Templeton Sustainable Emerging Markets Bond Fund

Advisor Class: FEMZX Class A: FEMGX | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** Global growth data was largely mixed during the fourth quarter of 2025; third-quarter growth outcomes were strong in the United States, modest but stable in the euro area and negative in Japan, as the effects of earlier front-loading ahead of tariffs unwound. There was also some uncertainty over economic momentum in the United States as the government shutdown that lasted through October and continued into November affected data collection. Inflation outcomes remained mixed, with trends in developed markets somewhat higher, while emerging markets (EMs) saw sideways to lower moves. Global monetary policy largely seemed to be in the late stages of an easing cycle, with pauses and a slower rate cutting pace becoming more common. The US Federal Reserve (Fed) delivered two 25 basis-point (bp) rate cuts over the quarter, bringing the fed funds target range to 3.50%–3.75%, though dissent over the moves among Fed members highlighted uncertainty over the outlook. Most developed market sovereign bond yields rose, while EM bonds showed mixed performance. The 10-year US Treasury note's yield rose two bps to 4.17% over the quarter. The US dollar (USD) edged higher on average during the period, even as most developed market currencies appreciated against it.
- **Contributors:** Interest-rate strategies contributed to absolute fund performance, as did currency positions and overall credit exposures.
- **Detractors:** The fund's position in the Brazilian real detracted from absolute results.
- **Outlook:** We expect global growth to be weaker than we had expected prior to tariff imposition, but we anticipate a recession is likely to be avoided.

Performance Review

- **Interest-Rate Strategies:** EM sovereign bond yields were mixed during the period. Duration exposures in Namibia, Egypt and Brazil contributed to absolute fund performance. We hold positions in select countries where we have identified opportunities from inflation and interest-rate outlooks, or where we see positive fundamentals in a range of factors, including fiscal progress, other economic reforms and reshoring.
- **Currencies:** The USD strengthened early in the quarter, but weakened in November and December. Emerging Asian currencies were generally weaker against the USD, while most Latin American and eastern European currencies strengthened against it, as did a number of African currencies. Positions in the Malaysian ringgit and Namibian dollar contributed to absolute results, while the fund's position in the Brazilian real detracted. We believe the USD remains overvalued against a number of currencies.
- **Credit:** EM debt indexes largely rose over the period. Select subinvestment-grade sovereign credits in Latin America contributed to absolute fund return.
- **Positioning:** We continue to hold select exposures in EMs. Our currency positions focus on potential upside based on our assessment of undervaluation against the USD. These countries tend to have robust balances of payments and growth fundamentals. In bonds, we hold positions in countries where we identify supportive fundamentals. We aim for a relatively high overall portfolio yield by holding higher-yielding local-currency positions in specific emerging and frontier markets that we view as having attractive risk-adjusted yields. Taking all of these factors into account, our top local-currency exposures include Brazil, Malaysia, Namibia, Egypt, Serbia and Mexico. We hold a net-negative position against the Chinese yuan, which has been providing positive carry. We expect this position to also help hedge our portfolios against potential risks to other EM currencies. In hard-currency-denominated sovereign credit positions, we favor emerging and frontier markets 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

- We expect global growth to be weaker than we had expected prior to tariff imposition, but we anticipate a recession is likely to be avoided. We are cognizant that some of the higher growth recorded in some countries earlier in 2025 was likely front-loading ahead of tariffs, and we are watchful for further signs of possible payback through lower growth in coming quarters.
- Inflation remains of some concern for now, particularly in developed markets. We continue to monitor outcomes to discern whether, and where, tariff increases might become more permanently embedded in inflation, especially as surveys across a range of countries still show higher inflation expectations compared to before tariff announcements.
- We maintain the view that the USD is broadly overvalued, and we expect further depreciation over the medium term for both cyclical and structural reasons, though we note that the magnitude of further weakness may not be as great as was seen during 2025.
- The fiscal outlook in a number of countries remains concerning. Already-high debt levels in major economies are set to rise further, while some political developments also complicate efforts to consolidate fiscal expenditures. In our view, such fiscal burdens raise risks for longer-dated maturities in the bond market.

Morningstar Rating™

Overall Rating as of December 31, 2025

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 12/31/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 65, 62 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.

Fund Characteristics	Fund
Distribution Frequency	Quarterly
30-Day SEC Yield (Advisor Class)—With Waiver	9.45%
30-Day SEC Yield (Advisor Class)—Without Waiver	8.40%

Average annual total returns and fund expenses (%) - as of December 31, 2025

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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	4.74	26.76	26.76	11.21	3.17	2.77	1.71	4.74	26.76	26.76	11.21	3.17	2.77	1.71	2.60	0.91	—	—	4/1/2013
Class A	880208830	FEMGX	4.72	26.41	26.41	10.93	2.91	2.52	1.47	0.76	21.67	21.67	9.54	2.13	2.13	1.16	2.69	1.16	3.75	—	4/1/2013
Benchmark	—	—	3.34	19.26	19.26	9.47	1.12	3.88	—	3.34	19.26	19.26	9.47	1.12	3.88	—	—	—	—	—	—

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

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

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®, 12/31/2025. 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 Advisor Class shares received a Morningstar Rating of 5, 5 and 2 and fund's Class A shares received a Morningstar Rating of 5, 4 and 2 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A 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.