

# Templeton Sustainable Emerging Markets Bond Fund

Advisor Class: FEMZX Class A: FEMGX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** Concerns about the effects of tariffs have taken on a prominent role in 2025, even as there remains considerable uncertainty as to what deals may be struck between the United States and its trading partners. The first quarter of 2025 saw some upticks in inflation numbers across a range of countries, though inflation broadly remains below peaks reached in recent years. A number of developed market central banks, which have been reducing interest rates, have expressed caution over the potential effects of tariffs on growth and inflation. The US Federal Reserve held rates steady during the first quarter, while the European Central Bank and other developed market central banks implemented cautious cuts. While US Treasury yields fell over the quarter on growth concerns, sovereign bond yields in other developed countries generally rose. The US dollar (USD) weakened against most currencies over the quarter as growth and inflation concerns around tariffs weighed on the greenback.
- **Contributors:** Currency positions contributed to absolute fund performance for the quarter, as did interest-rate strategies.
- **Detractors:** There were no meaningful detractors from absolute fund results during the period.
- **Outlook:** We maintain our expectation for a global soft landing, while also acknowledging that risks to this outlook have increased from recent changes to US tariff and trade policy.

## Performance Review

- **Currencies:** The USD weakened somewhat during the quarter despite scaled-back expectations about the pace of US rate cuts. Positions in the Brazilian real, Colombian peso, Uruguayan peso and Polish zloty contributed to absolute fund performance. We have constructed our currency portfolio to potentially capture upside in currencies we consider to be significantly undervalued against the USD, while also holding net-negative positions in others where we have identified specific weaknesses. We anticipate that the net-negative positions we hold should help dampen downside risk to portfolios during phases of USD volatility.
- **Interest-Rate Strategies:** Sovereign bond yields were mixed in emerging markets. Duration exposures in Egypt, Mexico and Brazil contributed to absolute fund results. We hold positions in select countries where we see opportunity from the inflation and interest-rate outlooks, or where we see improving fundamentals in a range of factors, from fiscal progress and other economic reforms to reshoring.
- **Credit:** Emerging market debt indexes were generally stronger over the quarter. Overall credit exposures had a largely neutral effect on absolute fund return.
- **Positioning:** We continue to favor select countries in emerging markets where we see value in specific currencies and/or where we assess the fundamentals to be positive for sovereign bonds. In bonds, we aim at a relatively high overall portfolio yield by holding higher-yielding local-currency positions in specific emerging markets that we view as having resilient fundamentals and attractive risk-adjusted yields. We remain highly selective at the sovereign level, given significant variations in economic conditions and policy responses. We also consider individual country vulnerabilities to inflation, interest-rate cycles and fiscal positions, as well as economic headwinds associated with geopolitical developments. Taking all these factors into account, our top local-currency exposures include Malaysia, Brazil, Egypt, Mexico, Namibia and India. In credit markets, we see value in select sovereign credit exposures that have undervalued growth drivers and attractive risk-adjusted spreads. Given the current stage of the global rate cycle, as well as improving fundamentals and policy responses in some emerging and frontier markets, we have expanded our holdings in select hard-currency-denominated sovereign credit.

## Outlook

- The global disinflation cycle has underpinned global monetary policy easing, but policy cycles across the globe have been somewhat asynchronous. Japan remains a notable exception to the global inflation and interest-rate downtrend, as the Bank of Japan continues to normalize policy in response to reflationary conditions. Global risks around tariffs may influence the interest-rate outlook: A significant effect on growth could see rates fall below current expectations, while an unanticipated increase in inflation may see rate reductions lower than currently expected or, in some cases, even lead to hikes.
- We continue to expect the USD to enter a depreciating cycle against certain currencies. The greenback remains near historical highs against a range of currencies. We anticipate that both cyclical factors (principally related to interest-rate cycles) and structural factors (particularly the US's twin current account and budget deficits) should lead to USD weakness, although we highlight both that currency paths tend to be uneven and that some currencies are still anticipated to remain weak or even weaken further against the USD. Policies set to be implemented by the new US administration may also generate more uncertainty and result in short-term USD volatility.
- Geopolitics impacted financial markets significantly at times over the past few years, and their continued potential to affect the world means we continue to closely monitor these developments, as well as those in the tariffs landscape.

## Fund Characteristics

	Fund
Distribution Frequency	Quarterly
Effective Duration	4.75 Years
30-Day SEC Yield (Advisor Class)—With Waiver	9.88%
30-Day SEC Yield (Advisor Class)—Without Waiver	7.89%

## Geographic Allocation (% of Total)

Country	Fund
Egypt	10.21
Namibia	9.04
India	8.12
Poland	7.80
Serbia	6.57
Panama	4.16
Brazil	4.10
Mexico	4.08
Other	40.10
Cash & Cash Equivalents	5.81

## Currency Exposure (% of Total)

Currency	Fund
Malaysian Ringgit	13.08
Brazilian Real	11.99
Egyptian Pound	10.21
Mexican Peso	10.09
Namibian Dollar	9.04
Indian Rupee	8.12
Polish Zloty	7.80
Uruguayan Peso	6.96
Kazakhstani Tenge	6.37
Other	16.34

## Credit Quality Allocation (% of Total)

Rating	Fund
AAA	17.26
A	7.80
BBB	21.59
BB	22.02
B	22.08
CCC	4.01
Not Applicable	-0.57
Cash & Cash Equivalents	5.81

Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
			3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Advisor Class	880208780	FEMZX	5.46	5.46	1.01	1.36	-0.26	0.87	0.27	5.46	5.46	1.01	1.36	-0.26	0.87	0.27	2.45	0.92	—	—	4/1/2013
Class A	880208830	FEMGX	5.43	5.43	0.76	1.13	-0.49	0.64	0.04	1.48	1.48	-3.02	-0.16	-1.25	0.25	-0.28	2.71	1.17	3.75	—	4/1/2013
Benchmark	—	—	4.31	4.31	4.03	2.71	2.30	1.27	—	4.31	4.31	4.03	2.71	2.30	1.27	—	—	—	—	—	—

Benchmark(s)

Benchmark =JP Morgan GBI-EM Global Diversified Index

**Performance data quoted represents past performance, which does not guarantee future results.** Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit [franklintempleton.com](http://franklintempleton.com). Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 04/30/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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**. **Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Changes in the credit rating of a bond**, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. These and other risks are discussed in the fund's prospectus.

Glossary

**Reflation** is a fiscal or monetary policy designed to expand a country's output and curb the effects of deflation.

Important Information

**Effective August 1, 2022, the fund changed its benchmark to the JP Morgan GBI-EM Global Diversified Index.**

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.

The **JP Morgan GBI-EM Global Diversified Index** tracks total returns for local-currency bonds issued by emerging market governments. The index includes only those countries that are accessible by most of the international investor base and excludes countries with explicit capital controls, but it does not factor in regulatory/tax hurdles in assessing eligibility. For this index, the maximum weight to a country is capped at 10%. Source: JP Morgan.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

**Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

**Credit Quality** is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, the manager assigns each security the middle rating from these three agencies. When only two agencies provide ratings, the lower of the two ratings will be assigned. When only one agency assigns a rating, that rating will be used. Foreign government bonds without a specific rating are assigned a country rating, if available. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time.

**Please note, the Fund itself has not been rated by an independent rating agency.**

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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](http://www.franklintempleton.com). Please read it carefully.