



FRANKLIN TEMPLETON
INVESTMENTS

Templeton Global Equity

‘Higher bond yields + Higher inflation = Value Performs’

August 2018

Key Issues

1. A (nother) setback for value performance
2. Economic slowdown in Q2'18
3. Trade War
4. Interest rates starting to increase as Central Banks tighten
5. FAANGs continue to rise

When the Economy Strengthens and CBs Tighten, Value Stocks Perform Better

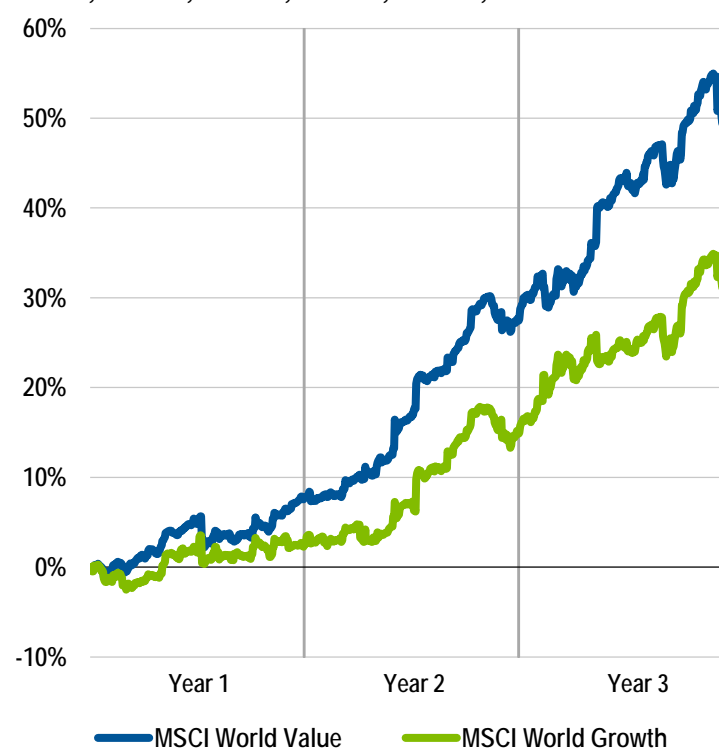
Global Value vs. Growth/Quality Has Closely Tracked US 10 Year Yields¹

From 02 January 2001 to 24 April 2018



Average Cumulative 3-Year Total Return After Fed Liftoff²

1976, 1983, 1987, 1994, 1999, 2004 and 2015



1. Source: Barclays Research, DataStream, MSCI. Data as of 24 April 2018.

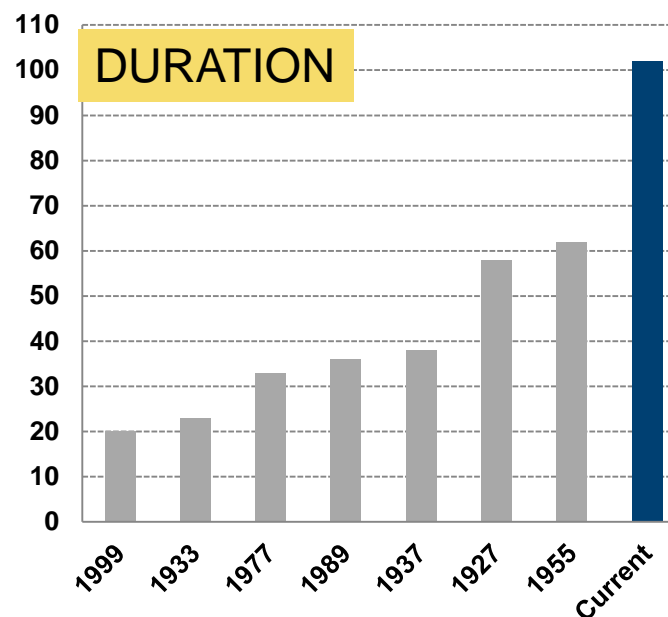
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Value Investing: An Unprecedented Dry Spell

Relative Performance Global Value vs. Global Growth¹



Length in Months of Previous Periods of Value Underperforming Growth²



1. Source: FactSet. Data as of 29th June 2018. Rolling 10yr annualised excess returns of MSCI World Value Index vs. MSCI World Growth Index.

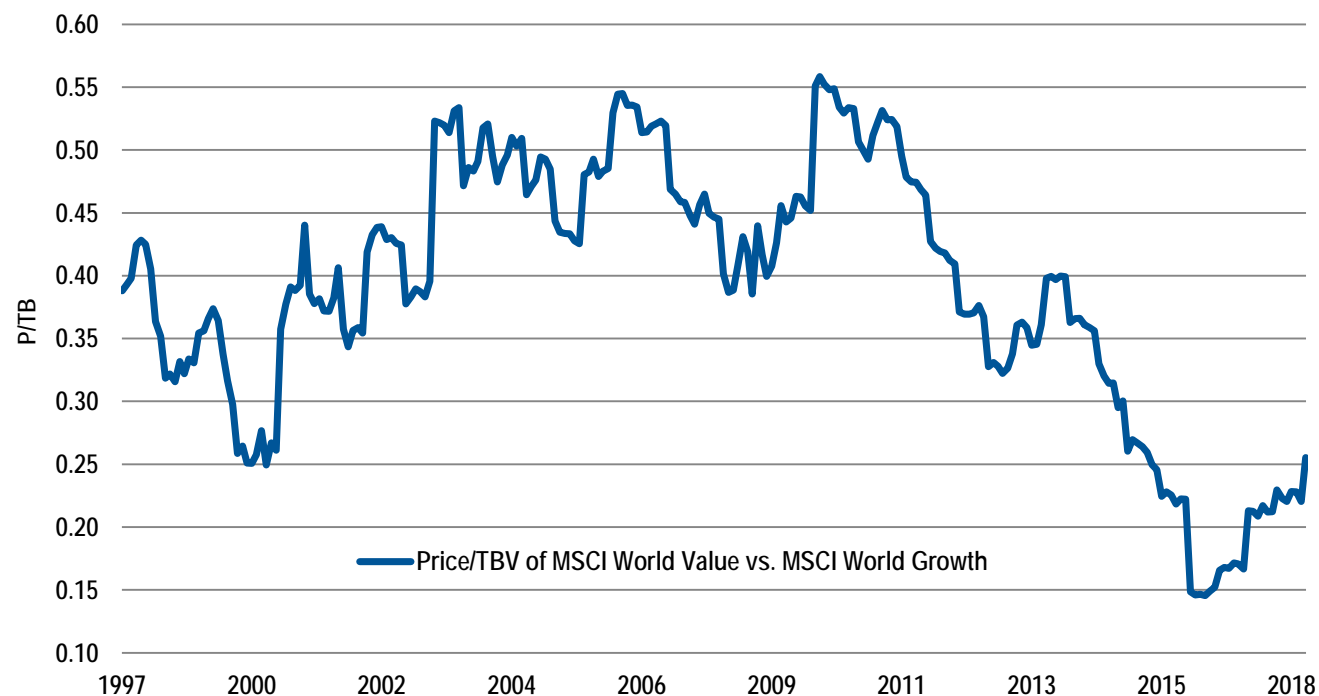
2. Source: Fama & French, Kempen Capital Management. U.S. stocks only.

