FRANKLIN TEMPLETON INVESTMENTS

Investment Team Update

August 31, 2018

Finding Opportunities in Volatility

EMERGING MARKETS INSIGHTS

Three Things We're Thinking About Today

1. Sharp falls in the **Turkish lira and Argentine peso** stoked contagion concerns, knocking down emerging-market (EM) currencies and stocks in August. We believe the asset class is far from experiencing a severe crisis. Turkey makes up just a small part of the EM universe. Within the MSCI Emerging Markets Index are over 20 companies whose individual weightings are larger than Turkey's as a whole.[1] Argentina is not in the index, and its weighting is expected to be even smaller than Turkey's when it is included in 2019. Ultimately, emerging markets are a group of diverse countries with markedly different economic and political climates. While sensational headlines often cause indiscriminate selling across emerging markets, we can use this opportunity to invest in fundamentally sound companies at what we consider to be attractive valuations.

2. Shares in several **online gaming** companies came under pressure as regulators in China announced the possibility of limiting the number of new games, as well as the number of hours children spend on these games. An ongoing suspension in new game approvals—the result of a restructuring in government agencies—weighed on the industry. We maintain a positive view on the industry as we believe underlying fundamentals remain solid. We expect select companies to benefit from increased monetization of existing popular games and continued growth in other businesses, including digital content and online advertising.

3. Comprising over 20,000 companies with an aggregate market capitalization of more than US$5 trillion and daily turnover of about US$40 billion[2], we believe the **EM small-cap** asset class offers investors the potential for a significant opportunity. EM small caps are more likely to be driven by domestic demand, favorable demographics, local reform initiatives and innovative niche products. In our view, EM small caps offer attractive risk/return attributes in the current global economic environment, as exposure to the EM small-cap space typically complements exposure to the EM large-cap space, particularly in areas such as health care and consumerism. Moreover, given the size of the investment universe, EM small caps have generally limited research coverage, often resulting in mispriced stocks and providing active investors with attractive investment prospects.

Market Performance (MSCI EM Index, USD)
Cumulative Return

Best	**Worst**
+Egypt (3.0%)	-Turkey (-29.0%)
+Philippines (2.6%)	-Brazil (-11.3%)
+Thailand (2.3%)	-Greece (-10.0%)

Sector Performance (MSCI EM Index, USD)
Cumulative Return

Best	**Worst**
+Health Care (3.3%)	-Utilities (-6.1%)
+Energy (-0.3%)	-Consumer Discretionary (-4.9%)
+Real Estate (-0.9%)	-Consumer Staples (-4.3%)

Currency Performance (vs. USD)
% Change

Best	**Worst**
+Thailand (1.7%)	-Turkey (-25.9%)
+Korea (0.5%)	-South Africa (-10.6%)
+Egypt (0.3%)	-Brazil (-8.8%)

Source: FactSet, one-month period ending 8/31/18.

Outlook

Macroeconomic factors—including mounting global trade tensions, a stronger US dollar and rising interest rates—have been primary contributors to market volatility this year. During such periods, EM equities generally face heightened risk aversion and indiscriminate selling, often at the expense of solid fundamentals. As long-term investors, we attempt to look past short-term market turbulence to identify long-term value in EM equities.

It is also important to note that the EM asset class is not homogeneous. As stock pickers, we can choose among the varied opportunities that emerging markets offer to build well-diversified portfolios that seek to avoid excessive risks. Overall, we still have a constructive view on emerging markets, which are operating in an environment of improving economic growth and stable commodity prices. EM currencies in general are undervalued, in our opinion.

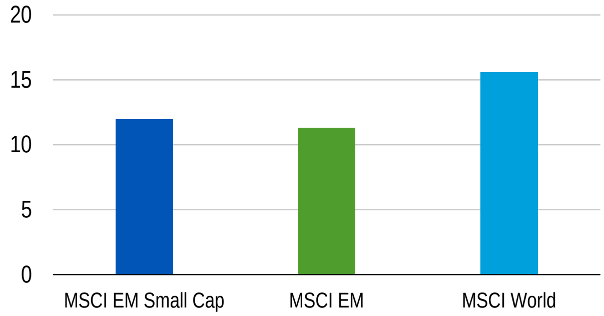
Accordingly, we believe the contagion impact upon the broader EM asset class should be limited, given most countries have more robust institutions, orthodox economic policy, stronger finances, lower inflation and lower near-term financing requirements.

