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Midyear review: Franklin Mutual International Value Fund June 2025

Key Takeaways

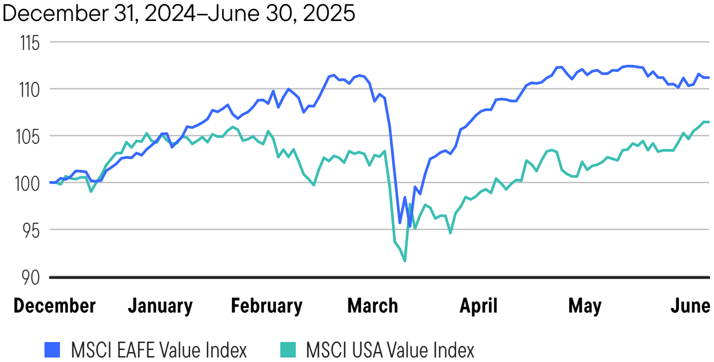
- **Non-US stocks outperformed to start the year, with international value stocks performing particularly well, as corporate reforms in Europe and Japan and an expected increase in German fiscal spending made the group relatively more appealing.**
- **The Franklin Mutual International Value Fund outperformed its benchmark, the MSCI EAFE Value Index, over the first six months of 2025. Strong stock selection in sectors like financials contributed to relative results, while more economically focused stocks underperformed.**
- **We see reasons the outperformance in value stocks outside the United States is in the early stages, given a slew of corporate changes and increased European spending on infrastructure and defense, which can create opportunities to find attractive, but mispriced securities.**

Market overview

International equity markets rose over the first half of the year, even after the steep drop in early April on fears about the possible outbreak of a full-fledged trade war and ongoing geopolitical uncertainties. Despite these concerns, a massive pledge of new fiscal spending from Germany for both infrastructure and defense and optimism that reforms in Europe and Japan would push companies to take greater steps to improve their competitiveness further bolstered international value markets. (See Exhibit 1.)

Exhibit 1: International Value Indices Outperformed US Value in Early 2025

December 31, 2024–June 30, 2025



Source: FactSet. The MSCI USA Value Index captures large and mid-cap US securities exhibiting overall value style characteristics. 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. 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.**

Even after this year's strong performance, we believe it is still early days for international markets. In Europe, a string of interest rate cuts is supporting a still sluggish domestic economy. However, the picture should brighten up over the next few years. Germany's boost to both infrastructure and defense spending can lead to faster overall European growth over the medium term, and continue to support equity markets, particularly given the still attractive valuations when looking at international markets relative to the United States. The US push toward getting countries to spend more on defense and 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 economic growth can improve over the medium term.

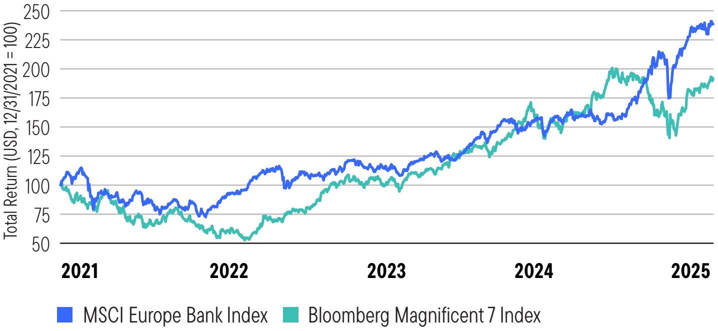
The European financials sector should be a direct beneficiary of the increased regional fiscal spending Germany is spearheading and the brighter economic outlook. And as such, a large part of the MSCI EAFE and MSCI EAFE Value benchmarks, better lending activity among Europe's banks can continue to underpin regional and international stock markets. The European banking industry has significantly outperformed US mega-cap technology stocks recently, suggesting that classical value stocks can outperform growthier stocks. (See Exhibit 2.)

Not FDIC Insured | No Bank Guarantee | May Lose Value

Exhibit 2: European Banks Have Put in a Strong Performance

MSCI Europe Bank and Bloomberg Magnificent 7 Indices: Cumulative Total Return Performance

December 31, 2021–June 30, 2025



Sources: Bloomberg, MSCI, Bloomberg Indices. The MSCI Europe Banks Index is composed of large and mid-cap stocks across developed markets and countries in Europe. The Bloomberg Magnificent 7 Total Return Index is an equal-dollar-weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies classified in the United States. It includes Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla.