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...Leading to a Huge Discount for Value

Price-to-Tangible Book Value of the MSCI World Value Index vs. MSCI World Growth Index

December 31, 1997 – June 30, 2018



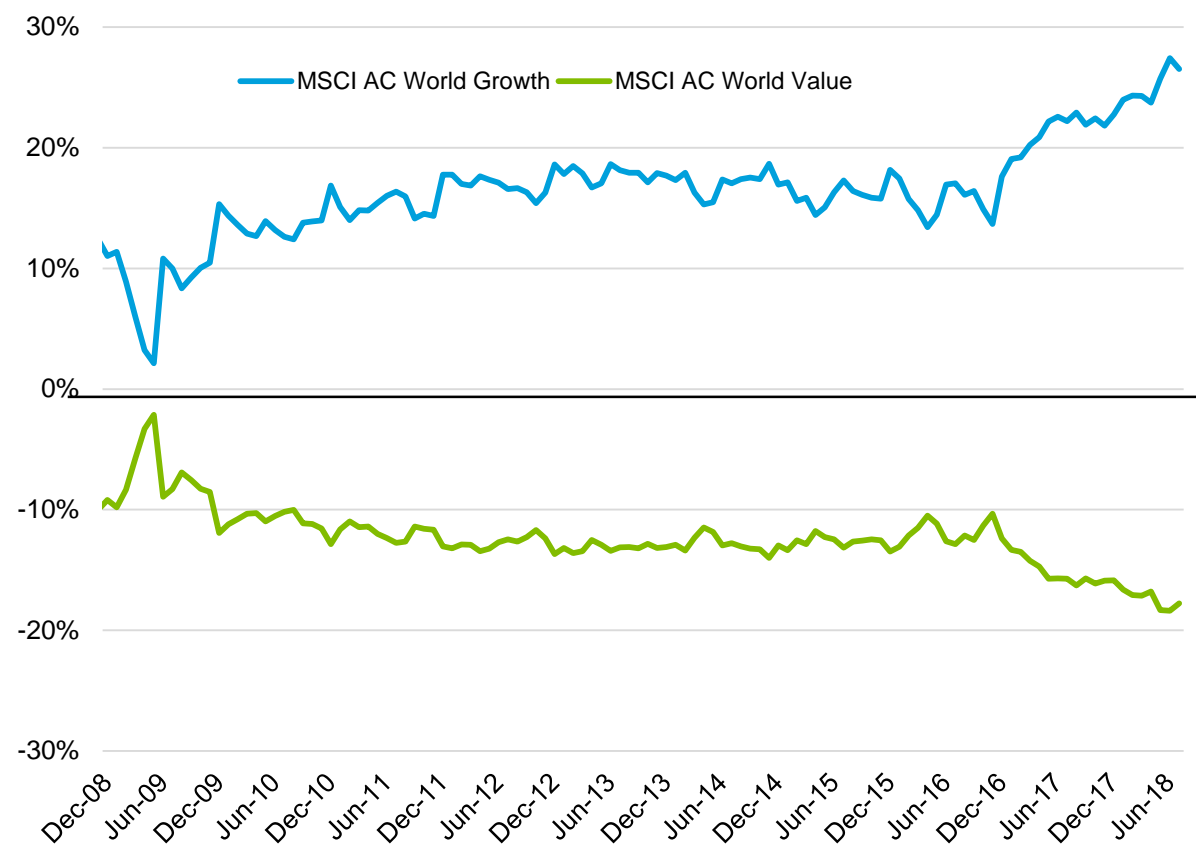
1. Source: Bloomberg, MSCI, 30 June 2018.

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Value vs Growth

- Since 30 June 2016, earnings growth of MSCI Value (16.1% p.a.) has been stronger than earnings growth of MSCI Growth (11.5% p.a.)

Premium/Discount P/E (NTM) to MSCI AC World



Source: Martin Currie Australia, Factset; as at 30 June 2018

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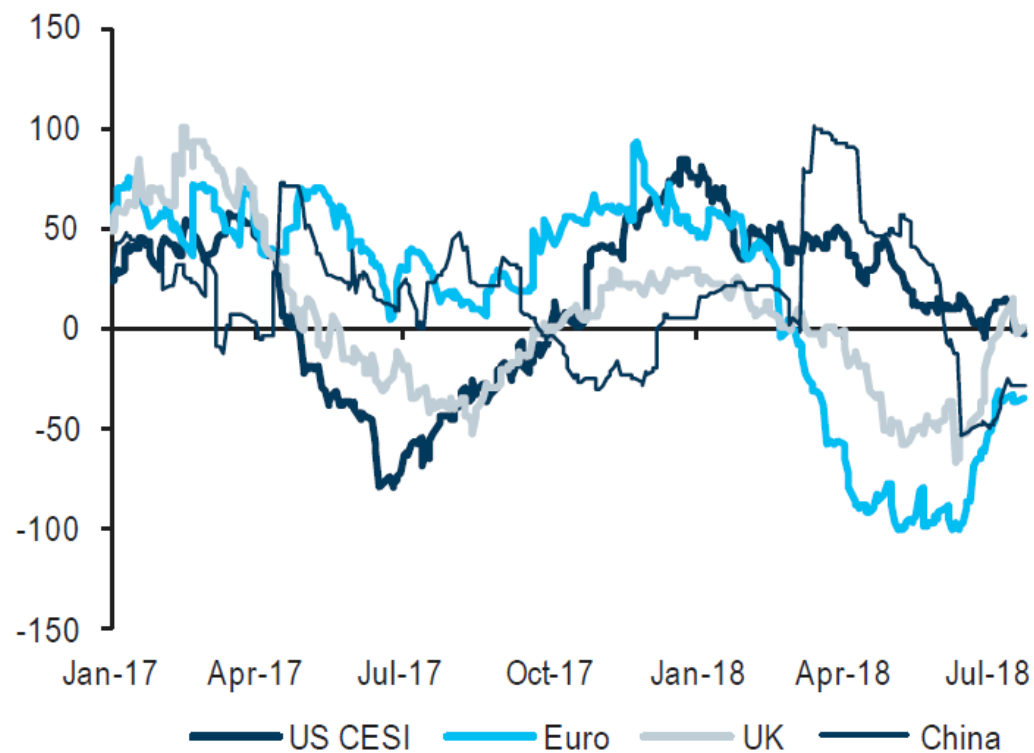
Key Issues: Economic Slow-down

- Global growth surprised to the downside in Q2'18
- China slow-down, but the government is stepping in:
 - RMB fall
 - RRR cut
 - Tax cuts: VAT and income tax
- US fiscal stimulus

