

Performance Review

- Chinese stocks advanced during the quarter, rallying sharply in late September as policymakers announced a slew of stimulus measures, which include rate cuts, continued property market support and new equity-market policies. The People's Bank of China followed July interest-rate cuts by reducing the cash reserve requirement for banks to the lowest level since early 2007, the seven-day reverse repurchase rate to a record low and the interest rates on existing mortgages by 50 basis points (bps). Through mid-September, China had trailed broader emerging markets amid concerns surrounding slower-than-expected economic growth, the property market and geopolitical tensions. The country's manufacturing activity in September was better than consensus expectations but remained in contraction for the fifth consecutive month, while its non-manufacturing activity appeared to stall as the overall reading slipped to the neutral mark after expanding during the previous 20 months.
- For the quarter, the fund returned 17.27% at NAV, while the benchmark, the MSCI China All Shares Index-NR, returned 22.30%.

QUARTERLY KEY PERFORMANCE DRIVERS

- Shares of internet and gaming giant NetEase declined sharply in the wake of second-quarter earnings, which saw falling year-over-year profit levels and slowing revenue growth. Headwinds in the gaming segment included some adjustments to the virtual trading platform in the company's signature PC title, which may impact gaming revenues through the rest of 2024. The stock recovered sharply to close out the quarter.
- An off-benchmark position in business-to-business e-commerce and logistics provider GigaCloud Technology was also among the largest relative detractors. The company reported strong quarterly revenue growth but faced consumer-related headwinds in its furniture business on the heels of Noble House acquisition. Third-quarter revenue guidance was lower than expected.
- Conversely, dairy and infant formula producer China Feihe was a substantial contributor. The company's first-half 2024 results were better than expected, with strong sales and even stronger profits amid expanding margins, and increased guidance for the second half of the year, citing the strength of premium products in high-end markets. Feihe also opened an infant formula facility in Canada.

Outlook & Strategy

- We are optimistic that Chinese equities can post positive returns in 2024, driven by our belief that corporate earnings will likely recover amid improving economic activity and pro-growth policies. China's equity markets are cheering the rollout of more stimulus measures. The measures announced can broadly be classified into three buckets—policy rate cuts (which we largely expected), property market measures (which continues from previous policies to aid a recovery) and equity market policies (which were new and were a pleasant surprise). While some skepticism remains on the efficacy of the policies, we believe that the rally in Chinese equities could continue. We also believe that more policy support will come, as we sense renewed urgency on meeting economic targets. While economic data to support the rally comes with a lag, we remain watchful for additional policy measures to reverse the downturn in growth and deflationary pressures.
- Similar to the end of COVID-19 lockdowns in 2022, the policy change is sudden and dramatic. Reasons for the change in policy direction are being hotly debated. One potential factor was the start of the US Federal Reserve's interest-rate cutting cycle, which has put downwards pressure on the US dollar (USD), which fell 4% in the third quarter. The weaker USD has taken some pressure off the USD-renminbi spot rate, which Chinese policymakers did not want to see weaken excessively.
- Trade tensions have intensified as the US presidential election approaches. The European Union and the United States recently announced additional tariffs on imports of Chinese electric vehicles, which may negatively impact automobile sector earnings. We are hopeful that China will roll out progressive policies to support domestic industries, and we continue to prefer companies that cater to the needs of the domestic consumer.
- China's economic outlook remains challenging, and concerns over China's economic recovery continue to linger. We believe that select China-based companies were recently oversold due to weak sentiment, and that fundamentals remain strong. In our view, a recovery in earnings and monetary easing are two factors that will likely aid returns. Healthy corporate and household balance sheets should also help to boost equities, along with evidence that interest rates have peaked. Although risks such as geopolitical tensions remain, we are of the view that positive fundamental factors will continue to drive long-term returns.
- In our view, the continuation of concrete policies to shore up the economy, coupled with elevated household savings, should finally drive the premiumisation opportunity at the heart of the consumption story in China and elsewhere. We are aware that more substantive policies and a rebound in consumer activity are prerequisites for gains in Chinese equities, and we remain watchful for such developments. We believe China's prioritization of high-quality growth will likely lead to a more favorable regulatory environment for the private sector, and that reform initiatives will continue to focus on containing financial system risks and pursuing technology advancement and self-sufficiency.
- The interest-rate cutting cycle in emerging markets is building momentum, headlined by China's recent rate cuts. The onset of an easing cycle tilts the balancing act of tackling inflation while pursuing economic growth toward the latter. The impact of a rate cut is positive for businesses as it reduces their financing costs—potentially boosting corporate earnings and spurring investment, which would reinvigorate the economy. In China, regulatory guidance is likely to continue to pressure interest rates down.
- In addition to rate cuts, there are other positive long-term factors in China that unlock potential investment opportunities. The long-term structural tailwind of consumption growth via expansion of the middle class and premiumization of buying patterns is now more significant than ever, in our view, under the spotlight of economic reopening. Recent data surrounding employment and disposable income remains strong, which we believe will likely

help drive the consumption recovery. Middle-class households are looking to draw down these savings to spend on experiences, products and services. We believe this is driving the premiumization trend opportunity in China. The transition to a greener future is another longstanding theme. China is home to well-run companies in the electric vehicle and solar equipment segment.

