



# TEMPLETON GLOBAL GROWTH FUND LTD

## Quarterly Investment Manager's Report

DECEMBER 2017

### INVESTMENT MANAGER

The Investment Manager of the Company's investment portfolio is Franklin Templeton Investments Australia Ltd. The Company's portfolio is managed in accordance with the investment philosophy of the Templeton Global Equities Group ("Templeton"), which forms part of the Franklin Templeton Investments group, a large U.S. based investment management organisation. Templeton is one of the pioneers in global investing and its successful investment philosophy has been refined over more than 60 years. The Templeton investment process endeavours to identify undervalued securities through fundamental company analysis, using a global focus and a long term investment horizon.

### INVESTMENT APPROACH

Templeton's time-tested investment approach is based on its philosophy of value, patience and bottom-up stock selection. Templeton focus on the rigorous analysis of individual stocks across geographic borders and seek to identify companies trading at significant discounts to Templeton's estimates of future earnings power, cash flow generation and/or asset value. As independent thinkers with strong conviction in their investment ideas, they take an unconstrained approach to finding value.

#### CONTACT DETAILS

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### PERFORMANCE DATA<sup>1</sup> (AS OF 31/12/17)

#### Average Total Returns

#### Templeton Global Growth Fund Ltd (AUD%)

	Quarter	1 Year	3 Years	5 Years	10 Years
Templeton Global Growth Fund Ltd - Pre-Tax Gross of Fees	4.5	14.4	10.0	17.1	6.2
Templeton Global Growth Fund Ltd - Net of Fees <sup>2</sup>	4.1	13.1	8.7	15.7	4.7
MSCI All Country World Free Index <sup>3</sup>	6.2	15.4	11.6	17.9	6.4

#### Net Tangible Assets (NTA) – Unaudited

	30 September 2017	31 December 2017
TGG share price (cents)	1.33	1.42
NTA per share before tax (\$) <sup>4</sup>	1.486	1.537
Premium/(Discount) to NTA before tax (%)	(10.5)	(7.6)
NTA per share after tax (\$) <sup>4</sup>	1.417	1.461
Premium/(Discount) to NTA after tax (%)	(6.1)	(2.8)

The market value of the portfolio represents prices quoted on overseas stock markets in foreign currencies converted to Australian currency. The rate used for conversion of values of US currency securities was USD 0.7822, EUR 0.6514 and GBP 0.5782.

### QUARTERLY MARKET REVIEW

Global equity markets advanced during the fourth quarter of 2017 with investors mainly focused on continued indications of positive economic growth from several regions and expectations surrounding tax reform in the United States. The International Monetary Fund in October upgraded its forecast for global growth in 2017 and 2018. However, it cautioned that recovery from the 2007–2009 global financial crisis remains incomplete, and that latent risks could return as central banks pivot away from extensive stimulus.

In the United States, a major tax bill was signed into law in December that featured a significant reduction in the corporate tax rate. The US Federal Reserve (Fed) raised short-term interest rates during the same month, the latest in a series of well-flagged moves. The Fed also maintained its forecast of three rate increases in 2018. Meanwhile, third-quarter US GDP came in ahead of consensus estimates. In other developed markets, the European Central Bank raised its forecast for eurozone GDP growth in 2017 and through 2020, though it expects growth to moderate after 2017. In early November, the Bank of England hiked its benchmark interest rate for the first time in 10 years. Japan's second preliminary third-quarter GDP reading indicated a stronger-than-expected pace of growth compared to the previous quarter and on an annualised basis.

The World Bank lifted its forecast for China's 2017 GDP, while expecting somewhat decelerated growth in 2018 and 2019 due to domestic policy tightening. South Korea's third-quarter GDP grew year-on-year, and the country's central bank raised interest rates for the first time in six years during November.

## QUARTERLY PERFORMANCE ATTRIBUTION

The portfolio underperformed its benchmark for the quarter. Markets maintained a “risk-on” bias during the period, with cyclical sectors like energy, information technology (IT) and consumer discretionary leading returns while traditionally defensive sectors like utilities, telecommunication services and health care fared poorly. The portfolio was reasonably well positioned to take advantage of some sector trends, though stock selection notably detracted.