Key Issues: Economic Slow-down

Q2 2018 soft patch

Economic Surprises turned negative in all regions during H1

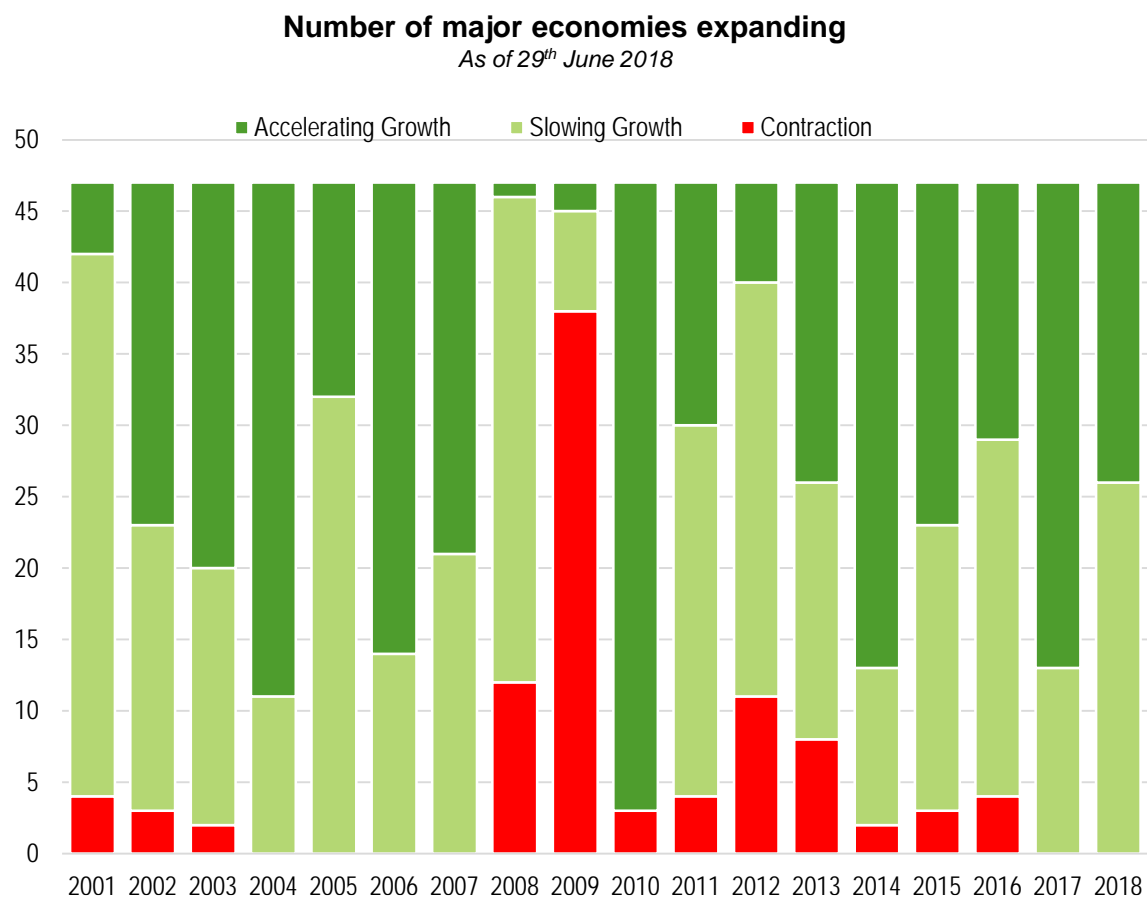


Source: Bloomberg, Barclays Equity Strategy

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Key Issues: Economic Slow-down

But all Major Economies are still Growing



Source: OECD, Wall Street Journal. Note: 2018 is a forecast

Key Issues: Trade War

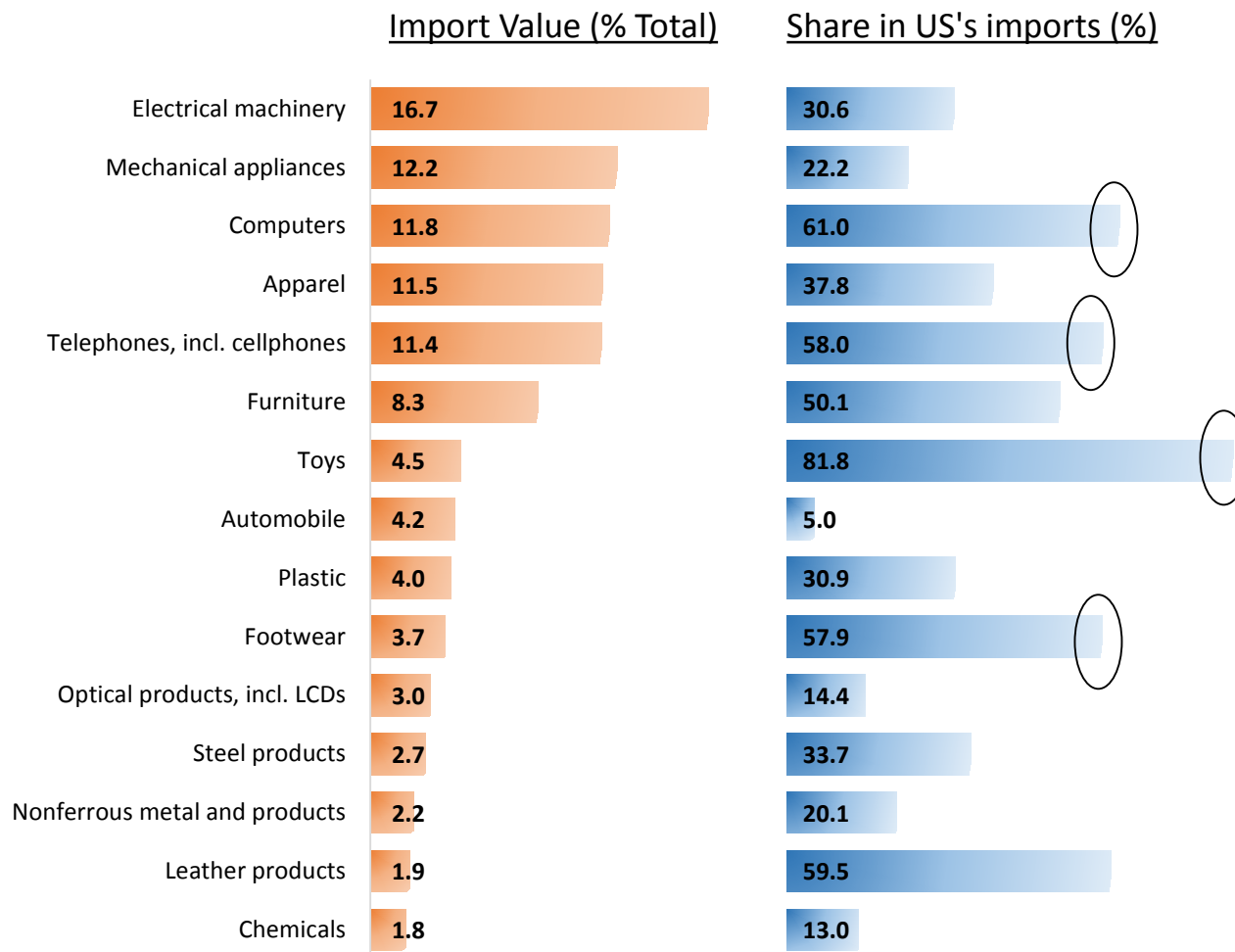
- “Trade wars are good, and easy to win” President Trump
- Made in China 2025
 - ZTE
 - Qualcomm/NXP
- US isolationism
 - “Both China and the EU believe in multilateralism and a rules-based world order” Jyrki Katainen, Vice President of the European Commission
 - Trans-Pacific Partnership goes on without the US
 - 17 July 2018, EU and Japan sign a free trade deal

Key Issues: Trade War

- The US economy \neq US stock market
 - US manufacturing is 12% of GDP, but 43% of US stock market profits
 - Around one-third of Chinese exports to the US come from American subsidiaries
 - US companies make substantial profits in China
 - General Motors sells more cars in China than the US
 - Apple makes 20% of profits in China
 - Boeing has 13% of revenue coming from China
- Are there substitute suppliers? China exports 82% of toys imported into the US, 58% of smartphones and footwear, and 61% of computers.

Key Issues: Trade War

Major Chinese Exports to the US



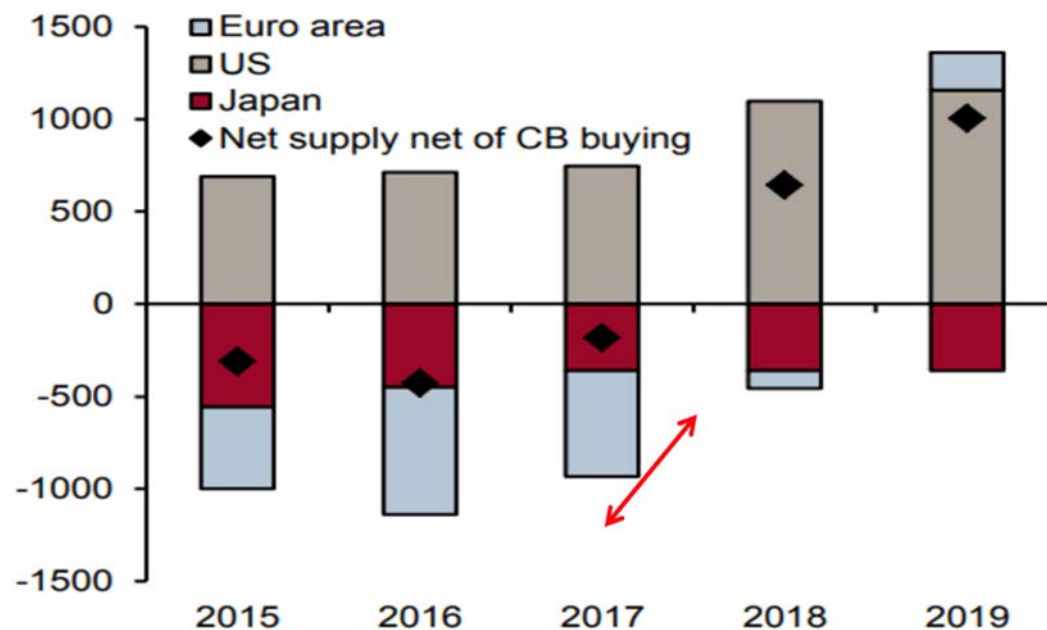
Source: UN Comtrade, WITS, DB Global Research, Deutsche Bank Research. Year-to-date May 2018

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Key Issues: Central Bank Tightening

Figure 5: In addition to the Fed, the ECB's taper decision will have a fairly large impact on sovereign debt supply available to the market

G3 sovereign net supply, net of central banks; \$bn



Source: Credit Suisse, the Bloomberg Professional service, DoubleLine

Key Issues: Tech stocks

- Growth compression vs multiple expansion
 - Apple volume growth last four years
 - “Innovator’s dilemma”
 - Facebook ad impressions fell 17% YoY in Q2
- Accelerating capex
- Clash of the Titans
 - Online video
 - Online advertising
 - Cloud
 - Smart Speakers
 - E-commerce
- Increasing taxes and regulations
- Trade war...
- Valuation...

