Templeton Bond Fund Dodged Disaster Hanging Tough in Ukraine

M ichael Hasenstab negotiated Ukraine's debt restructuring the same way he managed his investments: he banked on events turning in his favor.

For the Franklin Templeton money manager who shot to the top of performance rankings by winning from markets most investors won't touch, having to thrash out new terms on a roughly $7 billion investment in Ukraine became just another page in the same playbook.

After his worst year since 2011, it's one he has no intention of revising.

"What truly good long-term investors need to have is an ability to work through those tough situations," Hasenstab, who oversees 29 funds with $139 billion in assets, said in an interview last week from Templeton's headquarters in San Mateo, California. "I can't think of a situation that could test your convictions or resolve more than this."

Convincing investors his strategy still holds looks like the next challenge for the man who is to the bond market what Templeton emerging-markets guru Mark Mobius is to stocks.

**FUND OUTFLOWS**

Clients pulled $8.1 billion from Hasenstab's now $59 billion flagship fund this year during the slump in emerging markets, led by losses in South Korea, Mexico, Malaysia and Brazil, according to data compiled by Bloomberg. The Templeton Global Bond Fund he runs lost 0.9 percent this year through Nov. 23, trailing 28 percent of peers, according to Morningstar Inc. In the past decade, it beat 99 percent of them.

Investments have recently begun to pick up again, said Hasenstab.

"They haven't come back to levels that we think they should be at, but they've at least found some stability and you can see how quickly our relative performance has turned around," said Hasenstab, who joined Templeton in 1995. "We're not making big changes to our portfolio at the moment."

The fortunes of the 42-year-old from Washington state at least look brighter than they did at the beginning of the year. With its economy buckling under the weight of a conflict with pro-Russian separatists, Ukraine announced it would not be able to service $23 billion of international debt and was seeking a writedown.

**LEADING ROLE**

As the country's biggest private investor, Hasenstab found himself as the lead negotiator of a very public sovereign debt deal with his reputation for taking profitable risks on the line. He had seen $3 billion wiped off the value of an investment that he publicly reaffirmed his commitment to several months earlier.

His response was basically to sit it out. He formed a creditor committee with three other fund managers and hired financial advisers and lawyers to fight out an often acrimonious back-and-forth with Ukraine's finance ministry about whether a writedown was necessary.

For five months, Hasenstab stayed out of any face-to-face discussions with Ukrainian officials, avoiding meetings in Washington in

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**Rise of Templeton's Hasenstab**

- Assets under management of Templeton Global Bond Fund

- Source: Bloomberg
the summer where the two sides agreed to take the discussions private. On two conference calls, Hasenstab said nothing, according to a person involved in the discussions who asked not to be identified because they were confidential. There was no doubt who was in control, though, said the person, who was part of the Ukrainian team.

In the end, the talks moved to his home turf. Facing the imminent prospect of default from a bond coming due in mid-September, Ukrainian Finance Minister Natalie Jaresko flew 6,000 miles to California in early August to meet Hasenstab. After a series of offers and counteroffers, a deal got closer.

**BREAKING POINT**

The sides negotiated over the phone for 10 more days, including a call to Hasenstab by the Ukrainian prime minister, according to the person involved in the talks. An agreement was struck after it became clear to Ukraine that Templeton wasn't budging any further, the person said. It gave Jaresko the losses she wanted to impose on creditors, but also compensated them with coupon payments and warrants tied to economic growth.

“We got to a point where this thing couldn’t go on any longer,” Hasenstab said. “It was going to break one way or the other.”

The success was affirmed by the bond market, which rallied 15 cents on the dollar in a single day after the deal was announced. In the space of five months, a toxic investment had come good, mirroring his bets on Ireland when the country neared financial collapse in 2011 as banks sank under the weight of real-estate loans.

Hasenstab is still keen on Ukraine and the experience hasn’t dampened his appetite for risky debt. While other investors were pulling cash from Brazil this year as the economy cratered, the Templeton man was buying.

“You always have to be ready for plan A and plan B,” Hasenstab said.

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Templeton Global Bond Fund
Average Annual Total Returns
Periods Ended September 30, 2015

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<tr>
<th></th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
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<td>-7.69%</td>
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<tr>
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Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The funds’ investment return and principal value will change with market conditions, and an investor may have a gain or a loss when they sell their shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

1. Source: Morningstar. All rights reserved. Past performance does not guarantee future results. Percentile rankings are based on how a fund ranked on a Morningstar Risk-Adjusted Return measure against other funds in the same category. Templeton Global Bond Fund ranked in the 60th, 25th, 23rd and 1st percentiles among World Bond funds for the 1-, 3-, 5- and 10-year periods ended 10/31/15, respectively. Percentile rankings do not include sales charges and are for the fund’s Class A shares only. Other share classes may differ.

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