



# TEMPLETON GLOBAL GROWTH FUND LTD

## Quarterly Investment Manager's Report

JUNE 2016

### 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 70 years. The Templeton investment process endeavours to identify undervalued securities through fundamental company analysis, using a global industry 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 30/6/16)

#### Average Annual Total Returns

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

	Quarter	1 Year	3 Years	5 Years	10 Years
Templeton Global Growth Fund Ltd (TGG) — Net of Fees <sup>2</sup>	0.2	-11.0	8.6	11.3	2.5
MSCI All Country World Free Index <sup>3</sup>	4.3	-0.6	13.6	13.3	6.7

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

	31 March 2016	30 June 2016
TGG share price (cents)	1.13	1.16
NTA per share before tax (\$) <sup>4</sup>	1.28	1.28
Premium/(Discount) to NTA before tax (%)	(11.7)	(9.4)
NTA per share after tax (\$) <sup>4</sup>	1.28	1.28
Premium/(Discount) to NTA after tax (%)	(11.7)	(9.4)

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 USD0.745 for June and USD0.769 for March.

### QUARTERLY MARKET REVIEW

Global equities rose for most of the second quarter of 2016 amidst a rally in crude oil prices and easing concerns about China's economy. However, a UK referendum vote near quarter-end to leave the European Union (EU)—Brexit—rattled global financial markets. In broad terms, developed-market equities advanced and outperformed their emerging-market peers. US economic data released during the second quarter were generally solid. First-quarter economic growth estimates were revised higher, and surveys of the manufacturing and services sectors remained in expansionary territory during the April–June span. However, unexpectedly weak May data for job gains helped persuade the US Federal Reserve to keep rates unchanged at its June meeting. In Europe, the immediate effects of the Brexit vote included a sharp drop in the UK stock market and the British pound hitting a three-decade low versus the US dollar. At period-end, much was still unclear surrounding the country's future leadership and the process for leaving the EU. Elsewhere in Europe, the eurozone's first-quarter economic growth rose, its unemployment rate held steady in May and its annual inflation rate rose above the zero level in June after two consecutive declines. Japan's gross domestic product (GDP) grew more than expected in the first quarter. Its annual inflation rate dropped in April and May. The Bank of Japan decided against further quantitative easing measures during the second quarter.

## QUARTERLY PERFORMANCE ATTRIBUTION

Security selection and an overweighting in the financials sector hampered relative performance, with much of the negative effects coming from the portfolio's investments in European banks such as UniCredit (Italy), Credit Suisse (Switzerland) and Credit Agricole (France). In broad terms, a potential slowdown in regional economic growth and downturn in business confidence stemming from Brexit could impact banks through rising loan losses, dampening loan growth, decreasing market revenues and leading to lower for longer interest rates that crimp net interest margins. The economic impact will be large in the UK, but most economic forecasters have only adjusted their European GDP forecasts down by around 0.5%. Yet, overall, European banks today are far better capitalised and back-stopped by policymakers than they were in the crises of 2008 and 2011/2. The extremely depressed valuations of European banks may also help limit further downside in stock prices and create a foundation for recovery. Nevertheless, a eurozone breakup remains the major tail risk event that would likely preclude a banking sector recovery and put European bank equity at risk of permanent impairment. Such a break-up is NOT our base case, but is a risk which we will continue to monitor. .

Security selection in the health care sector also weighed on results, with an overweighting in US-based Allergan, being the largest detractor as Pfizer's bid for the company was blocked. The portfolio's positioning in the industrials and consumer discretionary sectors also detracted from relative returns with the portfolio's investment in German airline Deutsche Lufthansa proving especially detrimental. Shares tumbled in response to the Brexit vote as the result is expected to depress travel to the UK. The portfolio's investment in US based department store chain Macy's also hampered results as sales declined over the reporting period as customers continued to shift to online retailers. Other individual detractors over the reporting period included Sky, the UK and Ireland's leading pay-TV provider, which experienced a slowdown in new subscriptions in the first quarter of 2016. Despite this, Sky is still enjoying subscriber growth and is increasing prices, which in combination with an attractive business model, should lead to solid earnings growth through our investment horizon.

Conversely, an overweighting and security selection in the energy sector boosted results. US oilfield services firm Halliburton and UK oil majors Royal Dutch Shell and BP, all finished among the portfolio's top performing holdings in the quarter. Over the past year we have continued to see value in select energy stocks. Although health care was an overall detractor, the portfolio's investments in German-based pharmaceutical firm Merck KGaA boosted results. Within health care, we continue to favour firms with sound business models, solid product portfolios, attractive research and development pipelines, and the ability to grow revenues, increase cash flows and generate high capital returns for shareholders through dividends and buybacks. We see little direct threat to our pharmaceuticals holdings from Brexit and will continue using volatility to selectively increase exposure where warranted.

