FRANKLIN TEMPLETON

Templeton Dragon Fund Inc

December 31, 2023

United States - Retail

Fund Commentary

Performance Review

Chinese stocks declined during the quarter, a downside outlier compared to most markets across the globe, which broadly reacted positively to guidance that interest rates may begin to decline in 2024. Investors in the Chinese market remained concerned about the country's weaker-than-expected economic growth and troubled property market. While China showed some progress on its relationship with the United States, a ratings agency's downgrade on its credit outlook negatively impacted sentiment. A lack of strong stimulus from the China Economic Work Conference also added to negative sentiment. Towards the end of the quarter, shares of technology companies in China corrected after the country unveiled new draft rules to tighten regulations in the sector; the new rules revived concerns about another crackdown on the gaming sector. However, subsequent announcements—which had more positive undertones—and the approval of new game titles alleviated some concerns. China's gross domestic product expanded 1.3% sequentially in the third quarter, which was substantially higher than its 0.5% growth in the previous quarter. The People's Bank of China's (PBoC's) supportive monetary policy continued. The PBoC maintained key interest rates and continued to inject additional liquidity into the country's financial system through its medium-term lending facility in an effort to support the economy.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Fuyao Glass Industry Group Co., Ltd.	Real Estate (Underweight)
	Midea Group Co., Ltd. Class A	—
	Tencent Holdings Ltd.	—
HURT	Contemporary Amperex Technology Co., Ltd. Class A	Industrials (Stock Selection)
	PDD Holdings Inc. ADR Class A	Financials (Stock Selection)
	China Merchants Bank Co., Ltd.	Information Technology (Stock Selection, Underweight)

- Battery manufacturer Contemporary Amperex Technology was a key relative detractor as shares declined sharply. Third-quarter net income and revenue missed consensus expectations, and increasing competition weighed on investor sentiment. In early December, the United States issued guidance that will limit Chinese content in batteries for electric vehicle tax credits.
- Our underweight position in Pinduoduo and Temu parent PDD Holdings weighed on relative performance as shares advanced sharply during the quarter, bolstered by growing popularity of the company's international e-commerce business amidst high global inflation and heavy discounting. PDD reported a massive leap in quarterly revenue compared to the same period in 2022, when COVID-19 curbs continued to impact earnings.
- Conversely, automotive glass maker Fuyao Glass Industry Group was a key relative contributor. The company's A shares surged more than 40% during the quarter amidst stronger-than-expected domestic demand and growing vehicle exports. Fuyao has become an important innovator and partner to Chinese automakers, and in recent quarters, the company has continued to demonstrate its ability to grow revenues through market share gains as well as pricing power.

Outlook & Strategy

- We are optimistic that Chinese equities can post positive returns in 2024, driven by our belief that corporate earnings will likely recover amidst improving economic activity and pro-growth policies. China's economic outlook remains challenging. While a swift rebound in growth is not likely, clear signs of a bottoming in growth will be welcomed. We believe that select China-based companies have been oversold due to weak sentiment, but 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 the likelihood of a US soft landing, and 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.
- Chinese authorities have followed through with plans to stimulate domestic consumption within the automobile, property and leisure industries, amongst others. We believe this precedes the implementation of concrete policies to shore up the economy, which, coupled with elevated household savings, should finally drive the premiumization 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 is a prerequisite for gains in Chinese equities to persist, 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 newer reform initiatives will focus on containing financial system risks and pursuing technology advancement and self-sufficiency.
- China's economy should, in our view, still benefit from the removal of zero-COVID restrictions but is being held back by remaining property market risks, which have led to an easier policy environment. Trade disputes remain unresolved in the longer term and are a symptom of broader tensions as heightened geopolitical stresses persist. However, the regulatory concerns that previously dominated market sentiment are fading, with the focus turning increasingly to supporting growth.

