

Templeton Global Bond A Acc \$

Morningstar Category Benchmark

Barclays Global Aggregate TR USD

Morningstar Analyst Rating™



Anthony McDonald

Morningstar Analyst

Executive Summary

People: Manager Michael Hasenstab is very experienced and backed by a well-resourced team.

Parent: A solid steward of shareholders' capital.

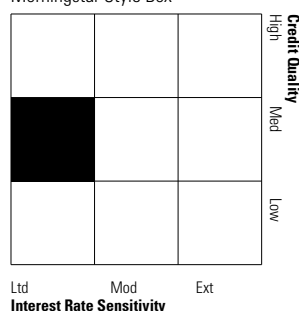
Process: The process here is thorough, and the manager and team use it well.

Performance: Performance under Hasenstab's tenure has been very strong.

Price: The TER on this fund is higher than the category median.

Role in Portfolio: Supporting Player. The fund has typically been used by Europe- and Asia-based investors seeking global bond exposure, but its emerging-markets tilt could render it more appropriate as a supporting player in a portfolio.

Morningstar Style Box™



Morningstar Opinion

20 Mar 2012 | We think Templeton Global Bond is an attractive choice for investors who understand its risks.

Manager Michael Hasenstab is experienced and has been at this fund's helm since 2002 (and at the US-domiciled version since 2001). His expertise in macroeconomic analysis underpins this offering and the length of his tenure as manager shows his commitment to the product. He is supported by a well-resourced team, incorporating local expertise in key markets, which we believe provides him with the resources he needs to run this fund.

In our view, the established investment process is robust, being driven by valuation and fundamentals. Hasenstab invests in areas he believes are undervalued given the team's global macroeconomic analysis and detailed country-level expectations. The manager then implements his views in the portfolio through a currency trade, by taking on credit risk, or through both.

Hasenstab is relatively unrestricted in his investment universe, and his willingness to take large off-benchmark

Morningstar® Category	Global Bond
Manager's Benchmark	100% JPM GBI Global Traded TR USD
Inception Date	28/04/2006
12 Month Yield %	0.00

positions, especially in emerging markets, means the portfolio and performance may deviate substantially from his peers' in the category and from that of the benchmark index. For example, at the end of 2011, he held very little duration exposure to the main markets of the US, UK, or Europe, and had high-conviction positions in emerging-markets currencies.

The performance record does, however, show that Hasenstab has managed the higher risk from his unconstrained, strategic investment process well over the longer term. The fund has outperformed its category and benchmark since he was appointed comanager in 2002.

We note Franklin Templeton's exceptionally large book of assets can be a liquidity challenge, and we have some concerns about the manager's ability to react to unexpected events in the same way as he has in the past. In addition, the fund's TER is high relative to the sector median. Although we will continue to monitor these factors carefully, we currently believe that the fund merits a Silver rating based on our positive assessment of the manager and his process.

ISIN	LU0252652382
Domicile	Luxembourg
Legal Status/UCITS	SICAV
Currency	USD
Total Net Assets	USD 41237.01 Mil

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Manager	Michael Hasenstab, Sonali Desai
Manager Start Date	01/06/02
Average Tenure	5.89
Avg Yrs Experience	More than 15 years
Longest Tenure	10.18

Other Funds Managed

Michael Hasenstab is responsible for more than 10 other Templeton funds.

Number of Analysts	More than 35
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Management Company

Franklin Templeton Investment Funds

Total Assets Under Mgt	£450 bn (31/01/2012)
Total Assets in Strategy	USD 92 Bil

No Holdings (Range)	40-60
Max Position Size	Max 7% for sub-investment-grade bonds
Expd Turnover	Typically below 40%
Tactical Use of Cash	Yes
Hedging Policy	Selectively Hedged
Manager's Benchmark	100% JPM GBI Global Traded TR USD

People

The fund is run by manager Michael Hasenstab, who joined Franklin Templeton in 1995. Following a leave of absence to obtain a PhD, Hasenstab was named comanager on this offering in 2002, and sole manager in 2006. He is a senior member of the Franklin Templeton Fixed Income group. He specializes in country asset allocation, macroeconomics and time series modeling, and sovereign credit analysis in emerging and developed international fixed-income and currency markets. He also runs several other funds at Franklin Templeton, including the Templeton International Bond fund and the Templeton Emerging Markets Bond fund. We think very highly of this manager, and we note that his expertise in global macro analysis is a key input to the running of the fund.