Security selection and an overweighting in the health care sector detracted from relative performance. US pharmaceutical firm Allergan was the biggest detractor from this sector, with its shares declining on concerns about competition from generics. Despite the market's excessive focus on product-specific headwinds, we estimate Allergan as a whole has one of the industry's most durable drug portfolios when it comes to exclusivity and patent protection. The company also boasts an industry-leading research and development (R&D) pipeline that, in conjunction with its base businesses, should continue to drive strong earnings and free cash flow growth over our investment horizon.

Relative returns were pressured further by security selection in the financials sector, with holdings such as Italian bank UniCredit declining. More broadly however, the European banking sector has continued to make progress. Earnings revisions have returned to a positive trajectory, regulatory capital has been largely rebuilt and the bulk of post-crisis reregulation efforts are now complete with regulators finalising the Basel 3 reforms during the quarter. As economic data have improved and political risks receded, credit demand has increased.

The portfolio's energy allocation outperformed thanks to stock selection and a significant overweighting. UK integrated oil major Royal Dutch Shell finished among the top contributors for TGG. Shares of Shell rallied to the highest level in more than two years after the firm raised free cash flow forecasts, reinstated its cash dividend and confirmed a US\$25 billion share buyback plan. A rising oil price and strong sector performance largely benefited our decision to maintain overweight energy exposure despite price volatility that accompanied fears of a supply glut earlier in the year. As we have discussed, we expected the oil price would climb toward US\$60 per barrel, beyond which it could remain relatively range-bound as price-sensitive swing producers in the North American shale fields brought supply swiftly back on line.

## INVESTMENT OUTLOOK

After a false dawn in 2016, value lagged growth by the most in nearly two decades in 2017, marking the tenth year out of the past 11 that global growth has bested global value. At times like this, it may be tempting for some value investors to relax their discipline and buy the expensive stocks that have been working. Yet, countering that impulse is decades of market history suggesting that starting-point valuation is virtually all that really matters when it comes to long-term results. Meanwhile, financial repression from the world's central banks appears to have forced investors farther out the risk spectrum to chase yield and growth in a market offering little of either. We view this as unsustainable for two main reasons.

First, many consider zero interest-rate policies and quantitative easing to have favoured capital at the expense of labour, deepening inequality and disadvantaging the majority of the electorate, whose opinions matter in a democracy. Second, financial repression could fuel potentially destabilising asset price bubbles. Overvaluation appears to be largely concentrated in fixed income markets, as well as the growth-oriented and bond proxy stocks that have dominated this cycle. We do not know how the process of policy normalisation by central banks will evolve. Nonetheless, we do believe this mature cycle will eventually change, and with it the conditions that have been so hostile to value investing. We would not want to own the leaders of the last cycle during this transition. But the stocks left behind - the companies whose long-term earnings and cash flow potential we believe have been overlooked and undervalued by a narrowly focused market - might be best positioned for the reversals we view as likely to unfold in the future.

## PORTFOLIO CHARACTERISTICS – AS AT 31/12/17

	TEMPLETON GLOBAL GROWTH FUND LTD	MSCI All Country World Free Index
Weighted Average Market Cap (AUD Million)	155,737	143,343
Number of Securities	109	2,499

### Price to Earnings

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	17.4x	20.6x

### Price to Cash Flow

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	6.5x	12.2x

### Dividend Yield

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	2.3%	2.3%

### Price to Book Value

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	1.5x	2.4x

## PORTFOLIO DIVERSIFICATION – TEMPLETON GLOBAL GROWTH FUND LTD (AS AT 31/12/17)

### Top Ten Holdings<sup>5</sup>

SECURITY	COUNTRY	INDUSTRY GROUP
MICROSOFT CORP	United States	Software & Services
SAMSUNG ELECTRONICS	South Korea	Technology Hardware & Equipment
ORACLE CORP	United States	Software & Services
ROYAL DUTCH SHELL	United Kingdom	Energy
BP PLC	United Kingdom	Energy
ALPHABET INC	United States	Software & Services
CITIGROUP INC	United States	Financials
JP MORGAN CHASE	United States	Financials
SOFTBANK GROUP	Japan	Telecommunication Services
APPLE INC	United States	Technology Hardware & Equipment

