FRANKLIN TEMPLETON

Templeton International ADR Equity SMA

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** Global equities rebounded strongly in the second quarter of 2026, reversing the weakness seen at the end of the first quarter as markets recovered from the March energy shock.
- **Detractors:** The fund underperformed its benchmark, the MSCI All Country World ex-US Index-NR, for the quarter, primarily due to holdings in the consumer discretionary, information technology and energy sectors.
- **Contributors**: Holdings in the materials, communication services and financials sectors contributed to relative performance in the second quarter of 2026.
- **Outlook:** We continue to see opportunities in health care, financials, particularly non-bank financials, defense, utilities and high-quality companies that have been overlooked during the AI-led rally.

Performance Review

- Global equities rebounded strongly in the second quarter of 2026, reversing the weakness seen at the end of the first quarter as markets recovered from the March energy shock. The quarter was shaped initially by the partial unwinding of that shock, with periods of ceasefire optimism and then the signing of a memorandum of understanding between the United States and Iran helping to ease fears around the Strait of Hormuz, lower oil prices and restore risk appetite. Regional performance still diverged, with Asia Pacific emerging as the strongest major region, the United States also delivering a powerful recovery, and Europe lagging as its greater sensitivity to energy prices and weaker macro data continued to weigh on sentiment.
- The fund underperformed its benchmark, the MSCI All Country World ex-US Index-NR, for the quarter, primarily due to holdings in the consumer discretionary, information technology and energy sectors.
- BP, the UK-based integrated oil and gas major, was the top stock detractor for the quarter as shares were pressured by weaker oil prices and renewed governance concerns. The stock was volatile in April as partial de-escalation in the Middle East reduced the geopolitical risk premium in crude, before falling more sharply in May following the abrupt removal of chairman Albert Manifold amid conduct and governance-related allegations. We view this as a negative development for a company that has already faced governance scrutiny, although it does not change the longer-term investment case. The stock continues to offer shareholder value potential as strategic initiatives, cost discipline and solid free cash flow support long-term earnings delivery.
- Holdings in the financials, materials and consumer staples sectors contributed to relative performance for the quarter.
- German power semiconductor manufacturer Infineon was a top contributor as earnings expectations rose further on its potential role in AI data-center power infrastructure. The company's results were broadly in line with expectations, but investors responded positively to management's confident guidance around several emerging growth areas that should benefit the business. A key focus remains distributed power for artificial intelligence data centers. As AI workloads increase the power intensity of servers and supporting infrastructure, data centers require more sophisticated chips to convert, control and distribute electricity efficiently across the facility. This plays directly to Infineon's strength in power semiconductors. The shares had already performed strongly in April, helped by similar optimism and supportive results from peers, but the May update gave investors further confidence that AI-related demand can become a meaningful medium-term earnings driver. We continue to view Infineon as well positioned to benefit from structural electrification and power-efficiency trends.
- Regionally, stock selection in Asia ex-Japan was the largest detractor. Stock selection and an underweight in Canada contributed to relative results.

Outlook

- We believe the portfolio is well positioned if market leadership continues to broaden beyond AI. Further progress on Iran would be particularly helpful for aerospace but should also support rate-sensitive and cyclical holdings that would benefit from improved macro conditions and lower inflation pressure. We continue to see opportunities in health care, financials, particularly non-bank financials, defense, utilities and high-quality companies that have been overlooked during the AI-led rally. While we remain believers in the long-term AI growth story, we think parts of the trade need time to digest recent gains, and that better returns may increasingly be available elsewhere. We retain full confidence in our investment process and believe the portfolio is well placed for an improved second half.

Top Equity Issuers (% of Total)

Holding	Portfolio
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	5.39
ASTRAZENECA PLC	4.24
INFINEON TECHNOLOGIES AG	4.09
ROYAL BANK OF CANADA	3.58
ING GROEP NV	3.39
MANULIFE FINANCIAL CORP	2.91
SSE PLC	2.87
BP PLC	2.85
EURONEXT NV	2.74
ADIDAS AG	2.64

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Average annual total returns (%) - as of June 30, 2026-PRELIMINARY

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	8.84	6.63	6.63	13.55	14.39	7.57	6.66	4.17	3.39	4.21	3.65	11/30/1999
Pure Gross of Fees	9.62	8.20	8.20	16.92	17.78	10.78	9.39	6.46	5.46	6.13	5.52	11/30/1999
Benchmark 1	14.49	13.68	13.68	27.66	18.82	8.79	9.93	6.55	5.82	6.92	5.62	–
Benchmark 2	10.82	9.44	9.44	20.23	16.44	9.05	9.66	6.93	5.54	6.42	5.14	–

*Cumulative total returns

Benchmark(s)

Benchmark 1=MSCI All Country World ex-US Index-NR

Benchmark 2=MSCI EAFE Index-NR

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Fees: Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.
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Glossary

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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The **MSCI All Country World Index ex US (MSCI ACWI Index ex US)** is a market capitalization-weighted index designed to measure equity market performance of developed and emerging markets, excluding the U.S. The **MSCI EAFE Index** is a free float-adjusted market capitalization-weighted index designed to measure developed market equity performance, excluding the U.S. and Canada.

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