Key Issues: Tech stocks

Impact of FANGs and Nifty Nine on the S&P500

As of 31st July 2018

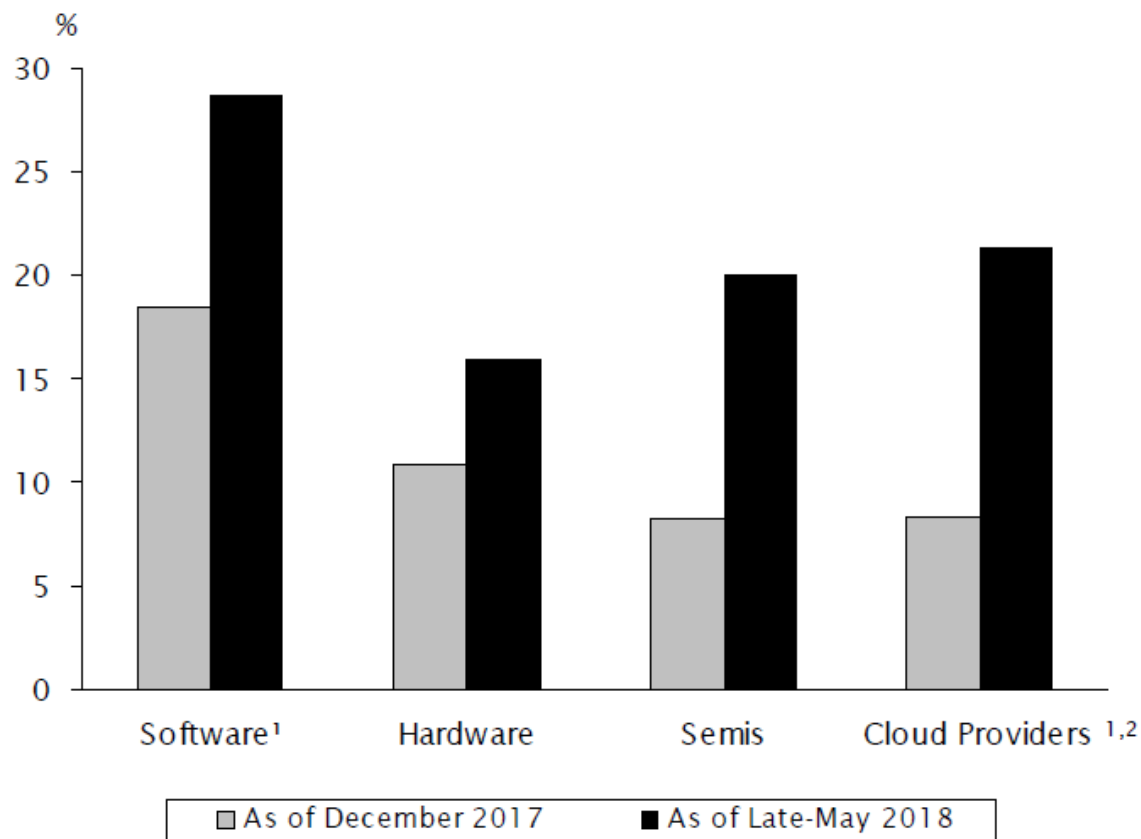
	<u>Mkt Cap</u>	<u>Performance, %</u>	<u>Valuation Multiples (FY1)</u>		
	US\$bn	1-year	P/E	P/Sales	P/BV
Apple	922	+29.7	16.6	3.5	8.2
Google	854	+29.8	30.0	7.8	4.8
Microsoft	814	+48.2	24.9	6.7	8.2
Amazon	866	+79.9	106.2	3.7	20.5
Facebook	499	+2.0	24.2	9.0	5.6
Netflix	147	+85.8	125.3	9.3	28.3
PayPal	97	+40.3	34.9	6.3	6.2
Salesforce	101	+51.0	59.5	7.8	9.2
Nvidia	149	+51.0	33.5	11.4	13.5
FANGs*	2,366	+39.2	40.5	5.7	7.5
Nifty Nine	4,448	+36.4	28.6	5.3	7.9
Other 491	19,411	+8.5	16.1	1.8	2.6
S&P 500	23,859	+16.2	17.5	2.1	3.0

*FANGs group includes Facebook, Amazon, Netflix, Google

Source: Bloomberg, Independent Strategy. Performance of FANGs, Nifty Nine and Other 491 are estimated based on Market Capitalisation
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Key Issues: Tech stocks

S&P 500 Technology Stocks YoY Changes in Capital Spending 2018E



Source: Empirical Research Partners Analysis

1. Excludes purchase of Chelsea Market building in 2018

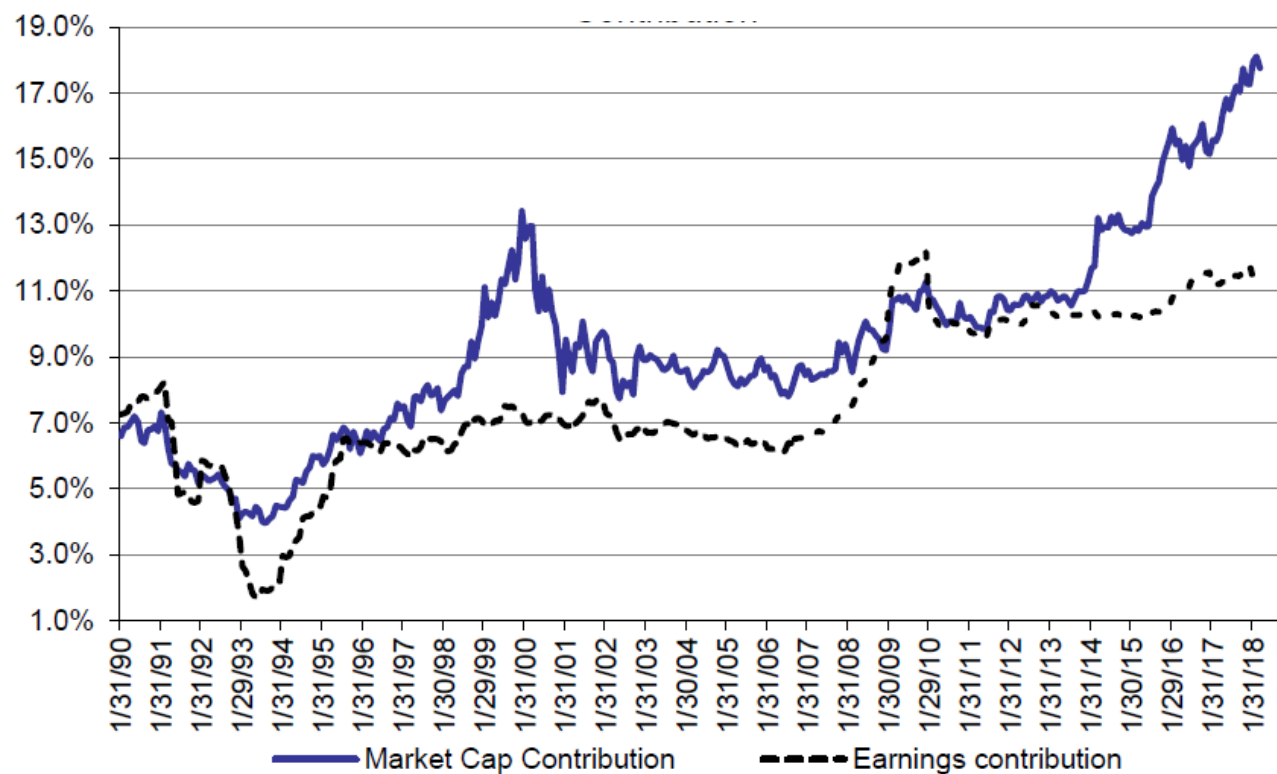
2. Comprises AMZN, MSFT, GOOGL, ORCL, IBM and CRM.

