

# TEMPLETON INTERNATIONAL BOND FUND

AS OF 12/31/13 FIXED INCOME

## **FUND DESCRIPTION**

The fund seeks current income with capital appreciation and growth of income. It invests predominantly in foreign (non-U.S.) bonds issued by governments and government agencies, including inflation-indexed securities. Although the fund may buy bonds rated in any category, it focuses on investment grade bonds. Assets are allocated based on the manager's assessment of changing market, political and economic conditions, and an in-depth evaluation of interest rates, exchange rates and credit risks.

## FUND DATA<sup>1</sup>

Total Net Assets-All Share Classes: \$492.8 million

Number of Holdings: 240

**Inception**: 12/3/07

Dividends: Monthly. The dividend amount will fluctuate

each month.

Average Duration<sup>2</sup>: 1.3 years

Average Weighted Maturity: 2.1 years

CUSIP/Symbol by Class:

| Α     | С     | R           | Advisor |  |
|-------|-------|-------------|---------|--|
| TBOAX | FCNBX | 880 208 707 | FIBZX   |  |
|       |       |             |         |  |

### MAXIMUM SALES CHARGES

Class A: 4.25% initial sales charge

Class C: 1% contingent deferred sales charge

(CDSC) in the first year only

# TOTAL ANNUAL OPERATING EXPENSES

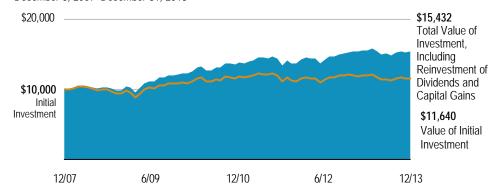
Without Waiver<sup>3</sup>: Class A: 1.17%; Class C: 1.52% With Waiver: Class A: 1.06%; Class C: 1.41%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value 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/342-5236 or visit franklintempleton.com for the most recent month-end performance.

- 1. As of 12/31/13. Holdings are subject to change. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com.
- Duration shown is the option-adjusted duration. Duration is an indication of a fund's sensitivity to changes in interest rates. The option-adjusted duration formula takes into account embedded call options and redemption features that impact a bond's expected cash flows, and thus its interest rate sensitivity.

## GROWTH OF A \$10,000 INVESTMENT—CLASS A (Without Sales Charge)

December 3, 2007-December 31, 2013



If the sales charge and other expenses had been included, the return would have been lower.

## **AVERAGE ANNUAL TOTAL RETURNS** (As of December 31, 2013)

# With Maximum Sales Charges<sup>4</sup>

| Class | Inception<br>Date | 1 Yr   | 3 Yrs | 5 Yrs | Since<br>Inception |
|-------|-------------------|--------|-------|-------|--------------------|
| Α     | 12/3/07           | -4.56% | 2.14% | 7.11% | 6.64%              |
| С     | 12/3/07           | -1.71% | 3.24% | 7.66% | 7.05%              |

# Without Sales Charges<sup>4</sup>

| 1 Yr   | 3 Yrs | 5 Yrs | Since<br>Inception |
|--------|-------|-------|--------------------|
| -0.33% | 3.62% | 8.04% | 7.40%              |
| -0.73% | 3.24% | 7.66% | 7.05%              |

## YIELDS (As of December 31, 2013)4

| Without Waiver | With Waiver |
|----------------|-------------|
| 1.45%          | 1.52%       |
| 1.17%          | 1.25%       |
|                | 1.45%       |

# REGIONAL BREAKDOWN<sup>1</sup>

| Europe/Africa                      | 30.58% |
|------------------------------------|--------|
| EMU <sup>6</sup>                   | 8.43%  |
| Non-EMU <sup>6</sup> Europe/Africa | 22.15% |
| Asia                               | 28.59% |
| Japan                              | 0.00%  |
| Asia, Non-Japan                    | 28.59% |

- Americas
   13.83%

   USA
   0.07%

   Non-USA Americas
   13.76%

   Cash & Cash Equivalents
   27.01%
- 3. The fund has an expense reduction contractually guaranteed through at least December 31, 2014. The fund may also have a fee waiver associated with any investments it makes in a Franklin Templeton money fund, an arrangement that is contractually guaranteed through at least its current fiscal year end. Fund investment results reflect the expense reduction and fee waiver, as applicable; without these reductions, the results would have been lower.
- 4. The fund offers other share classes subject to different fees and expenses that will affect their performance. Fund investment results reflect expense reductions, without which the results would have been lower.
- 5. The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.
- EMU countries may consist of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Estonia, Cyprus, Slovakia and Malta.

