FRANKLIN TEMPLETON

June 30, 2026

Midyear Review: Franklin Mutual International Value Fund

Key Takeaways

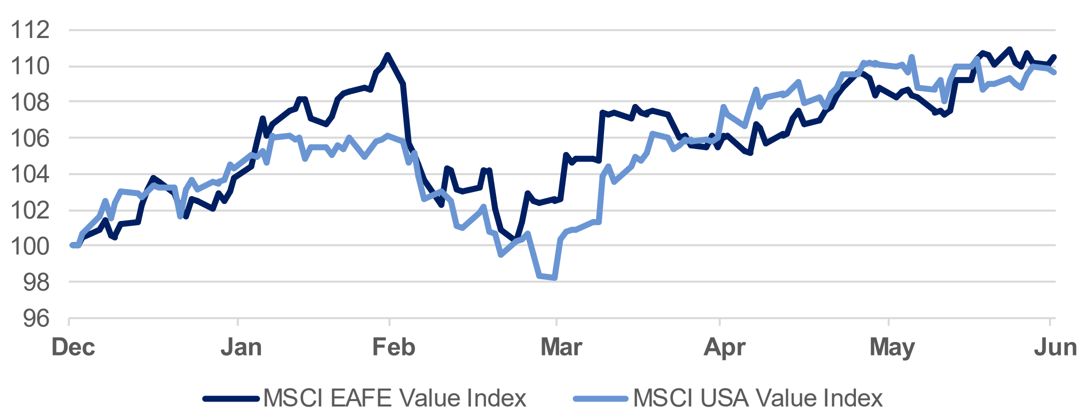
- International value stocks had a solid start to 2026, with the MSCI EAFE Value Index rising strongly over the period in US dollar terms, but performance relative to US value stocks faltered somewhat as investors returned to the momentum-driven artificial intelligence (AI) trade.
- The Franklin Mutual International Value Fund (Class Z without sales charges) rose in absolute terms, but underperformed its benchmark, the MSCI EAFE Value Index, with positioning in the information technology sector weighing on relative performance.
- Given improving earnings and attractive valuations, we continue to find value opportunities across a range of industries, including in areas overlooked amid the AI investment boom.

Market review

After a strong start to the year, international value stocks stumbled as the conflict with Iran sparked a rise in energy prices and shook the solid economic story that was building in Europe and Japan. As a result, the MSCI EAFE Value Index, which had led US value stocks, as measured by the MSCI USA Value Index, for the first few months of the year, lost pace by midyear. (Exhibit 1)

Exhibit 1: A Strong Relative Start for International Value Stocks Eased

December 31, 2025-June 30, 2026



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 addition to concerns about what higher energy costs would mean for dependent economies in Europe and Asia, we have seen investors broadly rotate back into the momentum artificial intelligence (AI) trade. AI-related equities broadly advanced, with investors piling not only into US AI stocks, but also into global semiconductor names, including those based in Asian emerging markets. As a result, we have seen investors indiscriminately sell a host of stocks, including Chinese internet names, for Korean and Taiwanese chipmakers.

We have also seen a rotation out of some of last year's strong performers, in favor of the energy and materials names that may benefit from much higher oil and metals prices so long as shipments out of the Strait of Hormuz remain disrupted. An interim deal to end the Iran conflict in June should lead to greater oil shipments out of the Gulf over the coming months. Still, the European Central Bank raised interest rates in late June, becoming the first major central bank to boost rates in response to climbing prices.

Should the enthusiasm for AI-related names abate, we would expect international value stocks to stage a recovery. German and broader European fiscal spending, reforms aimed at improving regional competitiveness, corporate Japan's efforts to improve shareholder value and ongoing Japanese wage inflation and more normalized interest rates can bolster international value stocks over time, in our view.

Fund performance

Against a backdrop of global conflict, an abrupt market rotation and a return to AI optimism, the Franklin Mutual International Value Fund underperformed its benchmark. Stock selection in industrials, stock selection and an underweight in information technology and stock selection and an overweight in consumer discretionary weighed on relative results. Security selection in consumer staples and a lack of exposure to real estate bolstered relative results.

Within the technology sector, two perceived AI losers, China-based Tencent and France-based Capgemini, were notable detractors, as investors worried about the impact AI would have on their business models. While we see greater potential disruption to Capgemini's IT services business as the company adapts, Tencent is in a better position. AI investment at Tencent, an advertising and gaming company, has lagged, but the firm is ramping up AI spending which could lead to faster growth across its business over time. As the market comes to better appreciate its AI capabilities, we would expect a rebound in Tencent's stock price.

While some technology companies have suffered from concerns about AI exposure, a position in NXP Semiconductors contributed as chipmakers had a strong start to 2026 on optimism about AI-related demand. In the first quarter, NXP saw strong demand for its auto and industrial chips and highlighted its fast-growing data center revenue which it expects could lead to strong growth over 2026 and 2027.

Other detractors included defense companies RENK and Babcock International Group. Although we continue to expect higher European defense spending, worries about the UK budget process and slow regional defense spending weighed on the stocks in early 2026.

