Templeton Global Balanced Fund

Series T
September 30, 2020

FRANKLIN TEMPLETON

Fund Commentary

Performance Review

- Global equities advanced during 2020's third quarter as economies reopened and government officials continued pledging extraordinary measures to lessen the economic impact of the COVID-19 pandemic. Many investors were encouraged by economic data and corporate earnings reports from several countries, as well as by the ongoing accommodative stances of many central banks. However, several risk assets pulled back from their peaks in September, as rising cases of COVID-19 appeared to concern investors, particularly as areas of Europe and Asia returned to various restrictions and shutdowns. The yield on the 10-year US Treasury note finished the quarter three basis points higher at 0.69%.
- For the quarter, the fund's Series T shares returned 0.89%, and its benchmark, the Blended 50% MSCI All Country World Index + 50% Bloomberg Barclays Multiverse Index, returned 3.51%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Equity	Fixed Income
HELPED	Industrials (Stock Selection, Overweight)	Japanese Yen (Net-Positive Position)
	Materials (Stock Selection, Overweight)	Duration Exposure in Argentina
	United States (Stock Selection)	Norwegian Krone
HURT	Germany (Stock Selection)	Argentine Peso
	Health Care (Stock Selection, Overweight)	Indonesian Rupiah
	United Kingdom (Stock Selection, Overweight)	—

- In the equity portfolio, German pharmaceutical and chemical firm Bayer significantly detracted from relative results. The market has remained sceptical about the finality of Bayer's complex US$12 billion settlement to resolve litigation stemming from its acquisition of Monsanto, manufacturer of the controversial weed-killer Round-Up. Adding to the negative sentiment, management issued a profit warning for 2021 on the final day of the quarter. The disappointing guidance challenges our view that the market will soon begin to look beyond the litigation issues and focus on the fundamentals of the underlying business. More generally, we have reduced overall exposure to health care given political and regulatory concerns in the lead-up to the US presidential election.
- The equity portfolio's top individual contributor was United Parcel Service (UPS), one of the world's largest freight delivery service companies. After numerous years of consolidation and automation investment, the industry has become more rational, focusing on more positive mix and price. The combination of this industry discipline, higher domestic e-commerce volumes and tighter capacity has resulted in better-than expected margin realisation and returns. The market responded enthusiastically to UPS's earnings momentum, leading to positive earnings revisions and multiple expansion during the third quarter. Management changes, higher cash generation and shifts in capital allocation have also fuelled outperformance.
- Developed market sovereign bond yields fluctuated during the quarter, rising in August on reflation expectations but dropping in September as broad risk aversion returned to global financial markets. Yields finished higher in a number of local-currency emerging markets, notably in Latin America. Select duration exposures in Latin America (Argentina) and Asia ex Japan (Indonesia) contributed to the fixed income portfolio's absolute performance. The US dollar broadly weakened against most developed and emerging market currencies during the quarter, but finished on a strengthening trend in September, reversing the weakening pattern that had lasted from mid-May through the end of August. Currency positions in Latin America (the Argentine peso) and Asia ex Japan (the Indonesian rupiah) detracted from the fixed income portfolio's absolute results. However, its net-positive position in the Japanese yen contributed to absolute performance, as did positions in northern European currencies (the Norwegian krone).
- From a positioning standpoint in fixed income, we continue to maintain low portfolio duration. We are significantly underweight developed market duration. We hold no duration exposure in the eurozone. Instead, we continue to emphasise select local-currency positions outside of the major developed markets, in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are counter-balancing those various risk exposures with perceived safe-haven investments, such as the Japanese yen, and we are hedging a substantial amount of local-currency risk through direct hedges (Indian rupee, South Korean won, Mexican peso and Brazilian real). We are avoiding credit markets, which we view as significantly overstretched and vulnerable to insolvencies. Overall, we are aiming the strategies to be a portfolio diversifier against overvalued asset classes that remain vulnerable to ongoing economic shocks.

