A year in review: Franklin Mutual Global Discovery Fund 2025

Key Takeaways

- **Global value stocks posted strong returns in 2025 based on the MSCI World Value Index in US dollar terms. A massive German fiscal spending program and ongoing reform efforts in Japan have bolstered non-US stocks, while US markets have benefited from strong corporate earnings, robust consumer spending and record amounts of investment in artificial intelligence (AI) infrastructure.**
- **The Franklin Mutual Global Discovery Fund outperformed its benchmark, the MSCI World Value Index, in 2025, as stock selection within the industrials, health care, consumer discretionary and communications services sectors, as well as several individual names, bolstered relative results.**
- **Even after the sharp runup in international value stocks in 2025, we believe valuations and improving earnings continue to support a compelling long-term opportunity, with selective US opportunities in sectors overlooked amid the AI investment boom.**

Market Overview

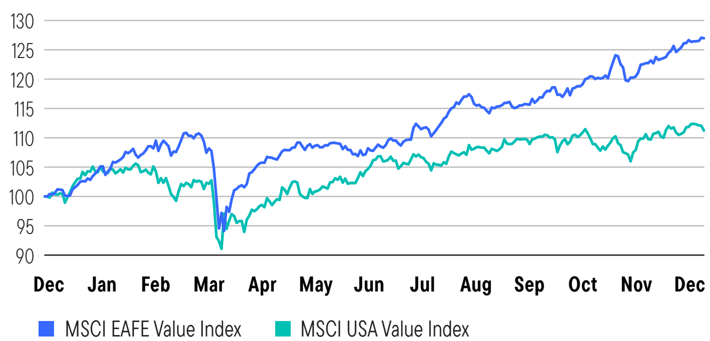
Global value stocks delivered robust returns in 2025, despite pockets of volatility. While different forces affected US and non-US markets during the period, each region presented its own opportunity set for value investors.

In the United States, value markets opened the year strongly before tariff, trade and other policy uncertainty sent markets reeling in March and April. A weakening dollar, rerouting of trade and political alliances and general regulatory uncertainty sent capital flows to non-US markets. For several months, businesses paused their spending plans and the sustainability of AI-driven capital spending—central to 2024's market gains—was questioned. Come summer, market volatility moderated as businesses resumed spending, tariff news waned and the US tax bill passed. The AI trade returned in full force and bolstered pockets of the US equity market throughout the remainder of the year.

Outside the United States, as measured by the MSCI EAFE Index, value stocks outperformed, supported by key policy changes on defense and energy as well as fiscal stimulus.

Exhibit 1: International Value Outperformed US Value in 2025

December 31, 2024–December 31, 2025



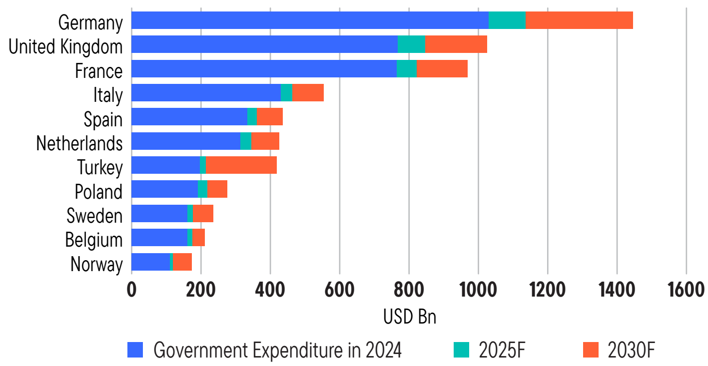
Source: FactSet. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI USA Value Index captures large and mid-cap US securities exhibiting overall value style characteristics. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.**

In Europe, NATO countries committed to increase their defense spending and other government expenditures in the wake of less support from the United States (Exhibit 2). Germany also enacted spending bills to dramatically increase infrastructure spending, which investors expect to benefit a multitude of building product, rail, and other industrial companies.

Exhibit 2: European Infrastructure Spending is Set to Rise in the Coming Years

Current and Estimated Government Expenditure in Europe

2024 to 2030F



Source: Economist Intelligence Unit.

Furthermore, interest rate cuts from the European Central Bank and the prospects of reduced regulatory burden and increased regional competitiveness bolstered investor sentiment, further lifting European stock valuations, particularly in the banking and defense industries. US dollar weakness also provided a tailwind to non-US equity returns.

In Japan, equity markets continue to be buoyed by companies' efforts to increase shareholder value. Companies have been reducing their cross-shareholdings, which are widely seen as a barrier to market efficiency, transparency, and M&A activity. In addition, both price and wage inflation remained strong in 2025, and the Bank of Japan is positioned to slowly lift interest rates over the next few years.