Meanwhile, we have seen the US dollar weaken this year, amid growing concerns about US tariff policy and fraying US-stock-market exceptionalism. A weaker US dollar has often presaged international stock market outperformance relative to the United States, and we believe we could be in the early days of this trend. Furthermore, for US dollar-based investors, investments made in assets in other currencies become valued more highly when translated back into a weaker greenback. (See Exhibit 3.)

Exhibit 3: The US Dollar Has Weakened Significantly in 2025

ICE US Dollar Index

June 30, 2023–June 30, 2025

Source: FactSet. The US Dollar Index measures the value of the US Dollar relative to a basket of global currencies.

Corporate reforms are also making European and Japanese markets more attractive. Former European Central Bank chief Mario Draghi's report released last year on improving European competitiveness through deregulation and consolidation, among other changes, is reviving industries like telecommunications. Japan, meanwhile, continues to pursue corporate reforms to reduce cross shareholdings and get companies to improve book values.

Fund performance

Better overall sentiment toward international markets after years of strict US focus was beneficial for the Franklin Mutual International Value Fund over the first six months of 2025. The Fund outperformed its benchmark, the MSCI EAFE Value Index, in US dollar terms, as banks and other financials and economically sensitive European industrials stocks contributed to relative results.

Although the Fund is underweight to the financials sector overall, strong stock selection had a positive impact as expectations that faster domestic economic growth could lead to greater loan demand and the need for other banking and insurance services. Germany's Deutsche Bank, for one, contributed to relative results as its trading business benefited amid the stock market volatility in the first half of the year and as it continues to improve controls, profitability and the ability to deliver more sustainable returns, in our view. It may further benefit from increased European infrastructure and defense spending. Other banks like France-based BNP Paribas and Spain-based CaixaBank also supported returns on expectations for better domestic growth.

The Fund also benefited from recent efforts to get NATO members to boost defense spending to deal with heightened geopolitical risks. Babcock International, a UK-based defense company, contributed to relative returns on optimism that a step-up in UK and European defense spending will lead to greater sales of nuclear submarines and other equipment. Babcock also boosted its fiscal year earnings forecast on strong growth in its nuclear and marine businesses and announced a share buyback program.

Despite the more positive longer-term outlook for the European and Japanese economies, several of the Fund's more economically focused names underperformed in early 2025. With oil prices declining and mounting near-term concerns about slowing global economic activity and tariffs, energy services firm SLB and integrated oil company BP curbed relative results. Given the more uncertain environment, SLB has been looking for ways to keep costs low while continuing to return cash to shareholders. Tariff worries weighed on shares of Japanese auto parts manufacturer Denso. We believe that the potential impact from tariffs is likely modest due to its global business and the likelihood it will likely pass higher costs onto customers. Japanese technology companies like capacitor maker Murata Manufacturing and semiconductor firm Renesas Electronics were also weak amid softer demand for auto capacitors and semiconductors in recent quarters.

Portfolio positioning

The Fund took advantage of market dislocations in the first half of the year to add a range of new holdings in Europe and Japan that look to be trading below our estimate of fundamental value.

Amid tariff-related market gyrations, we added Toyota Motor to the Fund. We view Toyota as a high-quality automaker, but its stock traded at a sizeable discount to our estimate of fundamental value due to data falsification issues, as well as concerns about auto industry profits and tariffs. We believe that the data falsification issue is largely behind it. Additionally, 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. And we believe unwinding some of its crossholdings and a better shareholder return can be additional catalysts for the stock.

Another new position was farm and construction equipment manufacturer CNH Industrial. Although the company is becoming a top three global agricultural equipment maker, with both a strong management team and robust financials, the shares continue to trade as if CNH is an undermanaged conglomerate. We believe the agricultural equipment cycle should trough this year and recover in 2026, which should boost earnings. The downside for the stock is limited, in our view, as it has reduced costs, and may separate its construction equipment business, creating significant value for both businesses.

