2020 Vision

The Case for Equities in the Decade Ahead

FRANKLIN TEMPLETON INVESTMENTS

BULL MARKETS are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.

—Sir John Templeton, Templeton Funds Founder and Former Chairman

Five Reasons You Should Consider Equities for the Decade Ahead

Hindsight is 20/20. The technology and housing bubbles, the Great Recession of 2008/2009 and concerns over local and international government fiscal stability have provided dramatic reminders that all investments involve risks. With the benefit of hindsight, some investors might have chosen to avoid equities during the first decade of the 21st century. But even today, some investors choose to stay on the sidelines.

The following pages seek to offer 2020 insight—illuminating five reasons to consider equities for the decade ahead.

1] History Favors a Return to the Mean

Investors often assume the worst (or best) will continue—it's important to consider long-term market history.

2] The World is Getting Smaller (and More Prosperous)

The world is not only shrinking, but developing nations are seeing middle class growth driving the consumption of products and services at a rising rate.

3] Innovation Will Surprise Us…Again

While we should expect change, we don't often anticipate its source or the pace at which it occurs.

4] Quality Companies Are Not Short-Sighted

The market is continually growing and changing. While some companies don't survive this evolutionary process, the strongest benefit from it.

5] Equities Help Protect Purchasing Power

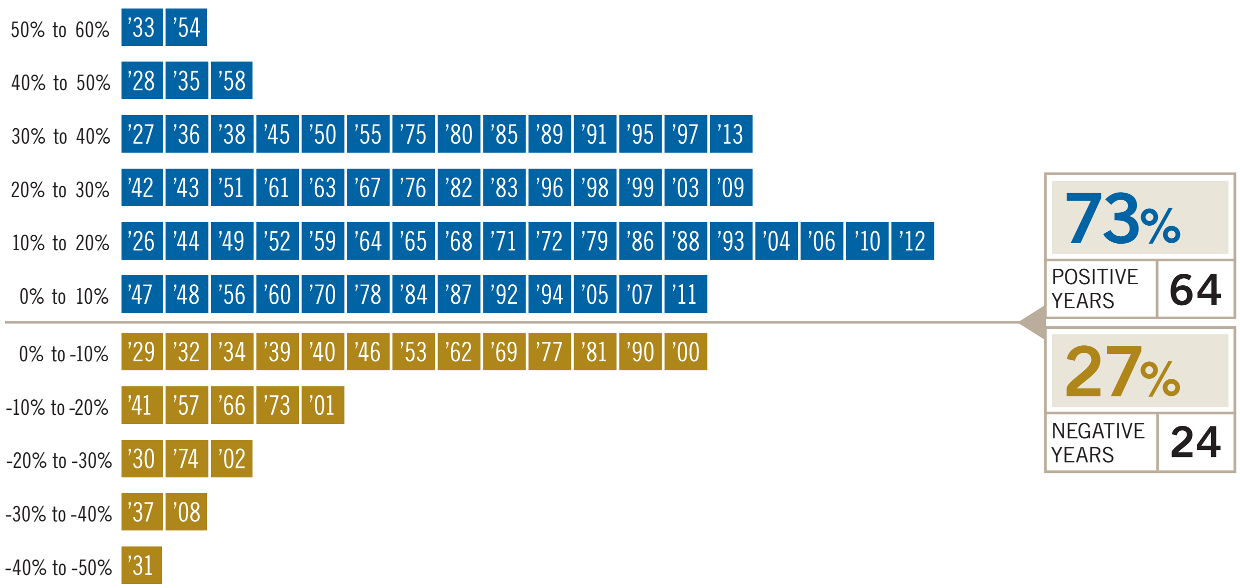
For most investors, adding equities as part of their investment mix may help reduce the potential risk of their overall portfolio.

1] History Favors a Return to the Mean

Volatility has always been a part of equity investing. As you can see below, the S&P 500 Index has produced positive annual returns over 70% of the time and negative returns roughly 30% of the time. But look at returns over a longer time frame. A 10-year perspective has worked in an investor's favor 95% of the time.

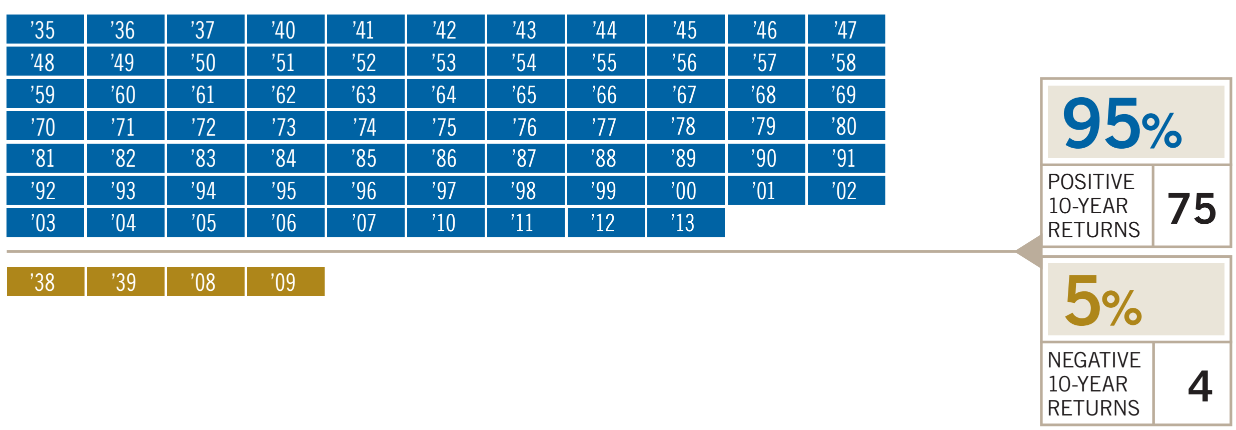
Annual Returns of the S&P 500 Index—Positive vs. Negative[1]

