



# Templeton Emerging Markets Small Cap Fund—Advisor Class

Blend  
Equity  
June 30, 2021

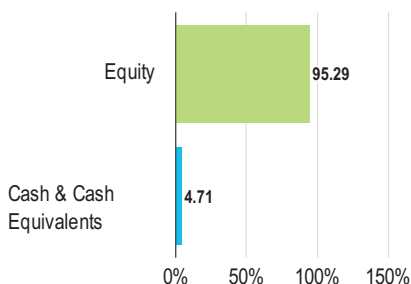
## Product Profile

### Product Details<sup>1</sup>

|                       |  |
|-----------------------|--|
| Fund Assets           | \$546,175,260.62                         |
| Fund Inception Date   | 10/02/2006                               |
| Number of Issuers     | 86                                       |
| NASDAQ Symbol         | TEMZX                                    |
| Maximum Sales Charge  | 0.00                                     |
| Investment Style      | Blend                                    |
| Benchmark             | MSCI Emerging Markets Small Cap Index-NR |
| Lipper Classification | Emerging Markets Funds                   |
| Morningstar Category™ | Diversified Emerging Mkts                |
| Dividend Frequency    | Annually in December                     |

### Asset Allocation<sup>2</sup>

Percent of Total



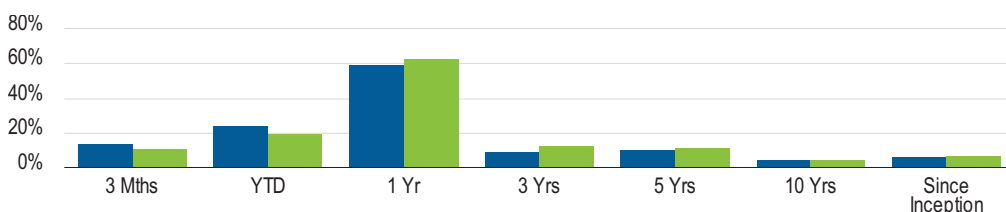
### Fund Description

The fund seeks long-term capital appreciation by investing at least 80% of its net assets in securities of small-cap companies located in emerging-market countries.

### Performance Data<sup>3,4</sup>

#### Average Annual Total Returns<sup>5</sup> (%)

|  | 3 Mths | YTD   | 1 Yr  | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception (10/02/2006) |
|--|--------|-------|-------|-------|-------|--------|------------------------------|
| Advisor Class                            | 14.23  | 24.64 | 59.60 | 9.58  | 10.38 | 5.06   | 6.13                         |
| MSCI Emerging Markets Small Cap Index-NR | 11.25  | 19.78 | 63.75 | 12.31 | 11.86 | 4.55   | 7.48                         |



● Advisor Class  
● MSCI Emerging Markets Small Cap Index-NR

#### Total Annual Operating Expenses—With Waiver: 1.57% Without Waiver: 1.70%

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 at (800) DIAL BEN/(800) 342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

The fund has an expense reduction and a fee waiver associated with any investments it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 07/31/2021. Fund investment results reflect the expense reduction and fee waiver; without these reductions, the results would have been lower.

#### Calendar Year Returns (%)

|  | 2020  | 2019  | 2018   | 2017  | 2016 | 2015  | 2014 | 2013 | 2012  | 2011   |
|--|-------|-------|--------|-------|------|-------|------|------|-------|--------|
| Advisor Class                            | 9.92  | 6.10  | -14.70 | 31.60 | 3.60 | -6.85 | 3.21 | 5.00 | 28.17 | -27.27 |
| MSCI Emerging Markets Small Cap Index-NR | 19.29 | 11.51 | -18.59 | 33.84 | 2.28 | -6.85 | 1.01 | 1.04 | 22.22 | -27.18 |

1. All holdings are subject to change. Holdings of the same issuers have been combined.
2. Percentage may not equal 100% due to rounding. All holdings are subject to change.
3. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
4. Net Returns (NR) include income net of tax withholding when dividends are paid.
5. Periods shorter than one year are shown as cumulative total returns.

