

## **FUND CHARACTERISTICS** (AS OF 12/31/13)

NASDAQ Symbol **TEMGX Fund Inception Date** 6/1/81 Dividends Annually in December Global Small Cap Investment Style Benchmark MSCI All Country World Small Cap Index Lipper Classification Global Small-/Mid-Cap Morningstar Category™ US OE World Stock Total Net Assets—All Share 1,273 million Classes 111 Number of Issuers

5.75%

## THIRD-PARTY FUND DATA

Maximum Initial Sales Charge

## Overall Morningstar Rating™ **Traditional**



#### **Load Waived**



As of December 31, 2013 the fund's Class A shares received a traditional 2 star overall Morningstar Rating™ and a load waived 3 star Morningstar Rating™, measuring risk-adjusted returns against 797, 638 and 324 U.S.-domiciled US OE World Stock funds over the 3-, 5- and 10-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Load waived Class A share Morningstar Ratings do not include front-end sales charges and are intended for investors who have access to such purchase terms (e.g., fee-based programs and participants of a defined contribution plan). Investors should contact their financial advisor to determine their eligibility to purchase Class A shares without paying the sales charge.

## Templeton Global Smaller Companies Fund—Class A

PRODUCT PROFILE **FOURTH QUARTER 2013** 

#### **FUND DESCRIPTION**

The fund seeks long-term capital growth by investing at least 80% of its net assets in securities of smaller companies located anywhere in the world, including emerging markets.

#### **PERFORMANCE DATA**

## Average Annual Total Returns for Periods Ended December 31, 2013 (%)

	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (6/1/81)
With Sales Charge	2.06	24.55	24.55	5.54	20.44	7.94	10.31
Without Sales Charge	8.29	32.20	32.20	7.62	21.85	8.58	10.51
MSCI All Country World Small Cap Index	6.90	29.18	29.18	10.91	21.21	10.73	N/A

### Total Annual Operating Expenses—With Waiver: 1.39% Without Waiver: 1.39%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

The fund has a fee waiver associated with its investments in a Franklin Templeton money fund, contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the fee waiver; without this reduction, the results would have been

## Average Annual Total Returns for Periods Ended December 31, 2013 (%)



#### Calendar Year Returns As of December 31, 2013 (%)



If the Fund's sales charge had been included, the returns would have been lower.

For information related to the "Fund Characteristics," "Third-Party Fund Data," and "Performance Data" sections, please see Explanatory Notes.

<sup>\*</sup>Cumulative Total Returns.

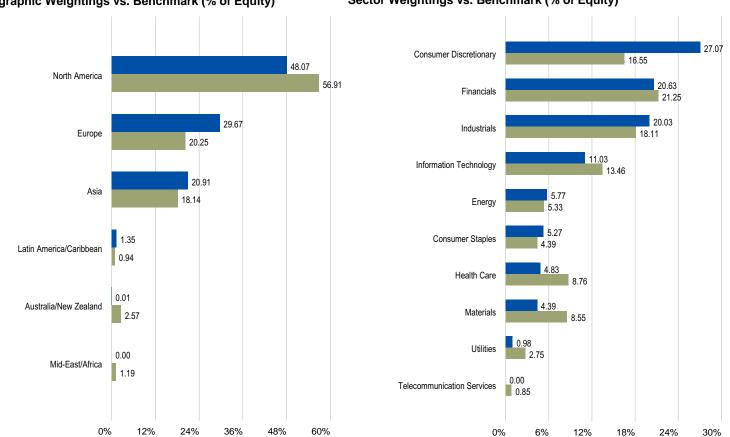
## PORTFOLIO DIVERSIFICATION (AS OF 12/31/13)

## **Top Ten Holdings**

Issuer Name	Country	Industry	% of Total
1. ARKANSAS BEST CORP	United States	Transportation	2.32
2. HIBBETT SPORTS INC	United States	Retailing	2.05
3. SPARTAN STORES	United States	Food & Staples Retailing	1.93
4. COLUMBIA SPORTSWEAR CO	United States	Consumer Durables & Apparel	1.91
5. ALLIANCEBERNSTEIN HOLDING LP	United States	Diversified Financials	1.85
6. AMER SPORTS CORPORATION LTD	Finland	Consumer Durables & Apparel	1.78
7. HEIDRICK & STRUGGLES INTERNATIONAL INC	United States	Commercial & Professional Services	1.73
8. SIMPSON MANUFACTURING CO INC	United States	Capital Goods	1.69
9. PANALPINA WELTTRANSPORT HOLD AG	Switzerland	Transportation	1.69
10. LEAPFROG ENTERPRISES INC	United States	Consumer Durables & Apparel	1.66
Total			18.62

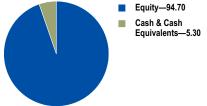
## Geographic Weightings vs. Benchmark (% of Equity)

## Sector Weightings vs. Benchmark (% of Equity)



**Templeton Global Smaller Companies Fund** MSCI All Country World Small Cap Index

# Portfolio Allocation (%)



# **Largest Sector Contributors**

Sector	Total Effect (%)
Financials	0.80
Industrials	0.50
Information Technology	0.44
Consumer Discretionary	0.26
Health Care	0.23