Total Return Ranges



10-Year Returns of the S&P 500 Index—Positive vs. Negative[1]

10-Year Periods Ended:



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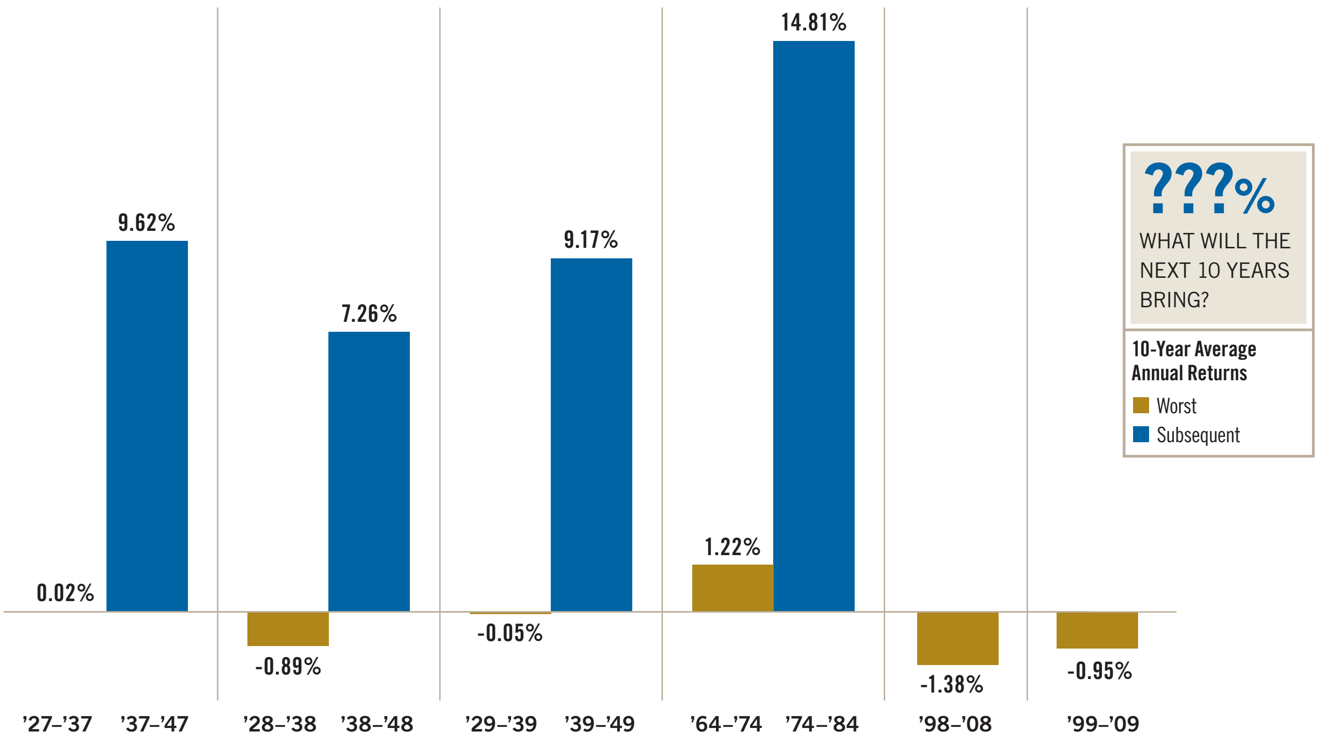
WHAT HAPPENED NEXT?

As you can see below, the historical 10-year average annual returns following the worst 10-year period average annual returns since 1926 have benefited those who were invested in stocks. The decade ahead remains a question mark.

S&P 500 Index Worst 10-Year Average Annual Returns with Subsequent 10-Year Average Annual Returns[2]



IMPORTANT POINTS TO REMEMBER

Following the worst 10-year returns prior to 2009:

- The subsequent historical 10-year return was positive
- The subsequent 10-year cumulative return was in excess of 100%
- The 10-year average annual return was greater than 12% on average

Chart is for illustrative purposes only and does not reflect the performance of any Franklin, Templeton or Mutual Series fund.

2. Source: © 2014 Morningstar. Indexes are unmanaged and one cannot invest directly in an index. The 10-year periods ended 2008 and 2009 were included as part of the worst 10-year average annual returns for the S&P 500 Index despite subsequent 10-year results not being available for years past 2003. For the 10-year periods ended 2011, 2012, and 2013, the S&P 500 Index returned 2.92%, 7.10%, and 7.41%, respectively. **Past performance does not guarantee future results.**

