FRANKLIN TEMPLETON INVESTMENTS

Annual Report and Shareholder Letter
August 31, 2015

Templeton Global Smaller Companies Fund

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Franklin Templeton Investments

Gain From Our Perspective®

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our clients. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialized expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

Focus on Investment Excellence

At the core of our firm, you'll find multiple independent investment teams—each with a focused area of expertise—from traditional to alternative strategies and multi-asset solutions. And because our portfolio groups operate autonomously, their strategies can be combined to deliver true style and asset class diversification.

All of our investment teams share a common commitment to excellence grounded in rigorous, fundamental research and robust, disciplined risk management. Decade after decade, our consistent, research-driven processes have helped Franklin Templeton earn an impressive record of strong, long-term results.

Global Perspective Shaped by Local Expertise

In today's complex and interconnected world, smart investing demands a global perspective. Franklin Templeton pioneered international investing over 60 years ago, and our expertise in emerging markets spans more than a quarter of a century. Today, our investment professionals are on the ground across the globe, spotting investment ideas and potential risks firsthand. These locally based teams bring in-depth understanding of local companies, economies and cultural nuances, and share their best thinking across our global research network.

Strength and Experience

Franklin Templeton is a global leader in asset management serving clients in over 150 countries.[1] We run our business with the same prudence we apply to asset management, staying focused on delivering relevant investment solutions, strong long-term results and reliable, personal service. This approach, focused on putting clients first, has helped us to become one of the most trusted names in financial services.

1. As of 12/31/14. Clients are represented by the total number of shareholder accounts.

Not FDIC Insured | May Lose Value | No Bank Guarantee

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Shareholder Letter

Dear Shareholder:

During the 12 months ended August 31, 2015, the global economy grew moderately amid a generally accommodative monetary policy environment. The U.S. Federal Reserve ended its large-scale asset purchase program in October 2014 and considered when to begin normalizing interest rates. Global financial liquidity remained high, however, as the Bank of Japan and the European Central Bank continued their quantitative easing programs and certain emerging market central banks eased their monetary policies. Greece's debt negotiations with international creditors and China's stock market corrections weighed on investor sentiment toward period-end. In this environment, global developed market stocks, as measured by the MSCI World Index, declined. Many foreign currencies depreciated against the U.S. dollar and deepened the losses of many foreign assets in U.S. dollar terms.

Although the global economy continued to face challenges, we remained encouraged as many developed and emerging market economies continued to show signs of improvement. With this economic environment, we believe companies generally should continue to deliver healthy earnings and cash flow, which are characteristics that have historically been favorable for stock markets. Keep in mind in all economic environments we remain committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means conducting diligent, fundamental analysis of securities with a continual emphasis on investment risk management.

Templeton Global Smaller Companies Fund's annual report goes into greater detail about prevailing conditions during the period under review. In addition, you will find performance data, financial information and a discussion from the portfolio managers. Please remember all securities markets fluctuate, as do mutual fund share prices.

If you would like more frequent updates, **franklintempleton.com** provides daily prices, monthly performance figures, portfolio holdings and other information. You can also access your account, buy and sell shares, and find helpful financial planning tools. We hope you will take advantage of these online services.

Historically, patient investors have achieved rewarding results by evaluating their goals, diversifying their assets globally and maintaining a disciplined investment program, all hallmarks of the Templeton investment philosophy developed more than 60 years ago. We continue to recommend investors consult their financial advisors and review their portfolios to design a long-term strategy and portfolio allocation that meet their individual needs, goals and risk tolerance. We firmly believe most people benefit from professional advice and that advice is invaluable as investors navigate changing market environments.

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We thank you for investing with Franklin Templeton, welcome your questions and comments, and look forward to serving your investment needs in the years ahead.

Sincerely,

Norman J. Boersma, CFA
President and Chief Executive Officer – Investment Management
Templeton Global Smaller Companies Fund

This letter reflects our analysis and opinions as of August 31, 2015. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

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Annual Report

Templeton Global Smaller Companies Fund

This annual report for Templeton Global Smaller Companies Fund covers the fiscal year ended August 31, 2015.

Your Fund's Goal and Main Investments

The Fund seeks to achieve long-term capital growth. Under normal market conditions, the Fund invests at least 80% of its net assets in equity securities of smaller companies located anywhere in the world.

Performance Overview

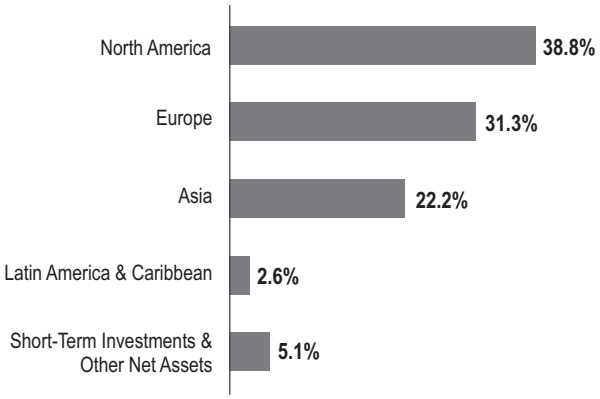
For the 12 months under review, the Fund's Class A shares had a -8.44% cumulative total return. In comparison, the MSCI All Country World Index (ACWI) Small Cap Index, which measures performance of small capitalization companies in global developed and emerging markets, had a -4.53% total return.[1] Please note index performance information is provided for reference and we do not attempt to track the index but rather undertake investments on the basis of fundamental research. You can find the Fund's long-term performance data in the Performance Summary beginning on page 7.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. Please visit ***franklintempleton.com*** *or call* ***(800) 342-5236*** *for most recent month-end performance.*

Economic and Market Overview

The global economy expanded moderately during the 12 months under review despite slowing growth in some countries. As measured by the MSCI World Index, stocks in global developed markets overall declined during the period, although a generally accommodative monetary policy environment and signs of economic improvement in Europe provided some support. However, weighing on global stocks near period-end was a rapid sell-off in China's equity markets, despite the government's monetary easing effort. Over the reporting period, oil prices declined sharply owing largely to strong global supply, and gold and other commodity prices also fell. The U.S. dollar appreciated against most currencies during the period, which reduced returns of many foreign assets in U.S. dollar terms.

Geographic Breakdown
Based on Total Net Assets as of 8/31/15



U.S. economic growth was mixed during the 12 months under review. In 2014's fourth quarter, growth expanded due to increased consumer spending, business investment, exports, and state and local government spending. Growth slowed in 2015's first quarter as the U.S. dollar strengthened, energy prices fell, and a West Coast ports labor dispute led to decreased exports. However, growth rebounded in the second quarter due to increases in consumer spending, net exports, state and local government spending, and investments for businesses, homes and inventory. The U.S. Federal Reserve (Fed) ended its bond buying program in October 2014 and kept its target interest rate at 0%–0.25% while considering when to begin increasing it toward normal levels. During its July meeting, the Fed stated that although labor market and economic conditions had improved, committee members would like more confidence that inflation was moving toward their goal before raising the federal funds target rate. Furthermore, it regarded international

1. Source: Morningstar.
The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.
See www.franklintempletondatasources.com for additional data provider information.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 18.

Top 10 Countries
Based on Equity Securities
8/31/15

	% of Total Net Assets
U.S.	34.0%
Japan	10.6%
U.K.	9.1%
Germany	5.2%
South Korea	5.1%
Canada	4.8%
Hong Kong	3.5%
Netherlands	3.3%
Finland	3.3%
Taiwan	2.8%

developments, particularly moderating growth in China and other emerging markets and China's unexpected currency devaluation, as well as a strengthening U.S. dollar, as potential risks to U.S. economic growth.

Outside the U.S., the U.K. economy grew in 2015's second quarter supported by services and industrial production. Eurozone economic growth generally improved during the period. France's economy stagnated due to lower consumer spending and business investment, which was partially offset by higher exports, while Italy expanded but at a slower pace. In contrast, Greece's economy grew despite the country's liquidity crisis. Germany's economic growth rose slightly compared with the previous quarter largely due to strong exports, although at a lower-than-expected rate as weak inventories and investments weighed on the economy. The eurozone's annual inflation rate rose beginning in May as services and food prices increased. In late 2014, the European Central Bank (ECB) reduced its interest rates, and in early 2015, it expanded asset purchases to avoid deflation and potentially boost the economy. Despite Greece's debt issues and geopolitical tension in Ukraine, the region generally benefited from lower oil prices, a weaker euro that helped exports, the ECB's accommodative policy and an improved 2015 eurozone growth forecast.