Conversely, higher energy prices and the disruption of supplies out the Middle East supported Norwegian aluminum producer Norsk Hydro. Its recycling business was also strong as recycled aluminum prices rose more than costs due to the Mideast conflict. Steel maker ArcelorMittal was also solid on strong earnings and optimism about the outlook for European demand, despite ongoing tariff uncertainties. The rise in oil prices was also positive for oilfield services firm Schlumberger (SLB). The stock further benefited from the recent leadership change in Venezuela and solid earnings. While SLB could be impacted by its Middle East disruption in the near-term, we see the long-term outlook intact as the world needs to reinvest in oil and gas developments, led by offshore and key international markets.

Portfolio positioning

We remain opportunistic when searching for undervalued opportunities outside the United States with attractive catalysts that can spark a rerating.

We have continued to find opportunities among more stable businesses. In the consumer staples sector, we have shuffled our exposure to eliminate holdings that may face a challenging commodity price environment or sell products that are out of favor with consumers for those with more attractive product portfolios. We added France-based Danone while eliminating chocolate and cookie maker Mondelez International and Switzerland-based Nestle.

We have also added two new positions in the UK utilities sector—water utility company United Utilities Group and power company SSE . After decades of environmental related issues, the UK water industry is entering what we believe to be long-term structural growth phase driven by higher investments, stricter regulation and increasing water-scarcity pressures. Meanwhile, SSE will show substantial regulated asset growth, while also having exposure to the AI-data center power trade.

Additionally, companies that are perceived losers from the AI revolution have fallen out of favor but offer us longer-term opportunities. For instance, shares of Netherlands-based RELX, a global provider of information-based analytics and decision tools for professional and business customers, fell sharply on concerns that AI will displace its products in customers' workflows. Instead, we believe AI is allowing RELX to use new tools to improve customers' productivity and enhance product development, which has led to faster sales growth.

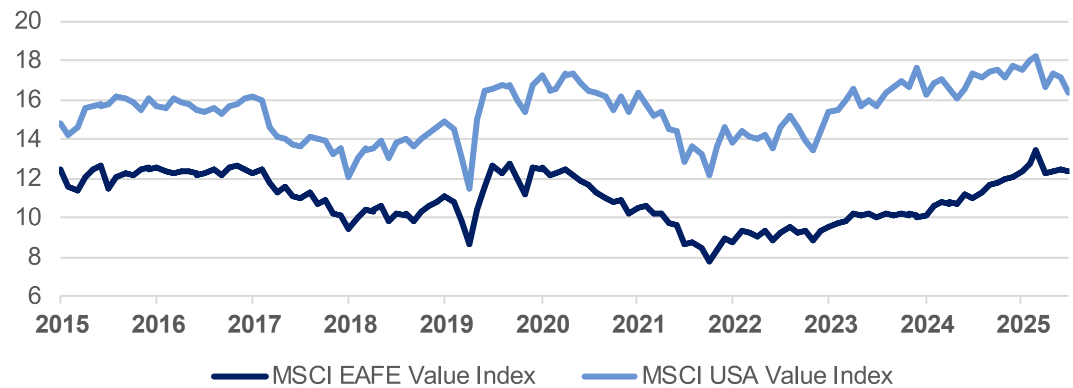
Outlook

Despite the focus on artificial intelligence and the impact of the Mideast conflict on the European and Japanese economies, we remain optimistic about the outlook for international value stocks. Many of the long-term structural trends that have emerged over the past few years continue to play out, and along with improving earnings, should further narrow the wide valuation gap international stocks trade at when compared to their US peers, given years of sluggish growth and lackluster competitive practices. (Exhibit 2).

Exhibit 2: International Value Stocks Remain Cheap Relative to US Value Stocks

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

December 31, 2015-June 30, 2026

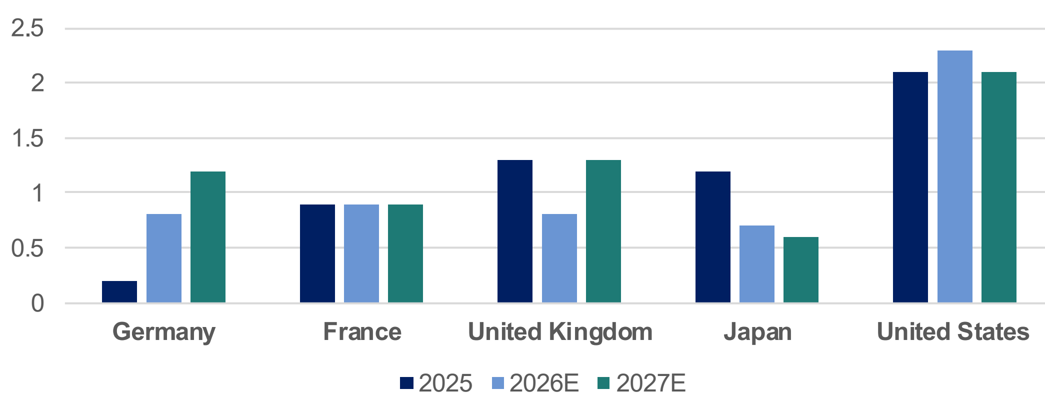


Source: FactSet. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI USA Value Index captures large and mid-cap US securities exhibiting overall value 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.**