Fund Performance

The Franklin Mutual Global Discovery Fund outperformed its benchmark, the MSCI World Value Index, for the year. Stock selection within the industrials, health care, consumer discretionary and communication services drove positive relative returns. Company-level performance within these sectors was mixed, however, with some holdings acting as notable detractors.

For instance, the communication services sector housed leading contributors and detractors. The Fund purchased Alphabet, a top contributor, prior to its joining the value benchmark. Our research process identified it as a prospect after the valuation fell but fundamentals remained robust. The stock had fallen on concerns over its search business potentially losing market share to AI, which created an attractive entry point. These concerns abated later in the year as investors refocused on Alphabet's strong business lines, like digital ads, dominant search usage, and the rollout of its new AI model late in the year. Conversely, a leading detractor from performance was media company Charter Communications, which suffered throughout the year on continued competitive pressures from fiber and fixed wireless access.

Several financials companies were notable contributors to performance despite the sector itself detracting from relative results. While we were underweight the strong performing sector, our investment selection process led us to several companies that generated outlier performance. Germany's Deutsche Bank contributed to relative results as its trading business benefited amid the stock market volatility and as it continues to improve controls, profitability and the ability to deliver more sustainable returns, in our view. France-based bank BNP Paribas was also among the leading contributors to performance due to increased lending activity and the prospect of decreased regulatory burden, as were insurance companies Prudential and NN Group. Conversely, a small selection of financial services names weighed heavily on the sector's performance.

Portfolio Positioning

Our research process uncovered several companies trading at a discount to fundamental value that we see as having improving fundamentals and strong catalysts, such as Mondelez, International Paper and Adobe.

Global snack food company Mondelez suffered from concerns about the impact of higher cocoa prices, which weighed on the stock. However, we like the company's exposure to higher-than-average growth in emerging markets and the potential for margin expansion once the price of cocoa adjusts back to historic levels.

International Paper, a global paper and packing company, has suffered from a weak outlook due to low European and North American demand for its products. However, its turnaround efforts have tracked well, and we believe there is room for margin improvement as the company works to improve its capacity, efficiency, and cost structure.

In addition, the Fund opened new positions in automaker Toyota and automaker Stellantis, as we believe this year's tariff-related weakness and other concerns were overdone. We view Toyota as a high-quality automaker, but its stock traded at a sizeable discount to our estimate of fundamental value amid data falsification issues, industry profitability, and tariffs. With the data falsification issue largely behind it, we believe Toyota is one of the few auto makers that can maintain high profits due to its focus on hybrids, as well as low inventory and an expected ramp in production. Toyota is also embracing Japan's push for corporate reforms.

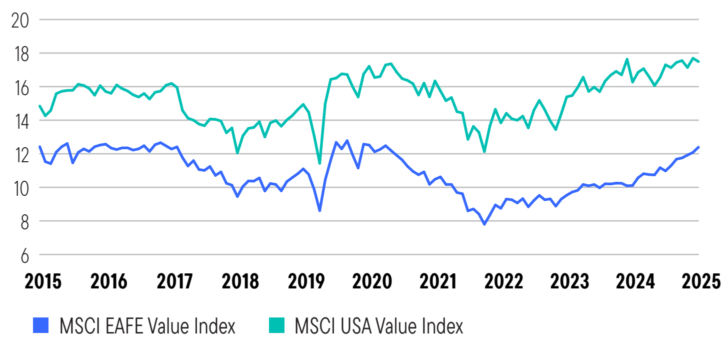
Outlook

Despite this year's healthy gains, we believe the prospects for international equity markets, particularly within Europe and Japan, may only be in the early days. Economic activity in Europe continues to improve, bolstered by a series of interest rate cuts and implementation of massive increases in infrastructure and defense spending in Germany, which other countries may replicate. Together, the monetary and fiscal stimulus could lead to faster European growth over the medium-term. When combined with attractive stock valuations versus US peers (Exhibit 3), we think these tailwinds make for some compelling opportunities.

Exhibit 3: International Value Stocks Remain Cheap Relative to US Value Stocks

Next 12-Month Price/Earnings Ratio: MSCI EAFE Value Index vs. MSCI USA Value Index

December 31, 2015-December 31, 2025



Source: FactSet. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI USA Value Index captures large and mid-cap US securities exhibiting overall value style characteristics. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.**

Corporate reforms are also making non-US markets more attractive. Europe is looking at ways to improve competitiveness, particularly within the financials sector, while Japan is pushing corporate reforms to reduce cross shareholdings and get companies to improve book values.