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Key Issues: Tech stocks

Software vs Market Cap

S&P 500 Software & Services % of Market Cap & FY1 Earnings Contribution

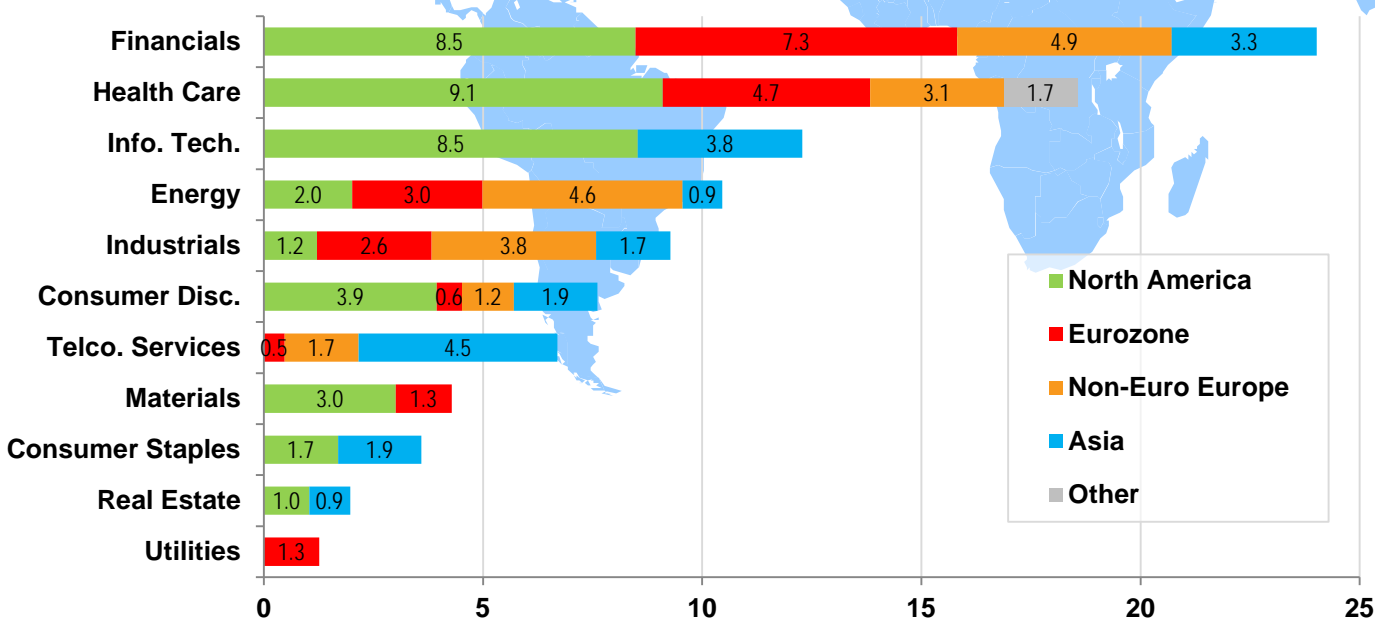
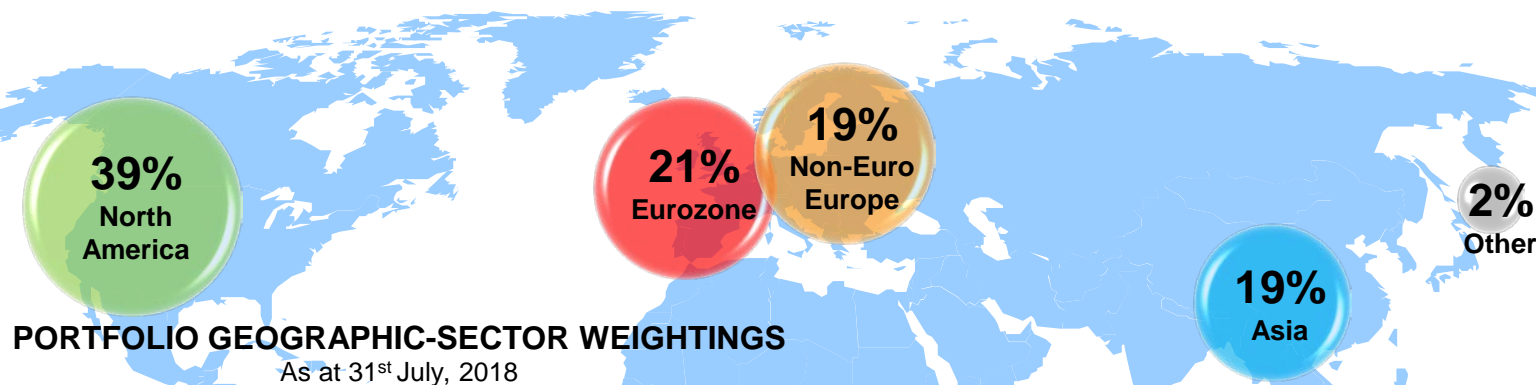


Source: Factset and Citi Research – US Equity Strategy

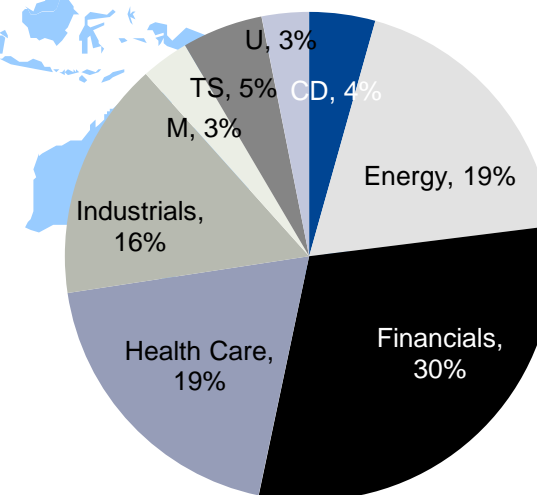
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Templeton Global Growth Fund – Portfolio Weights

