



**FRANKLIN TEMPLETON
INVESTMENTS**

Franklin Global Small-Mid Cap Fund

Series A
Series F
December 31, 2018

Fund Commentary

Performance Review

- Global small-cap stocks fell sharply in the fourth quarter. A combination of slowing economic growth around the world, unresolved trade tensions, higher US interest rates and European political uncertainty kept markets on edge.
- For the quarter, the fund's Series F shares returned -13.12%, and its benchmark, the MSCI World Small Cap (Net Dividends) Index, returned -13.07%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	BANDAI NAMCO Holdings Inc.	Financials (Stock Selection)	Hong Kong (Overweight)
	Oaktree Capital Group LLC	Consumer Discretionary (Stock Selection)	Japan (Stock Selection)
	Hang Lung Properties Ltd.	Health Care (Stock Selection)	France (Stock Selection)
HURT	John Wood Group PLC	Communications Services (Stock Selection)	United Kingdom (Stock Selection)
	Signet Jewelers Ltd.	Consumer Staples (Stock Selection)	Ireland (Stock Selection)
	Total Produce PLC	Utilities (Lack of Exposure)	China (Off-benchmark Exposure)

- With crude oil prices falling sharply in the fourth quarter, UK-based oilfield services firm John Wood Group curbed relative returns. We expect John Wood to see stronger demand for their services and equipment as major oil companies begin to spend more heavily on exploration and production to replace existing reserves.
- In the consumer staples sector, Total Produce, an Ireland-based fresh produce distributor, detracted. The stock was weak on concerns about the impact extreme weather would have on earnings and wariness about its recently acquired stake in banana producer Dole Food, which came with significant debt. We believe, however, that the company should continue to post steady growth over the longer term, fueled by strong demand for fresh produce globally and continued bolt-on acquisitions.
- On the upside, in the consumer discretionary sector, Japan-based toy and game maker Bandai Namco Holding contributed to relative performance following a strong earnings report and optimism about the upcoming launch of new home video game titles.

Outlook & Strategy

- Following the market selloff in the fourth quarter, we are seeing more opportunities globally for the first time in years as many high-quality companies at period-end were trading at what we view as attractive valuations.
- Generally, we believe international equities can offer better return potential than US stocks over the next few years because they are more attractively valued and because we see greater room for growth, particularly in Asia.
- In terms of industries, real estate in Asia, packaging companies in Europe and industrial services companies globally are all looking more attractive to us than in past years.
- Furthermore, the sharp drop in crude oil prices—due to concerns about a slowing global economy and an oversupplied oil market—has, in our assessment, unfairly hurt a number of solid operators in the energy sector. We see opportunities particularly if OPEC (Organization of the Petroleum Exporting Countries) can maintain recent aggressive production cuts and if global demand for oil rises over time.
- As always, when looking at new investments for the fund we remain disciplined in seeking out attractively valued companies with durable competitive advantages that have the ability to create value over time.

Fund Details

Inception Date	07/07/2014
Benchmark	MSCI World Small Cap (Net Dividends) Index

Fund Description

The Fund seeks long term capital appreciation by investing primarily in equity or equity related securities of small and mid-cap companies around the world.

Performance Data

Performance (%) as of 12/31/2018

	1 Month	3 Mths	YTD	1 Yr	3 Yrs	Since Inception
Series A	-5.73	-13.38	-11.67	-11.67	-2.99	1.86
Series F	-5.63	-13.12	-10.62	-10.62	-1.81	3.20
MSCI World Small Cap (Net Dividends) Index ¹	-6.75	-13.07	-6.10	-6.10	5.40	8.76

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

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 Years Experience 14

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 Years with Firm 18
 Years Experience 29

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Series F is available to investors participating in programs that do not require Franklin Templeton to incur distribution costs in the form of trailing commissions to dealers. As a consequence, the management fee on Series F is lower than on Series A.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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