## INVESTMENT OUTLOOK AND STRATEGY

While Brexit likely represents a near-term setback for the strategy, in our view, the opportunities for long-term investors in global equity markets are currently both highly compelling and largely specific to value investments. Few times in history has the valuation gap between the market's cheapest and most expensive stocks been so wide. As anxiety and fear pervade the investor psyche, the valuation extremes long evident in deep cyclical sectors seem to be spreading more widely. The spread of value to many different sectors and regions may enhance the style's appeal in the eyes of the generalist investor, helping strengthen the potential for a sustainable value recovery. What has been popular are stocks with strong balance sheets, high dividend yields, low beta, countercyclical growth prospects and exposure to the relatively resilient US economy. We understand this, and are not arguing it should be otherwise; growth should attract a premium in an uncertain environment, yield should attract a premium in a zero interest rate environment. But everything has a price, and the gap as of quarter-end - exceeding even the discount that emerged during the TMT (Technology, Media and Telecom) Bubble - appeared excessive to us, with high quality stocks (defined as stocks generating consistently high ROE) are nearly 8x more expensive than stocks generating lower returns. At Templeton, we have achieved successful results over time by focusing on long-term fundamentals and investing counter-cyclically during periods of adversity. We are confident that near-term pain will once again pave the way for long-term opportunity when the cycle turns, as it always does.

## PORTFOLIO CHARACTERISTICS – AS AT 30/6/16

	TEMPLETON GLOBAL GROWTH FUND LTD	MSCI All Country World Free Index
Weighted Average Market Cap (AUD Million)	102,369	126,232
Number of Securities	117	2,481

### Price to Earnings

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	13.9x	14.1x

### Price to Cash Flow

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	5.9x	9.0x

### Dividend Yield

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	3.1%	2.6%

### Price to Book Value

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	1.2x	2.0x

## PORTFOLIO DIVERSIFICATION – TEMPLETON GLOBAL GROWTH FUND LTD (AS AT 30/6/16)

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

SECURITY	COUNTRY	INDUSTRY GROUP
MICROSOFT CORP	United States	Software and Services
SAMSUNG ELECTRONICS	South Korea	Technology Hardware & Equipment
COMCAST CORP	United States	Media
JPMORGAN CHASE	United States	Financials
AMGEN INC	United States	Pharmaceuticals, Biotechnology & Life Sciences
BP PLC	United Kingdom	Energy
HYUNDAI MOBIS	South Korea	Automotive
NISSAN MOTOR CO	Japan	Automotive
CRH PLC	Ireland	Materials
Royal Dutch Shell	United Kingdom	Energy

### Country Allocation

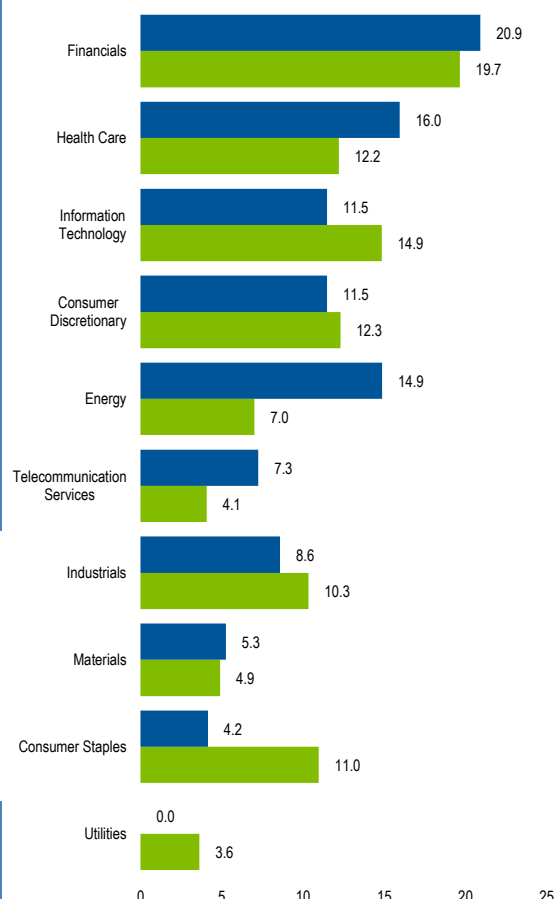
The Company's portfolio of listed investments was spread over the following countries as at 30 June 2016.