With the Strait of Hormuz largely shut to oil transit over the first half of the year, economic growth in Europe and Japan could be negatively affected in the short term. However, economic prospects should brighten over time as oil begins to flow again. Also, massive German fiscal stimulus has been slow to feed through to the broader domestic and European economies and private investment has yet to be made, but we are seeing signs of increased spending. (Exhibit 3)

Exhibit 3: Global Economic Growth Rates Forecast to Remain Steady

2025 to 2027E



Source: International Monetary Fund. **There is no assurance that any estimate, forecast or projection will be realized.**

Additionally, European countries are spending more on defense and making important investments in a wide range of civilian infrastructure that can benefit those "old economy" value industries focused on building materials, roads, rails and the like. In Germany, Europe's largest economy, the greater spending is expected to help offset higher energy prices, and lead to faster economic growth over the next two years, according to estimates from the European Commission.

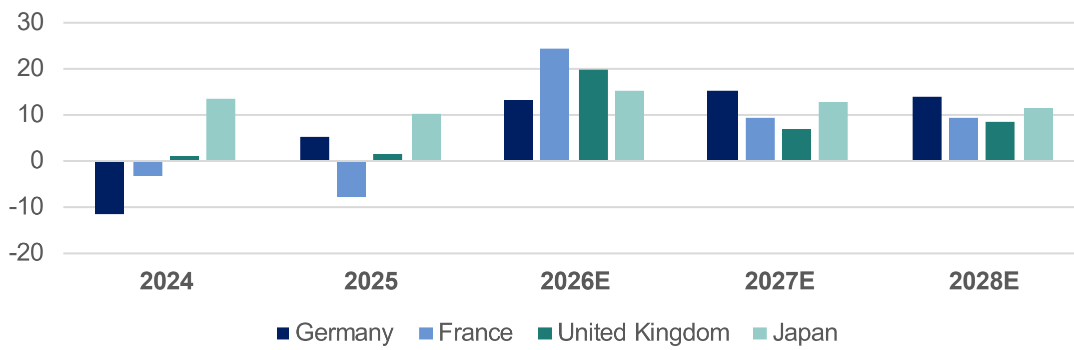
While European interest rates may rise further in the short term to combat recent inflationary pressures stemming from higher energy costs, any increase may prove temporary. Additionally, slow but ongoing efforts to improve regional competitiveness, unify capital markets and pursue joint debt issuance, and European value stocks can see years of recurring benefits.

Meanwhile, in Japan, 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. Although increasing energy prices have been an issue for Japan, given its heavy reliance on Mideast oil, efforts to boost growth industries and ramp up defense spending can boost broader economic activity over time.

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

MSCI Indexes: Earnings Growth

2024 to 2028E



Source: FactSet, MSCI, FactSet Estimates. Data as of June 15, 2026. 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.

Additionally, Japanese and European companies are returning more cash to shareholders, and we believe any pickup in merger activity may continue to bolster non-US stocks. Japanese companies are also unwinding their complicated cross-shareholdings and buying back stock. With earnings likely to improve over the coming years (Exhibit 4), international value stocks can continue to narrow the valuation gap with US stocks.

Top 10 Holdings	Ending weights as of 6/30/2026
Roche Holding AG	3.71%
HSBC Holdings PLC	3.22%
UniCredit SpA	3.18%
Coca-Cola Bottlers Japan Holdings Inc.	2.92%
BP PLC	2.85%
Natwest Group PLC	2.77%
Allianz SE	2.60%
Mitsubishi UFJ Financial Group Inc.	2.56%
Shell PLC	2.54%
Novartis AG	2.45%

Average Annual Total Returns (%) at NAV as of June 30, 2026	6-Month	1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date
Class Z (With Sales Charges)	1.99	14.57	16.03	12.12	9.63	9.93	7/3/1996
Class Z (Without Sales Charges)	1.99	14.57	16.03	12.12	9.63	9.93	7/3/1996
Class A (With Sales Charges)	-3.74	8.01	13.59	10.59	8.74	9.39	7/3/1996
Class A (Without Sales Charges)	1.87	14.3	15.76	11.84	9.36	9.59	7/3/1996
MSCI EAFE Value Index-NR	9.63	26.95	21.5	13.15	10.45		

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.

			Sales Charges		Expenses	
Share Class Details	**CUSIP**	**Ticker**	**Max**	**CDSC**	**Gross**	**Net**
Class Z	628380503	MEURX	0.00%	–	1.00%	0.97%
Class A	628380834	TEMIX	5.50%	–	1.26%	1.22%

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 4/30/2027 without Board consent. Actual expenses may be higher and may impact portfolio returns.

The **MSCI EAFE Value Index–NR** 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 EAFE Index** is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada. 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 companies in a specific **country or region**, the fund may experience greater volatility than a fund that is more broadly diversified geographically. **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. 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 LEGAL 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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