7. Source: Morningstar®, 9/30/13. The style box reveals a fund's investment style. For credit quality of the bonds owned, Morningstar combines credit rating information provided by the fund companies (only using ratings assigned by a Nationally Recognized Statistical Rating Organization - "NRSRO") with an average default rate calculation to come up with a weighted average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Funds with a low credit quality style box placement are those whose weighted-average credit quality is less than BBB-; medium are those less than AA- but greater or equal to BBB-; and high are those of AA- or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve. For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally,

#### PORTFOLIO MANAGERS

Michael Hasenstab, Ph.D.

Since 2007; joined Franklin Templeton in 1995

Sonal Desai, Ph.D.

Since 2011; joined Franklin Templeton in 2009

# MORNINGSTAR STYLE BOX™7

# DURATION



## WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Currency rates may fluctuate significantly over short periods of time, and can reduce returns. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the fund to participate in losses (as well as enable gains) on an amount that exceeds the fund's initial investment. The fund may not achieve the anticipated benefits, and may realize losses when a counterparty fails to perform as promised. Foreign securities involve special risks, including currency fluctuations and economic and political uncertainties 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. Investments in lower-rated bonds include higher risk of default and loss of principal. Changes in interest rates will affect the value of the fund's portfolio and its share price and yield. Bond prices generally move in the opposite direction of interest rates. As the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. The fund is also non-diversified, which involves the risk of greater price fluctuation than a more diversified portfolio. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. These and other risk considerations are discussed in the fund's prospectus.

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.



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#### MANAGER'S PERSPECTIVE



"Our investment decisions are ultimately driven by valuations. We invest in countries outside of the U.S. where we believe bonds are underpriced and where we think country fundamentals offer potential for price appreciation. In analyzing potential investments, we take a top-down approach, looking at foreign countries' economies, geopolitical risks, interest rates and currencies. We typically invest in local currencies, though we may hedge our currency exposure, depending on valuations. We also take country interest rate environments into account. So if we believe rates are likely to rise, we'll invest in short duration debt. In this way, we actively manage interest rate

risk on a country-by-country basis."

-Michael Hasenstab, Ph.D., Portfolio Manager

#### CALENDAR YEAR TOTAL RETURNS—CLASS A (Without Sales Charge)

| 2013   | 2012   | 2011   | 2010   | 2009   | 2008  | 2007 | 2006 | 2005 | 2004 |
|--------|--------|--------|--------|--------|-------|------|------|------|------|
| -0.33% | 13.10% | -1.30% | 12.79% | 17.27% | 5.26% | _    | _    | _    | _    |

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

## **CURRENCY BREAKDOWN8**

| Americas          | 66.60% | Europe/Africa4.21%                    |
|-------------------|--------|---------------------------------------|
| U.S. Dollar       |        | Euro26.09%                            |
| Non-U.S. Americas | 21.01% | Periphery Europe/Eastern Europe21.88% |
| Asia              | 37.61% |                                       |
| Japanese Yen      | 3.51%  |                                       |
| Non-Japan         | 41.12% |                                       |

#### LIPPER RANKINGS9

Templeton International Bond Fund's Class A shares were ranked 24 out of 126 (top 19%), 21 out of 93 (top 23%) and 15 out of 77 (top 20%) funds in Lipper's International Income Funds classification in cumulative total return for the 1-, 3- and 5-year periods ended December 31, 2013.

# **GAIN FROM OUR PERSPECTIVE®**

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

# Specialized Expertise

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

- Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.
- **Templeton.** Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.
- Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching
  aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and
  distressed securities.

Morningstar classifies a fixed-income fund's interest-rate sensitivity based on effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; average effective duration between 75% to 125% of the MCBI will be classified as Moderate; and those at 125% or greater of the MCBI will be classified as Extensive. Shaded areas show the past 3 years of quarterly data. Past performance does not guarantee future results. © 2014 Morningstar. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or

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- 8. As of 12/31/13. Holdings are subject to change. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com.
- Source: Lipper, Inc. Rankings do not include sales charges and are for the fund's Class A shares only. Other share classes may differ. Past performance does not guarantee future results.