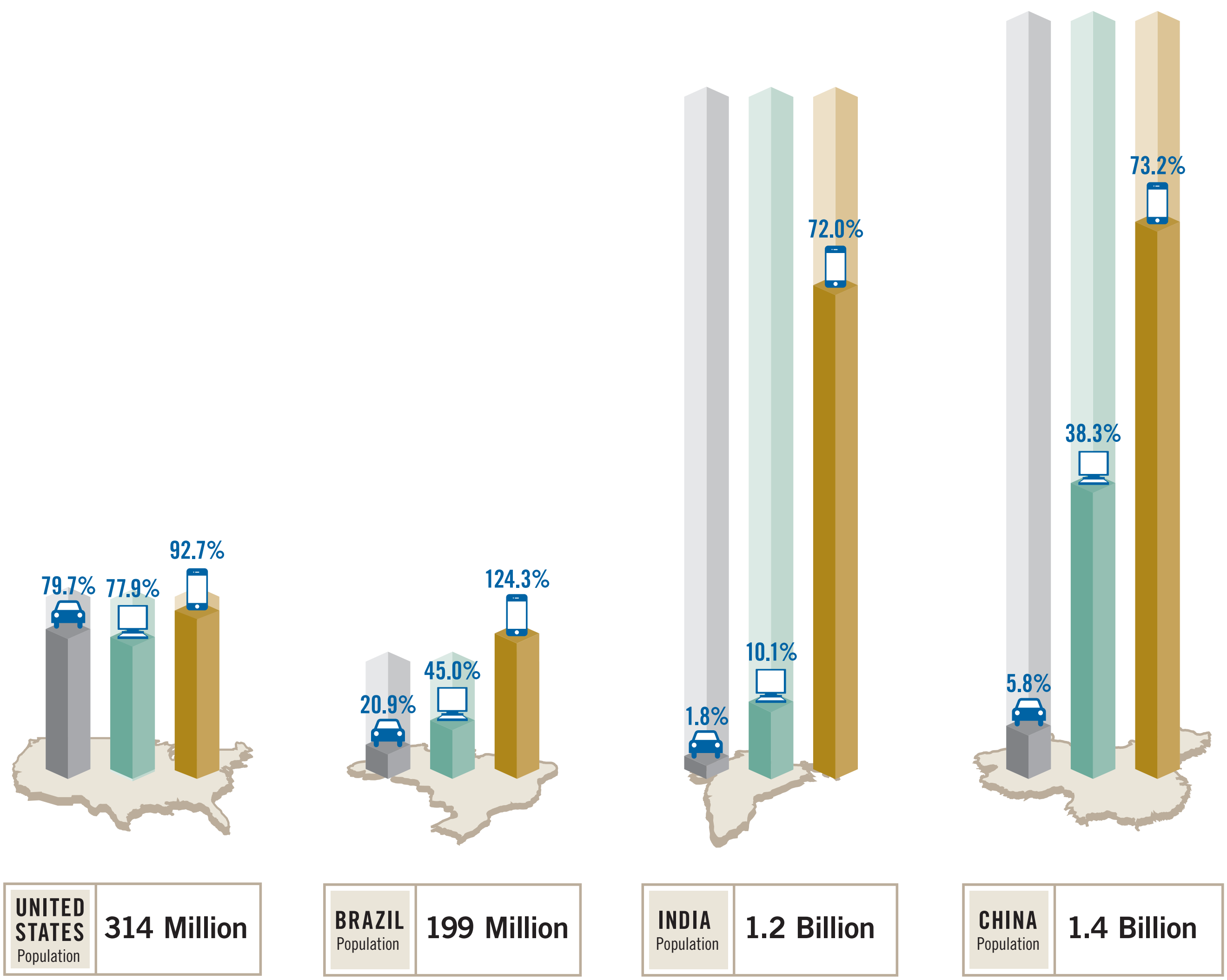
2] The World is Getting Smaller (and More Prosperous)

The world is economically integrated and becoming more so. As developing nations grow wealthier from demand for their exports, they are growing a middle class. In turn, this group collectively aspires to the goods associated with the wealth of more developed nations, which increases global consumption, drives global trade, produces investment opportunities and drives stock markets. As you can see in the chart below, while the U.S. market for cars, the Internet and cell phones is pretty well tapped, there is still a lot of potential demand for these products in China, India and Brazil, which translates into growth opportunities for companies doing business in these markets.

Potential for Increased Consumption[3]

Solid bars show current consumption of cars, cell phones and the number of Internet users.

Shaded bars show potential based on population.



3. Sources: © 2014 The World Bank: World Development Indicators: United Nations, World Population Prospects; International Road Federation, World Road Statistics; and International Telecommunication Union, World Telecommunication/ICT Development Report and database. Information is as of 2012 (based on most recent data available, 2005–2012).

BORN IN THE USA, ADOPTED GLOBALLY

In 1492, Columbus spent months reaching America. By 1942, ships were still the primary means for intercontinental travel, but sails had been eclipsed by diesel engines. Today, you can overnight packages to Europe.

The global connection of people and ideas around the world is almost instantaneous, and physical trade barriers have been significantly reduced. Local markets are global markets and global producers are often local producers.

Percentage of Revenues Generated Overseas[4,5]

Pfizer	61%
3M	64%
hp	64%
	69%
Coca-Cola	55%
Google	53%
Qualcomm	97%
	63%

IS "GLOBAL" CORE TO YOUR EVERYDAY LIFE?

Historically, U.S. equity investors primarily bought stocks of U.S. companies. Globalization is changing that dynamic. Trade is a two-way street, and increased trade not only creates new and growing markets for U.S.-based companies, it creates investment opportunities in foreign companies. However, how foreign are these companies? Global products are so interwoven into our everyday lives that we don't even recognize them as foreign.

Take a quick test.
Can you spot which of the following are brands of a foreign-based company (or a majority-owned subsidiary of a foreign-based company)?[5,6] (See answers at the bottom of the page.)

	U.S.	FOREIGN
Alka-Seltzer®	☐	☐
Budweiser KING OF BEERS®	☐	☐
BRIDGESTONE	☐	☐
	☐	☐
Nestlé Butterfinger	☐	☐

Answers: All products are produced by companies that are headquartered outside the U.S.: Alka-Seltzer/Germany, Budweiser/Belgium, Bridgestone Tires/Japan, Shell Oil/UK, and Butterfinger/Switzerland.

4. Sources: Most recent data available on company websites: September 30, 2013 (Apple Inc., QUALCOMM, Inc.), October 31, 2013 (Hewlett-Packard Company) and December 31, 2013 (3M Co., Google Inc., McDonald's Corp., Pfizer Inc. and The Coca-Cola Company). Foreign revenue is calculated by subtracting domestic revenue from total revenue.

5. Logos are trademarks of their respective owners. Logos are used to identify their respective companies and should not be construed as an endorsement of, or affiliation with, Franklin Templeton Investments.