Parent

Franklin Resources traces its roots to 1947, when Rupert H. Johnson Sr. named his brokerage firm after Benjamin Franklin. While the firm has always run proprietary mutual funds, it also has grown through acquisition. It bought Templeton, Galbraith & Hansberger from Sir John Templeton in 1992, adding an array of international funds. Four years later it bought Heine Securities, investment advisor to the Mutual Series funds. Franklin Resources now centers on the Franklin, Franklin Templeton, and Mutual Series lineups. A Johnson still runs the firm. Aspects of the firm are appealing. Most offerings levy below-average fees and are typically run by long-tenured managers who invest more than USD 1 million in their funds. The firm has a sensible compensation plan, and the

Hasenstab is supported by a large team of more than 15 analysts based in California and London, and he also benefits from the work of the well-resourced fund management team, including significant local expertise in key emerging markets. The local market analysts help with analysis of country-specific issues. We think this is a well-sized team that provides the manager with the resources he needs to run this offering well. Hasenstab also invests his own money in the US version of this fund, which is a good sign as it helps align his interests with his fundholders'.

US funds are overseen by experienced boards of directors. That said, this global organization is complex. The firm's subsidiaries have distinct cultures employing different strategies. Mutual Series is value-oriented while Franklin Templeton is more growth-focused. Because the subsidiaries don't share investment resources, retention within each is vital. In 2009, Mutual Series lost several managers to PIMCO. In 2007, a number of Templeton managers jumped ship. While those defections are rare, another wave would be a red flag. Overall, though, the concerns here don't overshadow the firm's broader merits.

Process: Investment Approach

The process here is driven by valuation and fundamentals--Hasenstab invests in areas he believes are undervalued given the team's global macroeconomic analysis and detailed country-level expectations. His opportunity set encompasses all government bonds issued globally, by both developed and developing countries, as well as explicitly guaranteed bonds. There are no specific limits on emerging-markets exposure, with the only limitation being that total high-yield exposure cannot exceed 25% of the fund. The analysts' regional- and country-level research, which drives the overall macroeconomic outlook, is informed by a variety of macro

models and the team derives a currency, duration, and interest-rate target following consensus on the macro outlook for each economy. Hasenstab decides whether to implement his views through a pure currency trade, through taking credit risk, or both. He is prepared to go heavily off-benchmark if he believes there is a fundamental case to do so. Portfolio risk management is primarily addressed through interaction with the risk budget subcommittee. It is mainly based on forward-looking models that aim to provide a consistent risk-taking approach with a proprietary performance attribution system. We think this is a thorough and established process with which the manager and team are very comfortable.

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Effective Duration	1.48
Effective Maturity (Y)	5.29
Avg Credit Quality	BBB
Avg Wtd Coupon	6.15
Avg Wtd Price	-

Top 5 Country Exposures	%
Republic of Korea	14.37
Hungary	10.99
Poland	10.82
Mexico	9.28
Ireland	9.21

Portfolio Positioning

Hasenstab invests according to his medium-term, strategic outlook for bond markets, but he is also prepared to shift duration (a measure of a portfolio's interest-rate sensitivity) quickly if his views change. Thus, he added US duration actively as the 2008 credit crisis unfolded and the portfolio's overall duration was nearly 6 years in 2009; however, he cut duration significantly over 2010 and into 2011 as he struggled increasingly to identify significant value in government bond yields given his expectation of interest-rate rises across most of the world. Currency is also part of the manager's opportunity set, and this was where he believed value could be found in 2011, notably in emerging markets. In contrast, in mid-2008 he held material positions in defensive currencies such as the yen