The Bank of Japan (BOJ) broadened its stimulus measures amid weak domestic demand and lower inflation. In December, Japan's ruling coalition was reelected and announced a new stimulus package to revive economic growth. The country exited recession in the fourth quarter, supported largely by exports. Japan's economy continued to grow in 2015's first quarter, driven by increasing private demand as business investment and private consumption rose. However, growth contracted in the second quarter due to decreases in net exports, consumer spending and business investment. The BOJ lowered its economic growth and inflation forecasts twice during the period.

In emerging markets, economic growth generally moderated. In early 2015, a temporary solution to Greece's dispute with the country's international creditors and a Russia-Ukraine ceasefire agreement bolstered emerging market stocks. Later in the period, investors remained concerned about Greece's economy, even though the country and its international creditors agreed on a third bailout package. In China, the government sought to cool domestic stock market speculation, but its intervention led to severe market volatility in June and July. Emerging market stocks, especially Chinese equities, slumped in August after China devalued the yuan. This move sparked concerns among investors about China's moderating economy and a possible currency war. Toward period-end, China's reluctance to implement widely anticipated monetary policy easing measures triggered a fresh sell-off in the domestic equity market, forcing China's central bank to reduce the benchmark interest rate and the reserve ratio requirement. In the recent global environment, emerging market stocks, as measured by the MSCI Emerging Markets Index, fell for the 12-month period.

Investment Strategy

At Templeton, when choosing investments for the Fund, we take a bottom-up, value-oriented, long-term approach, focusing on the market price of a company's securities relative to our evaluation of the company's long-term earnings, asset value and cash flow growth potential. We also consider the company's price/earnings ratio, profit margins and liquidation value.

Manager's Discussion

Several holdings performed well during the 12-month period under review. Founded in 1938 in Portland, Oregon, Columbia Sportswear has grown from a family-owned hat distributor to a leading, active outdoor apparel, sportswear and footwear company with operations in North America, Europe and Asia. Columbia reported strong sales growth during the period as all regions performed well. Management continued to create new products, strategically expanded the company's retail footprint and developed a niche in medium price-point products that helped differentiate the company from competitors.

Top 10 Holdings
8/31/15

Company *Sector/Industry, Country*	% of Total Net Assets
Gerresheimer AG *Life Sciences Tools & Services, Germany*	2.1%
Amer Sports OYJ *Leisure Products, Finland*	2.0%
Asics Corp. *Textiles, Apparel & Luxury Goods, Japan*	2.0%
Techtronic Industries Co. Ltd. *Household Durables, Hong Kong*	2.0%
Kobayashi Pharmaceutical Co. Ltd. *Personal Products, Japan*	2.0%
AllianceBernstein Holding LP *Capital Markets, U.S.*	1.9%
Simpson Manufacturing Co. Inc. *Building Products, U.S.*	1.9%
Aalberts Industries NV *Machinery, Netherlands*	1.9%
Hillenbrand Inc. *Machinery, U.S.*	1.8%
Columbia Sportswear Co. *Textiles, Apparel & Luxury Goods, U.S.*	1.8%

Greggs is a vertically integrated, U.K. retail baker and a leader in the take-away sandwich and savory food market. Greggs reported strong financial results during the period attributable to new product offerings and renovated stores, indicating to us that the company's food-on-the-go products resonated with customers. As the English economy improves, we believe this company could benefit strongly from new customers seeking dining options. We felt management executed its turnaround strategy well and believed it could benefit Greggs's revenue without having to add stores.

Amer Sports is a Finnish sporting goods company with revenues diversified across several product lines, including winter sports equipment, apparel and footwear, ball sports and fitness equipment, among others. During the period, Amer announced an acquisition in baseball goods, buying the Louisville Slugger brand. This acquisition did not significantly add to divisional sales, but it was Amer's first meaningful acquisition since Salomon in 2005. Although the company did not expect the acquisition to benefit its 2015 margins, Amer anticipated a potential contribution to 2016 profitability.

In contrast, some holdings performed poorly during the period. GulfMark Offshore provides marine transportation services globally to support existing production and new resource development in the offshore oil and gas industry. Lower energy prices resulted in an oversupply of vessels as well as lower service demand and day rates that decreased the company's return on capital and precipitated lower fiscal year 2014 profits and subsequent quarterly losses. However, GulfMark met its second-quarter 2015 revenue guidance and reduced expenses more than expected, and the company anticipated further expense reductions as it continued to sell vessels and maintain capital discipline.

Canada-based HudBay Minerals is an integrated copper, zinc and gold producer with assets in North and Central America. Company shares declined as a result of commodity market weakness. However, domestic operations continued to progress, with increased production on new projects that could meaningfully contribute to cash flow over the next few years, in our analysis. HudBay also approached an end to a heavy capital investment phase and was positioned to potentially boost its total output. We did not believe the company's recent valuation adequately reflected our assessment of the company's value at period-end.

South Korea-based DGB Financial Group specializes in banking, credit cards and securities. The banking subsidiary, Daegu Bank, accounted for 95% of the company's assets, and is a regional bank focused primarily on the Daegu region, where it is the market leader. Shares declined during the period based on lackluster financial results and the sale of new stock at a discount to existing shareholders. Based on our long-term analysis, Daegu's economy appeared healthy with low unemployment levels, reasonable economic growth and stable export trends. DGB also had fewer delinquent loans than most South Korean nationwide banks, high customer loyalty and consistently healthy returns on tangible equity, a measure of the company's strength.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar

weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the 12 months ended August 31, 2015, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

Thank you for your continued participation in Templeton Global Smaller Companies Fund. We look forward to serving your future investment needs.

Harlan B. Hodes, CPA

David Tuttle, CFA, CFP

Portfolio Management Team

The foregoing information reflects our analysis, opinions and portfolio holdings as of August 31, 2015, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of August 31, 2015

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table and graphs do not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

Net Asset Value

Share Class (Symbol)	**8/31/15**	**8/31/14**	**Change**
A (TEMGX)	$8.32	$9.20	-$0.88
C (TESGX)	$7.97	$8.83	-$0.86
R6 (FBOGX)	$8.37	$9.25	-$0.88
Advisor (TGSAX)	$8.36	$9.24	-$0.88

Distributions[1] (9/1/14–8/31/15)

Share Class	**Dividend Income**	**Short-Term Capital Gain**	**Long-Term Capital Gain**	**Total**
A	$0.0443	$0.0183	$0.0437	$0.1063
C	—	$0.0183	$0.0437	$0.0620
R6	$0.0825	$0.0183	$0.0437	$0.1445
Advisor	$0.0624	$0.0183	$0.0437	$0.1244

Performance as of 8/31/15

Cumulative total return excludes sales charges. Average annual total returns and value of $10,000 investment include maximum sales charges. ***Class A:*** *5.75% maximum initial sales charge;* ***Class C:*** *1% contingent deferred sales charge in first year only;* ***Class R6/Advisor Class:*** *no sales charges.*

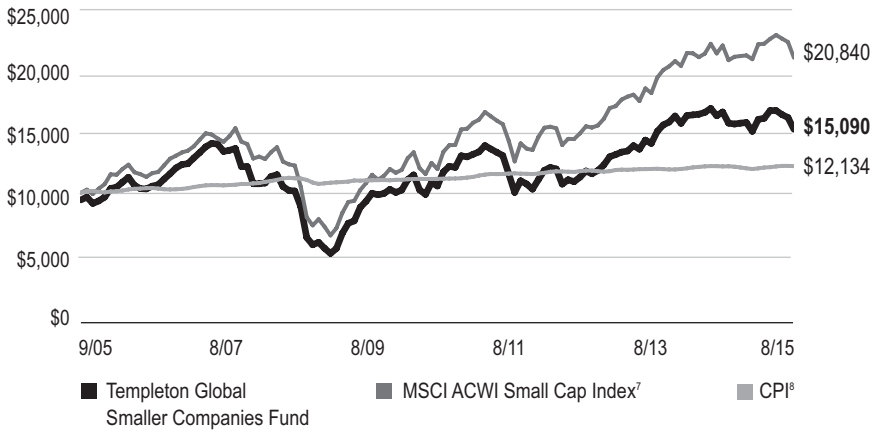
Share Class	Cumulative Total Return[2]	Average Annual Total Return[3]	Value of $10,000 Investment[4]	Average Annual Total Return (9/30/15)[5]	Total Annual Operating Expenses[6]
A					1.34%
1-Year	-8.44%	-13.69%	$8,631	-13.02%	
5-Year	+43.22%	+6.18%	$13,498	+3.05%	
10-Year	+60.12%	+4.20%	$15,090	+3.47%	
C					2.09%
1-Year	-9.06%	-9.96%	$9,004	-9.33%	
5-Year	+38.17%	+6.68%	$13,817	+3.51%	
10-Year	+48.71%	+4.05%	$14,871	+3.30%	
R6					0.92%
1-Year	-7.99%	-7.99%	$9,201	-7.26%	
Since Inception (5/1/13)	+15.27%	+6.28%	$11,527	+3.98%	
Advisor					1.09%
1-Year	-8.21%	-8.21%	$9,179	-7.49%	
5-Year	+45.14%	+7.74%	$14,514	+4.53%	
10-Year	+64.18%	+5.08%	$16,418	+4.34%	

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ***franklintempleton.com*** *or call* ***(800) 342-5236.***

Total Return Index Comparison for a Hypothetical $10,000 Investment

Total return represents the change in value of an investment over the periods shown. It includes any applicable maximum sales charge, Fund expenses, account fees and reinvested distributions. The unmanaged index includes reinvestment of any income or distributions. It differs from the Fund in composition and does not pay management fees or expenses. One cannot invest directly in an index.