6. Source: Company websites.

3] Innovation Will Surprise Us...Again

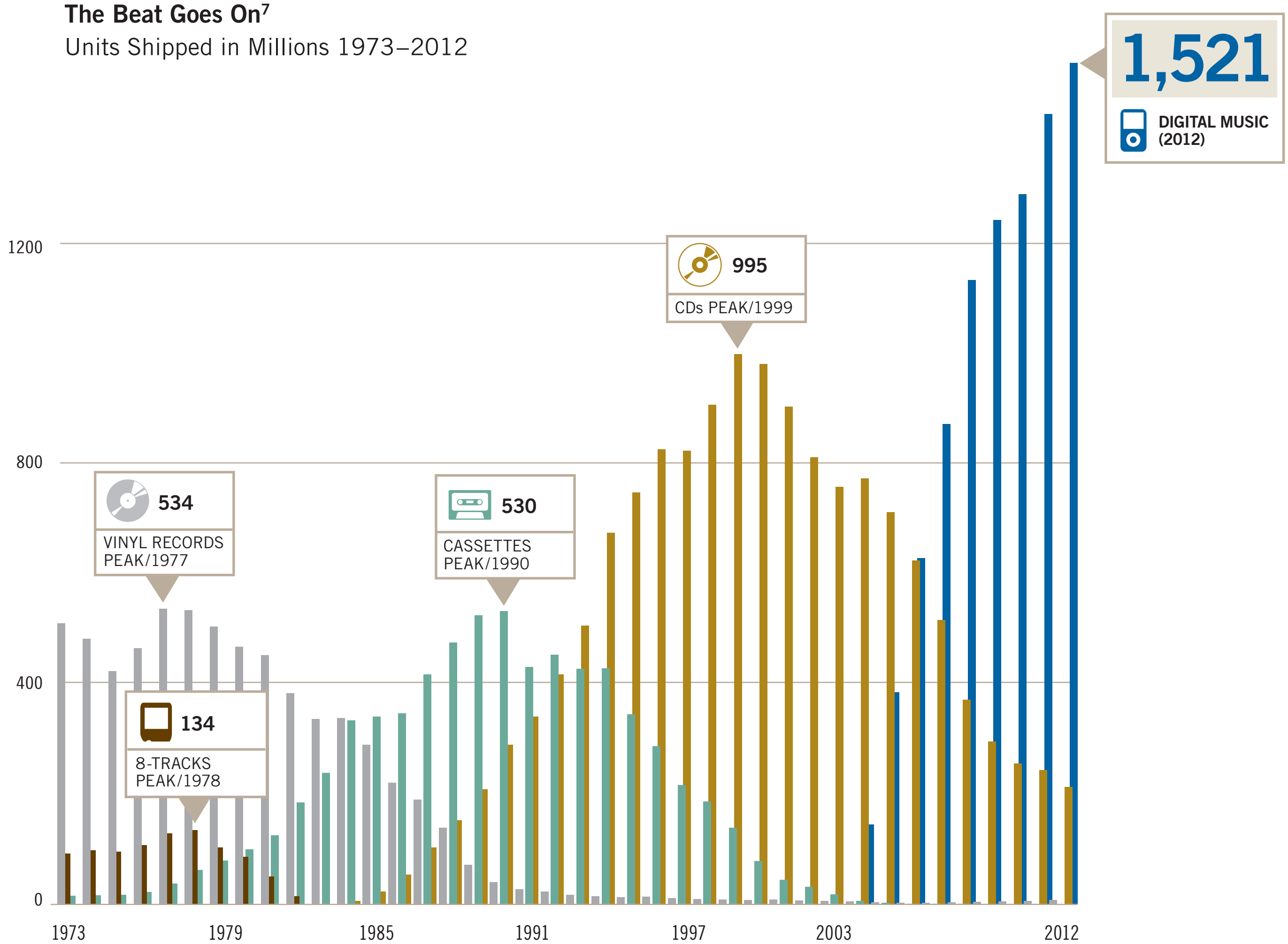
Throughout time, innovations have propelled businesses forward. Whether the innovation was a technological advancement, a new business model, a medical discovery or some other transformational change, new ideas are at the very heart of the equity markets.

TUNES OVER TIME

For example, look at the changes in music technology over the last 40 years. In the late 1960s, 8-tracks made recorded music more portable. Cassettes replaced the clunky 8-tracks and eventually became more popular than vinyl records. CDs quickly overtook cassettes and then were overtaken by MP3 downloads. In nearly every instance, consumers adopted the new technologies faster and drove demand to higher levels. The companies that drove these innovations obviously benefited too.

The Beat Goes On[7]

Units Shipped in Millions 1973–2012



> "When you're finished changing, you're finished."
>
> — Benjamin Franklin

7. Source: Recording Industry Association of America, as of December 2012. Digital includes downloaded singles, downloaded albums, kiosks and downloaded music videos. Total vinyl records, cassettes and CDs includes singles and albums.

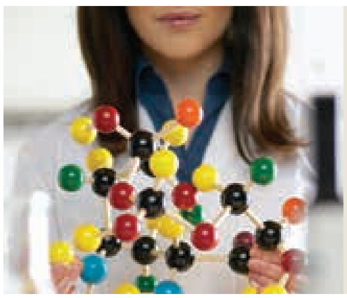
ENVISIONING THE FUTURE

The world is changing at a rapid pace and many visionary companies are at the forefront of those changes. The following are just a few examples of changes that may transform our lives in the next decade and present equity investors with new growth opportunities.

Green Energy

- Hybrid cars and green energy, such as solar and wind power, are already gaining momentum in the marketplace.

What's Next: Houses that will be completely energy independent, with solar built into the roof tiles.



Nanotechnology

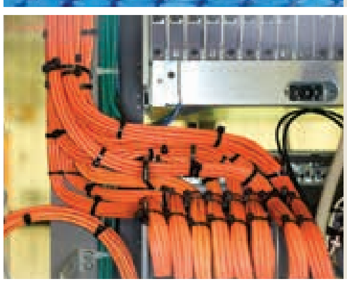
- Nanotechnology is already evident in almost every area of our lives, from paint polymers that resist scratches to stain-repellent fabrics and razor blades.
- Tennis rackets are stronger and golf balls are flying straighter due to the use of nanotechnology. Socks that fight odors have been developed with the introduction of nano silver particles.

