

# Templeton Dragon Fund Inc.

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** Chinese equities advanced for the second quarter of 2025. A framework agreement covering tariff rates between China and the United States has reduced some uncertainties. China also released support measures and eased monetary policy; this included reducing its benchmark lending rates.
- **Contributors:** Stock selection in the information technology, consumer staples and energy sectors sent them to contributor status against the benchmark. An underweight allocation in consumer staples was also accretive to relative strength.
- **Detractors:** Stock selection in the financials sector, together with underweight allocations in the materials and health care sectors, sent these sectors to detractor status on a relative basis.
- **Outlook:** The notable easing of trade policy tensions in China does not completely erase the uncertainties. We believe that China is likely to continue with its policy support to lift its domestic sector and bolster its equity market—the latter includes encouraging more domestic institutions to redirect their capital to equity markets. While these measures provide some encouragement to the investment backdrop in China, we prefer to focus our Chinese exposure on domestically oriented companies to potentially reap the benefits of policy support and to provide some buffer against external uncertainties.

## Performance Review

- China Construction Bank is a major state-owned commercial bank. Its share price swung upwards alongside a general rally in Chinese bank stocks due to their dividend payouts amid sliding government bond yields. This has led insurance companies to allocate more assets into banking stocks.
- Xiaomi is a China-based consumer electronics, software and hardware designer. A record first-quarter 2025 revenue and strong orders for the company's new sport utility vehicle despite a crowded electric vehicle (EV) market sent its stock price higher. The company has made progress with its EV segment, thereby adding to its brand power.
- Meituan is a Chinese technology retail company that operates a web-based shopping platform for local consumer products and retail services, with a focus on food delivery. Intensifying competition in China's food delivery space accompanied share price pressures from a sector-wide decline due to geopolitical tensions between China and the United States. We believe that, in the long term, Meituan's business should not be significantly impacted given its status as a dominant player and due to other growth drivers for the company. However, until more clarity emerges on the competitive landscape, we believe that its stock price may experience some volatility during the next couple of quarters.

## Outlook

- The notable easing of trade policy tensions in China does not completely erase the uncertainties. We believe that China is likely to continue with its policy support to lift its domestic sector and bolster its equity market—the latter includes encouraging more domestic institutions to redirect their capital to equity markets. While these measures provide some encouragement to the investment backdrop in China, we prefer to focus our Chinese exposure on domestically oriented companies to potentially reap the benefits of policy support and to provide some buffer against external uncertainties.
- China's economic outlook remains challenging, and concerns about China's economic recovery continue to linger. We believe that select China-based companies have been oversold due to weak investor sentiment, and that fundamentals remain strong. In our view, earnings recovery and monetary easing are two factors likely to support 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, the valuations of Chinese equities remain appealing to us. Over the past few years, Chinese stocks have faced significant pressure and have been largely overlooked by investors. However, the 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 reevaluating 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 ongoing 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 to identify opportunities.

## Top Equity Issuers (Equity as a % of Total)

	Fund
TENCENT HOLDINGS LTD	10.49
ALIBABA GROUP HOLDING LTD	7.90
XIAOMI CORP	5.82
CHINA CONSTRUCTION BANK CORP	5.64
SF HOLDING CO LTD	3.26
CHINA MERCHANTS BANK CO LTD	3.15
TRIP.COM GROUP LTD	3.10
MEITUAN	3.05
CHINA YANGTZE POWER CO LTD	2.99
FUYAO GLASS INDUSTRY GROUP CO LTD	2.98

## Sector Allocation (% of Total)

	Fund
Consumer Discretionary	29.63
Financials	16.56
Communication Services	14.81
Information Technology	10.08
Industrials	9.11
Consumer Staples	7.86
Health Care	3.68
Utilities	2.99
Other	4.73
Cash & Cash Equivalents	0.54

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

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	4.02	20.06	20.06	28.98	-6.84	-3.91	1.96	7.74	9/20/1994
NAV Returns	—	—	2.81	13.91	13.91	26.85	-6.00	-5.22	0.63	7.02	9/20/1994
Benchmark	—	—	2.33	11.77	11.77	27.18	-0.12	-0.37	0.32	—	—

\*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](http://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.

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. 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. Net Returns (NR) include income net of tax withholding when dividends are paid.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

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