Outlook & Strategy

- From a global equity perspective, our macro view is largely unchanged. Central banks have been working overtime to try to offset the damage done by COVID lockdowns. The global economy will eventually recover, but certain segments of it have been structurally impaired and that does not appear to be adequately discounted in asset prices. We have continued to reposition the portfolio towards what we view as resilient companies with interesting long-term growth opportunities trading at discounted valuations in this environment. Admittedly, it has been challenging to find compelling new investments at reasonable prices recently. Markets have risen strongly from their nadir in March. Stocks that continue to look outright "cheap" on a historical basis tend to have structural headwinds or debt issues, which makes them vulnerable over time.
- Our focus has been on ensuring equity portfolios are broadly diversified across a range of exposures because a balanced portfolio seems best suited for an expensive and uncertain market. This won't always be the case. There will be times when equity valuations aren't as rich and it makes sense to have a more concentrated directional view. But our analysis suggests that now is not one of those times. Valuation excess and investor euphoria raise

the market's risk profile, and for us diversification is as much about managing risks as it is enhancing returns. We will continue to seek sensible diversification amongst uncorrelated value exposures in this environment and are prepared to pounce should further market volatility provide opportunities to invest in what we consider genuine bargains.

- From a global fixed income perspective, we remain cautious on the risk profiles across markets as the COVID-19 pandemic continues to impact economic activity around the world. The broad-based selloffs across asset classes in September demonstrate the highly correlated and currently vulnerable state of global financial markets, in our assessment. Several asset classes remain broadly overvalued, in our view, reflecting an underappreciation for the likelihood for successive waves of infections, growing insolvencies and deepening economic hardship. We see elevated risks for a significant correction in financial markets given the extreme dislocations between asset prices and macroeconomic fundamentals.
- Our outlook for emerging markets as a whole remains cautious; however, we see risk-adjusted value in specific countries. It remains crucial to be selective. Tragically we have seen the consequences of weak environmental, social and governance (ESG) factors in specific emerging markets during the pandemic. Countries that were less prepared for a health crisis due to weaker health care systems and less developed infrastructure, and/or less prepared for an economic crisis due to fiscal imbalances, high levels of debt and external dependencies, have suffered greater damage to lives and livelihoods. By contrast, countries that were in stronger fundamental shape before the crisis, with stronger institutions, lower levels of debt and more diversified economies, have generally fared better. Several domestically oriented economies continue to have comparatively better prospects than externally dependent economies, given the collapse in global aggregate demand and diminished levels of trade. We continue to monitor broader conditions and expect that the impacts of the COVID-19 pandemic could persist for multiple quarters, potentially pushing out the timeline for when certain investment opportunities may become suitable.

Fund Details

Inception Date	12/12/2005
Benchmark Name	Blended 50% MSCI All Country World Index + 50% Bloomberg Barclays Multiverse Index, MSCI All Country World Index, Bloomberg Barclays Multiverse Index

Fund Description

The fund seeks current income while maintaining prospects for capital appreciation by investing primarily in debt and equity securities issued around the world.

Performance Data

Performance (%) as of 09/30/2020

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception Date
Series T	0.13	0.89	-7.50	-5.59	-2.94	0.19	4.11	3.75	12/12/2005
Blended 50% MSCI All Country World Index + 50% Bloomberg Barclays Multiverse Index[1]	0.28	3.51	6.65	9.60	8.48	7.65	8.75	6.79	-
MSCI All Country World Index[1]	-0.75	6.16	4.83	11.98	10.07	10.81	12.05	7.95	-

Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

Investment Team

Michael Hasenstab, Ph.D.
Years with Firm 21
Years Experience 25

Herbert J Arnett Jr.
Years with Firm 24
Years Experience 26

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FRANKLIN TEMPLETON

Franklin Templeton Canada
200 King Street West, Suite 1500
Toronto, ON M5H 3T4
Tel: 800.387.0830
Fax: 866.850.8241
franklintempleton.ca