What's Next: What about a shirt that can be "tuned" to whatever color you'd like to wear that day or a bulletproof vest as thin as silk?

Gene Therapy and Regenerative Medicine

- Disease and medical conditions have been treated historically with drugs and surgery.

What's Next: Current research is investigating how to identify the very markers of disease at the gene level and "switch" those "bad" genes off. Researchers are also seeking to use the body's own cells to regenerate diseased organs and slow the impact of aging.



Cloud Computing

- Computers have migrated from our offices to our laps and now, with the ubiquitous smartphones, our pockets.

What's Next: Cloud computing provides remote access to files and software as a service over a network. Imagine just having a screen and keyboard that you use to purchase computing power like other utilities such as electricity or water.

Robotics

- Advances in robotics continue to challenge what was once thought to be impossible— The University of Tokyo created a robotic arm so fast that it can catch a baseball thrown at 186 mph.
- Huge strides have been made using robots for manufacturing, surgery, military and law enforcement.

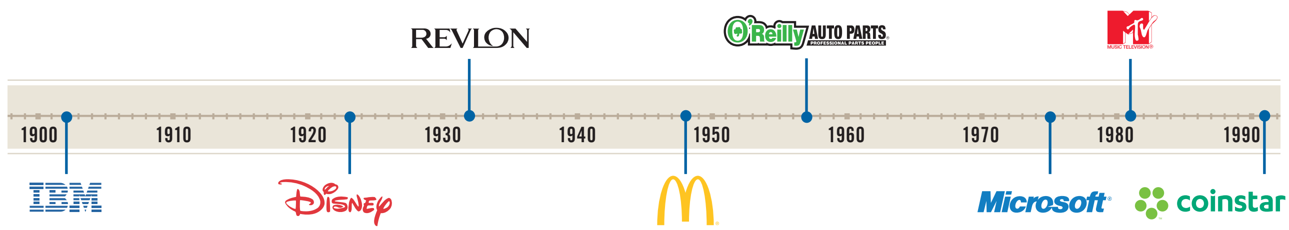
What's Next: How about a blood-cell-sized robot that can be injected into patients to conduct medical procedures?

4] Quality Companies Are Not Short-Sighted

While economic upheavals can create stock market turmoil, high-quality companies survive and, in fact, often thrive as a result. Economic downturns are Darwinian in nature—the weak and ill-equipped perish, while the strong adapt, survive and ultimately thrive.

There are many different qualities of corporate strength. As previously discussed, strength can come from new ideas, knowledge or breakthrough technology. For example, look at the following companies that began during economic recessions.

Companies Founded During Recessions[8]



THE STRENGTH OF MONEY

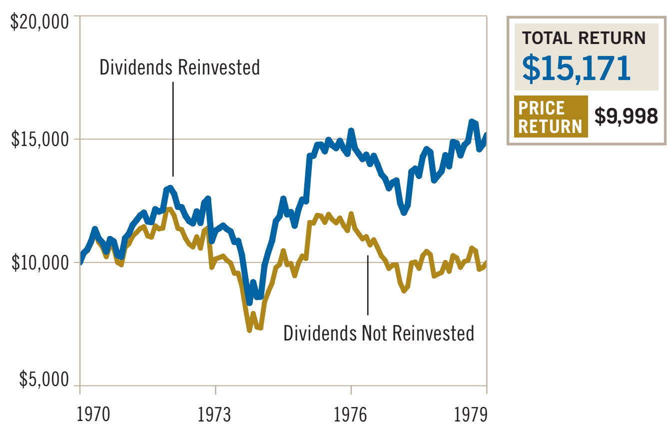
A company's financial strength can be demonstrated by strong balance sheets and strong, consistent, predictable cash flows. Often, evidence of this financial strength takes the form of dividends.

The Dow Jones Industrial Average (DJIA) ended 1979 at 839—the same level at which it began 1971. Yet the index had an average annual return during that period of 4.63%. How did it manage this return? Through the compounding of dividends. Similarly, from May 2001 through September 2011, the DJIA was again essentially flat. However, with dividends, an investor would have seen a cumulative return of 29% across the period.

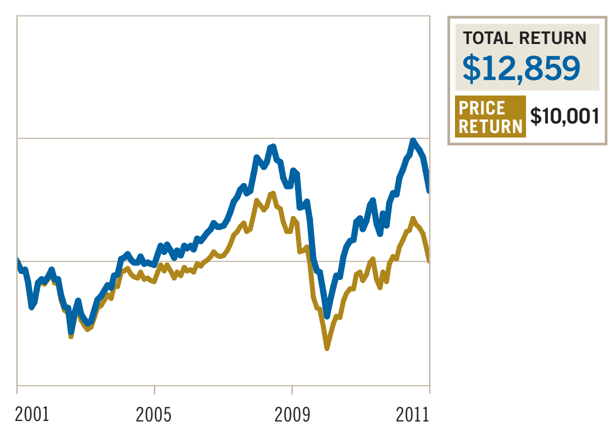
THE POWER OF DIVIDENDS

Dow Jones Industrial Average—Growth of a $10,000 Investment[9]

12/31/70 to 12/31/79



5/31/01 to 9/30/11



These charts are for illustrative purposes only and do not reflect the performance of any Franklin, Templeton or Mutual Series fund.

8. Source: Company websites. Recessions as identified by National Bureau of Economic Research (NBER). Logos are trademarks of their respective owners. Logos are used to identify their respective companies and should not be construed as an endorsement of, or affiliation with, Franklin Templeton Investments.