Not FDIC Insured | May Lose Value | No Bank Guarantee

## Portfolio Manager Insight\*

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

|        | Stocks                              | Sectors                                  | Countries                        |
|--------|-------------------------------------|--|----------------------------------|
| HELPED | Silicon Works Co., Ltd              | Consumer Discretionary (Stock Selection) | South Korea (Stock Selection)    |
|        | Hoa Phat Group JSC                  | Information Technology (Stock Selection) | Vietnam (Off-benchmark Exposure) |
|        | Xtep International Holdings Limited | Materials (Stock Selection)              | China (Stock Selection)          |
| HURT   | Novatek Microelectronics Corp.      | Industrials (Stock Selection)            | Taiwan (Stock Selection)         |
|        | Merida Industry Co., Ltd.           | Health Care (Stock Selection)            | Hungary                          |
|        | Daqo New Energy Corp Sponsored ADR  | Consumer Staples (Stock Selection)       | Poland (Stock Selection)         |

- Vietnam-based steel producer Hoa Phat's share price surged. The market lifted its earnings expectations for the company on higher steel prices and sales volumes. We believe Hoa Phat's scale and cost competitiveness in steel manufacturing have contributed to its strong profitability, and we expect its capacity expansion to enlarge its market share and entrench its industry-leading position.
- China-based branded sportswear company Xtep International moved higher over the quarter. In part, shares of Xtep International rallied on an improvement in its quarterly operational performance, market optimism for domestic brands in China and a narrowing valuation gap with peers. Later in the quarter, the company agreed to a strategic partnership with a private equity firm to develop two Xtep brands.
- Finishing lower were shares of Taiwan-based bicycle maker Merida Industry. A global shortage of shipping containers dampened its near-term sales momentum, even as it continued to see strong demand for its products. We think e-bikes could be a major growth driver for Merida. We also expect it to benefit from its stake in major US bicycle company Specialized, which has fared well.

## Outlook &amp; Strategy

- Although the global impact of COVID-19 continues to abate as accelerating vaccine inoculation drives normalization, some countries continue to be impacted by additional waves and COVID-19 variant concerns, especially for populations that remain unvaccinated. In general, however, we expect to see a gradual global recovery with EMs taking the lead.
- In terms of market drivers, the overarching theme remains that of the post-pandemic recovery. We are focused on identifying which companies and economies are best placed for the rebound, as we expect to see wide variation in the pace and nature of recoveries. However, we remain confident that most EM economies could normalize in the next 12-18 months.
- Our investment focus has remained on companies that demonstrate sustainable earnings power, trading at discounts to our assessment of their intrinsic worth. We view digitalization as a major structural trend in EM small caps, and we are invested in companies seeking growth in areas such e-commerce and semiconductors. We also expect consumption to be a key economic driver in the region, and our holdings include food and sportswear names that could benefit from rising product penetration and "premiumization" in the years ahead. We are also focused on other themes that include the fight against climate change and ongoing energy transition towards non-fossil sources.

\*The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Portfolio Characteristics<sup>6,7,8</sup>

|   | Portfolio | MSCI Emerging Markets Small Cap Index-NR |
|---|-----------|--|
| Price to Earnings (12-Month Trailing)   | 18.02x    | 5.55x                                    |
| Price to Book                           | 2.48x     | 1.50x                                    |
| Price to Cash Flow                      | 10.50x    | 6.35x                                    |
| Market Capitalization (Millions in USD) | 3,624     | 1,048                                    |

6. 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. Source: FactSet. All holdings are subject to change.

