

Templeton Sustainable Emerging Markets Bond Fund

Advisor Class: FEMZX Class A: FEMGX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Growth data was mixed over the first quarter of 2026, showing fourth-quarter outcomes weak in the United States as a result of the government shutdown, modest but stable in the euro area and rebounding in Japan, as capital expenditure in particular was robust. Financial markets were dominated largely by the effects of the Middle East conflict later in the quarter. The US dollar (USD) rose, supported by it traditionally being perceived as a safe haven in times of risk aversion. Global monetary policy largely seemed to be in the late stages of its easing cycle, with pauses and a slower pace of rate cuts becoming more common, but the surge in oil prices following the onset of the war led to uncertainty about both growth and inflation outcomes. The US Federal Reserve (Fed) kept the policy rate unchanged over the quarter, as did most other developed market central banks, including the European Central Bank (ECB). In bond markets, most developed market and emerging market (EM) sovereign bond yields rose during the period, as stagflationary concerns dominated moves following the onset of the war in the Middle East. The yield on the 10-year US Treasury note rose 15 basis points to end the quarter at 4.32% (after having fallen to 3.94% in the immediate reaction to the start of the Middle East conflict).
- **Contributors:** The fund's position in the Brazilian real contributed to absolute performance, as did duration exposure in Egypt.
- **Detractors:** Currency positions detracted from absolute fund results, as did overall credit exposures.
- **Outlook:** Despite the war, recent developments around trade and other economic relationships continue to support our thesis that global rewiring is underway.

Performance Review

- **Currencies:** After weakening in January, strengthening in February and then rallying sharply in March, the USD ultimately ended the quarter higher on average. Positions in the Egyptian pound and Indian rupee detracted from absolute performance, while the fund's position in the Brazilian real contributed. We maintain the view that the USD is broadly overvalued, though we acknowledge that it may be supported by risk aversion while the conflict in the Middle East continues.
- **Credit:** EM debt indexes largely fell during the period. Select subinvestment-grade sovereign credits in the Middle East/Africa detracted from absolute fund return.
- **Interest-Rate Strategies:** EM sovereign bond yields generally rose over the quarter. Duration exposure in Egypt contributed to absolute fund results, while duration exposure in Namibia detracted. We aim for a relatively high overall portfolio yield by holding higher-yielding, local-currency positions in specific EMs that we view as having attractive risk-adjusted yields.
- **Positioning:** We hold local-currency positions in select EM countries. Our currency positions focus on potential upside based on our assessment of long-term undervaluation against the USD. These countries historically have had robust balances of payments and growth fundamentals. In bonds, we hold positions in countries where we identify supportive fundamentals. These might cover a range of factors, such as inflation and interest-rate outlooks, fiscal progress and other economic reforms, and/or anticipated economic benefits from reshoring or deeper integration into the global economy. In hard-currency-denominated sovereign credit positions, we favor EMs with improving fundamentals and policy responses. In all positions, we closely monitor idiosyncratic factors in different countries to identify relative valuation opportunities. We remain highly selective at the sovereign level, given significant variations in economic fundamentals and policy responses.

Outlook

- Uncertainty about growth and inflation outcomes has increased markedly since the start of the war. A number of factors are at play, including whether countries are net oil importers or exporters, the oil dependency of economic activity, whether they have subsidy mechanisms to protect consumers from higher energy prices, and the extent to which monetary and fiscal policy might be expected to offset the effects on inflation, growth or both. We are continuously analyzing individual countries in terms of potential impacts on both growth and inflation.
- Central bank actions are diverging as the global monetary policy easing cycle nears its end, with potential spillover effects from the Iran war into inflation and growth adding uncertainty to the outlook. We still think the Fed may reduce rates further this year, while the recent ECB meeting suggests they will act decisively to adjust interest rates in the face of inflation pressure, if necessary. We expect the Bank of Japan to continue gradually normalizing rates.
- The global fiscal outlook remains a structural concern, particularly among core developed markets. Consequently, we remain wary of longer-term bonds, which we would expect to bear the brunt of the implications of fiscal loosening.
- We maintain the view that the USD is broadly overvalued, and we expect further depreciation over the medium term. That said, we concede that there may be some shorter-term "safe-haven" flows into the USD given the current Middle East situation. We believe the ongoing asset allocation shift into non-USD assets is likely a sustainable trend. We also think the shift into EM assets is also a recognition both of their structural improvements and greater role in the world economy. We are also constructive on select developed market currencies.
- We will continue to monitor the effects and outcomes of all geopolitical events, including the conflict in the Middle East.

Morningstar Rating™

Overall Rating as of March 31, 2026



(4-Star) Advisor Class



(4-Star) Class A

As of 03/31/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 65, 63 and 56 Emerging-Markets Local-Currency Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics

	Fund
Distribution Frequency	Quarterly
30-Day SEC Yield (Advisor Class)—With Waiver	9.30%
30-Day SEC Yield (Advisor Class)—Without Waiver	8.17%

Average annual total returns and fund expenses (%) - as of March 31, 2026

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Advisor Class	880208780	FEMZX	-2.22	-2.22	17.54	9.45	3.33	2.27	1.51	-2.22	-2.22	17.54	9.45	3.33	2.27	1.51	2.60	0.91	—	—	4/1/2013
Class A	880208830	FEMGX	-2.30	-2.30	17.14	9.17	3.07	2.01	1.26	-5.95	-5.95	12.73	7.81	2.28	1.62	0.96	2.69	1.16	3.75	—	4/1/2013
Benchmark	—	—	-2.25	-2.25	11.76	6.84	2.06	2.57	—	-2.25	-2.25	11.76	6.84	2.06	2.57	—	—	—	—	—	

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.

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 04/30/2026 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

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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%.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Source: JP Morgan.

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.

Morningstar Rating™: Source: Morningstar®, 03/31/2026. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Class A shares received a Morningstar Rating of 5, 4 and 3 and fund's Advisor Class shares received a Morningstar Rating of 5, 4 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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. Please read it carefully.