Fund Details

Inception Date	9/20/1994
Benchmarks	MSCI China All Shares Index-NR
CUSIP	88018T101
Ticker	TDF

Fund Description

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

- The interest-rate cutting cycle in emerging markets is building momentum, headlined by China's rate cuts. The onset of an easing cycle tilts the balancing act of tackling inflation while pursuing economic growth towards 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 will 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 remain 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.
- There is increasing anecdotal evidence that Chinese consumers are postponing purchasing decisions for goods due to expectations of falling prices. This contrasts with the continued appetite amongst consumers to spend on services. Travel, leisure and health services are proving to be more resilient parts of the Chinese economy. Nevertheless, until confidence improves in the real estate sector, Chinese households are expected to remain cautious in their spending decisions. The first week of October in China is known as national Golden Week. It is a period when workers take time off for travel and entertainment. Investors monitor the holiday to assess household spending trends, as well as sector beneficiaries. Daily trips on China's railways set a new record of 20.1 million on the first day of the holiday. We are monitoring sales data and company updates in the hotel, airline and property sectors for signs of a change in the current cautious spending trend.
- During the quarter, our portfolio managers observed that the turnout for the first broad-based China-related conferences in nearly four years was stronger than expected, which suggests that investors and corporations are still interested in opportunities in China. Our meetings with China-based internet companies confirm this. These firms, which dominate the Top 10 holdings within the MSCI China Index, have expressed their strategy to reinvest earnings for revenue growth, pivoting away from their previous strategy of cost-cutting to preserve earnings. We believe that improving macroeconomic conditions is supportive of reinvestment, which we view as important for long-term earnings growth. In our view, a stimulus spending kick started China's recovery, but corporate reinvestment will be crucial to achieving the country's long-term growth plan.
- In China, the investment landscape, after this long period of global stagflation fear, has exposed large areas of excellent value. Bottom-up research remains crucial, in our view. We continue to prefer companies which are less affected by regulatory scrutiny. We are focused on domestic companies that we believe will benefit from long-term thematic growth drivers, including rising consumption and localization.

Performance Data[1]

Average Annual Total Returns[2] (%)	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Market Price	-5.44	-4.33	-20.06	-23.93	-3.06	0.82	7.28	09/20/1994
NAV	-3.29	-7.19	-21.11	-22.24	-3.30	0.15	6.52	09/20/1994
MSCI China All Shares Index-NR	-2.05	2.93	-11.53	-16.20	0.04	1.80	–	–

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

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. Net Returns (NR) include income net of tax withholdings when dividends are paid. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. Important data provider notices and terms available at www.franklintempletondatasources.com. Net Returns (NR) include income net of tax withholding when dividends are paid.

Portfolio Diversification

Top Holdings
% of Total

Top Holdings	%
TENCENT HOLDINGS LTD	8.85
ALIBABA GROUP HOLDING LTD	6.00
KWEICHOW MOUTAI CO LTD	5.27
NETEASE INC	3.88
FOCUS MEDIA INFORMATION TECHNOLOGY CO LTD	3.82
PING AN INSURANCE GROUP CO OF CHINA LTD	3.75
PDD HOLDINGS INC	3.56
BAIDU INC	3.21
CHINA MERCHANTS BANK CO LTD	3.12
JIANGSU HENGRUI PHARMACEUTICALS CO LTD	3.12

1. Net Returns (NR) include income net of tax withholding when dividends are paid.
2. Periods shorter than one year are shown as cumulative total returns.

Investment Team

Nicholas Chui, CFA
Years with Firm >1
Years Experience 14

Eric Mok, CFA
Years with Firm 25
Years Experience 25

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 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 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.

Distributions are not guaranteed and are subject to change. The Closed-End Funds are not sold or distributed by Franklin Distributors, LLC, or any affiliate of Franklin Resources, Inc. Unlike open-end funds, shares are not continually offered. Like other public companies, closed-end funds have a one-time initial public offering, and once their shares are first issued, are generally bought and sold through non-affiliated broker/dealers and trade on nationally recognized stock exchanges. Share prices will fluctuate with market conditions and, at the time of sale, may be worth more or less than your original investment. Shares of exchange-traded closed-end funds may trade at a discount or premium to their original offering price, and often trade at a discount to their net asset value. Investment return, market price and net asset value will fluctuate with changes in market conditions. The Funds are subject to investment risks, including the possible loss of principal invested.

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. **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.

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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