driven by increased gold production and higher gold prices, with costs remaining well under control despite inflation, adverse weather and higher energy prices. At the company level, it ranks among the lowest-cost producers globally, and has a solid track record of volume growth and cost optimization.

Outlook

- We believe that Chinese equities have the potential to outperform further. China's recent focus on artificial intelligence means that other potential growth areas are being neglected. We see this in pockets of consumption. While beaten down, these areas are facing earnings growth of 5% to 10%.
- Consumption also remains the object of policy support. Besides domestic issues, China is also keen to improve foreign relations. Exports continue to be an optionality, especially with the strengthening of the Chinese renminbi.
- Valuations of Chinese companies are still attractive. However, earnings growth is a key component of further gains. 2027's earnings growth is expected to hover around 13%. With an improving earnings outlook and attractive valuations, we believe the risk to reward ratio tilts to the upside.

Top Equity Issuers (Equity as a % of Total)

	Fund
TENCENT HOLDINGS LTD	9.22
ALIBABA GROUP HOLDING LTD	8.85
MIDEA GROUP CO LTD	6.66
CHINA CONSTRUCTION BANK CORP	5.86
ZIJIN GOLD INTERNATIONAL CO LTD	5.27
JOYY INC	3.13
CONTEMPORARY AMPEREX TECHNOLOGY CO LTD	3.10
PING AN INSURANCE GROUP CO OF CHINA LTD	2.96
CMOC GROUP LTD	2.47
MUYUAN FOODS GROUP CO LTD	2.40

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026

Product	Ticker	Listed Exchange	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Inception Date
Market Price Return	TDF	NYSE	-9.18	-5.51	-10.13	-12.40	7.66	-7.95	2.76	7.53	9/20/1994
NAV Returns	—	—	-7.78	-3.35	-8.03	-11.40	7.26	-6.77	2.30	6.89	9/20/1994
Benchmark	—	—	-2.81	-1.28	-7.72	-11.62	10.02	-1.82	3.62	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =MSCI China All Shares Index-NR

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. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expense or sales charges. Returns for periods of less than one year are not annualized. Please visit franklintempleton.com for the most recent month-end performance.*

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 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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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.

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