FRANKLIN TEMPLETON INVESTMENTS

Templeton Global Equity SMA

Second Quarter 2015

Market Commentary

MARKET REVIEW

International equities declined in June as Greece defaulted on certain of its debts, forcing a bank shutdown and raising concerns of a Greek exit from the eurozone. Helped by strength in the euro and the British pound, the MSCI All Country World ex-USA Index posted a positive return of0.7% in US-dollar terms.

The European economy continued to strengthen during the quarter, but stocks fell on Greek contagion fears. Strengthened firewalls should make Europe far more resistant to contagion than during the initial phases of the sovereign debt crisis, in our view. The ECB has powerful tools through its quantitative easing program and Outright Monetary Transactions. Greece represents under 2% of eurozone GDP, and Greek assets have largely been divested from recapitalized bank balance sheets. Also, the eurozone's sizable bailout fund and a newly formed banking union should help contain pockets of weakness. The Greek people largely favor staying in the eurozone, and Prime Minister Tsipras called a July 5 referendum on the creditors' bailout offer. He also submitted a new proposal conceding to most of the creditor demands, raising hopes an agreement could still be reached.

Japanese equities rose during the quarter, helped by first-quarter GDP growth of 3.9%. However, after two years of massive economic stimulus, household spending and wage growth remain depressed, and manufacturing activity has weakened as high energy prices offset the simulative effect of the devalued yen. In contrast, US stocks were flat, but signs of an economic slowdown eased as consumer spending and the housing market strengthened. Emerging markets saw outperformance in Europe, China and Brazil, but generally poor performance elsewhere. China's margin-fueled rally faltered in June on concerns of government steps to deflate a potential asset bubble.

INVESTMENT STRATEGY

Despite popular perceptions to the contrary, Europe is becoming more economically integrated, policy momentum is galvanizing, and the corporate earnings outlook is improving, yet we feel valuations remain reasonable. The credit cycle in Europe has begun to tum, economic indicators are improving, and the ECB is making progress promoting integration, stability and reform.

Portfolios are underweight Japan where reform could stop shy of the structural changes needed for corporate Japan to gain competitiveness, improve profitability and overcome daunting debt and demographic challenges. We remain cautious and selective, with exposure primarily to well- positioned exporters.

Portfolios are overweight energy, and we are encouraged to see companies reducing capex and improving capital allocation. Value opportunities are improving among stocks with the balance sheets to weather a period of lower oil prices. We expect supply to decline and the price of oil to eventually return to a level that promotes continued investment.

The major pharmaceuticals firms that we bought during past pessimism have effectively reduced costs, improved R&D productivity and diversified to make them less susceptible to patent expires. Select biotech, med tech and specialty pharmaceuticals stocks offer underpriced cash flow generation with M&A and pipeline optionality, in our view.

We are overweight European financials. Concerns about economic sensitivity and regulatory uncertainty have kept European banks cheap, and an increased focus on shareholder returns could improve yield prospects until credit demand revives.

OUTLOOK

After a largely indiscriminate multi-year rally, with performance driven more by a stock's perceived risk profile than business fundamentals, we welcome the eventual return of market economics. Historically, stock prices have converged with fundamental business value over time. As investors become more selective and stock prices begin better reflecting the future cash flows of underlying businesses, we believe our strategies remain well positioned for the long term.

Foreign investing is subject to certain risks, such as currency fluctuations and social and political changes, which may result in increased stock price volatility. Since no one manager is suitable for all types of investors, this information is provided for informational purposes only.

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Templeton Separately Managed Accounts claims compliance with the Global Investment Performance Standards (GIPS®).

Templeton Separately Managed Accounts (the "firm") manages portfolios for high net-worth individuals and institutional clients, applying a bottom-up, value-oriented, long-term investment style, focusing on global and non-US markets. Templeton Separately Managed Accounts is a division of Franklin Templeton Portfolio Advisors, Inc. ("FTPA"), a subsidiary of Franklin Resources, Inc. ("FRI") and is a unit of the broader Templeton organization. At Templeton Separately Managed Accounts, brokerage, administrative, custodial and investment management fees may be charged together as a percentage of the portfolios' assets (comprehensive fee or wrap-fee) or may in some instances be charged separately (unbundled fee).). Effective July 1, 2014, Templeton Investment Counsel, LLC. (TICLLC) assumed responsibility for Templeton Separately Managed Accounts' global and international equity SMA accounts. TICLLC is a sub-adviser to Templeton Separately Managed Accounts. Retail and Institutional separate accounts managed by affiliated Templeton entities are not included in the firm definition. Templeton Separately Managed Accounts was previously known as Templeton Portfolio Advisors prior to June 30, 2012. Templeton Portfolio Advisors was previously known as the Templeton Private Client Group prior to October 1, 2004.

Templeton Global Equity SMA Composite consists of all the fully discretionary wrap-fee portfolios which have a global (US and non-US) equity investment objective and for which the brokerage (including trading expenses), administrative, custodial, and investment management fees are charged together as a percentage of the portfolio's assets (known as a comprehensive fee, wrap-fee or bundled fee). As the criterion for inclusion in this composite is that the portfolios have bundled fees (i.e., where commission costs are not charged separately), 100% of the accounts in the composite have bundled fees for all time periods presented. Foreign investing, especially in developing countries, has additional risks such as currency and market volatility and political or social instability. Between June 30, 2012, and December 31, 2012, the composite name was Templeton Global Equity SMA Comprehensive Fee Composite. Prior to June 30, 2012, the composite name was TPA Global Equity Composite – Comprehensive Fee.

Information is supplemental to the historical performance of the Templeton Global Equity SMA Composite.

The primary benchmarks for this composite are the MSCI All Country World Index℠ and the MSCI World Index℠. The MSCI All Country World Index is a free float-adjusted market capitalization-weighted equity index comprised of securities in MSCI's developed and emerging market country-specific indexes. The MSCI World Index is a free float-adjusted market capitalization weighted equity index comprised of securities in MSCI's developed market country-specific indexes. The benchmark is used for comparative purposes only and is provided to represent the investment environment existing during the periods shown.

Additional information regarding the firm's policies and procedures for calculating and reporting performance results is available upon request. To receive a complete list of composite descriptions and/or a presentation that adheres to the GIPS® standards for any composite, please contact your Franklin Templeton separately managed account sales team at (800) 822-8464 or visit www.franklintempleton.com.

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