### Country Allocation

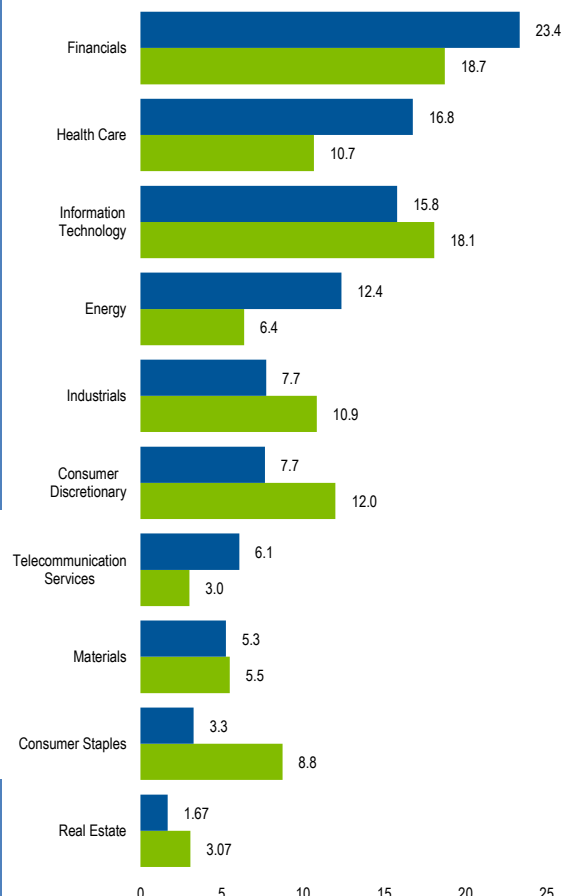
The Company's portfolio of listed investments was spread over the following countries as at 31 December 2017.

COUNTRY	%	COUNTRY	%
CANADA	2.4	SINGAPORE	1.4
CHINA	5.6	SOUTH KOREA	4.7
FRANCE	6.7	SPAIN	0.4
GERMANY	4.1	SWEDEN	0.9
IRELAND	1.5	SWITZERLAND	3.1
ISRAEL	1.3	THAILAND	1.6
ITALY	1.9	UNITED KINGDOM	14.6
JAPAN	7.5	UNITED STATES	37.5
NETHERLANDS	2.4	Liquidity	2.4

■ Templeton Global Growth Fund Ltd  
■ MSCI All Country World Index

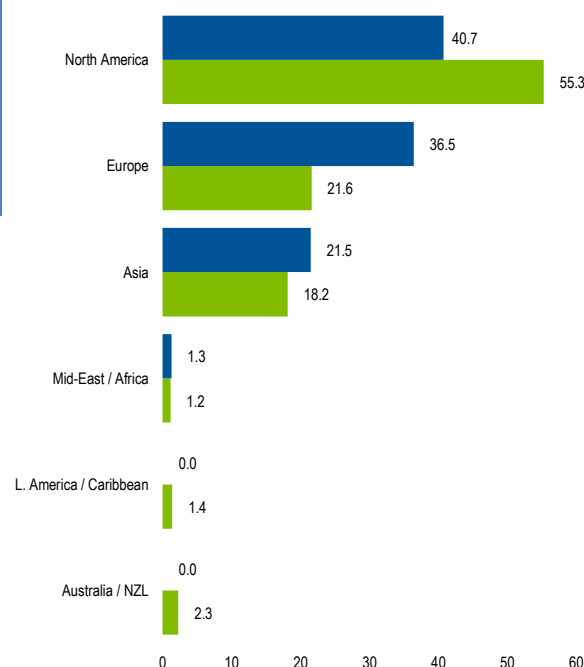
### Portfolio Sector Weighting vs. MSCI All Country World Index (%)

