

Performance Review

- Chinese stocks declined during the quarter and underperformed broader emerging market (EM) equities. Government stimulus and monetary-easing measures, implemented in recent months—including efforts to reduce borrowing costs to boost the property market—failed to lift investor sentiment after a late September/early October rally. Investor concerns about a potential US-China trade conflict weighed on equity markets, given the incoming President-elect Donald Trump's calls for the imposition of additional tariffs. Meanwhile, fiscal stimulus in China disappointed investors, further raising uncertainty as to whether government measures can solve the country's real estate crisis. The latest activity data in China indicated that the impact of past stimulus measures has been patchy. While authorities in China pledged to increase monetary and fiscal easing, further details were scant. This caused investor sentiment in Chinese equities to dip.
- For the quarter, the fund returned -5.04% at NAV, while the benchmark, the MSCI China All Shares Index-NR, returned -6.96%.

QUARTERLY KEY PERFORMANCE DRIVERS

- Smartphone and consumer electronics maker Xiaomi reported sharp year-over-year quarterly revenue and profit growth across its smartphone, internet services and electric vehicle (EV) businesses. This added onto positive sentiment from reports that the company will launch its second EV model, and smartphone trade-in subsidies in China also provided additional support to the share price.
- Trip.com Group operates as an online travel agency. The company offers mobile applications, ticketing and travel management services globally. Strong third-quarter results (underpinned by robust local and international travel demand) and announcements of economic stimulus from the government were some drivers of stock price performance. Thanks to its portfolio of brands, the company has accumulated a large user base and has established relationships with most travel partners, which, in our view, makes it better positioned than its peers to benefit from outbound travel and any growth in demand.
- CMOG Group is a mining company; it accounts for approximately one-third of global cobalt supply. The company also produces other metals such as copper and tungsten. Its share price moderated in the fourth quarter of 2024, after reaching a one-year high in end September on expectations of strong demand in an upcoming peak period. Hopes of economic recovery, which will also support demand for metals, were also supportive of the company's share price in end September.

Outlook & Strategy

- The election of Donald Trump as US president has significant implications for China and sets the stage for an uncertain and more unpredictable outlook. Trump has proposed tariffs as high as 60% on Chinese imports, which would, in our view, result in a significant drop in exports to the United States and hurt China's overall economic growth. That said, since Trump's first term began in 2016, many Chinese companies took steps to reduce the risk from higher tariffs, such as increasing exports to Asia. In our engagement with company management teams, there is some awareness of the changing operating landscape. The risk of higher tariffs is recognized and has been partially incorporated into EM valuations.
- We remain optimistic that Chinese equities can post positive returns going forward, driven by our belief that corporate earnings will likely recover amid improving economic activity and pro-growth policies. Recent measures underline policymakers' commitment to manage troubles in the real estate market and to boost domestic consumption. Combined with rate cuts and other stimulus efforts, the shift in policy makes us optimistic about economic growth going forward. We remain hopeful that China will continue to 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 have been 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.
- Taking a long-term view, valuations of Chinese equities remain attractive. Over the past few years, Chinese stocks have faced significant pressure and have been largely overlooked by investors. However, the pivot in policy support appears to have sparked a notable shift in investor sentiment, which is evident among both domestic and foreign investors. In addition to boosting market confidence, investors also re-evaluating the growth potential of Chinese companies. Valuations, which had been suppressed, are now being reassessed, with many investors recognizing the underlying value and growth prospects.
- Despite continuing volatility, we believe market sentiment towards 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	0.97	-5.04	11.48	-14.71	-5.71	0.48	6.68
Templeton Dragon Fund Inc (Market Price Return) ^a	-0.35	-7.31	5.46	-17.33	-6.68	0.43	7.22
MSCI China All Shares Index- NR	1.50	-6.96	16.38	-7.69	-1.78	1.22	-

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

Top Holdings	%
TENCENT HOLDINGS LTD	10.00
ALIBABA GROUP HOLDING LTD	5.96
MEITUAN	4.91
CHINA CONSTRUCTION BANK CORP	4.90
XIAOMI CORP	4.66
INSTITUTIONAL FIDUCIARY TRUST - MONEY MARKET PORTF	4.63
FOCUS MEDIA INFORMATION TECHNOLOGY CO LTD	3.75
FUYAO GLASS INDUSTRY GROUP CO LTD	3.55
KWEICHOW MOUTAI CO LTD	3.52
TRIP.COM GROUP LTD	3.40

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

Investment Team

Nicholas Chui, CFA
Years with Firm 1
Years Experience 15

Eric Mok, CFA
Years with Firm 26
Years Experience 26

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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