A note to our readers: Given the rapid changes that can take place in global markets, it is often difficult to provide up-to-date materials that address the most current situations. The following update is valid only as of August 31, 2018.

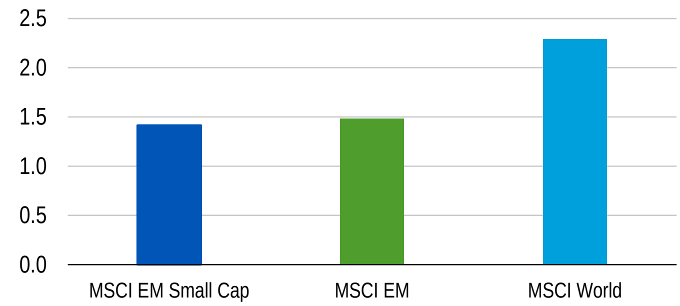
Emerging Markets Key Trends and Developments

EM equities retreated in August as uneven progress in trade talks and country-specific challenges weighed on the asset class. Turkey, Argentina and Brazil confronted steep drops in their currencies and stocks amid economic and political uncertainty. Conversely, developed-market equities advanced. The MSCI Emerging Markets Index fell 2.7% over the month, compared with a 1.3% gain in the MSCI World Index, both in US dollars.

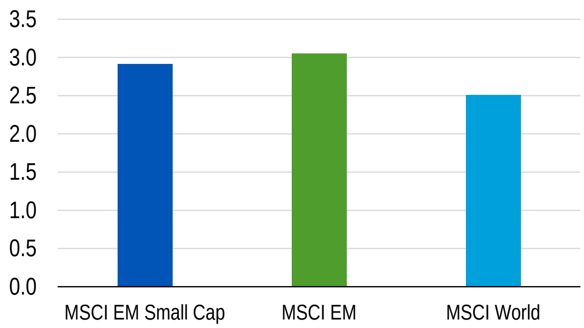
Price to Earnings (Next Twelve Months)



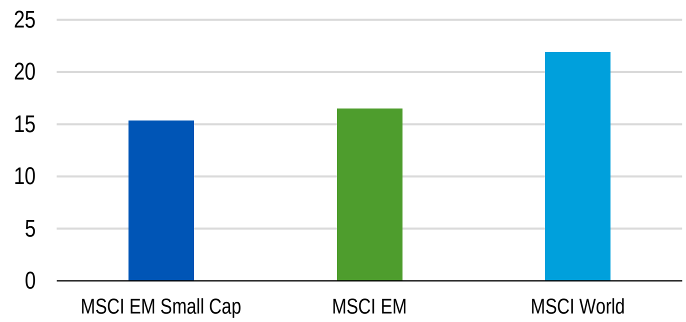
Price to Book Value (Next Twelve Months)



Dividend Yield (Next Twelve Months)



Earnings Per Share Growth (Next Twelve Months)



Sources: MSCI, FactSet. All data as of August 31, 2018.

The Most Important Moves in Emerging Markets This Month

- Asian equities fell, hampered by declines in Pakistan and China. In Pakistan, a newly elected government grappled with the country's massive current account deficit and potential need for an international bailout. China's trade row with the United States deepened as both countries imposed fresh tariffs on each other's goods and flagged more duties ahead. The trade tensions added to concerns around China's deleveraging campaign and weaker-than-expected economic data. Conversely, stocks in the Philippines, Thailand and South Korea stood out. The Philippine central bank unveiled its largest interest rate hike since 2008 to tackle rising domestic inflation.

- Latin American markets beat a collective retreat, with stocks in Brazil, Chile and Peru leading the way down. Brazil's second-quarter economic growth was subdued as a nationwide truckers' strike hit businesses and consumers. Meanwhile, political uncertainty heightened ahead of a general election in October as jailed ex-president Luiz Inacio Lula da Silva remained popular in polls. Peru's economy grew less than expected in June, though its expansion in the second quarter as a whole was robust. Mexican equities fell the least within the region. Investor sentiment was cushioned by Mexico's new trade deal with the United States as both countries worked on revising the North American Free Trade Agreement (NAFTA).

- Emerging European equities lost ground as Turkey's economic and political challenges gripped markets. The United States raised tariffs on metals from Turkey amid deteriorating bilateral relations, fueling anxieties about structural weakness in the Turkish economy. The lira slumped, leading to a double-digit slide in Turkish equities. Greek and Russian stocks also declined. The United States announced new sanctions on Russia, triggering weakness in the ruble. In contrast, stocks in Hungary and Poland gained. Hungary's economy grew faster than expected in the second quarter. South Africa's stock market fell as the rand lost value, largely due to broad caution toward emerging markets and concerns around South Africa's proposed land reform.