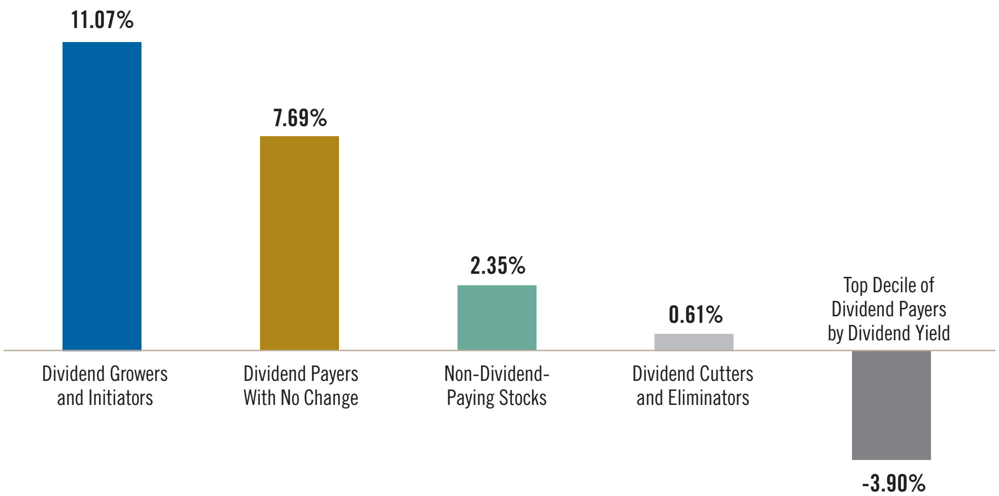
9. Source: Dow Jones & Company. Total return figures assume reinvestment of dividends. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

DIVIDENDS AND PERFORMANCE

Historically, companies that have grown or initiated dividends have outperformed companies that have cut dividends. Of course, high dividend yields don't necessarily mean high returns. Often those with the highest dividend yields are companies whose prices have fallen, indicating stress. Instead, quality dividend payers—those paying consistent and rising dividends—have historically offered better overall results.

Average Annual Total Returns of S&P 500 Stocks by Dividend Policy[10]

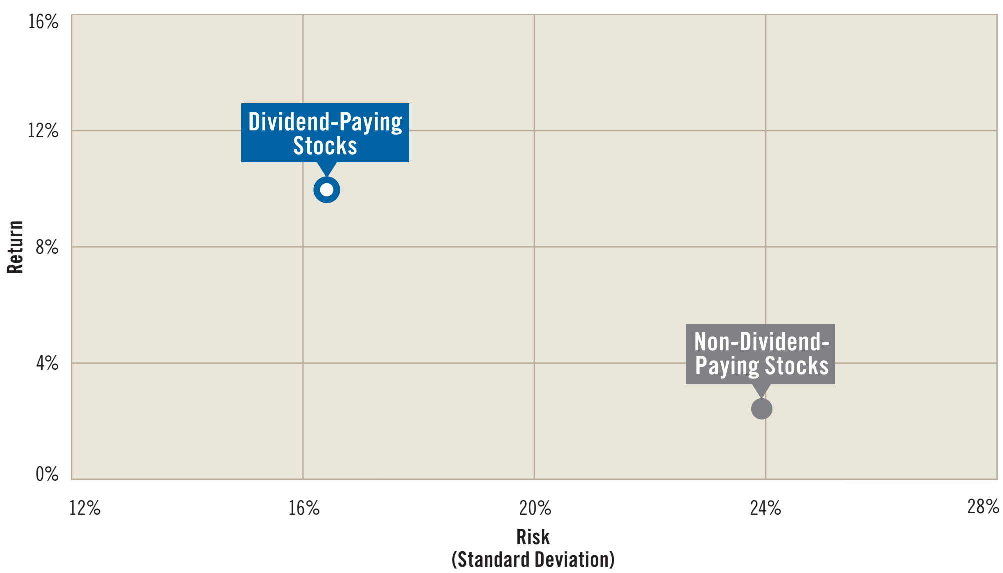
30-Year Period Ended June 30, 2014



Dividend Strength Has Historically Tied to STRONG PERFORMANCE

Risk vs. Return of S&P 500 Stocks[10]

30-Year Period Ended June 30, 2014



Dividend-Paying Stocks Have Historically Had LOWER VOLATILITY

Companies cannot assure or guarantee a certain rate of return or dividend yield; they can increase, decrease or totally eliminate their dividends without notice. For illustrative purposes only.

10. Source: © 2014 Ned Davis Research, Inc. Indexes are unmanaged and one cannot invest directly in an index. All stocks were categorized by the following methodology for the 12-month period ended 6/30/14: Top Decile of Dividend Payers by Dividend Yield represents the top 10% of dividend-paying stocks in the S&P 500 (ranked by dividend yield); Dividend Cutters and Eliminators represents stocks in the S&P 500 that have lowered or eliminated their dividend; Non-Dividend-Paying Stocks represents non-dividend-paying stocks of the S&P 500; Dividend Payers With No Change represents all dividend-paying stocks of the S&P 500 that maintained their existing dividend rate; and Dividend Growers and Initiators represents all dividend-paying stocks of the S&P 500 that raised their existing dividend or initiated a new dividend. **Past performance does not guarantee future results.**