## **Smallest Sector Contributors** vs. MSCI All Country World Small Cap Index vs. MSCI All Country World Small Cap Index

Sector	Total Effect (%)
Cash & Other Net Assets	-0.38
Consumer Staples	-0.22
Utilities	-0.06
Telecommunication Services	0.01
Energy	0.07

Contributor data shown is for the period 10/1/13 to 12/31/13

## PORTFOLIO CHARACTERISTICS (AS OF 12/31/13)—Fund vs. MSCI All Country World Small Cap Index

	Fund	Benchmark
Weighted Average Market Capitalization (Millions USD)	2,266	2,234
Median Market Capitalization (Millions USD)	1,557	485

#### **Price to Earnings**

	Fund	Benchmark
Weighted Average	18.45x	17.08x
Median	18.53x	17.88x

#### Price to Cash Flow

	Fund	Benchmark
Weighted Average	10.51x	10.21x
Median	12.86x	11.02x

#### **Price to Book Value**

	Fund	Benchmark
Weighted Average	1.61x	1.85x
Median	1.68x	1.66x

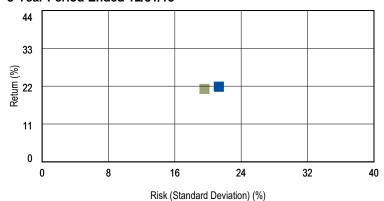
#### **PERFORMANCE RISK STATISTICS - Class A**

## Modern Portfolio Theory (MPT) Statistics (As of 12/31/13)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	16.81	21.31	20.71
Alpha	-3.29	-0.39	-2.15
Beta	1.04	1.06	1.05
Sharpe Ratio	0.45	1.02	0.34
Information Ratio	-0.83	0.13	-0.40
Tracking Error	3.99	5.06	5.37
R-Squared	94.54	94.68	93.51

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## Risk vs. Return 5-Year Period Ended 12/31/13



Templeton Global Smaller Companies Fund—Class A Without Sales Charge

MSCI All Country World Small Cap Index

If the Fund's sales charge had been included, the returns would have been lower.

## **GLOSSARY**

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

<u>Beta:</u> A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

Market Capitalization: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share.

<u>Price to Book Value (P/BV):</u> The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the ratio is the weighted average price/book ratio of the stocks it holds. <u>Price to Cash Flow (P/CF):</u> Supplements price/earnings ratio as a measure of relative value; represents a weighted average of the price/cash flow ratios for the underlying fund holdings.

Price to Earnings (P/E): The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the weighted average P/E ratio of the stocks in the portfolio. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.

R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

<u>Standard Deviation:</u> A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

<u>Tracking Error:</u> Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error.

#### **MARKET REVIEW**

Global stock markets generally advanced in the fourth quarter as developed-market equities delivered strong gains and outperformed emerging-market stocks, which also produced positive results. During the quarter, the US Federal Reserve (Fed) deemed that the US economy was stable enough for the central bank to start measuredly reducing its asset-purchase program in January 2014. However, the Fed's promise to keep short-term interest rates ultralow was extended into 2015. This rate reassurance and the relatively modest nature of the pullback helped drive US equities higher through year-end.

European stocks as a whole delivered strong returns in the fourth quarter, mainly due to solid gains from the region's developed markets such as Germany, Finland, Spain and Ireland. In the third quarter, the eurozone's growth slowed, prompting the European Central Bank (ECB) to lower its benchmark interest rate 25 basis points in November. With signs in the fourth quarter that the eurozone's economy was recovering and that inflation was rising, the ECB held rates steady at a record low of 0.25% in December.

Overall, Asian equities advanced slightly during the fourth quarter, with both China and Japan posting positive returns. Although China's economy accelerated in the third quarter, it likely lost some steam in the fourth quarter as export orders and manufacturing activity weakened. Japan's economy continued to expand in the third quarter, and the country seemed to be emerging from deflation. Elsewhere, although Mexico's equity market produced a positive return, the stock markets of Colombia, Chile and Brazil fell, resulting in a negative fourth-quarter return for the Latin American region. Mexico's economy benefited from a stronger US recovery, while Brazil's economy decelerated in the third quarter mainly due to industrial weakness.

## PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

#### **Performance Review**

During the quarter, stock selection in the financials, industrials and information technology sectors aided relative fund performance. Conversely, stock selection detracted in the consumer staples and utilities sectors.

#### Sector Analysis

In the financials sector, US investment company Janus Capital Group and US trade execution and research broker Investment Technology Group produced strong returns for the quarter and lifted relative performance. A lack of exposure to real estate investment trusts and an investment in mortgage insurer Genworth MI Canada further aided relative performance. In the industrials sector, shares of US transportation company Arkansas Best and US construction contractor Tutor Perini rose and enhanced relative fund results. Switzerland-based consumer products manufacturer Logitech International posted double-digit returns for the period and lifted results in the information technology sector. Stock selection in software companies also benefited sector performance. In the consumer discretionary sector, US sporting goods retailer Hibbett Sports, South Korea-based sportswear firm Youngone, and US outdoor apparel company Columbia Sportswear performed well and lifted sector performance. A lack of exposure to biotechnology stocks proved beneficial for relative results in the health care sector, and stock selection and an underweight allocation in the metals and mining industry boosted results in the materials sector.