- Frontier markets declined, faring worse than their EM counterparts. Argentina was the region's weakest performer as the peso tumbled. The government approached the International Monetary Fund for an early release of bailout funds, while the central bank hiked its key interest rate to 60% to shore up the currency. Stocks in Lebanon and Nigeria also pulled back. Nigeria's economic growth slowed in the second quarter as oil production declined. However, Oman, Bangladesh and Romania bucked the downtrend. Oman's budget deficit fell sharply in the first half of the year as oil and gas revenues surged.

Market	(–)	N	(+)	Investment Thesis
Asia				Strong macro fundamentals, but trade and geopolitical concerns might affect some markets.
China				The overall outlook for China remains stable but we are cautious as uncertainties are rising. Supply side reforms and deleveraging could help ease structural risks but rising trade tensions could offset the benefits of stronger global growth. The RMB is at risk from a stronger US dollar driven by increases in US interest rates.
India				Strong macro fundamentals, under-penetration, formalization of economy and a stable government, but near-term earnings challenges lead us to maintain a neutral view on the market.
Indonesia				Economic growth has been recovering slowly. However, politics will likely heat up in 2018 with the presidential election in April 2019.
South Korea				Macro indicators remain sound. The geopolitical situation warrants close attention, while concerns about government regulations are growing.
Pakistan				Uncertainty remains with concerns on a political reshuffle and high current account deficit.
Taiwan				Cross-strait geopolitical risk has always existed and is well-known. Macroeconomic data remain healthy but inflation may start to rise, pressuring interest rates. While a strong Taiwanese dollar weighed on corporate earnings, recent weakness should ease concerns.
Thailand				Overall outlook is positive. Economic stability remains strong with continued improvement in economic growth. The upcoming general election could further boost sentiment.
Vietnam				Steady outlook. GDP above 6%, underpinned by resilient domestic demand, rebounding agricultural production, and strong export-oriented manufacturing.
Europe				Solid economies with attractive valuations, but political uncertainty may weigh on some markets.
Czech Republic				The recent business survey data were positive and inflation has moderated recently. The central bank's latest assessment signals a modest deceleration of real GDP growth to 3.4%, from its earlier forecast of 3.9%.
Hungary				Economic data generally remain strong in recent months, with high industrial and construction confidence, but consumer sentiment normalizing back to previous high levels from the exceptionally large jump in April. The central bank remains committed to a loose monetary stance.
Russia				In a stable oil price/ruble environment, domestic names should benefit due to earnings revisions and increased demand. The political situation should remain stable with the next presidential election scheduled for 2024. However, macro risks remain high due to volatile commodity prices and the possibility of additional US/EU sanctions.
Turkey				Turkey currently employs a tight monetary policy and slightly expansionary fiscal policy with an expected GDP growth of 3%. If the economy cools down and inflation normalizes, Turkey could offer significant upside in view of its undemanding valuations.

cont'd.

The graphic reflects the views of Franklin Templeton Emerging Markets Equity regarding each region. All viewpoints reflect solely the views and opinions of Franklin Templeton Emerging Markets Equity. Not representative of an actual account or portfolio.