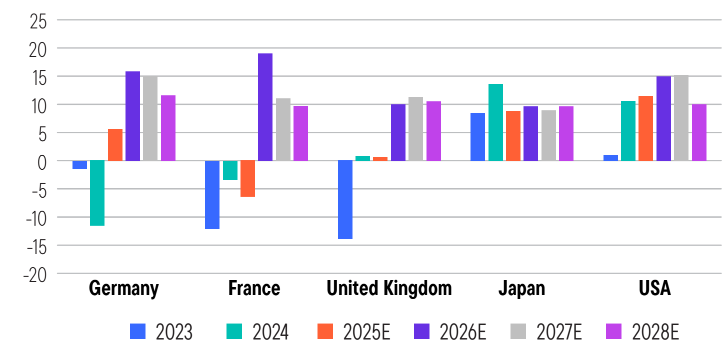
The European financials sector, which is a significant part of European value markets, should be a direct beneficiary of the increased regional fiscal spending Germany is spearheading and the brighter economic outlook. Better lending activity among Europe's banks can continue to underpin regional and international stock markets. And the European banking industry has performed particularly well against US mega-cap technology stocks recently, suggesting that classical value stocks can, and have, outperformed growthier stocks in 2025.

Meanwhile, in Japan, new Prime Minister Sanae Takaichi is focused on further boosting economic growth, which can also support a range of the country's more domestically focused firms. Her policy proposals include new efforts to dampen inflation, investment in growth industries and more defense spending. Japanese and European companies also are returning more cash to shareholders, and a possible pickup in merger activity may continue to bolster non-US stocks over time. And with earnings likely to improve (Exhibit 4), the appealing valuations for international stocks could climb and narrow the gap between both international growth and US stocks.

Exhibit 4: Corporate Earnings are Forecast to Improve in Europe and Japan

MSCI Indices: Earnings Growth

From 2023 to 2028E



Source: FactSet, MSCI, FactSet Estimates. Data as of December 15, 2025. MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. See index definitions at conclusion. There is no assurance that any estimate, forecast or projection will be realized.

Also, the US push toward getting countries to spend more on defense and continued tariff uncertainties are forcing countries to do more to boost their own economies and deepen relationships with other trading partners. While higher US tariffs remain a concern, we believe European and Japanese economic improvement can continue over the medium term. Within the United States, we expect to find individual value opportunities across the US market in 2026. We have seen share prices of companies that do not have AI narrative support succumb to serious corrections following disappointing earnings, helping to create interesting places to find value. Unloved companies in stable economic areas are also attractive value opportunities, in our view, as we have found select consumer staples stocks with solid balance sheets trading at lower valuations than they have historically.

Taking a broader view of value also may help uncover attractive individual opportunities. We don't believe a low price/earnings ratio necessarily makes for a value stock. We advocate looking for companies that offer growth but where the stock price is trading at a discount attractive enough to provide appealing upside as the market gradually begins to recognize that growth over time.

Top 10 Holdings

	Ending Weight as of 12/31/2025
Alphabet Inc.	2.71%
BNP Paribas SA	2.40%
Novartis AG	2.32%
Roche Holding AG	2.24%
Airbus SE	2.08%
Merck & Co. Inc.	2.06%
AerCap Holdings NV	2.06%
Haleon PLC	2.05%
Deutsche Telekom AG	2.04%
Bank of America Corp.	2.02%

Average Annual Total Returns (%) at NAV as of December 31, 2025

	1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date
Class Z (With Sales Charges)	23.67	16.06	12.25	8.92	10.81	12/31/1992
Class Z (Without Sales Charges)	23.67	16.06	12.25	8.92	10.81	12/31/1992
Class A (With Sales Charges)	16.57	13.60	10.71	8.04	10.27	12/31/1992
Class A (Without Sales Charges)	23.37	15.77	11.97	8.65	10.46	12/31/1992
MSCI World Value Index	20.79	14.51	11.35	9.23		

Performance data quoted represents past performance, which does not guarantee future results. *Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/ 342-5236 or visit* ***www.franklintempleton.com.***

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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

Share Class Details

			Sales Charges		Expenses	
	CUSIP	Ticker	Max	CDSC	Gross	Net
Class Z	628380404	MDISX	0.00%	—	0.96%	0.96%
Class A	628380859	TEDIX	5.50%	—	1.21%	1.21%

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual fees may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 4/30/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns.

The **MSCI World Value Index – NR Index** measures the performance of large- and mid-cap companies exhibiting value style characteristics across 23 developed country equity markets. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The **investment style** may become out of favor, which may have a negative impact on performance. **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**. To the extent the portfolio invests in a **concentration of certain securities**, **regions or industries**, it is subject to increased volatility. **Small- and mid-cap** stocks involve greater risks and volatility than large-cap stocks. Investments in companies engaged in **mergers, reorganizations or liquidations** also involve special risks as pending deals may not be completed on time or on favorable terms. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. The manager may consider **environmental, social and governance (ESG)** criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

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.

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. Please read it carefully.

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