

Templeton Dragon Fund Inc

TDF

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Chinese equities bore some losses during the first quarter of 2026. China's internet companies saw sentiment hit a low point amid investor concerns over valuations as growing competition squeezed profits. Chinese AI stocks experienced a brief rally on the adoption of open-source AI agent OpenClaw. This exuberance spilled over to internet companies as they integrated the AI agent into their user platforms but was short-lived as potential security concerns arose.
- **Contributors:** Stock selection in the information technology, industrials and health care sectors were accretive to returns relative to the benchmark MSCI China All Shares Index-NR.
- **Detractors:** Stock selection in the materials sector and allocations to the financials (overweight) and energy (underweight) sectors were relative detractors.
- **Outlook:** Taking a long-term view, we believe that 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 government's pivot in policy support appears to have sparked a notable shift in investor sentiment, which is evident among both domestic and foreign investors.

Performance Review

- Wasion Group Holdings is principally engaged in the development and manufacturing of meters such as electronic energy, gas and water meters. Its share price jumped on the announcement of a proposed spinoff and separate listing of Wayon Energy, a non-wholly-owned subsidiary of Wasion. The inclusion of Wasion as a constituent stock of the Hang Seng Index, along with a profit jump in 2025 from a year ago, were also beneficial to its stock price. Rising energy demand, together with the dual carbon policy, continues to drive global demand for highly efficient power management. We believe Wasion's undemanding valuations and its entry into a new product area—coolant distribution systems—mean that there are multiple growth avenues for the company.
- Harbin Electric is a manufacturer of power generation equipment. Its share price rose on the company's positive profit forecast for 2025. Harbin Electric is strategically positioned within China's energy transition plans, leveraging its legacy in coal-fired equipment while expanding into nuclear, hydro, and clean technologies. In addition, we believe Harbin Electric offers a valuation discount relative to its peers, making it an attractive play on China's long-term energy infrastructure growth.
- BYD (not held at period-end) is a leading electric vehicle (EV) and battery manufacturer in China. An underweight allocation to BYD was a relative detractor as its share price has risen recently. Many investors had turned more optimistic after the company showcased major technological upgrades in its batteries and ultra-fast charging systems, reinforcing confidence in its long-term EV competitiveness.

Outlook

- The most recent National People's Congress has reinforced domestic consumption as a key area of support. Climate change was also another topic that received more airtime. We think these will likely be the targets of reforms as the year unfolds.
- What we found interesting was that the country's gross domestic product growth was set at 4.5% to 5%, a departure from previous years' target of "around 5%." While this could be interpreted negatively as slowing growth, we believe that this was eventually going to happen at some point.
- Taking a long-term view, we believe that 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 government's pivot in 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, investors are also re-evaluating the growth potential of Chinese companies. Valuations, which had been suppressed, are now being reassessed, with many investors recognizing the underlying value and growth prospects.
- Despite the continuing volatility, we believe market sentiment toward China has improved. That said, we still approach investing with a well-rounded perspective. We remain cognizant of the key risks in our 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 as we seek to identify opportunities.

Top Equity Issuers (Equity as a % of Total)

	Fund
TENCENT HOLDINGS LTD	9.74
ALIBABA GROUP HOLDING LTD	8.00
ZIJIN GOLD INTERNATIONAL CO LTD	6.30
WUS PRINTED CIRCUIT KUNSHAN CO LTD	4.92
ZHONGJI INNOLIGHT CO LTD	3.90
FRANKLIN INSTITUTIONAL U.S. GOVERNMENT MONEY MARKE	3.63
CONTEMPORARY AMPEREX TECHNOLOGY CO LTD	2.84
PING AN INSURANCE GROUP CO OF CHINA LTD	2.80
WASION GROUP HOLDINGS LTD	2.62
CMOC GROUP LTD	2.56

Average annual total returns (%) - as of March 31, 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	-4.89	-7.28	-4.89	13.41	2.12	-9.63	4.51	7.84	9/20/1994
NAV Returns	—	—	-4.84	-8.33	-4.84	11.37	1.64	-8.24	3.65	7.12	9/20/1994
Benchmark	—	—	-6.52	-10.47	-6.52	10.36	5.73	-3.47	4.49	—	—

*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.

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.

Distribution Rate is calculated by annualizing the most recent distribution amount paid, divided by the closing market price or NAV as of the date indicated. The Distribution Rate calculation includes income, may include return of capital and excludes special distributions. The Distribution Rate is subject to change and is not guaranteed nor a quotation of fund 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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Net Returns (NR) include income net of tax withholding when dividends are paid. 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.

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