FRANKLIN TEMPLETON

Templeton International ADR Equity SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Global equities collectively declined over the first quarter of 2026 as a sharp drawdown in March more than offset gains earlier in the period.
- **Contributors**: Stock selection in the industrials sector and overweights and stock selection in the energy and utilities sectors contributed to relative performance for the quarter.
- **Detractors:** Stock selection in the financials, health care and materials sectors detracted from relative performance for the quarter.
- **Outlook:** Our focus remains on selectively deploying capital into high-quality businesses that we believe have been indiscriminately sold off but retain strong long-term fundamentals.

Top Equity Issuers (% of Total)

Holding	Portfolio
ASTRAZENECA PLC	4.83
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	4.80
BP PLC	3.97
SSE PLC	3.40
ING GROEP NV	3.09
ROYAL BANK OF CANADA	3.06
SHELL PLC	2.97
MANULIFE FINANCIAL CORP	2.71
EURONEXT NV	2.65
CRH PLC	2.65

Performance Review

- Global equities collectively declined over the first quarter of 2026, with the MSCI All Country World Index falling for the period, as a sharp drawdown in March more than offset gains earlier in the period. Market performance was influenced by a significant rotation in leadership, with value outperforming growth and smaller-capitalization stocks holding up better than large caps. As measured by MSCI indexes in US-dollar terms, global value stocks generally rose, materially outperforming global growth stocks, which fell significantly, while global small caps delivered positive returns despite the broader market decline. This shift reflected a sustained move away from US mega-cap concentration and long-duration growth assets. The quarter unfolded in three distinct phases: an initial rotation-driven rally in January, followed by heightened dispersion and AI-related uncertainty during February, and culminating in a sharp risk-off environment in March driven by geopolitical escalation and an energy price shock.
- Stock selection in the industrials sector and overweights and stock selection in the energy and utilities sectors contributed to relative performance for the quarter.
- UK-based integrated oil and gas conglomerate BP performed strongly due to a sharp rise in oil prices, driven by geopolitical disruption linked to the Iran war. As a company highly exposed to hydrocarbons, BP benefited directly from this commodity strength, which supported investor sentiment and lifted its share price. In addition, its strategic pivot back toward oil and gas reinforced the positive momentum, with many investors viewing the shift as better aligned with the current energy environment. This combination of higher oil prices and a more conventional energy focus underpinned the stock's strong performance during the quarter.
- Stock selection in the financials, health care and materials sectors detracted from relative performance for the quarter.
- ICON, one of the world's largest contract research organizations, declined sharply in February after disclosing that an internal accounting investigation found preliminary evidence that revenue for fiscal years 2023 and 2024 may have been overstated by up to two percent annually. The announcement led to a delay in fourth-quarter and full-year 2025 results and raised the prospect of financial restatements. Given ICON's scale, even a two percent overstatement represents a material dollar amount, with implications for earnings quality, profit margins and reported growth. While clearly disappointing, such accounting issues are inherently difficult to foresee, and our sell discipline was applied promptly, resulting in a full exit from the position.
- Geographically, stock selection and an overweight in the United Kingdom contributed to relative performance for the quarter. An overweight and stock selection in the eurozone detracted from relative results.

Outlook

- The market environment shifted materially over the quarter, with the combination of accelerating AI disruption and the escalation of the conflict in Iran introducing both structural and macro uncertainty. In early April, oil prices began to retrace following the announcement of a temporary ceasefire and the reopening of key shipping routes. However, we believe oil prices could stabilize above pre-conflict levels, reflecting ongoing geopolitical risk and structurally tighter supply. At the same time, emerging concerns around credit conditions, particularly within banking, suggest that parts of the market may be underestimating downside risks should financial conditions tighten further.
- At a portfolio level, our focus remains on selectively deploying capital into high-quality businesses that we believe have been indiscriminately sold off but retain strong long-term fundamentals. We are also orienting the portfolio toward businesses that we believe have greater exposure to tangible assets and lower risk of structural obsolescence. This reflects a shift away from the post-Global Financial Crisis (GFC) preference for asset-light, intangible-driven models, as we believe higher inflation, geopolitical instability and accelerating technological disruption could be beneficial for companies with pricing power, asset backing and more durable competitive positions.

Average annual total returns (%) - as of March 31, 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	-2.03	0.89	-2.03	13.18	12.11	6.48	5.38	3.64	3.04	3.93	3.35	11/30/1999
Pure Gross of Fees	-1.30	2.39	-1.30	16.54	15.45	9.66	8.03	5.90	5.08	5.82	5.20	11/30/1999
Benchmark 1	-0.71	4.31	-0.71	24.91	14.49	7.02	8.38	5.62	5.11	6.33	5.13	—
Benchmark 2	-1.24	3.56	-1.24	21.27	13.62	7.91	8.38	6.31	5.04	5.94	4.78	—

*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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Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

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Glossary

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **global financial crisis (GFC)** refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009.

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