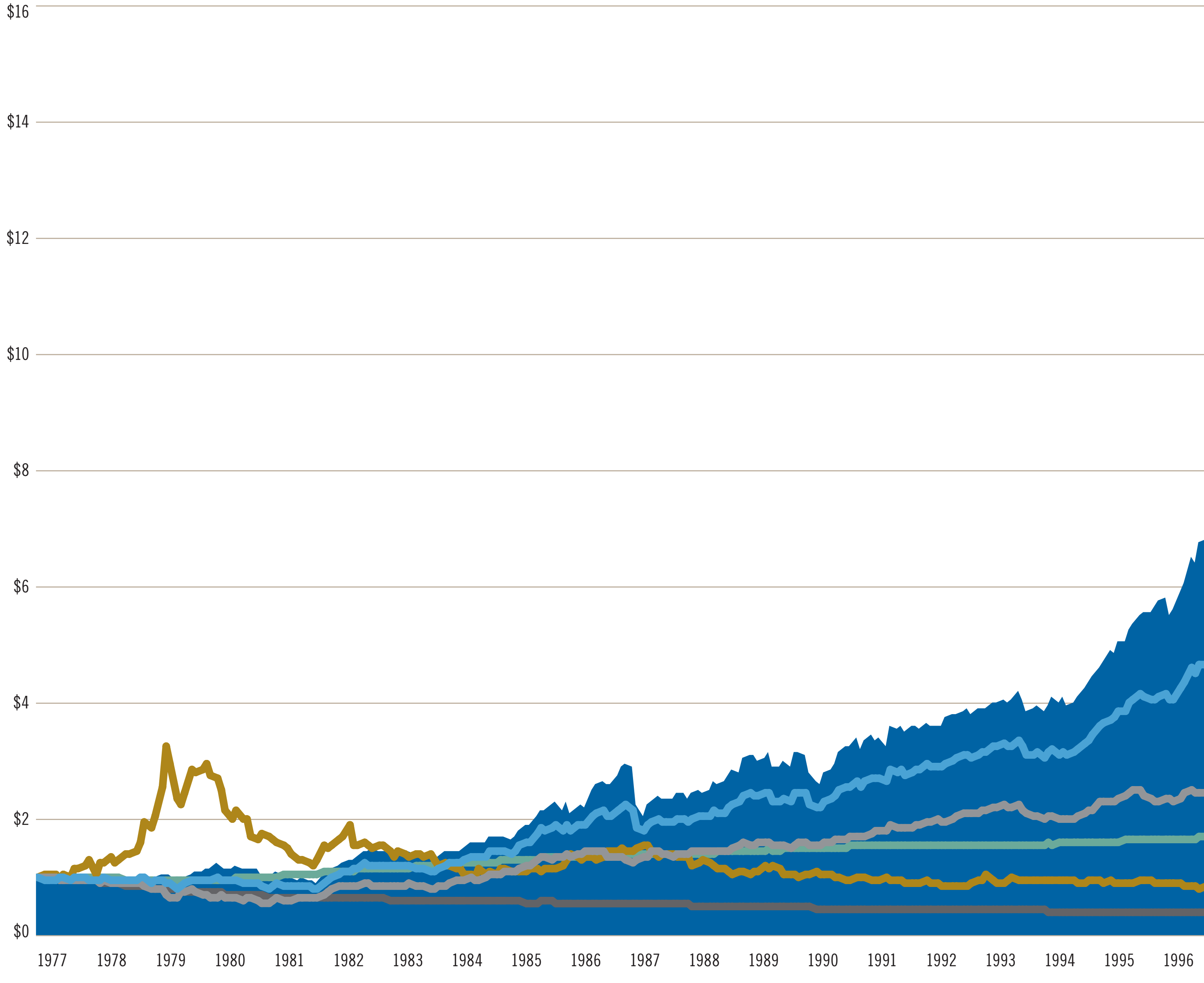
5] Equities Help Protect Purchasing Power

After the market downturns of the recent past, investors may be thinking of risk unilaterally. While it's true that stocks are volatile and can go down in value, there are other portfolio risks to consider. The impact of inflation on purchasing power is one risk that has not had a lot of attention paid to it since the early 1980s.

In theory, stocks should be able to weather inflation better than bonds. That's because while a bond's coupon is fixed, a stock can potentially grow in value if the products the company sells are rising in price at the rate of inflation.

Stocks, Bonds, Gold and Cash Equivalents vs. U.S. Dollar[11]

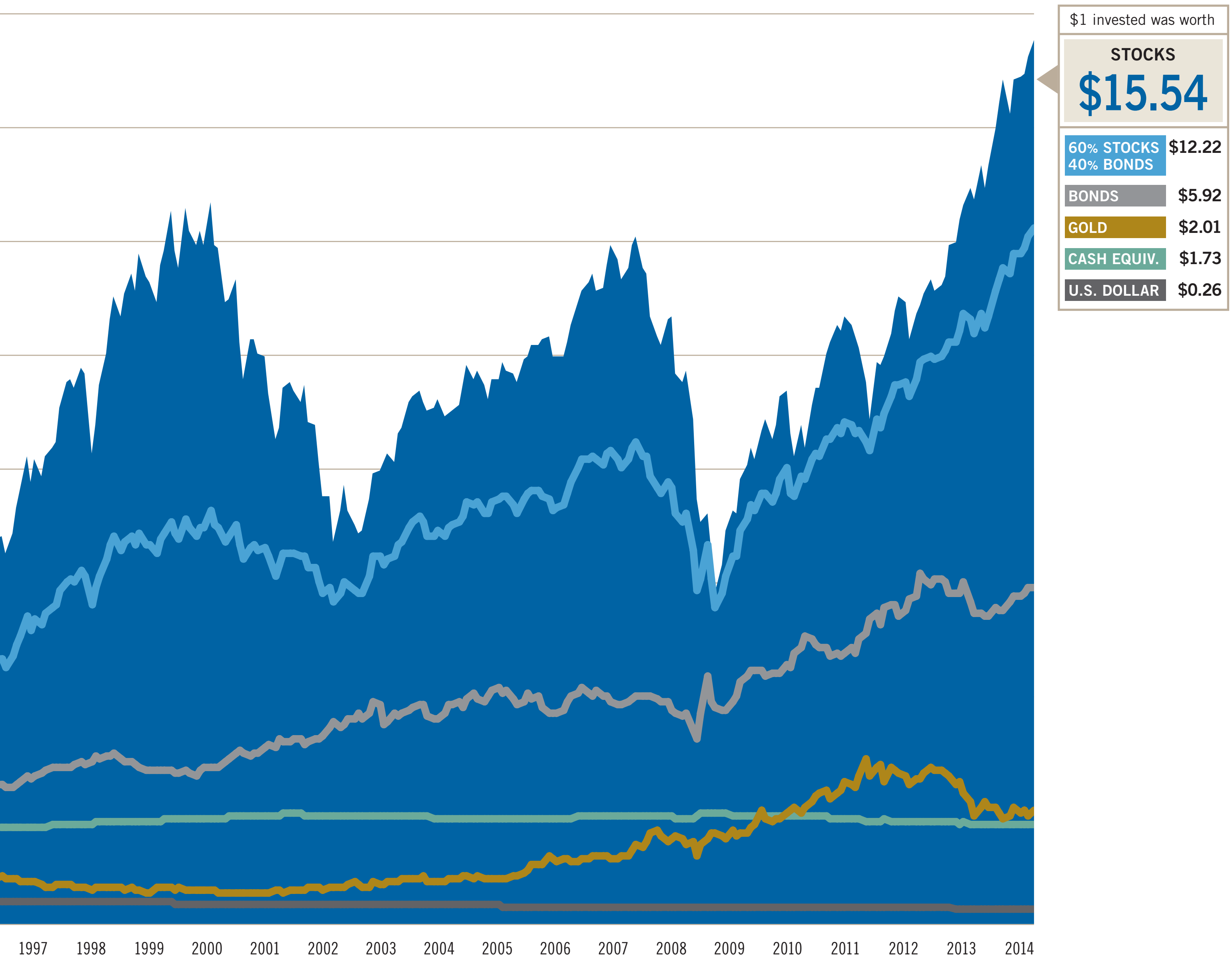
Inflation-Adjusted Returns for the Period from December 31, 1977 to June 30, 2014