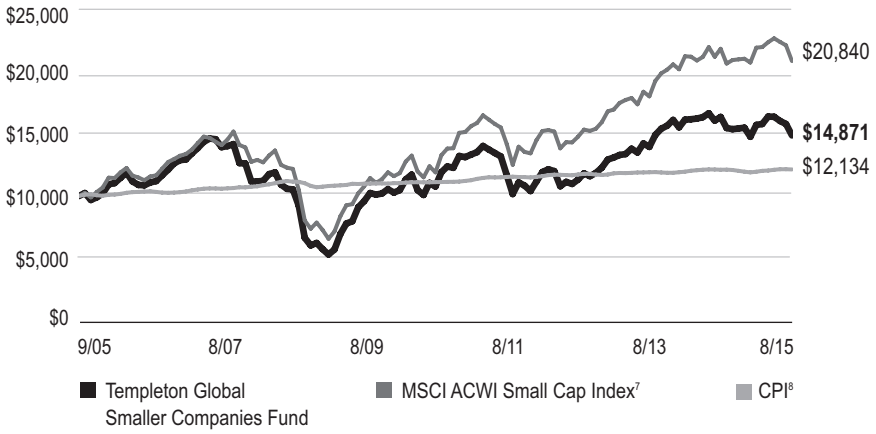
Class A (9/1/05–8/31/15)



Average Annual Total Return

Class A	8/31/15
1-Year	-13.69%
5-Year	+6.18%
10-Year	+4.20%

Class C (9/1/05–8/31/15)

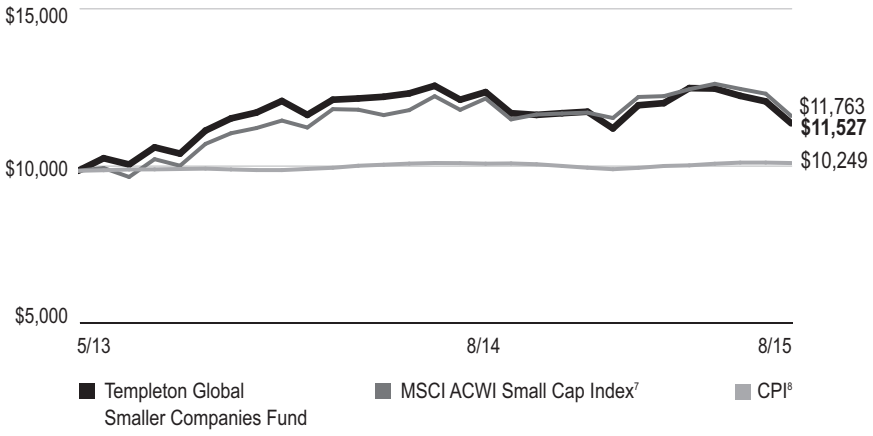


Average Annual Total Return

Class C	8/31/15
1-Year	-9.96%
5-Year	+6.68%
10-Year	+4.05%

Total Return Index Comparison for a Hypothetical $10,000 Investment (continued)

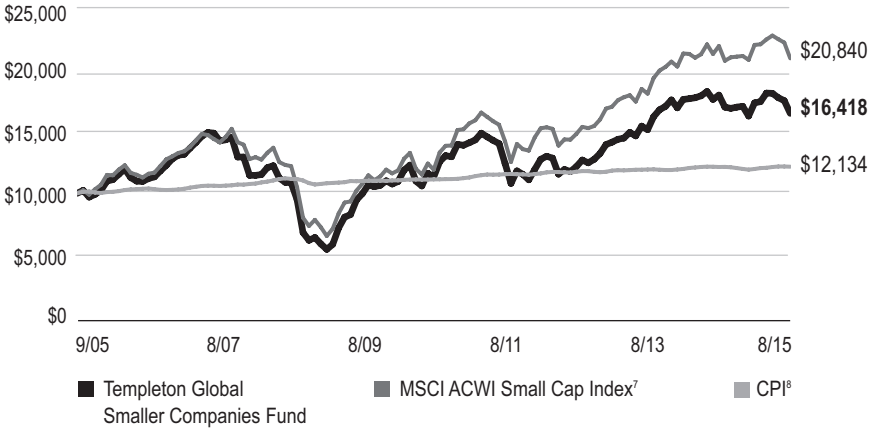
Class R6 (5/1/13–8/31/15)



Average Annual Total Return

Class R6	8/31/15
1-Year	-7.99%
Since Inception (5/1/13)	+6.28%

Advisor Class (9/1/05–8/31/15)



Average Annual Total Return

Advisor Class	8/31/15
1-Year	-8.21%
5-Year	+7.74%
10-Year	+5.08%

All investments involve risks, including possible loss of principal. Smaller, midsized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. In addition, smaller company stocks have historically exhibited greater price volatility than larger company stocks, particularly over the short term. 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 and lesser liquidity. Value securities may not increase in price as anticipated or may decline further in value. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Class C: These shares have higher annual fees and expenses than Class A shares.

Class R6: Shares are available to certain eligible investors as described in the prospectus.

Advisor Class: Shares are available to certain eligible investors as described in the prospectus.

1. The distribution amount is the sum of the dividend payments to shareholders for the period shown and includes only estimated tax-basis net investment income and capital gain.
2. Cumulative total return represents the change in value of an investment over the periods indicated.
3. Average annual total return represents the average annual change in value of an investment over the periods indicated.
4. These figures represent the value of a hypothetical $10,000 investment in the Fund over the periods indicated.
5. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
6. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
7. Source: Morningstar. The MSCI ACWI Small Cap Index is a free float-adjusted, market capitalization-weighted index designed to measure performance of small cap equity securities of global developed and emerging markets.
8. Source: Bureau of Labor Statistics, bls.gov/cpi. The Consumer Price Index (CPI) is a commonly used measure of the inflation rate.

See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a $1,000 investment held for the six months indicated.

Actual Fund Expenses

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by $1,000.
   If an account had an $8,600 value,
   then $8,600 ÷ $1,000 = 8.6.
2. Multiply the result by the number under the heading "Expenses Paid During Period."
   If Expenses Paid During Period were $7.50,
   then 8.6 x $7.50 = $64.50.

In this illustration, the estimated expenses paid this period are $64.50.

Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transaction costs, such as sales charges. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

Share Class	Beginning Account Value 3/1/15	Ending Account Value 8/31/15	Expenses Paid During Period* 3/1/15–8/31/15
A			
Actual	$1,000	$ 949.80	$ 6.83
Hypothetical (5% return before expenses)	$1,000	$1,018.20	$ 7.07
C			
Actual	$1,000	$ 946.60	$10.50
Hypothetical (5% return before expenses)	$1,000	$1,014.42	$10.87
R6			
Actual	$1,000	$ 952.20	$ 4.67
Hypothetical (5% return before expenses)	$1,000	$1,020.42	$ 4.84
Advisor			
Actual	$1,000	$ 951.10	$ 5.61
Hypothetical (5% return before expenses)	$1,000	$1,019.46	$ 5.80

*Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.39%; C: 2.14%; R6: 0.95%; and Advisor: 1.14%), multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period.

