

Franklin International Growth Equity ADR SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** International equities made further solid gains overall in the fourth quarter of 2025, rounding off a year of strong returns for the asset class. Despite some mixed economic signals and concerns about stretched technology valuations during the quarter, investors remained broadly optimistic about artificial intelligence (AI) advancements and the potential for a continued easing of monetary policy.
- **Contributors:** Select holdings in the industrials sector bolstered returns relative to the MSCI EAFE Index-NR.
- **Detractors:** Stock selection in the information technology and consumer discretionary sectors held back relative returns.
- **Outlook:** Looking ahead, structural trends and innovation themes are shaping global growth opportunities. As markets transition from liquidity-driven rallies to fundamentals-led regimes, active management and disciplined investing will be critical.

Performance Review

- Scout24, a Germany-based provider of digital marketplaces for real estate, held back relative returns on concerns about the potential impact of AI on classified advertising businesses. Many software companies have underperformed in recent months on fears of increased competition from AI-native applications and large language models.
- MercadoLibre, one of Latin America's leading e-commerce and fintech firms, detracted due to investor concerns about the potential impact of increased competition on the company's margins. However, its third-quarter results appeared solid, with strong performances in Brazil and Mexico, partly offset by a transitory increase in funding costs in Argentina. Promotions and shipping subsidies helped to accelerate sales growth, but importantly core profitability remained robust.
- In contrast, DSV, a Denmark-based logistics provider, contributed to relative performance as its shares rose on progress integrating a previous major acquisition and resilient results in a soft freight market. Upgraded synergy targets and supportive analyst growth forecasts reinforced confidence in execution, while strong cash generation underpinned balance-sheet flexibility.

Outlook

- After years of narrow market leadership dominated by mega-cap technology stocks, market breadth appears set to expand. Elevated valuations among the largest companies have prompted investors to revisit mid- and small-cap equities, which now trade at multi-decade valuation discounts. These firms, often earlier in their growth cycles and more agile, combine innovation potential with operational stability. Improving fundamentals and lower capital costs position mid caps for earnings acceleration and multiple expansion, creating opportunities for active investors seeking differentiated businesses. Easing inflation and anticipated rate cuts further support quality growth, reversing the headwinds from prior tightening cycles that pressured valuations and financing conditions.
- Looking ahead, structural trends and innovation themes are shaping global growth opportunities. Europe, often overlooked, is undergoing renewal, with healthcare leaders in biologics and rare-disease therapies and industrial firms benefiting from defense and infrastructure commitments. Meanwhile, AI adoption continues to broaden beyond infrastructure providers to companies embedding AI into products and services, unlocking new profit pools despite near-term volatility. As markets transition from liquidity-driven rallies to fundamentals-led regimes, active management and disciplined investing will be critical. We believe the coming years will reward those who can distinguish durable innovation from cyclical enthusiasm, reinforcing the case for patient, quality-focused growth strategies.

Top Equity Issuers (% of Total)

Holding	Portfolio
DSV A/S Un-sponsored ADR	4.83
CTS Eventim AG & Co. KGaA Un-sponsored ADR	4.40
AstraZeneca PLC Sponsored ADR	4.09
MTU Aero Engines AG Un-sponsored ADR	4.08
Alcon AG	4.02
Cochlear Limited Un-sponsored ADR	3.92
Disco Corporation Un-sponsored ADR	3.75
VAT Group AG Un-sponsored ADR	3.70
SAP SE Sponsored ADR	3.69
Experian PLC Sponsored ADR	3.68

Average annual total returns (%) - as of December 31, 2025

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-2.28	-5.51	8.11	8.11	5.82	-4.65	—	—	—	—	0.39	12/31/2019
Pure Gross of Fees	-1.55	-4.09	11.33	11.33	8.98	-1.78	—	—	—	—	3.41	12/31/2019
Benchmark	4.86	9.86	31.22	31.22	17.22	8.92	—	—	—	—	8.74	—

*Cumulative total returns

Benchmark(s)

Benchmark = MSCI EAFE Index-NR

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