7. Source: FactSet. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted.

8. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Portfolio Diversification

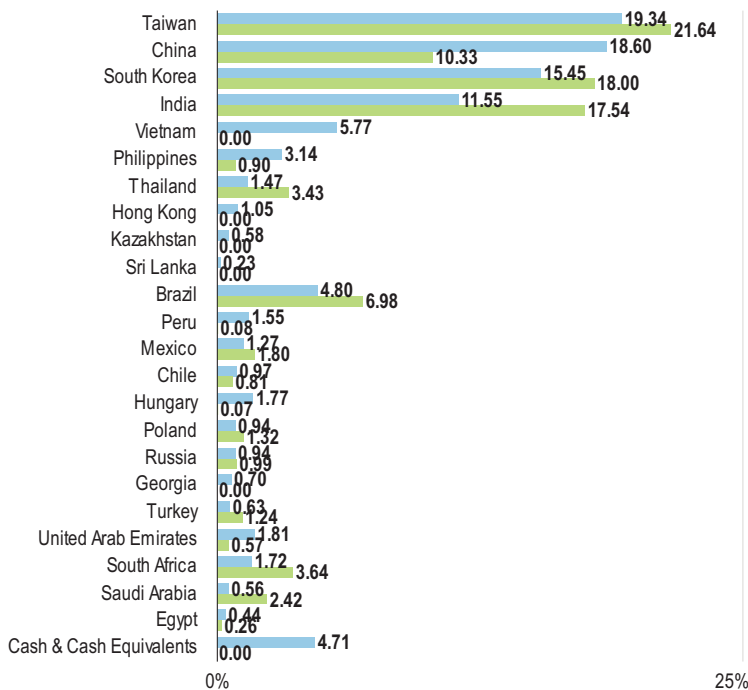
Top Ten Holdings<sup>9</sup>

Percent of Total

| Top Holdings                                      | Sector                                   | Country     | %    |
|---|--|-------------|------|
| LX SEMICON CO LTD                                 | Semiconductors & Semiconductor Equipment | South Korea | 4.12 |
| MERIDA INDUSTRY CO LTD                            | Consumer Durables & Apparel              | Taiwan      | 3.02 |
| NOVATEK MICROELECTRONICS CORP                     | Semiconductors & Semiconductor Equipment | Taiwan      | 3.01 |
| BAJAJ HOLDINGS & INVESTMENT LTD                   | Diversified Financials                   | India       | 2.99 |
| FILA HOLDINGS CORP                                | Consumer Durables & Apparel              | South Korea | 2.78 |
| HEALTH & HAPPINESS H&H INTERNATIONAL HOLDINGS LTD | Food, Beverage & Tobacco                 | China       | 2.60 |
| HOA PHAT GROUP JSC                                | Materials                                | Vietnam     | 2.54 |
| MOMO.COM INC                                      | Retailing                                | Taiwan      | 2.37 |
| FPT CORP  | Software & Services                      | Vietnam     | 2.26 |
| ZINUS INC   | Consumer Durables & Apparel              | South Korea | 2.18 |

Geographic Weightings vs. MSCI Emerging Markets Small Cap Index-NR<sup>10,11</sup>

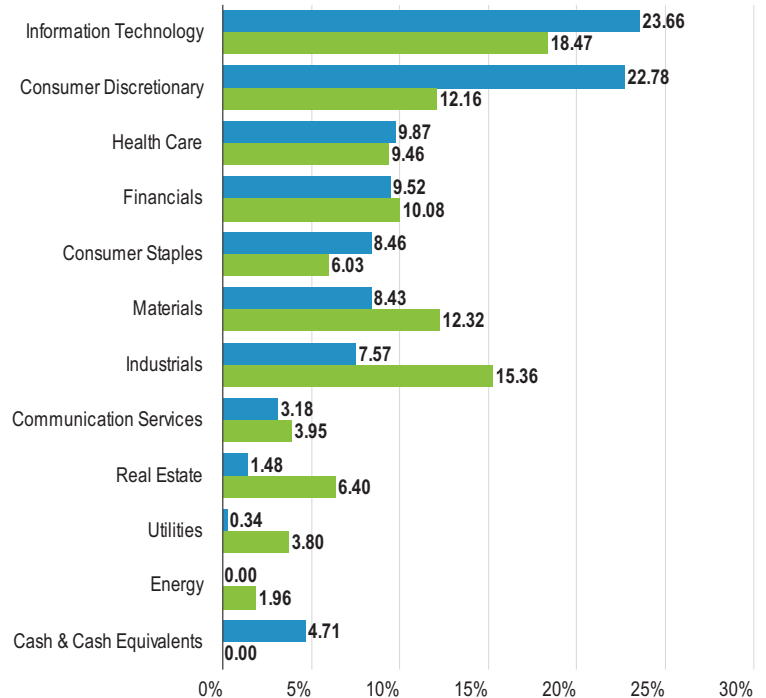
Percent of Total



● Templeton Emerging Markets Small Cap Fund  
● MSCI Emerging Markets Small Cap Index-NR

Sector Weightings vs. MSCI Emerging Markets Small Cap Index-NR<sup>12,13</sup>

Percent of Total



● Templeton Emerging Markets Small Cap Fund  
● MSCI Emerging Markets Small Cap Index-NR

9. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager reserves the right to withhold release of information with respect to holdings that would otherwise be included.