Financial Highlights

	Year Ended August 31,				
	2015	2014	2013	2012	2011
Class A					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$9.20	$7.81	$6.39	$6.61	$6.06
Income from investment operations[a]:					
Net investment income[b]	0.05	0.03	0.05	0.07	0.06
Net realized and unrealized gains (losses)	(0.83)	1.38	1.47	(0.23)	0.51
Total from investment operations	(0.78)	1.41	1.52	(0.16)	0.57
Less distributions from:					
Net investment income	(0.04)	(0.02)	(0.10)	(0.06)	(0.02)
Net realized gains	(0.06)	—	—	—	—
Total distributions	(0.10)	(0.02)	(0.10)	(0.06)	(0.02)
Net asset value, end of year	$8.32	$9.20	$7.81	$6.39	$6.61
Total return[c]	(8.44)%	18.09%	24.04%	(2.31)%	9.31%
Ratios to average net assets					
Expenses	1.38%[d]	1.34%	1.39%[e]	1.41%	1.35%[e]
Net investment income	0.52%	0.28%	0.72%	1.06%	0.80%
Supplemental data					
Net assets, end of year (000's)	$960,417	$1,082,873	$892,067	$726,065	$833,869
Portfolio turnover rate	22.16%	25.64%	27.67%	25.44%	23.31%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

[d]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[e]Benefit of expense reduction rounds to less than 0.01%.

	Year Ended August 31,				
	2015	2014	2013	2012	2011
Class C					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$8.83	$7.53	$6.16	$6.39	$5.88
Income from investment operations[a]:					
Net investment income (loss)[b]	(0.02)	(0.04)	(—)[c]	0.02	—[c]
Net realized and unrealized gains (losses)	(0.78)	1.34	1.42	(0.23)	0.51
Total from investment operations	(0.80)	1.30	1.42	(0.21)	0.51
Less distributions from:					
Net investment income	—	—	(0.05)	(0.02)	—
Net realized gains	(0.06)	—	—	—	—
Total distributions	(0.06)	—	(0.05)	(0.02)	—
Net asset value, end of year	$7.97	$8.83	$7.53	$6.16	$6.39
Total return[d]	(9.06)%	17.26%	23.19%	(3.07)%	8.67%
Ratios to average net assets					
Expenses	2.13%[e]	2.09%	2.14%[f]	2.16%	2.10%[f]
Net investment income (loss)	(0.23)%	(0.47)%	(0.03)%	0.31%	0.05%
Supplemental data					
Net assets, end of year (000's)	$36,829	$47,636	$39,726	$34,090	$42,043
Portfolio turnover rate	22.16%	25.64%	27.67%	25.44%	23.31%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Amount rounds to less than $0.01 per share.

[d]Total return does not reflect sales commissions or contingent deferred sales charges, if applicable.

[e]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[f]Benefit of expense reduction rounds to less than 0.01%.

	Year Ended August 31,		
	2015	2014	2013[a]
Class R6			
Per share operating performance (for a share outstanding throughout the year)			
Net asset value, beginning of year	$9.25	$7.84	$7.43
Income from investment operations[b]:			
Net investment income[c]	0.08	0.09	0.03
Net realized and unrealized gains (losses)	(0.82)	1.38	0.38
Total from investment operations	(0.74)	1.47	0.41
Less distributions from:			
Net investment income	(0.08)	(0.06)	—
Net realized gains	(0.06)	—	—
Total distributions	(0.14)	(0.06)	—
Net asset value, end of year	$8.37	$9.25	$7.84
Total return[d]	(7.99)%	18.72%	5.52%
Ratios to average net assets[e]			
Expenses before waiver and payments by affiliates	0.94%	0.92%	3.26%
Expenses net of waiver and payments by affiliates	0.94%[f]	0.92%	0.95%[g]
Net investment income (loss)	0.96%	0.70%	(1.15)%
Supplemental data			
Net assets, end of year (000's)	$22,148	$26,371	$5
Portfolio turnover rate	22.16%	25.64%	27.67%

[a]For the period May 1, 2013 (effective date) to August 31, 2013.

[b]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[c]Based on average daily shares outstanding.

[d]Total return is not annualized for periods less than one year.

[e]Ratios are annualized for periods less than one year.

[f]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[g]Benefit of expense reduction rounds to less than 0.01%.

	Year Ended August 31,				
	2015	2014	2013	2012	2011
Advisor Class					
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	$9.24	$7.84	$6.41	$6.63	$6.08
Income from investment operations[a]:					
Net investment income[b]	0.07	0.03	0.07	0.08	0.08
Net realized and unrealized gains (losses)	(0.83)	1.41	1.48	(0.23)	0.51
Total from investment operations	(0.76)	1.44	1.55	(0.15)	0.59
Less distributions from:					
Net investment income	(0.06)	(0.04)	(0.12)	(0.07)	(0.04)
Net realized gains	(0.06)	—	—	—	—
Total distributions	(0.12)	(0.04)	(0.12)	(0.07)	(0.04)
Net asset value, end of year	$8.36	$9.24	$7.84	$6.41	$6.63
Total return	(8.21)%	18.40%	24.43%	(2.07)%	9.60%
Ratios to average net assets					
Expenses	1.13%[c]	1.09%	1.14%[d]	1.16%	1.10%[d]
Net investment income	0.77%	0.53%	0.97%	1.31%	1.05%
Supplemental data					
Net assets, end of year (000's)	$42,778	$62,955	$140,733	$116,877	$113,402
Portfolio turnover rate	22.16%	25.64%	27.67%	25.44%	23.31%

[a]The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

[b]Based on average daily shares outstanding.

[c]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[d]Benefit of expense reduction rounds to less than 0.01%.

Statement of Investments, August 31, 2015

	Industry	Shares/Units	Value
Common Stocks and Other Equity Interests 93.9%			
Austria 0.9%			
Wienerberger AG	Building Products	529,918	$ 9,431,588
Bahamas 1.8%			
[a] Steiner Leisure Ltd.	Diversified Consumer Services	299,170	19,048,154
Belgium 1.0%			
Barco NV	Electronic Equipment, Instruments & Components	167,740	10,401,177
Brazil 0.4%			
Tupy SA	Auto Components	893,500	4,208,416
Canada 4.8%			
Badger Daylighting Inc.	Construction & Engineering	459,500	7,246,345
Canaccord Genuity Group Inc.	Capital Markets	1,097,700	5,166,531
Dorel Industries Inc., B	Household Durables	232,700	6,268,913
Genworth MI Canada Inc.	Thrifts & Mortgage Finance	174,700	4,048,858
HudBay Minerals Inc.	Metals & Mining	2,151,850	10,782,566
Major Drilling Group International Inc.	Metals & Mining	1,546,100	4,749,454
Mullen Group Ltd.	Energy Equipment & Services	523,400	7,605,348
Precision Drilling Corp.	Energy Equipment & Services	955,600	4,606,702
			50,474,717
China 0.2%			
Shenguan Holdings Group Ltd.	Food Products	16,129,800	2,268,578
Yingde Gases Group Co. Ltd.	Chemicals	630,400	263,548
			2,532,126
Finland 3.3%			
Amer Sports OYJ	Leisure Products	775,797	21,255,475
Huhtamaki OYJ	Containers & Packaging	423,700	13,784,958
			35,040,433
Germany 4.6%			
Gerresheimer AG	Life Sciences Tools & Services	300,670	21,793,325
Grand City Properties SA	Real Estate Management & Development	673,830	11,909,837
Jenoptik AG	Electronic Equipment, Instruments & Components	289,600	3,910,428
Kloeckner & Co. SE	Trading Companies & Distributors	1,294,300	11,734,390
			49,347,980
Hong Kong 3.5%			
Luk Fook Holdings (International) Ltd.	Specialty Retail	3,082,000	8,013,200
Techtronic Industries Co. Ltd.	Household Durables	5,827,000	21,127,574
Value Partners Group Ltd.	Capital Markets	8,730,000	7,873,897
			37,014,671
Italy 2.7%			
Amplifon SpA	Health Care Providers & Services	708,901	5,700,383
Azimut Holding SpA	Capital Markets	221,610	4,886,210
Marr SpA	Food & Staples Retailing	396,973	7,613,009
[a] Sorin SpA	Health Care Equipment & Supplies	3,499,579	10,989,377
			29,188,979
Japan 10.6%			
Asics Corp.	Textiles, Apparel & Luxury Goods	724,200	21,205,130
Capcom Co. Ltd.	Software	300,500	7,063,882
en-japan Inc.	Professional Services	1,600	40,911