11. Source: © 2014 Morningstar. Stocks are represented by S&P 500 Index; Bonds are represented by Ibbotson Associates SBBI Long Term Corporate Index; Cash Equivalents are represented by the P&R 90-Day U.S. Treasury Index; Gold is represented by the S&P GSCI Gold Spot Index; U.S. Dollar is represented by the growth of the nominal dollar beginning in 1978, taking inflation into account. Inflation is calculated using the CPI. Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

Consider how different asset classes have fared on an inflation-adjusted basis over the last 37 years:

- The purchasing power of one U.S. dollar has declined to an equivalent of 26 cents.
- Stocks, being subject to greater bouts of volatility, have done the best job over the long term of providing returns after inflation is taken into consideration.
- Bonds have been the second best performing asset class over time, but during the high inflation of the late '70s and early '80s, they suffered negative inflation-adjusted returns.
- Gold has provided little inflation-adjusted return over the long term.
- Of course, it is important to remember that stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Investors should be comfortable with fluctuation in the value of their investment.



This chart is for illustrative purposes only and does not reflect the performance of any Franklin, Templeton or Mutual Series fund.

CDs and money market accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 and offer a fixed rate of return. These along with certain other short-term fixed income investments are called "cash equivalent" instruments and are considered to be low risk as they offer the most stability, but very little long-term growth potential. Another fixed income investment, bonds, also provide an income stream but are considered to have a higher level of risk than CDs and money market accounts. In general, the bond market is volatile and bonds incur interest rate risk. As interest rates rise, bond prices usually fall, and vice versa. Bonds tend to have less long-term growth potential and typically are less volatile than stocks. Stocks generally have the highest potential returns but tend to be the most volatile. Their prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. For stocks of companies paying dividends—dividends are not guaranteed payment, nor can they guarantee a rate of return. Companies can increase, decrease or totally eliminate their dividends without notice. Gold is a hard asset and may tend to perform well during recessionary and inflationary times. The price of gold may be volatile, fluctuating substantially over short periods of time. Mutual funds investing in any of these instruments incur the same underlying risks, their investment return and principal value will fluctuate with market conditions, and it is possible to lose money.

Does Your Portfolio Have 2020 Vision?

The decade ending in the year 2020 is sure to be both exciting and intimidating as the pace of innovation grows, the world gets smaller and we continue to see unprecedented change in the world and markets around us. Is your portfolio prepared to take part? Ignoring the companies that are transforming our lives may not sink a portfolio, but it may undermine its success.

Sir John Templeton always looked forward to the future as he considered the benefits change could bring to improve the situation of mankind. And that forward-looking optimism is why he also predicted that we should see the Dow reach 100,000 in the 21st century.

Franklin Templeton Investments

Gain From Our Perspective®

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our shareholders. 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 millions of individual and institutional investors across the globe.

WHAT THESE PERCENTAGE CHANGES WOULD MEAN

Starting with a number of 13,500 over 10 years

?
?
?
?

Open flap to see answers.

WHERE WILL THE DOW JONES INDUSTRIAL AVERAGE BE IN A DECADE?

The answer, of course, is that no one knows. But it is interesting to ponder the math. For example, if you apply the following average annual percentage changes to the number 13,500 over a 10-year period, you'll see that even small percentage changes can have a big impact over time.

HYPOTHETICAL AVERAGE ANNUAL % CHANGES (Circle one)	WHAT THESE PERCENTAGE CHANGES WOULD MEAN Starting with a number of 13,500 over 10 years
–7.79%	6,000
+1.06%	15,000
+4.01%	20,000
+8.31%	30,000

This information is for illustrative purposes only—there is no assurance that the Dow Jones Industrial Average or individual investors will achieve the average annual percentage changes shown in this illustration. Indexes are unmanaged and one cannot invest directly in an index. Furthermore, indexes do not reflect fees and charges associated with mutual funds, which lower an investor's return.

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/342-5236 or visit ***franklintempleton.com****. Please carefully read a prospectus before you invest or send money.*

Talk to your financial advisor today to make sure your portfolio has **2020 VISION**.

Franklin Templeton's mutual funds are sold through financial advisors because we believe investors can benefit from ongoing professional advice. A financial advisor can prove invaluable in helping you define your needs and narrowing the search for investments suitable to your unique financial objectives.
To invest in Franklin Templeton funds, or to learn more about our products and services, please contact your financial advisor.

A WORD ABOUT RISK

All investments involve risk, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Investments in fast-growing industries like the technology and telecommunications sectors (which have historically been volatile) could result in increased price fluctuations, especially over the short term.

Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity.

These and other risk considerations are discussed in a fund's prospectus.

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