

Templeton Dragon Fund Inc

Commentary | as of September 30, 2025

Key Takeaways

- Markets: Chinese equities collectively continued their ascent during the third quarter of 2025. A technology rally
 unfolded in China, as technology-related companies reported artificial intelligence (Al) product rollouts, fostering
 confidence in these companies' expenditure on Al. Chinese semiconductor firms benefitted from the government's
 intent to strengthen its domestic semiconductor industry.
- Contributors: Stock selection in the financials sector and underweight allocations in the utilities and energy sectors
 were accretive to relative returns.
- Detractors: Stock selection and underweight allocations in information technology and industrials sent these sectors
 to detractor status on a relative basis.
- Outlook: Despite the continuing volatility, we believe market sentiment toward Chinese equities has improved. That said, we still approach investing with a well-rounded perspective.

Performance Review

- Xiaomi is a China-based consumer electronics, software and hardware designer. Its share price fell during the quarter due to investor fears that its second-quarter results could miss consensus estimates due to weakness in its smartphone product line, and subsequently due to profit-taking by some investors after its share price showed some strength following the launch of its latest flagship smartphone. Despite this short-term weakness, on a longer-term basis, the company has exhibited growth in market share across all its product categories. Of noteworthy mention is its relatively new electric vehicle (EV) business, which has made inroads and added to its brand power. Xiaomi has also expanded overseas, which we view as a potential avenue for growth.
- SF Holding is a major express logistics service and solution provider in China, and provides both domestic and international
 delivery services. SF Holding's shares fell after its second-quarter earnings fell short of consensus expectations. An uncertain
 growth outlook given a weak macroeconomic backdrop and front-loaded investments added to the company's share price
 woes
- BYD is a leading EV and battery manufacturer in China. An underweight allocation to the stock rendered it a relative
 contributor as the company's shares experienced a selloff during the quarter. This was due to a combination of an EV price
 war and a plunge in the company's second-quarter profits due to intense competition. We are optimistic on BYD for its EV
 and battery businesses, given its strong execution capability, pace of innovation and vertically integrated supply chain.

Outlook

- The outlook for Chinese equities has stabilized amid a clearer global trade landscape. Trade policy uncertainties, while still
 present, are slowly fading. While the Chinese equity market has rallied due to this optimism, we believe that there may be
 room for further upside, stemming from the government's policy initiatives and friendlier stance toward the private sector.
- Taking a long-term view, we believe 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 reevaluating the growth potential of Chinese
 companies. Valuations, which had been generally suppressed, 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 toward Chinese equities 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	11.83
ALIBABA GROUP HOLDING LTD	9.88
XIAOMI CORP	4.48
FRANKLIN INSTITUTIONAL U.S. GOVERNMENT MONEY MARKE	4.05
TRIP.COM GROUP LTD	3.41
FUYAO GLASS INDUSTRY GROUP CO LTD	3.33
HONG KONG EXCHANGES AND CLEARING LTD	3.32
MIDEA GROUP CO LTD	2.91
CHINA YANGTZE POWER CO LTD	2.71
PICC PROPERTY & CASUALTY CO LTD	2.63

Average annual total returns (%) - as of September 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	17.60	22.32	41.18	30.86	9.32	-4.51	5.35	8.24	9/20/1994
NAV Returns	_	_	18.17	21.49	34.62	27.84	9.97	-4.63	4.85	7.54	9/20/1994
Benchmark	_	_	20.46	23.27	34.63	25.27	14.78	0.90	5.42	_	_

^{*}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.

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, B-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.

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