Percent of Equity Ranked by Fund Weighting



### Portfolio Regional Weighting vs. MSCI All Country World Index (%)

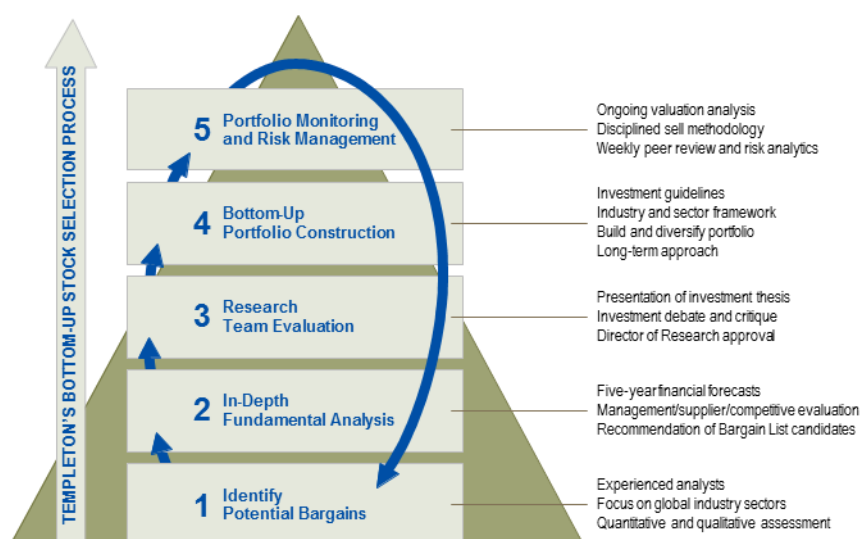
Percent of Equity Ranked by Fund Weighting



## TEMPLETON INVESTMENT TEAM

TEMPLETON GLOBAL EQUITY MANAGEMENT TEAM	Years with Firm	Years Experience
Norman Boersma, CFA, Chief Investment Officer	25	31
Heather Arnold, CFA, Director of Research	12	33
Peter Wilmshurst, CFA, Portfolio Manager/Research Analyst	19	24
TEMPLETON GLOBAL EQUITY TEAM	Number of Members	Average Years Experience
Portfolio Managers/Analysts	27	23
Research Analysts	12	11

## TEMPLETON INVESTMENT PHILOSOPHY AND PROCESS



### Templeton's Investment Philosophy

Templeton's investment philosophy is built upon a disciplined, yet flexible, long-term approach to value-oriented global and international investing. This time-tested approach is based on three tenets:

#### Value

Templeton seeks companies that it believes are trading at a discount to what their research indicates the company may be worth.

#### Patience

Security prices can fluctuate more widely than underlying security values. In Templeton's opinion, market efficiencies should recognise and correct these security prices over time.

#### Bottom-Up

Templeton identifies value through rigorous fundamental analysis of a company's business to determine what we consider its economic worth based on projected future earnings, cash flow or asset value potential.

## COMPLIANCE STATEMENT AND OTHER INFORMATION

Benchmark: The MSCI AC World Free Index is the primary benchmark. The benchmark is used for comparative purposes only and is provided to represent the investment environment existing during the time periods shown. The index is unmanaged and one cannot invest directly in an index.

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Explanatory Notes:

1. Periods of more than one year are annualised.
2. Returns are based on movement in the Company's net assets per share (after deducting investment management fees), before all taxes, with dividends reinvested and adjusted for share issues and buy-backs.
3. Source: Morgan Stanley Capital International (MSCI). All MSCI data is provided "as is." The Fund described herein is not sponsored or endorsed by MSCI. In no event shall MSCI, its affiliates or any MSCI data provider have any liability of any kind in connection with the MSCI data or the Fund described herein. Copying or redistributing the MSCI data is strictly prohibited.
4. Estimated tax on unrealised gains.
5. Top ten holdings represent the 10 largest equity holdings at the end of the quarter, and may not reflect the current or future portfolio holdings. This does not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities listed was or will be profitable. Holdings of the same issuer have been combined.

### IMPORTANT LEGAL INFORMATION

All investments involve risks including loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their smaller size and lesser liquidity. While stocks have historically outperformed other asset classes over the long term, they tend to fluctuate more dramatically over the short term. The use of derivatives and foreign currency techniques involve special risks, as such techniques may not achieve the anticipated benefits and/or may result in losses. Templeton Global Growth Fund Ltd. (ABN 44 006 558 149) issues this document with the intention to provide general information only and not investment or financial product advice. It does not take into account the individual objectives, financial situation or needs of any recipient. Nothing in this update should be construed as investment advice. Franklin Templeton Investments have exercised professional care and diligence in the collection of information in this recording. However, data from third party sources may have been used in its preparation and Franklin Templeton Investments has not independently verified, validated or audited such data.

Past performance does not guarantee future results and results may differ over future time periods.