	Industry	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
Japan (continued)			
Keihin Corp.	Auto Components	409,900	$ 5,679,908
Kobayashi Pharmaceutical Co. Ltd.	Personal Products	269,910	20,993,495
MEITEC Corp.	Professional Services	143,700	5,541,055
Nachi-Fujikoshi Corp.	Machinery	2,105,200	9,723,787
Shinko Plantech Co. Ltd.	Energy Equipment & Services	653,300	5,318,435
Square Enix Holdings Co. Ltd.	Software	451,500	11,786,518
Tokai Rika Co. Ltd.	Auto Components	243,300	5,179,456
Tsumura & Co.	Pharmaceuticals	638,100	14,205,146
Unipres Corp.	Auto Components	312,900	5,863,649
			112,601,372
Luxembourg 0.5%			
[a] Stabilus SA	Machinery	146,210	5,327,532
Netherlands 3.3%			
Aalberts Industries NV	Machinery	640,951	19,918,682
Arcadis NV	Construction & Engineering	370,310	9,302,779
USG People NV	Professional Services	398,976	5,897,412
			35,118,873
Norway 0.7%			
Ekornes ASA	Household Durables	629,300	7,107,513
South Korea 5.1%			
Binggrae Co. Ltd.	Food Products	119,438	7,292,166
BNK Financial Group Inc.	Banks	1,118,187	13,143,349
DGB Financial Group Inc.	Banks	1,202,820	10,578,176
Sindoh Co. Ltd.	Technology Hardware, Storage & Peripherals	143,648	7,008,938
Youngone Corp.	Textiles, Apparel & Luxury Goods	312,788	16,213,896
			54,236,525
Spain 1.9%			
Construcciones y Auxiliar de Ferrocarriles SA	Machinery	25,409	7,941,889
[b] Melia Hotels International SA	Hotels, Restaurants & Leisure	439,436	6,271,229
Tecnicas Reunidas SA	Energy Equipment & Services	112,842	5,430,992
			19,644,110
Sweden 0.0%†			
[c] The Thule Group AB, Reg S	Leisure Products	1,500	17,992
Switzerland 2.7%			
Logitech International SA	Technology Hardware, Storage & Peripherals	856,870	11,344,959
[a] Oriflame Holding AG	Personal Products	234,550	3,143,206
Vontobel Holding AG	Capital Markets	272,678	14,356,670
			28,844,835
Taiwan 2.8%			
Casetek Holdings Ltd.	Technology Hardware, Storage & Peripherals	944,000	3,530,628
Chicony Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	3,669,220	9,126,177
Giant Manufacturing Co. Ltd.	Leisure Products	1,707,311	12,376,770
Tripod Technology Corp.	Electronic Equipment, Instruments & Components	3,684,000	5,171,163
			30,204,738

	Industry	Shares/Units	Value
Common Stocks and Other Equity Interests (continued)			
United Kingdom 9.1%			
Bellway PLC	Household Durables	188,400	$ 7,195,929
Bovis Homes Group PLC	Household Durables	322,550	5,459,510
Devro PLC	Food Products	1,479,750	6,562,469
[a] DFS Furniture Ltd.	Household Durables	110,743	498,776
Foxtons Group PLC	Real Estate Management & Development	2,625,030	9,687,917
Greggs PLC	Food & Staples Retailing	1,072,590	18,763,751
Laird PLC	Electronic Equipment, Instruments & Components	2,238,640	13,095,383
Oxford Instruments PLC	Electronic Equipment, Instruments & Components	806,740	10,399,057
SIG PLC	Trading Companies & Distributors	2,051,990	5,913,599
UBM PLC	Media	1,359,914	10,277,767
[a] Vectura Group PLC	Pharmaceuticals	3,357,110	8,860,844
			96,715,002
United States 34.0%			
Alamo Group Inc.	Machinery	89,730	4,620,198
AllianceBernstein Holding LP	Capital Markets	747,372	20,433,150
ArcBest Corp.	Road & Rail	372,660	10,762,421
[a] Black Diamond Inc.	Leisure Products	590,400	4,398,480
[a] Chemtura Corp.	Chemicals	239,090	6,503,248
Columbia Sportswear Co.	Textiles, Apparel & Luxury Goods	316,830	19,443,857
[a] Deckers Outdoor Corp.	Textiles, Apparel & Luxury Goods	90,950	5,856,271
Drew Industries Inc.	Auto Components	121,040	6,688,670
Education Realty Trust Inc.	Real Estate Investment Trusts (REITs)	265,200	7,757,100
The Finish Line Inc., A	Specialty Retail	307,490	8,108,511
FirstMerit Corp.	Banks	1,010,150	18,142,294
[a] Glu Mobile Inc.	Software	1,179,730	5,414,961
[a] Green Dot Corp.	Consumer Finance	424,270	7,505,336
GulfMark Offshore Inc., A	Energy Equipment & Services	510,730	4,611,892
Heidrick & Struggles International Inc.	Professional Services	734,730	14,319,888
[a] Hibbett Sports Inc.	Specialty Retail	425,530	16,808,435
Hillenbrand Inc.	Machinery	727,620	19,616,635
Hyster-Yale Materials Handling Inc.	Machinery	172,030	10,452,543
Investment Technology Group Inc.	Capital Markets	537,260	8,821,809
iShares Russell 2000 ETF	Diversified Financial Services	64,200	7,395,840
[a,b,d] JAKKS Pacific Inc.	Leisure Products	1,516,460	14,451,864
Janus Capital Group Inc.	Capital Markets	1,237,410	18,412,661
[a,b] Knowles Corp.	Electronic Equipment, Instruments & Components	926,330	15,080,652
[a] Newpark Resources Inc.	Energy Equipment & Services	1,012,170	7,419,206
Simpson Manufacturing Co. Inc.	Building Products	570,930	19,931,166
[a] Smith & Wesson Holding Corp.	Leisure Products	434,450	7,854,856
SpartanNash Co.	Food & Staples Retailing	659,840	18,673,472
[a] Stillwater Mining Co.	Metals & Mining	1,237,220	11,815,451
[a] TTM Technologies Inc.	Electronic Equipment, Instruments & Components	1,833,390	12,503,720
[a] Tutor Perini Corp.	Construction & Engineering	612,620	10,843,374
[a] Unit Corp.	Energy Equipment & Services	261,230	3,970,696
[a,d] West Marine Inc.	Specialty Retail	1,454,630	12,757,105
			361,375,762
Total Common Stocks and Other Equity Interests (Cost $832,521,776)			997,882,495

	Industry	Shares/Units	Value
Preferred Stocks 1.0%			
Brazil 0.4%			
Alpargatas SA, pfd.	Textiles, Apparel & Luxury Goods	2,082,350	$ 4,369,932
Germany 0.6%			
Draegerwerk AG & Co. KGAA, pfd.	Health Care Equipment & Supplies	66,000	6,278,291
Total Preferred Stocks (Cost $14,574,900)			10,648,223
Total Investments before Short Term Investments (Cost $847,096,676)			1,008,530,718
		Principal* Amount	
Short Term Investments 7.1%			
U.S. Government and Agency Securities (Cost $48,999,986) 4.6%			
United States 4.6%			
[e] FHLMC, 9/01/15		49,000,000	49,000,000
Total Investments before Money Market Funds (Cost $896,096,662)			1,057,530,718
		Shares	
[f] **Investments from Cash Collateral Received for Loaned Securities (Cost $26,172,955) 2.5%**			
Money Market Funds 2.5%			
United States 2.5%			
[a,g] Institutional Fiduciary Trust Money Market Portfolio		26,172,955	26,172,955
Total Investments (Cost $922,269,617) 102.0%			1,083,703,673
Other Assets, less Liabilities (2.0)%			(21,531,525)
Net Assets 100.0%			$1,062,172,148

See Abbreviations on page 34.

[†]Rounds to less than 0.1% of net assets.

*The principal amount is stated in U.S. dollars unless otherwise indicated.

[a]Non-income producing.

[b]A portion or all of the security is on loan at August 31, 2015. See Note 1(c).

[c]Security was purchased pursuant to Regulation S under the Securities Act of 1933, which exempts from registration securities offered and sold outside of the United States. Such a security cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. This security has been deemed liquid under guidelines approved by the Fund's Board of Trustees.

[d]See Note 8 regarding holdings of 5% voting securities.

[e]The security is traded on a discount basis with no stated coupon rate.

[f]See Note 1(c) regarding securities on loan.

[g]See Note 3(f) regarding investments in Institutional Fiduciary Trust Money Market Portfolio.