As of 31st July, 2018



EUROPE SECTOR SPLIT



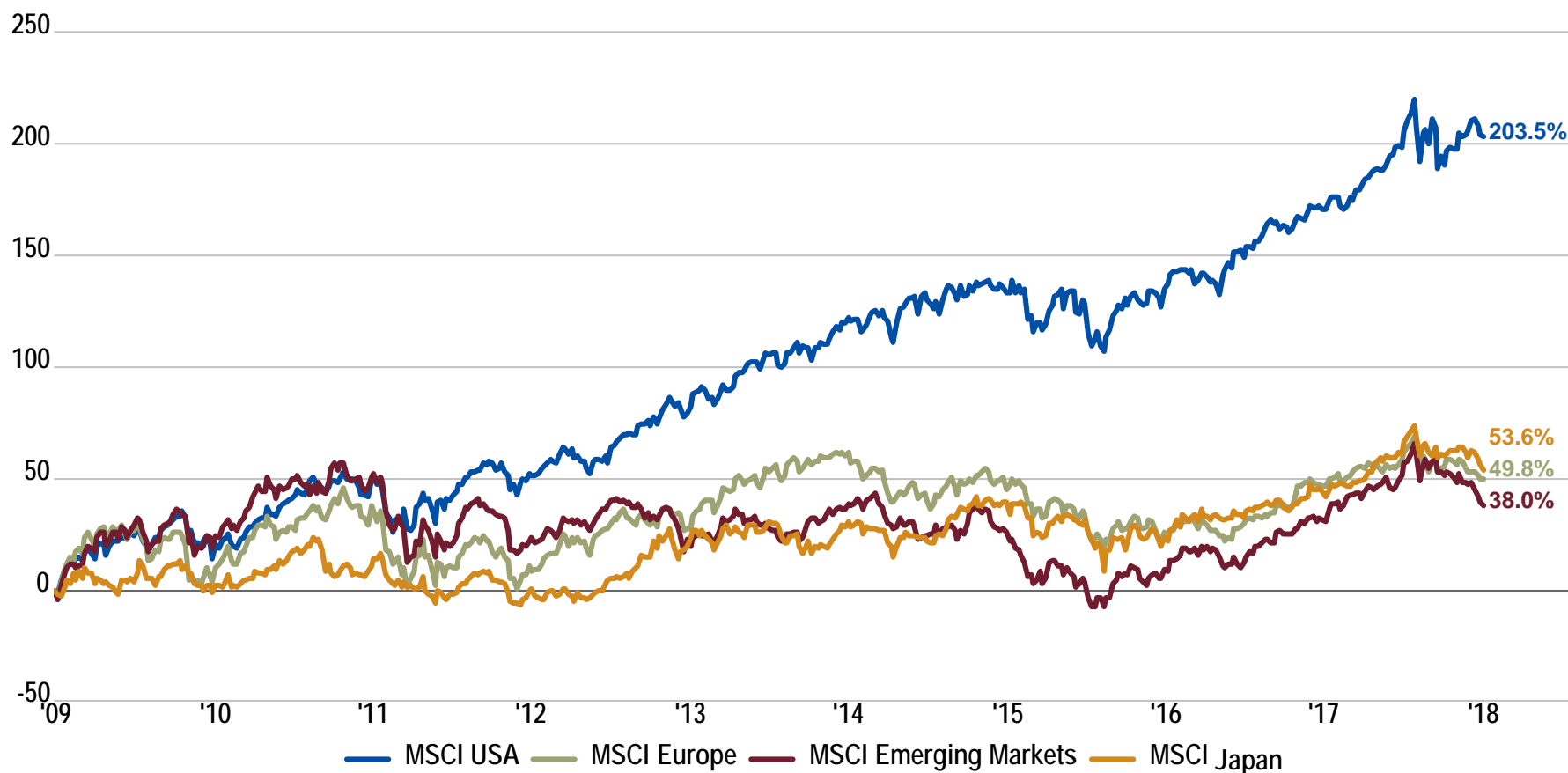
Weightings as percent of equity. Percentage may not equal 100% due to rounding.

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The US Has Clearly Stood Out in the Last 9 Years

Price Change, USD

30th June, 2009 to 3rd July, 2018

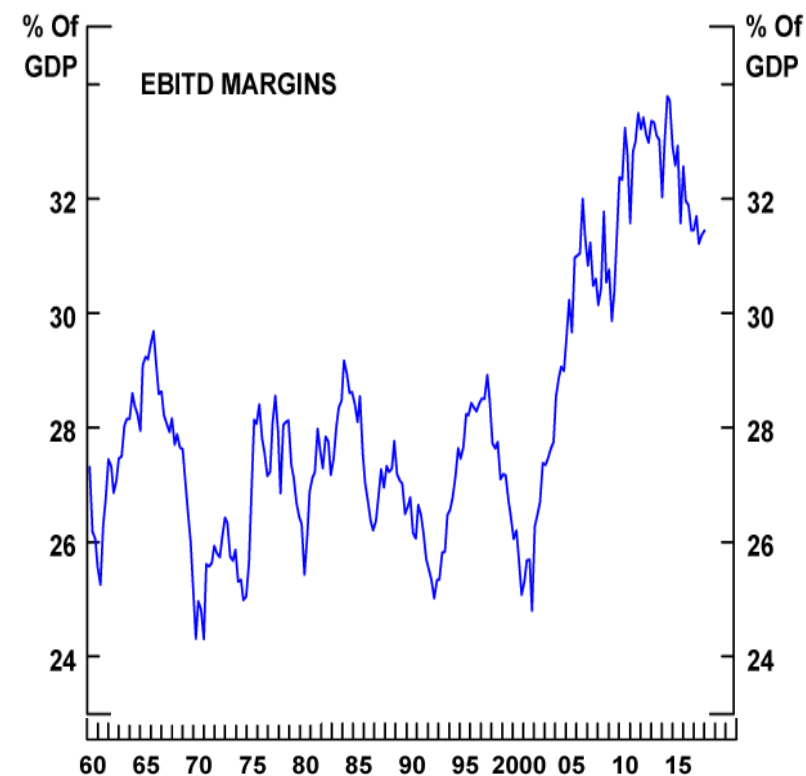
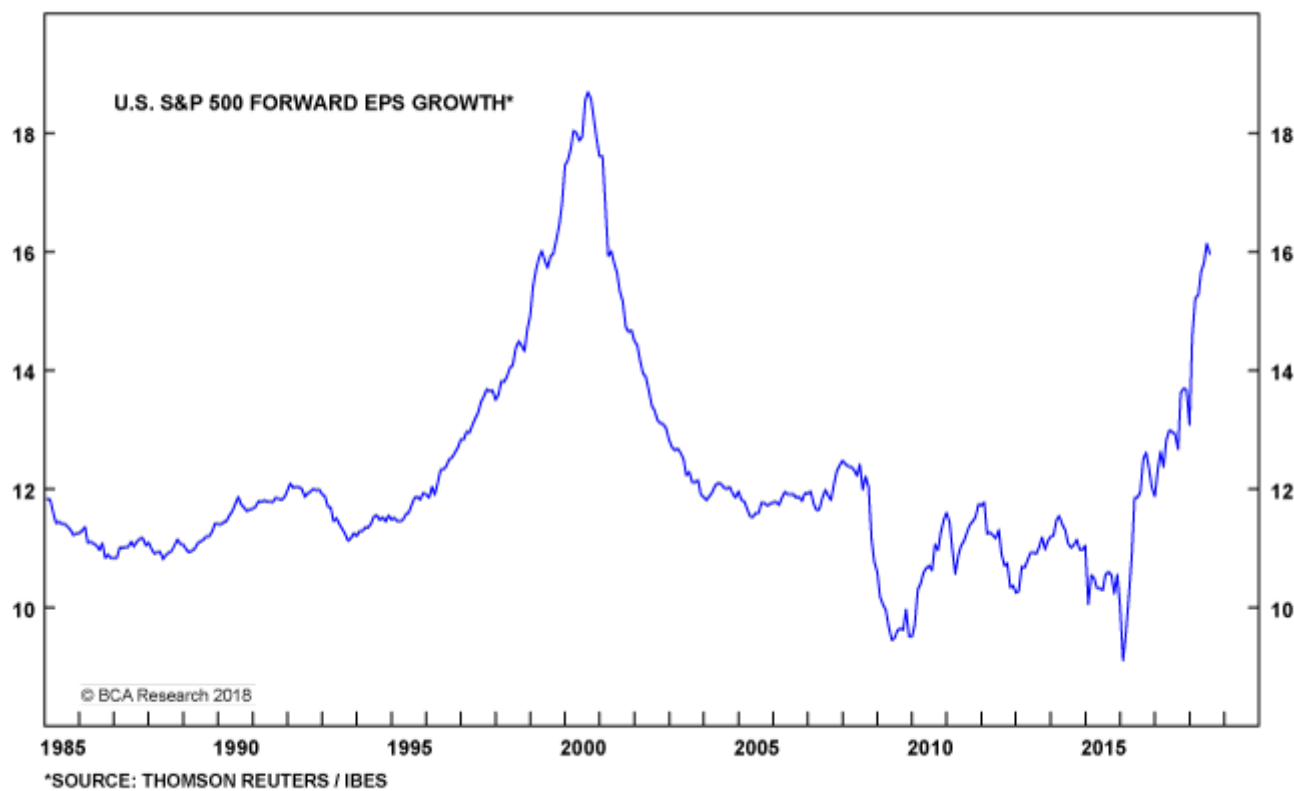


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Where is the Value?