The Fund also added a few consumer staples names, including Japanese beer maker Asahi Group, Coca-Cola Bottlers Japan and cookies and chocolate company Mondelez. Like Toyota, Asahi Group can return more capital to shareholders as beer volumes recover, and the company cuts costs to improve margins. Its new financial targets is likely to require them to return a substantial amount of cash to shareholders to improve both return on equity and earnings per share. At Coca-Cola Bottlers Japan, margin improvements and price hikes can boost profits and support the shares, in our view. We like Mondelez's exposure to higher-than-average growth in emerging markets and its exposure to advantaged food categories. The recent spike in cocoa prices temporarily sent some food stocks lower, creating an opportunity to add a position.

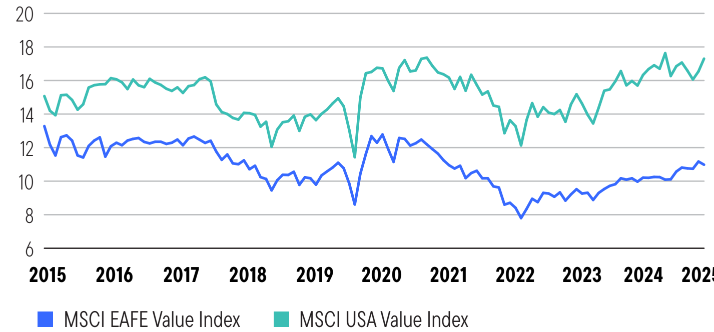
Outlook

We believe international markets offer investors a long-term opportunity. Despite the outperformance relative to the United States in early 2025, developed international markets still trade at a sizeable discount to their US counterparts after years of anemic growth and lackluster competitive practices. (See Exhibit 4.)

Exhibit 4: International Value Stocks Look Cheap Relative to US Value Stocks

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

July 31, 2015–June 30, 2025



Source: FactSet. 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.**

Better economic growth and corporate change are likely to come, in our estimation. European efforts to improve competitiveness, along with massive German fiscal spending and declining interest rates could help close the valuation gap with US stocks. Germany is spending significantly on improving its neglected infrastructure, while lavishing funds on new military hardware. Europe overall is spending more on defense, and the German push to increase infrastructure spending could prompt other European countries to follow suit.

Meanwhile, Japan is pushing to improve corporate governance and corporate returns to make the country more investable. Companies are reducing their cross-shareholdings, which are widely seen as a barrier to market efficiency, transparency and M&A activity. Those companies with clear plans to catalyze returns and reduce their cost of capital, and that are willing to buyback stock trading below book value after the unwinding of cross-shareholdings, are particularly appealing to us for greater analysis. Economic activity, while still sluggish, may improve as wage growth climbs and inflation returns, sparking greater interest in local stocks.

Top 10 Holdings

	Ending Weight as of 6/30/2025
BNP Paribas SA	3.64%
Deutsche Bank AG	3.55%
Roche Holding AG	3.37%
Prudential PLC	3.24%
Novartis AG	2.82%
SBI Holdings Inc.	2.81%
AerCap Holdings NV	2.39%
St. James's Place PLC	2.36%
DBS Group Holdings Ltd.	2.32%
BP PLC	2.32%

Average Annual Total Returns (%) at NAV

As of June 30, 2025

	6-Month	1-Year	3-Year	5-Year	10-Year	Since Inception	Inception Date
Class Z (With Sales Charges)	24.58%	21.74%	17.69%	15.52%	6.70%	9.78%	7/3/1996
Class Z (Without Sales Charges)	24.58%	21.74%	17.69%	15.52%	6.70%	9.78%	7/3/1996
Class A (With Sales Charges)	17.59%	14.77%	15.21%	13.95%	5.83%	9.22%	7/3/1996
Class A (Without Sales Charges)	24.44%	21.44%	17.39%	15.24%	6.43%	9.43%	7/3/1996
MSCI World Value Index–NR	22.84%	24.29%	18.38%	14.30%	6.05%		

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	628380503	MEURX	0.00%	—	0.99%	0.95%
Class A	628380834	TEMIX	5.50%	—	1.24%	1.20%

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 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. 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. **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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