COUNTRY	%	COUNTRY	%
BRAZIL	0.4	SINGAPORE	1.7
CANADA	0.9	SOUTH KOREA	6.6
CHINA	4.9	SPAIN	1.0
FRANCE	9.3	SWEDEN	1.0
GERMANY	6.0	SWITZERLAND	4.0
IRELAND	1.5	THAILAND	0.8
ISRAEL	1.5	TURKEY	0.4
ITALY	1.3	UNITED KINGDOM	13.0
JAPAN	5.8	UNITED STATES	34.2
NETHERLANDS	3.3	Liquidity	1.8
NORWAY	0.7		

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

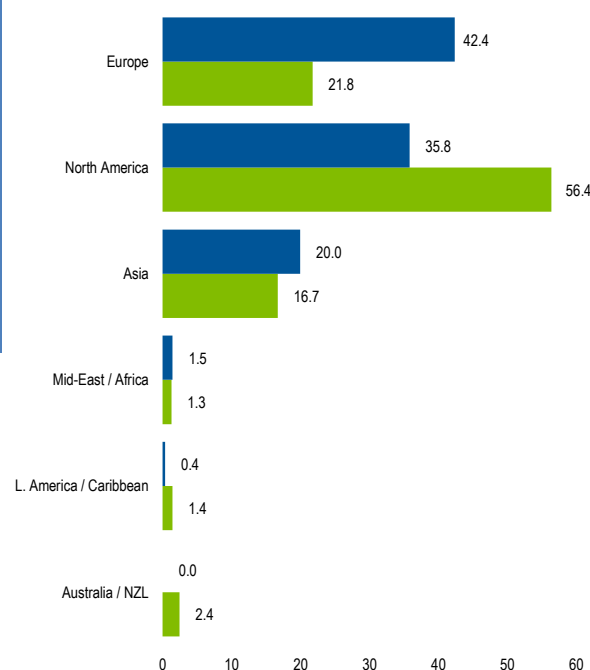
### Portfolio Sector Weighting vs. MSCI All Country World Index (%)

Percent of Equity Ranked by Fund Weighting



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

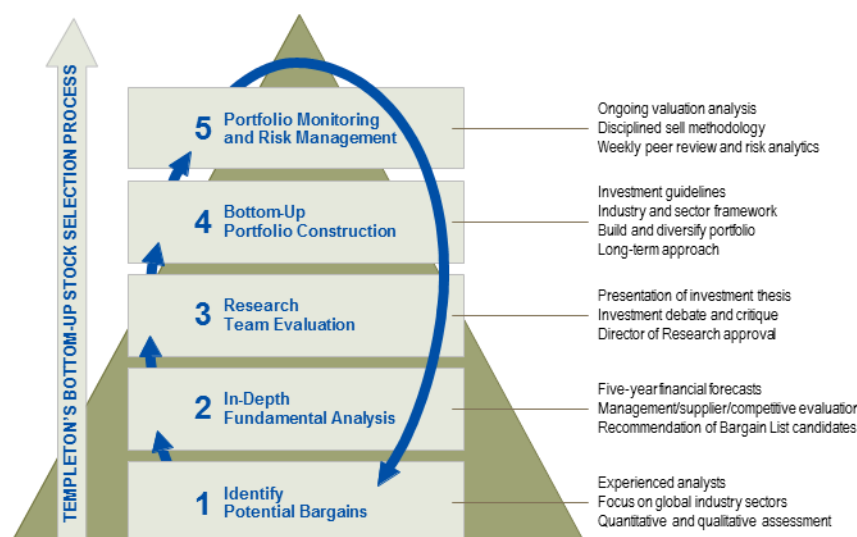
Percent of Equity Ranked by Fund Weighting



## TEMPLETON INVESTMENT TEAM

TEMPLETON GLOBAL EQUITY MANAGEMENT TEAM	Years with Firm	Years Experience
Norman Boersma, CFA, Chief Investment Officer	24	29
Heather Arnold, CFA, Director of Research	10	31
Cindy Sweeting, CFA, Director of Portfolio Management	18	31
Peter Wilmshurst, CFA, Portfolio Manager/Research Analyst	17	22
TEMPLETON GLOBAL EQUITY TEAM	Number of Members	Average Years Experience
Portfolio Managers/Analysts	25	23
Research Analysts	11	9

## 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:

- Periods of more than one year are annualised.
- 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.
- 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.
- Estimated tax on unrealised gains.
- 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.**