- US voters go to the polls on November 5, with some early voting already underway via postal mail and pre-polling. The impact of early voting on the election is potentially significant, with a Massachusetts Institute of Technology study highlighting that 60% of Democrats and 32% of Republicans voted by mail in 2020. However, a Republican or Democrat president may not be as significant for asset markets as the makeup of the House and Senate. A clean sweep for either party is likely to be unsettling for investors, whereas a divided Congress has historically been positive as it has provided a check-and-balance on the tax and spending priorities of the president.
- We believe market sentiment toward China has clearly improved. That said, we still approach investing with a well-rounded perspective. We remain cognizant of the key risks in the investment universe, and we are keeping a close eye on geopolitical tensions and government policies. We abide by our bottom-up investment approach and leverage our on-the-ground presence and extensive network for a balanced view. This network goes beyond just companies, channel checks and independent research providers. We continue to keep a watchful eye on changes in the investment environment to identify opportunities.

Product Details

Inception Date	09/20/1994
Benchmark	MSCI China All Shares Index-NR
Ticker	TDF
CUSIP	88018T101

Product Description

The fund seeks long-term capital appreciation by investing at least 45% of its total assets in the equity securities of Chinese companies.

Performance Data

Average Annual Total Returns¹ (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception (09/20/1994)
Templeton Dragon Fund Inc (NAV Returns) ^a	19.61	17.27	8.95	-14.65	-2.58	1.52	6.92
Templeton Dragon Fund Inc (Market Price Return) ^a	17.14	15.91	8.86	-16.77	-3.01	1.93	7.56
MSCI China All Shares Index-NR	23.19	22.30	20.31	-6.25	2.12	3.85	-

Performance shown represents past performance and is no guarantee of future results. Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate so shares, when sold, may be worth more or less than the original cost. Returns based on Market Price or NAV, and assume the reinvestment of all distributions at the Dividend Reinvestment Plan Price or NAV, respectively. All returns include the deduction of management fees, operating expenses and all other fund expenses, and do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. When applicable, performance would have been lower if fees had not been waived in various periods. The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the fund's portfolio. Index data is provided for comparison purposes only. The fund is not managed against an index. Returns for periods of less than one year are not annualized. Please visit franklintempleton.com for the most recent month-end performance.

The total annual operating expenses are as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. **NAV** is total assets less total liabilities divided by the number of shares outstanding. **Market Price**, determined by supply and demand, is the price an investor purchases or sells the fund. The Market Price may differ from a fund's NAV. **Premium / Discount** reflects the difference between the NAV and the Market Price of the fund, and represents the amount that the fund is trading above or below its NAV, expressed as a percentage of the NAV.

Net Returns (NR) include income net of tax withholding when dividends are paid. The **MSCI China All Shares Index-NR** captures large- and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips, P-chips and foreign listings (e.g., ADRs). The index aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

Portfolio Diversification**Top Equity Issuers**

% of Total	%
Top Holdings	
TENCENT HOLDINGS LTD	10.35
ALIBABA GROUP HOLDING LTD	7.75
MEITUAN	5.46
KWEICHOW MOUTAI CO LTD	4.27
CHINA CONSTRUCTION BANK CORP	4.19
FOCUS MEDIA INFORMATION TECHNOLOGY CO LTD	3.70
NETEASE INC	3.35
FUYAO GLASS INDUSTRY GROUP CO LTD	3.25
JIANGSU HENGRUI PHARMACEUTICALS CO LTD	3.11
BYD CO LTD	2.99

Investment Team**Nicholas Chui, CFA**

Years with Firm 1
 Years Experience 15

Eric Mok, CFA

Years with Firm 26
 Years Experience 26

1. Periods shorter than one year are shown as cumulative total returns.

What Are The Risks?

All investments involve risks, including possible loss of principal. 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**. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalization, and exchange control regulations and rapid inflation, all of which can negatively impact the fund. Investments in Hong Kong and Taiwan could be adversely affected by its political and economic relationship with China. To the extent the fund invests in companies in a specific **country or region**, the fund may experience greater volatility than a fund that is more broadly diversified geographically. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. The managers' **environmental social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance.

Important Legal 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.

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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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a. Gross expenses are the fund's total annual operating expenses as of the fund's annual report available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect voluntary fee waivers, expense caps and/or reimbursements. Voluntary waivers may be modified or discontinued at any time without notice.

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