Financial Statements

Statement of Assets and Liabilities

August 31, 2015

Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$ 853,802,108
Cost - Non-controlled affiliated issuers (Note 8)	42,294,554
Cost - Sweep Money Fund (Note 3f)	26,172,955
Total cost of investments	$ 922,269,617
Value - Unaffiliated issuers	$1,030,321,749
Value - Non-controlled affiliated issuers (Note 8)	27,208,969
Value - Sweep Money Fund (Note 3f)	26,172,955
Total value of investments (includes securities loaned in the amount of $25,346,916)	1,083,703,673
Cash	399,945
Foreign currency, at value (cost $300,029)	299,239
Receivables:	
Investment securities sold	3,419,403
Capital shares sold	1,576,414
Dividends and interest	1,821,211
Other assets	1,481,327
Total assets	1,092,701,212
Liabilities:	
Payables:	
Investment securities purchased	1,526,491
Capital shares redeemed	1,246,453
Management fees	807,816
Distribution fees	241,993
Transfer agent fees	292,744
Payable upon return of securities loaned	26,172,955
Accrued expenses and other liabilities	240,612
Total liabilities	30,529,064
Net assets, at value	$1,062,172,148
Net assets consist of:	
Paid-in capital	$ 918,476,118
Undistributed net investment income	310,986
Net unrealized appreciation (depreciation)	161,403,638
Accumulated net realized gain (loss)	(18,018,594)
Net assets, at value	$1,062,172,148

Statement of Assets and Liabilities (continued)
August 31, 2015

Class A:	
Net assets, at value	$ 960,416,906
Shares outstanding	115,370,912
Net asset value per share[a]	$8.32
Maximum offering price per share (net asset value per share ÷ 94.25%)	$8.83
Class C:	
Net assets, at value	$ 36,829,373
Shares outstanding	4,622,391
Net asset value and maximum offering price per share[a]	$7.97
Class R6:	
Net assets, at value	$ 22,147,698
Shares outstanding	2,647,075
Net asset value and maximum offering price per share	$8.37
Advisor Class:	
Net assets, at value	$ 42,778,171
Shares outstanding	5,115,725
Net asset value and maximum offering price per share	$8.36

[a]Redemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Statement of Operations
for the year ended August 31, 2015

Investment income:	
Dividends: (net of foreign taxes of $1,585,716)	
Unaffiliated issuers	$ 18,749,556
Non-controlled affiliated issuers (Note 8)	485,703
Interest	19,414
Income from securities loaned	660,439
Other income (Note 1d)	1,646,331
Total investment income	21,561,443
Expenses:	
Management fees (Note 3a)	9,918,743
Distribution fees: (Note 3c)	
Class A	2,550,787
Class C	415,380
Transfer agent fees: (Note 3e)	
Class A	1,885,728
Class C	76,949
Class R6	170
Advisor Class	95,048
Custodian fees (Note 4)	108,520
Reports to shareholders	180,184
Registration and filing fees	108,405
Professional fees	107,193
Trustees' fees and expenses	101,699
Other	158,986
Total expenses	15,707,792
Expenses waived/paid by affiliates (Note 3f)	(13,972)
Net expenses	15,693,820
Net investment income	5,867,623
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	(9,196,145)
Non-controlled affiliated issuers (Note 8)	76,793
Foreign currency transactions	(201,429)
Net realized gain (loss)	(9,320,781)
Net change in unrealized appreciation (depreciation) on:	
Investments	(98,127,517)
Translation of other assets and liabilities denominated in foreign currencies	(33,374)
Change in deferred taxes on unrealized appreciation	76,505
Net change in unrealized appreciation (depreciation)	(98,084,386)
Net realized and unrealized gain (loss)	(107,405,167)
Net increase (decrease) in net assets resulting from operations	$(101,537,544)

Statements of Changes in Net Assets

	Year Ended August 31, 2015	Year Ended August 31, 2014
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 5,867,623	$ 3,395,919
Net realized gain (loss)	(9,320,781)	89,419,423
Net change in unrealized appreciation (depreciation)	(98,084,386)	102,809,900
Net increase (decrease) in net assets resulting from operations	(101,537,544)	195,625,242
Distributions to shareholders from:		
Net investment income:		
Class A	(5,133,265)	(2,577,758)
Class R6	(229,995)	(37)
Advisor Class	(360,905)	(741,716)
Net realized gains:		
Class A	(7,182,702)	—
Class C	(314,972)	—
Class R6	(172,845)	—
Advisor Class	(358,592)	—
Total distributions to shareholders	(13,753,276)	(3,319,511)
Capital share transactions: (Note 2)		
Class A	(19,764,314)	28,807,870
Class C	(6,375,332)	1,006,890
Class R6	(1,803,326)	25,633,008
Advisor Class	(14,428,850)	(100,451,266)
Total capital share transactions	(42,371,822)	(45,003,498)
Net increase (decrease) in net assets	(157,662,642)	147,302,233
Net assets:		
Beginning of year	1,219,834,790	1,072,532,557
End of year	$1,062,172,148	$1,219,834,790
Undistributed net investment income included in net assets:		
End of year	$ 310,986	$ 3,539,535

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Templeton Global Smaller Companies Fund (Fund) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). The Fund offers four classes of shares: Class A, Class C, Class R6, and Advisor Class. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share at the close of the New York Stock Exchange (NYSE), generally at 4 p.m. Eastern time (NYSE close) on each day the NYSE is open for trading. Under compliance policies and procedures approved by the Fund's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and exchange traded funds listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of the NYSE close, whichever is earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the NYSE close on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

Investments in open-end mutual funds are valued at the closing NAV.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily NYSE close. In addition, trading in certain foreign markets may not take place on every NYSE business day. Occasionally, events occur

between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund. The total cash collateral received at year end was $26,172,955. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

1. Organization and Significant Accounting Policies (continued)

d. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date. As a result of several court cases, in certain countries across the European Union, the Fund has filed additional tax reclaims for previously withheld taxes on dividends earned in those countries. These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. During the year ended August 31, 2015, the Fund recognized approximately $1,660,208 from Finland and Sweden for previously withheld foreign taxes and interest on such taxes. These amounts are reflected as other income and interest in the Statement of Operations. In regards to filings in other European Union countries, uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these reclaims, and the potential timing of payment, and accordingly, no amounts are reflected in the financial statements.

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of August 31, 2015, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction's statute of limitation.

e. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income is recorded on the ex-dividend date except for certain dividends from foreign securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

f. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

g. Guarantees and Indemnifications

Under the Fund's organizational documents, its officers and trustees are indemnified by the Fund against certain liabilities arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund expects the risk of loss to be remote.

2. Shares of Beneficial Interest

At August 31, 2015, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended August 31,			
	2015		2014	
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold	16,484,785	$144,514,746	26,837,570	$ 235,968,328
Shares issued in reinvestment of distributions	1,353,320	11,557,350	267,626	2,357,786
Shares redeemed	(20,158,475)	(175,836,410)	(23,650,619)	(209,518,244)
Net increase (decrease)	(2,320,370)	$ (19,764,314)	3,454,577	$ 28,807,870
Class C Shares:				
Shares sold	700,079	$ 5,911,760	1,039,506	$ 8,857,891
Shares issued in reinvestment of distributions	35,152	288,950	—	—
Shares redeemed	(1,507,892)	(12,576,042)	(919,315)	(7,851,001)
Net increase (decrease)	(772,661)	$ (6,375,332)	120,191	$ 1,006,890
Class R6 Shares:				
Shares sold	330,146	$ 2,884,613	3,029,935	$ 27,262,202
Shares redeemed	(534,617)	(4,687,939)	(179,062)	(1,629,194)
Net increase (decrease)	(204,471)	$ (1,803,326)	2,850,873	$ 25,633,008
Advisor Class Shares:				
Shares sold	2,265,373	$ 20,190,306	3,612,754	$ 32,422,765
Shares issued in reinvestment of distributions	68,481	586,879	78,708	694,990
Shares redeemed	(4,033,193)	(35,206,035)	(14,832,236)	(133,569,021)
Net increase (decrease)	(1,699,339)	$ (14,428,850)	(11,140,774)	$ (100,451,266)

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Templeton Investment Corp. (FTIC)	Investment manager
Templeton Investment Counsel, LLC (TIC)	Investment manager – sub-advisor
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

3. Transactions with Affiliates (continued)

a. Management Fees

The Fund pays an investment management fee to FTIC based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.900%	Up to and including $200 million
0.885%	Over $200 million, up to and including $700 million
0.850%	Over $700 million, up to and including $1 billion
0.830%	Over $1 billion, up to and including $1.2 billion
0.805%	Over $1.2 billion, up to and including $5 billion
0.785%	Over $5 billion, up to and including $10 billion
0.765%	Over $10 billion, up to and including $15 billion
0.745%	Over $15 billion, up to and including $20 billion
0.725%	In excess of $20 billion

Under a subadvisory agreement, TIC, an affiliate of FTIC, provides subadvisory services to the Fund. The subadvisory fee is paid by FTIC based on the Fund's average daily net assets, and is not an additional expense of the Fund.

b. Administrative Fees

Under an agreement with FTIC, FT Services provides administrative services to the Fund. The fee is paid by FTIC based on the Fund's average daily net assets, and is not an additional expense of the Fund.