Bullish Long-Term Earnings Expectations, do you believe?

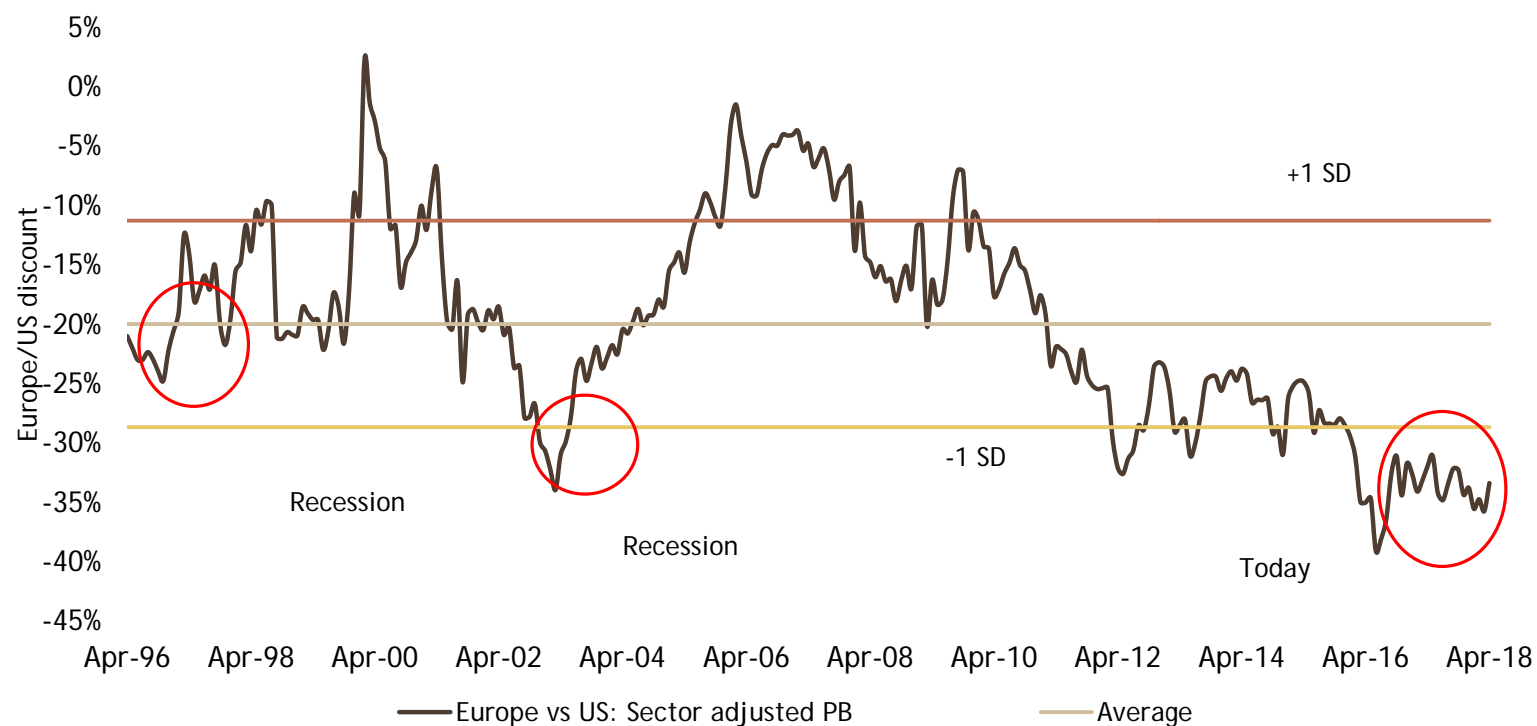


Where is the Value?

Europe still an Under-valued Market

Europe/US: sector adjusted P/B gap

As at 30 April 2018



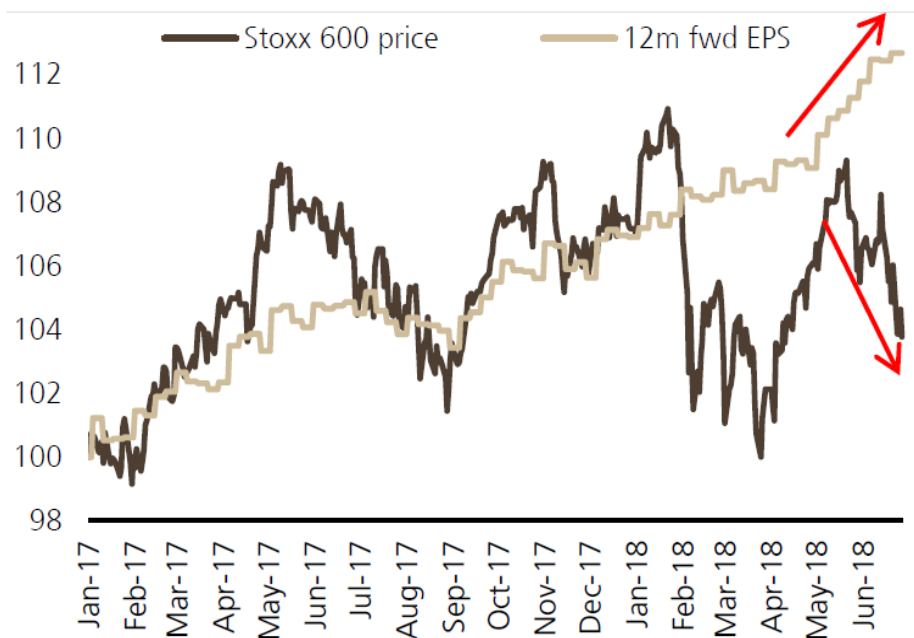
Source: Thomson Datastream, UBS European Equity Strategy

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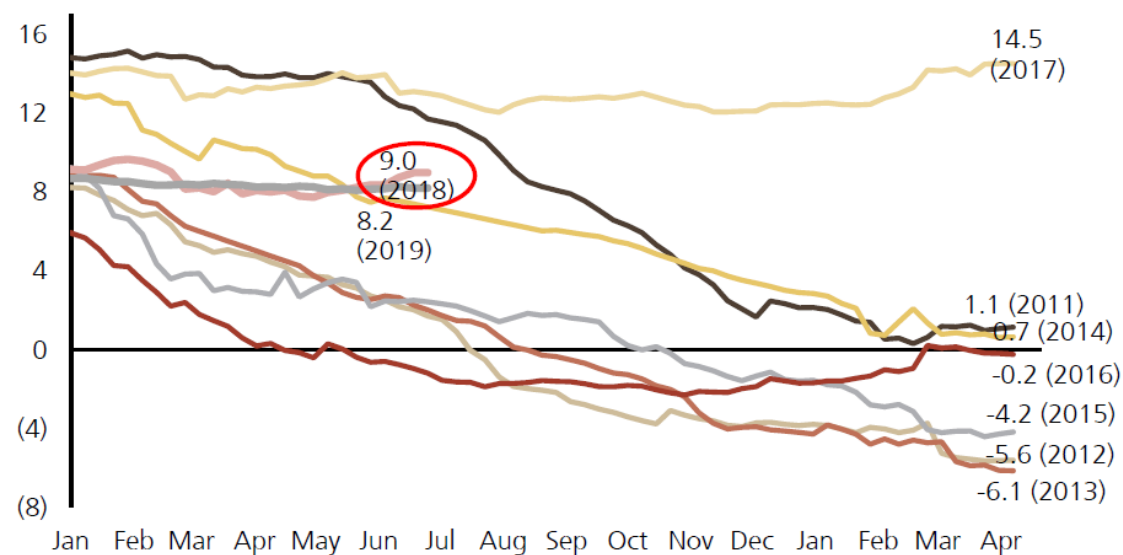
Where is the Value?