Conversely, investments in the personal products industry, including Price Frog International (China) and Kobayashi Pharmaceutical (Japan), weighed on relative results in the consumer staples sector. Relative performance in the utilities sector was negatively impacted by stock selection in the gas utilities industry. Elsewhere, top fund detractors included US educational entertainment company LeapFrog Enterprises, Bahamas-based provider of spa services Steiner Leisure, Austrian brick maker Wienerberger and US consumer finance company Green Dot.

## Country Analysis

Geographically, all major regions contributed to relative performance. Stock selection in the US as well as an overweight allocation and stock selection in Europe contributed the most to relative results. An underweight allocation to Australia and stock selection in Asia further aided results, as did investments in Brazil. At the country level, investments in China, Canada and Austria detracted from relative fund performance.

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

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## **INVESTMENT PHILOSOPHY AND PROCESS**

Templeton's investment philosophy is built upon a disciplined, yet flexible, long-term approach to value-oriented global and international investing. This time-tested approach is based on three tenets:

#### **Value**

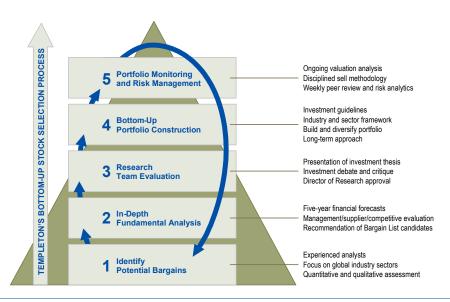
We seek companies that we believe are trading at a discount to what our research indicates the company may be worth.

#### **Patience**

Security prices can fluctuate more widely than underlying security values. In our opinion, market efficiencies should recognize and correct these security prices over time.

#### Bottom-Up

We identify value through rigorous fundamental analysis of a company's business to determine what we consider its economic worth based on projected future earnings, cash flow or asset value potential.



## **INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/13)**

Years with Firm	Years Experience
	Touro Experience
12	14
10	21
16	30
Years with Firm	Years Experience
22	28
9	30
16	30
Number of Members	Average Years Experience
24	23
17	9
Junior Research Analysts	Global Trading Platform
Performance Analysis and Investment Risk Group	Global Portfolio Compliance Group
	10 16 Years with Firm 22 9 16 Number of Members 24 17  Junior Research Analysts

## WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. 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. In addition, smaller-company stocks have historically exhibited greater price volatility than large-company stocks, particularly over the short term. These special considerations are discussed in the fund's prospectus.

#### **EXPLANATORY NOTES**

#### **FUND CHARACTERISTICS**

Number of Issuers: All portfolio holdings are subject to change. Holdings of the same issuer have been combined.

#### THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 12/31/13. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Templeton Global Smaller Companies Fund received a traditional Morningstar Rating of 1, 4 and 2 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Templeton Global Smaller Companies Fund received Morningstar Ratings of 2, 5 and 3 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. Past performance does not guarantee future results. ©2014 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

#### PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

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On 1/1/93, the fund implemented a Rule 12b-1 plan, which affects subsequent performance.

#### PORTFOLIO DIVERSIFICATION

<u>Top Ten Holdings</u>: Holdings of the same issuer have been combined. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included. For updated information, call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com.

Geographic/Sector Weightings: Weightings as percent of equity (unless otherwise noted). Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics.

<u>Sector Weightings</u>: Weightings as percent of equity (unless otherwise noted). Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics.

<u>Largest/Smallest Sector Contributors</u>: Total effect represents the opportunity cost of investment decisions in a group relative to overall benchmark.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

### PORTFOLIO CHARACTERISTICS

The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. All portfolio holdings are subject to change.

Source: FactSet. For the portfolio, the Price to Earnings, Price to Cash Flow, and Price to Book Value calculations for the weighted average use harmonic means. Values less than 0.01 (i.e., negative values) are excluded and values in excess of 200x are capped at 200x. For the benchmark, no limits are applied to these ratios in keeping with the benchmark's calculation methodology. Market capitalization statistics are indicated in the base currency for the portfolio presented.

## PERFORMANCE RISK STATISTICS

<u>Risk vs. Return</u>: Risk is measured by the annualized standard deviation of monthly total returns. Performance of the fund does not include sales charges (if applicable), but it does include dividends and capital gains reinvested at net asset value. Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

The fund offers other share classes subject to different fees and expenses, which will affect their performance.



Franklin Templeton Distributors, Inc. One Franklin Parkway San Mateo, California 94403-1906 (800) DIAL BEN® (800) 342-5236 franklintempleton.com Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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