

Templeton International ADR Equity SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Global equity markets collectively posted moderate gains in the fourth quarter of 2025, marking a period of consolidation after the stronger advance seen in the third quarter.
- **Detractors:** Templeton International ADR Equity SMA Composite (pure gross of fees) underperformed its benchmark, the MSCI All Country World ex-US-NR Index, primarily due to stock selection in the information technology, materials and industrials sectors.
- **Contributors:** Stock selection in the utilities and consumer staples sectors and an underweight in communication services contributed to relative performance for the quarter.
- **Outlook:** We remain broadly constructive on the longer-term outlook for equity markets, but the strength of 2025's rally suggests that some caution is appropriate in the coming months.

Performance Review

- Global equity markets collectively posted moderate gains in the fourth quarter of 2025, marking a period of consolidation after the stronger advance seen in the third quarter. The fourth quarter unfolded against a backdrop of easing—but uneven—monetary policy expectations, greater stock-return dispersion across regions and sectors, and a rotation away from the most crowded growth investment themes. October experienced an extension of the post-summer stock rally as interest-rate cuts and generally resilient earnings supported risk appetite; November brought a pause as investors reassessed equity valuations and monetary policy timing; and December witnessed a stabilization of sentiment as central banks delivered broadly dovish outcomes while flagging increased data dependence into 2026.
- In this environment, Templeton International ADR Equity SMA Composite (pure gross of fees) underperformed its benchmark, the MSCI All Country World ex-US-NR Index, primarily due to stock selection in the information technology, materials and industrials sectors.
- France-based BNP Paribas (not held at period-end), one of Europe's most diversified banks, was a top relative detractor for the quarter. Its shares dropped after a US jury found the bank violated American sanctions, raising questions about whether the lender will be exposed to further legal claims.
- Stock selection in the utilities and consumer staples sectors and an underweight in communication services contributed to relative performance for the quarter.
- Shares of UK utility SSE rose after the company raised £2 billion of equity alongside third-quarter 2025 results that reconfirmed its 2030 guidance and emphasized the sizable opportunity to build new transmission infrastructure over the next 10 years. Management's funding move and the confirmation of the 2030 plan materially reduced the financing overhang, and we believe the group's updated guidance implies that the dilution from the equity raise is likely to be more than offset by potentially higher earnings from an expanded transmission and distribution capex (capital expenditures) program.
- Geographically, stock selection in Europe, particularly Germany, the Netherlands and Ireland, detracted significantly from relative performance for the quarter. Stock selection in Japan was the most significant contributor to relative returns during the quarter.

Outlook

- We remain broadly constructive on the longer-term outlook for equity markets, but the strength of 2025's rally suggests that some caution is appropriate in the coming months.
- European equities' fourth-quarter outperformance reflected both structural sector advantages and a valuation buffer relative to US equities. Political and fiscal noise persisted, particularly in France, but the region's equity markets remained relatively insulated. Stocks were supported by a combination of defensive earnings profiles, sector composition, and improving policy clarity. Despite persistent skepticism, we believe the European economy looks poised for upside surprises in 2026.
- In Japan, the recent change in government has reinforced the policy backdrop for reform and long-term growth. Japan has begun to lift interest rates for the first time in decades, which signals the return of inflation and a normalization of economic conditions after a prolonged deflationary period. This environment is particularly constructive for Japanese banks, which we believe could benefit from steeper yield curves and improving profitability. In our view, a gradual recovery in the yen, following an extended period of weakness, could also support domestic sectors.
- Asia more broadly continues to benefit from a weaker US dollar and improving underlying momentum. We continue to find attractive bottom-up opportunities and expect to increase exposure as opportunities develop.

Top Equity Issuers (% of Total)

Holding	Portfolio
Taiwan Semiconductor Manufacturing Co., Ltd.	4.68
Sponsored ADR	
AstraZeneca PLC Sponsored ADR	3.96
ING Groep N.V. Sponsored ADR	3.30
Royal Bank of Canada	3.21
Mizuho Financial Group Inc Sponsored ADR	3.20
CRH public limited company	3.13
Mitsubishi Electric Corp. Unsponsored ADR	2.96
BP PLC Sponsored ADR	2.92
Manulife Financial Corporation	2.84
Ebara Corp Unsponsored ADR	2.84

Average annual total returns (%) - as of December 31, 2025-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	2.98	6.49	22.40	22.40	16.55	8.02	5.24	4.12	3.47	3.56	3.47	11/30/1999
Pure Gross of Fees	3.74	8.06	26.01	26.01	20.01	11.24	7.86	6.35	5.50	5.43	5.31	11/30/1999
Benchmark 1	5.05	12.29	32.39	32.39	17.33	7.91	8.41	5.91	5.63	5.76	5.21	—
Benchmark 2	4.86	9.86	31.22	31.22	17.22	8.92	8.18	6.64	5.58	5.37	4.87	—

*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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Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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