10,12. Percentage may not equal 100% due to rounding. All holdings are subject to change.

11,13. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

**Performance Statistics**

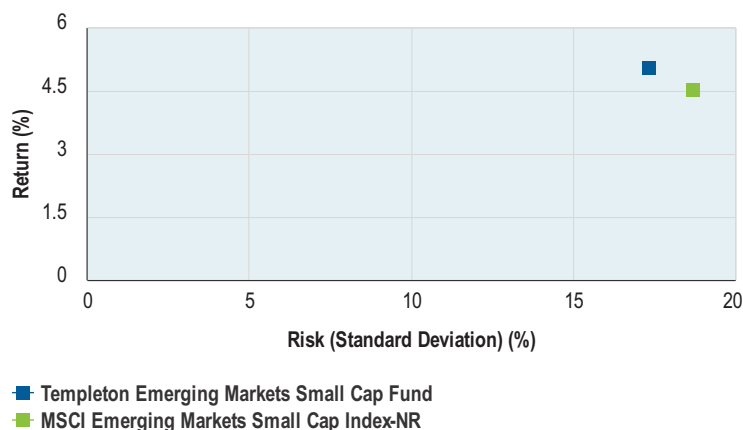
**Risk Statistics<sup>14,15</sup>**

|                               | 3 Yrs | 5 Yrs | 10 Yrs |
|-------------------------------|-------|-------|--------|
| <b>Standard Deviation (%)</b> | 22.01 | 18.16 | 17.36  |
| <b>Tracking Error (%)</b>     | 6.58  | 5.88  | 6.02   |
| <b>Information Ratio</b>      | -0.42 | -0.25 | 0.09   |
| <b>Beta</b>                   | 0.92  | 0.91  | 0.88   |
| <b>Sharpe Ratio</b>           | 0.38  | 0.51  | 0.26   |

Past performance is not an indicator or a guarantee of future performance.

**10-Year Risk vs. Return as of 06/30/2021<sup>16,17</sup>**

Templeton Emerging Markets Small Cap Fund vs. MSCI Emerging Markets Small Cap Index-NR



**Investment Philosophy**

- We believe that stock prices are primarily driven by the ability of companies to sustain profitability and earnings power in the long run.
- Companies' economic value creation can be temporarily mispriced due to factors such as market noise, short-term focused behavior and/or information gaps.
- Alpha can be generated over time by having the insights, skill and a repeatable process to identify and invest in securities which have sustainable earning power at a discount to their intrinsic worth.

**Investment Process**

FTEME seeks to deliver EM investment excellence through a bottom-up, research focused, long-term oriented approach to EM investing:

- Bottom up/Research focused: we conduct independent and rigorous research customized to the dynamics of the individual markets we invest in.
- Long-term oriented: we focus on a horizon of 3-5 years when evaluating businesses and managements.

**Investment Team**

| Portfolio Manager  | Years with Firm | Years Experience |
|--------------------|-----------------|------------------|
| Chetan Sehgal, CFA | 26              | 29               |

**Beta:** 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. Market capitalization is expressed in millions of USD.

**Price to Book Value:** The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the value represents a weighted average of the stocks it holds.

**Price to Cash Flow:** Supplements price/earnings ratio as a measure of relative value for a stock. For a portfolio, the value represents a weighted average of the stocks it holds.

14. Beta, Information Ratio and Tracking Error information are measured against the MSCI Emerging Markets Small Cap Index-NR.

15. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

16. 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.

17. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

**Price to Earnings (12-mon Trailing):** The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the value represents a weighted average of the stocks it holds.

**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.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

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

**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, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Small cap company stocks have historically had more price volatility than large-company stocks, particularly over the short term. All investments in the fund should be thought of as long-term investments that could experience significant price volatility in any given year. The fund is designed for the aggressive portion of a well-diversified portfolio. These and other risk considerations are discussed in the fund's prospectus.

**Important Legal Information**

*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 professional, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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