Asset Allocation	% Assets	long %	short %	net %
Stocks	0.00	0.00	0.00	0.00
Bonds	56.05	0.25	55.81	
Cash	40.51	0.00	40.51	
Other	4.83	1.14	3.69	

Top Holdings	% Assets
Korea(Republic Of) 4.25%2012-12-10	3.72
Korea(Republic Of) 4%2012-06-10	3.21
Korea(Republic Of) 3%2013-12-10	2.98
Sweden(Kingdom Of) 5.5%2012-10-08	2.88
Korea(Republic Of) 3.75%2013-06-10	2.60
Poland(Rep Of)2013-01-25	2.12
Poland Government	1.71
Poland(Rep Of)2012-10-25	1.65
Hungary Rep 6.375%2021-03-29	1.63
New Sth Wales Tsy 5.5%2013-08-01	1.60
Malaysia 2.509%2012-08-27	1.52
Russian Federation 7.5%2030-03-31	1.47
Malaysia 3.718%2012-06-15	1.47
Poland Government2014-01-25	1.44
Sweden Treasury Bill	1.41
Mexico(Utd Mex St) 8%2013-12-19	1.36
Ireland(Rep Of) 5.4%2025-03-13	1.31
Israel(State Of) 3.5%2013-09-30	1.29
Ireland(Rep Of) 5%2020-10-18	1.26
Poland(Rep Of)2012-07-25	1.22
Total Equity/Bond Holdings	0/148
Assets in Top 10 Holdings %	24.09

and Swiss franc in expectation of a challenging global economic environment, which helped the fund hold up during the financial crisis despite retaining meaningful emerging-markets exposure. Indeed, emerging markets are a key strategic focus, accounting for more than 60% of bond and currency exposure over the recent past; in 2011, for example, Hasenstab invested significantly in Asia and Latin America in 2009-10 in the expectation that their superior growth potential relative to the developed world would lead to outperformance from depressed levels.

Credit Rating Breakdown	%
AAA	16.95
AA	1.29
A	46.36
BBB	23.47
BB	7.50
B and below	4.29
Not Rated	0.14

Maturity Breakdown	%
1 to 3	51.17
3 to 5	10.33
5 to 7	6.98
7 to 10	19.11
10 to 15	7.42
15 to 20	3.73
20 to 30	0.07
Over 30	1.19

Coupon Range	%	Rel Cat
0% to 4%	23.64	0.48
4% to 6%	30.00	0.99
6% to 8%	31.87	3.25
8% to 10%	8.76	2.00
10% to 12%	4.18	14.31
Over 12%	1.56	3.30

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Trailing (EUR)	Total Rtn	+/- % Bmark	+/- Cat	%Rnk in Cat
3 Mo	8.82	0.71	1.09	25
6 Mo	9.81	2.47	2.20	17
1 Yr	16.81	-1.98	-0.24	65
3 Yr Annualised	12.79	2.05	2.42	14
5 Yr Annualised	11.79	3.00	3.58	6
10 Yr Annualised	-	-	-	-

MPT Stats	3 Yr	Rel Cat	5 Yr	Rel Cat
R-Squared	27.74	0.36	30.86	0.39
Beta	0.91	0.83	0.84	0.75
Alpha	2.66	-3.33	3.95	-3.66