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class R6 and Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class C compensation distribution plan, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	0.25%
Class C	1.00%

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the year:

Sales charges retained net of commissions paid to unaffiliated broker/dealers	$476,078
CDSC retained	$ 12,020

e. Transfer Agent Fees

Each class of shares, except for Class R6, pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations and reimburses Investor Services for out of pocket expenses incurred, including shareholding servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the year ended August 31, 2015, the Fund paid transfer agent fees of $2,057,895, of which $856,289 was retained by Investor Services.

f. Investments in Institutional Fiduciary Trust Money Market Portfolio

The Fund invests in Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an affiliated open-end management investment company. Management fees paid by the Fund are waived on assets invested in the Sweep Money Fund, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by the Sweep Money Fund.

g. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.01% until December 31, 2015. There were no Class R6 transfer agent fees waived during the year ended August 31, 2015.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended August 31, 2015, there were no credits earned.

5. Income Taxes

For tax purposes, the Fund may elect to defer any portion of a post-October capital loss or late-year ordinary loss to the first day of the following fiscal year. At August 31, 2015, the Fund deferred post-October capital losses and late-year ordinary losses of $14,862,013 and $603,621, respectively.

The tax character of distributions paid during the years ended August 31, 2015 and 2014, was as follows:

	2015	2014
Distributions paid from:		
Ordinary income	$ 8,149,282	$3,319,511
Long term capital gain	5,603,994	—
	$13,753,276	$3,319,511

5. Income Taxes (continued)

At August 31, 2015, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$925,869,603
Unrealized appreciation	$281,326,708
Unrealized depreciation	(123,492,638)
Net unrealized appreciation (depreciation)	$157,834,070

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of passive foreign investment company shares and foreign tax reclaims.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended August 31, 2015, aggregated $240,082,080 and $272,794,739, respectively.

7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

8. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the year ended August 31, 2015, were as shown below.

Name of Issuer	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Gain (Loss)
Non-Controlled Affiliates							
Heidrick & Struggles International Inc.	1,144,810	—	(410,080)	734,730	$ —[a]	$485,703	$ 774,610
JAKKS Pacific Inc.	1,553,200	—	(36,740)	1,516,460	14,451,864	—	(697,817)
West Marine Inc.	1,454,630	—	—	1,454,630	12,757,105	—	—
Total Affiliated Securities (Value is 2.56% of Net Assets)					$27,208,969	$485,703	$ 76,793

[a]As of August 31, 2015, no longer an affiliate.

9. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matures on February 12, 2016. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended August 31, 2015, the Fund did not use the Global Credit Facility.

10. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

A summary of inputs used as of August 31, 2015, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities				
Equity Investments[a,b]	$1,008,530,718	$ —	$ —	$1,008,530,718
Short Term Investments	26,172,955	49,000,000	—	75,172,955
Total Investments in Securities	$1,034,703,673	$49,000,000	$ —	$1,083,703,673

[a]For detailed categories, see the accompanying Statement of Investments.
[b]Includes common and preferred stocks as well as other equity investments.

11. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-11, Transfers and Servicing (Topic 860), Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The ASU changes the accounting for certain repurchase agreements and expands disclosure requirements related to repurchase agreements, securities lending, repurchase-to-maturity and similar transactions. The ASU is effective for certain transactions accounted for as a sale for interim and annual reporting periods beginning after December 15, 2014 and transactions accounted for as secured borrowings for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. Management has reviewed the requirements and believes the adoption of this ASU will not have a material impact on the financial statements.

12. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Selected Portfolio	
ETF	Exchange Traded Fund
FHLMC	Federal Home Loan Mortgage Corp.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Templeton Global Smaller Companies Fund

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Templeton Global Smaller Companies Fund (the "Fund") at August 31, 2015, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2015 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California
October 20, 2015

Tax Information (unaudited)

Under Section 852(b)(3)(C) of the Internal Revenue Code (Code), the Fund hereby reports the maximum amount allowable but no less than $5,603,994 as a long term capital gain dividend for the fiscal year ended August 31, 2015.

Under Section 871(k)(2)(C) of the Code, the Fund hereby reports the maximum amount allowable but no less than $2,358,721 as a short term capital gain dividend for purposes of the tax imposed under Section 871(a)(1)(A) of the Code for the fiscal year ended August 31, 2015.

Under Section 854(b)(1)(A) of the Code, the Fund hereby reports 51.75% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended August 31, 2015.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than $13,635,802 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended August 31, 2015. Distributions, including qualified dividend income, paid during calendar year 2015 will be reported to shareholders on Form 1099-DIV by mid-February 2016. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

At August 31, 2014, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Code. This written statement will allow shareholders of record on December 18, 2014, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, foreign source income and foreign source qualified dividends as reported by the Fund, to Class A, Class C, Class R6, and Advisor Class shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share	Foreign Source Qualified Dividends Per Share
Class A	$0.0138	$0.0308	$0.0199
Class C	$0.0138	$0.0000	$0.0000
Class R6	$0.0138	$0.0552	$0.0356
Advisor Class	$0.0138	$0.0354	$0.0228

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends. The amounts reported include foreign source qualified dividends that have not been adjusted for the rate differential applicable to such dividend income.[1]

Foreign Source Qualified Dividends Per Share (Column 3) is the amount per share of foreign source qualified dividends, plus any foreign taxes withheld on these dividends. These amounts represent the portion of the Foreign Source Income reported to you in column 2 that were derived from qualified foreign securities held by the Fund.[1]

By mid-February 2015, shareholders received Form 1099-DIV which included their share of taxes paid and foreign source income distributed during the calendar year 2014. The Foreign Source Income reported on Form 1099-DIV has not been adjusted for the rate differential on foreign source qualified dividend income. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their 2014 individual income tax returns.

[1]Qualified dividends are taxed at reduced long term capital gains tax rates. In determining the amount of foreign tax credit that may be applied against the U.S. tax liability of individuals receiving foreign source qualified dividends, adjustments may be required to the foreign tax credit limitation calculation to reflect the rate differential applicable to such dividend income. The rules however permit certain individuals to elect not to apply the rate differential adjustments for capital gains and/or dividends for any taxable year. Please consult your tax advisor and the instructions to Form 1116 for more information.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 1992	144	Bar-S Foods (meat packing company) (1981-2010).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly,** Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
Ann Torre Bates (1958) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2008	42	Navient Corporation (loan management, servicing and asset recovery) (2014-present), Ares Capital Corporation (specialty finance company) (2010-present), United Natural Foods, Inc. (distributor of natural, organic and specialty foods) (2013-present), Allied Capital Corporation (financial services) (2003-2010) and SLM Corporation (Sallie Mae) (1997-2014).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly,** Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).				
Frank J. Crothers (1944) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2004	25	Fortis, Inc. (utility holding company) (2007-present) and AML Foods Limited (retail distributors) (1989-present).
Principal Occupation During at Least the Past 5 Years: Director and Vice Chairman, Caribbean Utilities Company, Ltd.; director of various other private business and nonprofit organizations; and Chairman, Atlantic Equipment and Power Ltd. (1977-2003).				
Edith E. Holiday (1952) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Lead Independent Trustee	Trustee since 2004 and Lead Independent Trustee since 2007	144	Hess Corporation (exploration and refining of oil and gas) (1993-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
Principal Occupation During at Least the Past 5 Years: Director or Trustee of various companies and trusts; and **formerly,** Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison – United States Treasury Department (1988-1989).				

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2009	144	Boeing Capital Corporation (aircraft financing) (2006-2013).
Principal Occupation During at Least the Past 5 Years: Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company); and **formerly,** Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				
David W. Niemiec (1949) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2005	42	Emeritus Corporation (assisted living) (1999-2010) and OSI Pharmaceuticals, Inc. (pharmaceutical products) (2006-2010).
Principal Occupation During at Least the Past 5 Years: Advisor, Saratoga Partners (private equity fund); and **formerly,** Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).				
Frank A. Olson (1932) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2004	144	Hess Corporation (exploration and refining of oil and gas) (1998-2013).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and **formerly,** Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999); and Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June-December 1987).				
Larry D. Thompson (1945) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2005	144	Cbeyond, Inc. (business communications provider) (2010-2012), The Southern Company (energy company) (2014-present; previously 2010-2012) and Graham Holdings Company (education and media organization) (2011-present).
Principal Occupation During at Least the Past 5 Years: Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly,** Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).				
Constantine D. Tseretopoulos (1954) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2004	25	None
Principal Occupation During at Least the Past 5 Years: Physician, Chief of Staff, owner and operator of the Lyford Cay Hospital (1987-present); director of various nonprofit organizations; and **formerly,** Cardiology Fellow, University of Maryland (1985-1987); and Internal Medicine Resident, Greater Baltimore Medical Center (1982-1985).				
Robert E. Wade (1946) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Trustee	Since 2006	42	El Oro Ltd (investments) (2003-present).
Principal Occupation During at Least the Past 5 Years: Attorney at law engaged in private practice (1972-2008) and member of various boards.				