Regional Outlook, continued
Three-Month Period Ended June 30, 2018

Market	(–)	N	(+)	Investment Thesis
Latin America				Solid economic situation but political elections in 2018 may result in increased volatility in some markets.
Argentina				Portfolio outflows have resulted in a run on the currency, higher inflation, lower GDP growth and a change in the political outlook. The presidential campaign has already started and public confidence in the government has been negatively impacted by events in late April / early May. The IMF agreement could support asset valuations but it is far from clear that a sustainable recovery in sight.
Brazil				The near-term outlook is challenging in view of 2018 presidential elections, which could bring higher volatility, although a favorable outcome is expected. Our long-term outlook is positive with a new president likely to continue promoting reforms.
Mexico				Macroeconomic outlook is stable and equity valuations are below historical averages. We believe Mexico’s risk profile has increased with the ongoing NAFTA renegotiation and the 2018 presidential election.
Peru				Peru witnessed a peaceful political transition amidst a supportive international economic environment. Peru´s economic and debt indicators stand favorably versus its regional peers. The resignation of the Finance Minister (signaling the challenges that the new president has in terms of building political consensus with the opposition) could indicate that the implementation of infrastructure projects, vital for economic growth recovery, could decelerate. We expect political noise but believe that it should not deviate Peru from its sustained long-term growth trend.
Middle East				Varied outcomes in different markets—some affected by macro and political factors, others benefiting from reforms and FTSE/MSCI upgrades.
Kuwait				Potential FTSE upgrade could be a positive catalyst for the market. This market’s fiscal position appears stronger than its regional peers and hence more defensive. A persistent risk is political deadlock, which often leads to slower fiscal reforms and investments.
Qatar				Risks include slowing economic growth, political conflict and deadlock, and continued weak investor appetite.
Saudi Arabia				FTSE and MSCI EM upgrades could be strong catalysts for the market. The country continues to have stable economic growth, while the National Transformation plan and Vision 2030 is being redrafted to reflect more realistic targets.
United Arab Emirates				Within the region, the UAE is least dependent on oil revenues. Fiscal reforms such as the recent VAT implementation have been successful. The economy boasts a robust service sector, and positive current account and fiscal balances. The strong property sector, however, needs to be monitored closely.
Africa				Strong potential for improvement going forward, encouraging political and macro signs.
Egypt				Egypt has made a committed step toward economic reforms. It is witnessing receding inflation and a strengthening currency.
Kenya				GDP growth could pick up after stalling last year. The government's interest rate cap on bank lending could be relaxed or lifted, further supporting growth.
Nigeria				The market is improving from a macro perspective with higher oil production, higher oil prices, steadying inflation, and foreign exchange liquidity.
South Africa				The political change has significantly improved the country's prospects. The implementation of reforms and job creation could drive growth.

The graphic reflects the views of Franklin Templeton Emerging Markets Equity regarding each region. All viewpoints reflect solely the views and opinions of Franklin Templeton Emerging Markets Equity. Not representative of an actual account or portfolio.

FRANKLIN TEMPLETON EMERGING MARKETS EQUITY

LOCAL KNOWLEDGE, GLOBAL REACH

In a sea of overlooked and under-researched companies, there's no substitute for local market knowledge. Our on-the-ground investment team of over 80 portfolio managers and analysts across 20 countries distinguishes Franklin Templeton Emerging Markets Equity from the crowd. Investors benefit from our networks of local business contacts, access to in-person company visits and real time response to local market events.

Our global reach through Franklin Templeton Investments provides access to sophisticated risk management and trading resources. Portfolio management collaborates closely with the Investment Risk Management Group, which provides detailed risk analytics to complement the team's assessment of risk exposures.

- **80+** portfolio managers and research analysts
- **15** years on average of industry experience
- **10** years on average with Franklin Templeton

Manraj Sekhon, CFA

Chetan Sehgal, CFA

A FEW WORDS ABOUT RISK

Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. To the extent a fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, it may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments. Investing in smaller company securities that may have limited liquidity involves additional risks, such as relatively small revenues, limited product lines and small market share. Historically, these stocks have exhibited greater price volatility than larger company stocks, especially over the short term.

A note to our readers: Given the rapid changes that can take place in global markets, it is often difficult to provide up-to-date materials that address the most current situations. The following update is valid only as of August 31, 2018.

The significant growth potential offered by emerging markets remains accompanied by heightened risks when compared to developed markets, including risks related to market and currency volatility, adverse social and political developments, and the relatively small size and lesser liquidity of these markets.

The information provided is not a complete analysis of every material fact respecting any country, industry, security or investment. Opinions expressed are those of the portfolio managers and are subject to change without notice. Statements of fact have been obtained from sources considered reliable. Because market and economic conditions are subject to rapid change, analyses are valid only as of August 31, 2018. Opinions are intended to provide insight as to how the portfolio managers analyze securities and are not intended as individual investment advice. Performance information is historical and should not be considered predictive of future results. All securities investments fluctuate and involve risks.

Investors should carefully consider a fund's investment goals, risks, charges, and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN®/342-5236, or visit ***franklintempleton.com****. Please carefully read the prospectus before you invest or send money.*

1. As at August 31, 2018. Source: FactSet.
2. As at August 31, 2018. Source: Bloomberg.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Important data provider notices and terms available at www.franklintempletondatasources.com.

FRANKLIN TEMPLETON INVESTMENTS

Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN® / 342-5236
franklintempleton.com