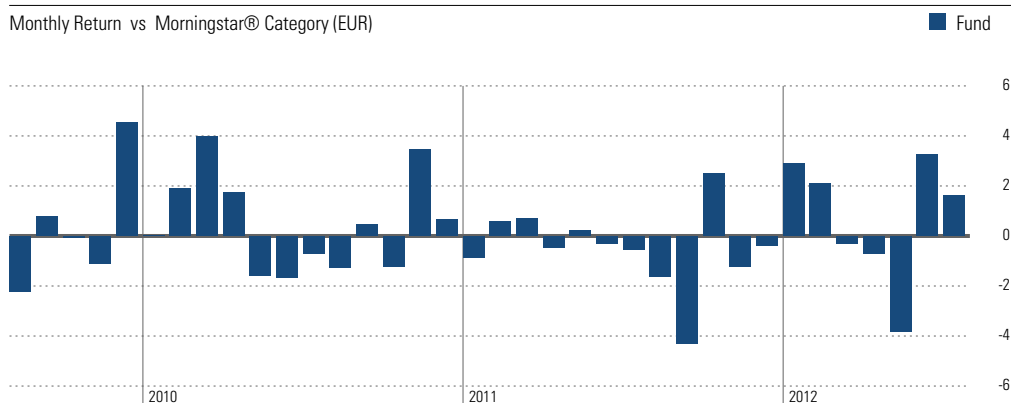
Volatility & Risk Adj Returns	3 Yr	Rel Cat	5 Yr	Rel Cat
Std Deviation	9.23	1.04	11.60	1.30
Mean	1.04	1.22	0.99	1.43
Sharpe Ratio	1.27	1.18	0.86	1.21
Information Ratio	0.23	-1.64	0.34	-1.89
Treynor Ratio	8.25	1.59	10.34	2.08

Performance Analysis

Performance has been strong since Hasenstab took over as comanager in 2002: The fund has significantly outperformed the category average and its benchmark to the end of Feb 2012. Investors should note that the manager's strategic approach to the global government bond universe, which incorporates significant exposure to emerging-markets bonds and currencies that are not included in the index, is likely to continue to result in a different performance profile from these benchmarks. However, the fund also outperformed the peer group in 2008, when emerging-markets debt struggled, benefiting from more defensive positioning in mid-2008 in

expectation of a global economic downturn. This included meaningful positions in more defensive currencies such as the yen and the Swiss franc. In the ensuing 2009-10 recovery, it also performed very well, supported by Hasenstab's reassertion of his positive longer-term outlook for emerging markets, resulting in large positions in government bonds and currencies that he believed had become undervalued during the 2008 crisis. 2011 was a difficult year, with the fund underperforming the benchmark and category average. An underweight duration stance detracted from performance as US Treasuries fell on ongoing concerns surrounding the eurozone debt crisis. An overweight position in emerging-markets currencies also weighed on returns.

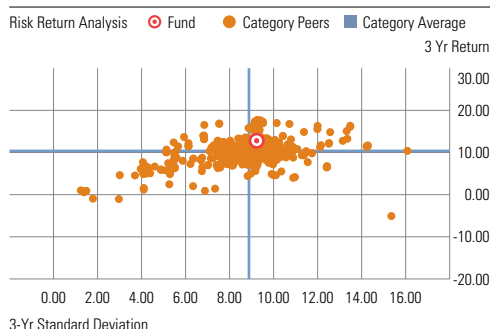
Monthly Return vs Morningstar® Category (EUR)



Risk & Return

Investors should be aware that this fund is likely to be more volatile (one measure of risk) than a typical global bond fund, as the manager is prepared to take large off-benchmark bets, often in more volatile emerging-markets bonds and currencies, when they are supported by the team's fundamental analysis. This is evident when

comparing the fund to its benchmark and the peer group of global bond funds; it has exhibited noticeably more volatility in generating its attractive relative and absolute performance profile.



Morningstar Rating™ (Rel Cat)	Morningstar Return	Morningstar Risk	Morningstar Rating™
3 Year	Abv avg	Abv avg	★★★★
5 Year	High	Abv avg	★★★★★
Overall	High	Abv avg	★★★★★

Price

This fund's TER is significantly higher than the category median, which is a concern. We further note that the fund's management fee and TER are higher than those of its US-domiciled version.

Max. Initial Sales Charge %	6.50
Max. Annual Management Fee %	0.75
Total Expense Ratio %	1.41