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
****Gregory E. Johnson (1961)** One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	161	None
Principal Occupation During at Least the Past 5 Years: Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly,** President, Franklin Resources, Inc. (1994-2015).				
****Rupert H. Johnson, Jr. (1940)** One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board and Trustee and Vice President	Chairman of the Board and Trustee since 2013, and Vice President since 1996	144	None
Principal Occupation During at Least the Past 5 Years: Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 43 of the investment companies in Franklin Templeton Investments.				
Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.				
Norman J. Boersma (1957) Lyford Cay Nassau, Bahamas	President and Chief Executive Officer – Investment Management	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, President and Chief Executive Officer, Templeton Global Advisors Ltd.; Chief Investment Officer of Templeton Global Equity Group; officer of six of the investment companies in Franklin Templeton Investments; and **formerly,** Executive Vice President, Franklin Templeton Investments Corp. (1993-2014).				
Laura F. Fergerson (1962) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
Selena L. Holmes (1965) 100 Fountain Parkway St. Petersburg, FL 33716-1205	Vice President – AML Compliance	Since 2012	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 45 of the investment companies in Franklin Templeton Investments.				
Mark H. Otani (1968) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 14 of the investment companies in Franklin Templeton Investments.				
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 45 of the investment companies in Franklin Templeton Investments; and **formerly,** Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.				
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Secretary and Vice President	Secretary since 2013 and Vice President since 2011	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Ms. Bates and Mr. Niemiec qualify as such an expert in view of their extensive business background and experience. Ms. Bates has served as a member of the Fund Audit Committee since 2008. She currently serves as a director of Navient Corporation (2014-present), Ares Capital Corporation (2010-present) and United Natural Foods, Inc. (2013-present) and was formerly a director of SLM Corporation from 1997 to 2014 and Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated from 1995 to 1997 and Vice President and Treasurer of US Airways, Inc. until 1995. Mr. Niemiec has served as a member of the Fund Audit Committee since 2005, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001. Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010, Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Ms. Bates and Mr. Niemiec have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Bates and Mr. Niemiec are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held May 19, 2015, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for the Fund. In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for the Fund, along with periodic reports on expenses, shareholder services, legal and compliance matters, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates, as well as marketing support payments made to financial intermediaries. Information furnished specifically in connection with the renewal process included a report for the Fund prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper report compared the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments (FTI) from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant, and a three-year expense analysis with an explanation for any increase in expense ratios. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Fund by the FTI organization, as well as a memorandum relating to economies of scale and an analysis concerning transfer agent fees charged by an affiliate of the Manager. The Board also noted that at the February meetings each year, it receives an annual report on all marketing support payments made by FTI to financial intermediaries.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. In approving continuance of the investment management agreement for the Fund, the Board, including a majority of independent Trustees, determined that the existing management fee structure was fair and reasonable and that continuance of the investment management agreement was in the best interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The Board was satisfied with the nature and quality of the overall services provided by the Manager and its affiliates to the Fund and its shareholders. In addition to investment performance and expenses discussed later, the Board's opinion was based, in part, upon periodic reports furnished showing that the investment policies and restrictions for the Fund were consistently complied with as well as other reports periodically furnished to the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy of net asset value calculations. The Board also noted the extent of benefits provided to Fund shareholders from being part of the Franklin Templeton family of funds, including the right to exchange investments between the same class of shares of different funds without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings in other funds to obtain a reduced sales charge. Favorable consideration was given to management's continual efforts and expenditures in establishing effective business continuity plans and developing strategies to address cybersecurity threats. Among other factors taken into account by the Board were the Manager's best execution trading policies, including a favorable report by an independent portfolio trading analytical firm that also covered global foreign exchange transactions. Consideration was also given to the experience of the Fund's portfolio management team, the number of accounts managed and general method of compensation. In this latter respect, the Board noted that a primary factor in management's determination of a portfolio manager's bonus compensation was the relative investment performance of the funds he or she managed and that a portion of such bonus was required to be invested in a predesignated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. The Board also took into account the quality of transfer agent and shareholder services provided to Fund shareholders by an affiliate of the Manager, noting the changes taking place in the nature of transfer agency services throughout the industry and regulatory initiatives in this area, and the continual enhancements to the Franklin Templeton website. Particular attention was given to

management's conservative approach and diligent risk management procedures, including continual monitoring of counterparty credit risk and attention given to derivatives and other complex instruments including expanded collateralization requirements, as applicable. The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Fund and other accounts managed by FTI to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the Manager's parent company and its commitment to the mutual fund business as evidenced by its continued subsidization of money market funds.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of the Fund in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings during the year, particular attention in assessing such performance was given to the Lipper report furnished for the agreement renewal. The Lipper report prepared for the Fund showed the investment performance of its Class A shares for the one-year period ended February 28, 2015, as well as the previous 10 years ended on such date in comparison to a performance universe consisting of the Fund and all retail and institutional global small/mid-cap funds as selected by Lipper. On a comparative basis, the Lipper report showed the Fund's total return to be in the second-lowest performing quintile of such performance universe for the one-year period, and on an annualized basis to also be in the second-lowest performing quintile of such performance universe for the previous three- and 10-year periods, and the lowest quintile of such universe for the previous five-year period. In discussing such comparative performance, management noted those factors that had contributed to the Fund's underperformance specifically in the one- and three-year periods. While commenting that the Fund's total return for the one-year period of -1.89% was disappointing, the Board considered that the Fund's total return for the previous annualized three-, five- and 10-year periods was 10.43%, 9.24% and 5.64%, respectively. The Board also expressed optimism that portfolio management changes made during the past year would result in improvements in performance in the future.

COMPARATIVE EXPENSES. Consideration was given to a comparative analysis of the management fee and total expense ratio of the Fund compared with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on the Fund's contractual investment management fee in comparison with the contractual investment management fee that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges as being part of a management fee, and total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares. The results of such expense comparisons showed that the contractual investment management fee rate for the Fund was less than three basis points above the median of its Lipper expense group while its actual total expense ratio was less than six basis points above the median of such expense group. The Board found the contractual investment management fee rate and total expense ratio of the Fund in comparison to its Lipper expense group to be acceptable.

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2014, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, the Board recognized that allocation methodologies are inherently subjective and various allocation methodologies may be reasonable while producing different results. In this respect, the Board noted that while management continually makes refinements to its methodologies in response to organizational and product related changes, the overall approach as defined by the primary drivers and activity measurements has remained consistent with that used in the Fund's profitability report presentations from prior years. Additionally, the Fund's independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Fund's Board in reference to the profitability analysis. In reviewing and discussing such analysis,

Board Review of Investment Management Agreement (continued)

management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving shareholder services provided to the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from statutes such as the Sarbanes-Oxley and Dodd-Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services and potential benefits resulting from personnel and systems enhancements necessitated by fund growth, increased leverage with the service providers and counterparties, allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Fund grows larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided to such a fund. The Board also noted that economies of scale are shared with a fund and its shareholders through management fee breakpoints so that as a fund grows in size, its effective management fee rate declines. The Fund's investment management agreement provides a fee at the rate of 0.90% on the first $200 million of net assets; 0.885% on the next $500 million of net assets; with further breakpoints continuing thereafter up to the $20 billion level of net assets. At the end of 2014, the Fund's net assets were approximately $1.13 billion, and to the extent economies of scale may be realized by the Manager and its affiliates through growth of the Fund, the Board believes the schedule of fees under the investment management agreement provides a sharing of benefits with the Fund and its shareholders.

Proxy Voting Policies and Procedures

The Fund's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Fund uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Fund's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Fund files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

Householding of Reports and Prospectuses

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

FRANKLIN TEMPLETON INVESTMENTS

Annual Report and Shareholder Letter
Templeton Global Smaller Companies Fund

Investment Manager
Franklin Templeton Investments Corp.

Subadvisor
Templeton Investment Counsel, LLC

Distributor
Franklin Templeton Distributors, Inc.
(800) DIAL BEN® / 342-5236
franklintempleton.com

Shareholder Services
(800) 632-2301

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.

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