European share prices have decoupled from EPS

Stoxx 600 Price vs 12 month Forward EPS¹

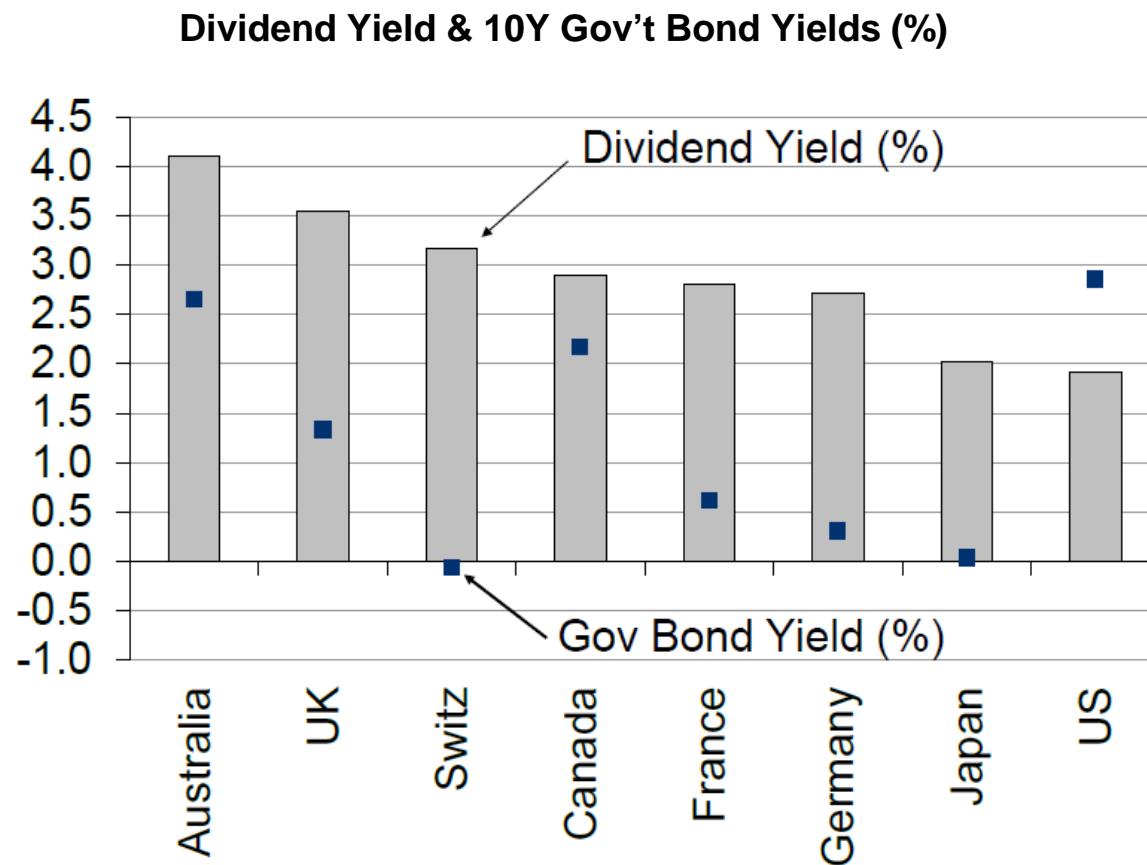


Europe Consensus EPS growth (%) progression – Jan to following Apr, 2011-2019²



Where is the Value?

Equities for Income in some Markets

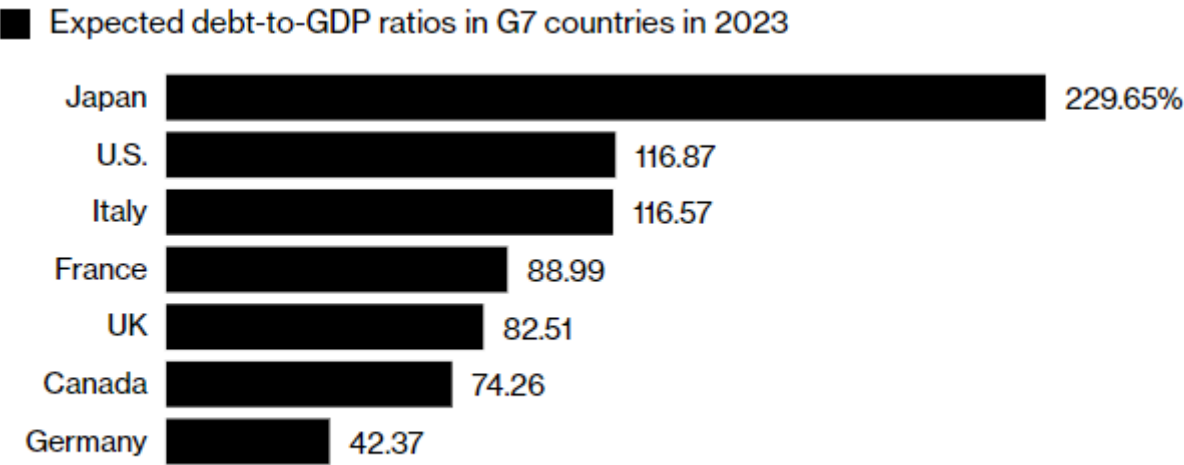


Source: Citi Research, Datastream. Data as at 3rd July 2018.

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Where is the Value?

U.S debt-to-GDP ratio projected to surpass Italy's



Source: Bloomberg, International Monetary Fund
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Where is the Value?

Disconnect between Bonds and Banks



Source: BCA Research

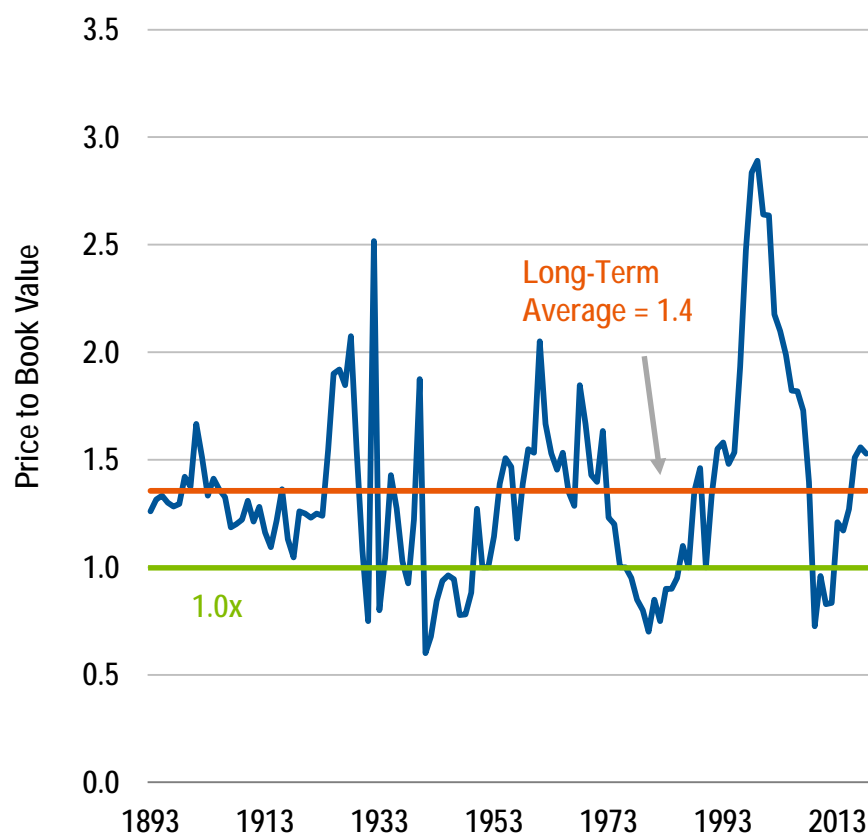
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Where is the Value?

There are Still Opportunities in Financials (but you need to look harder)

U.S. Banks Price-to-Book Value¹

As of 20 April 2018



European Banks Price/Book Value

31 January 1995 – 30 June 2018



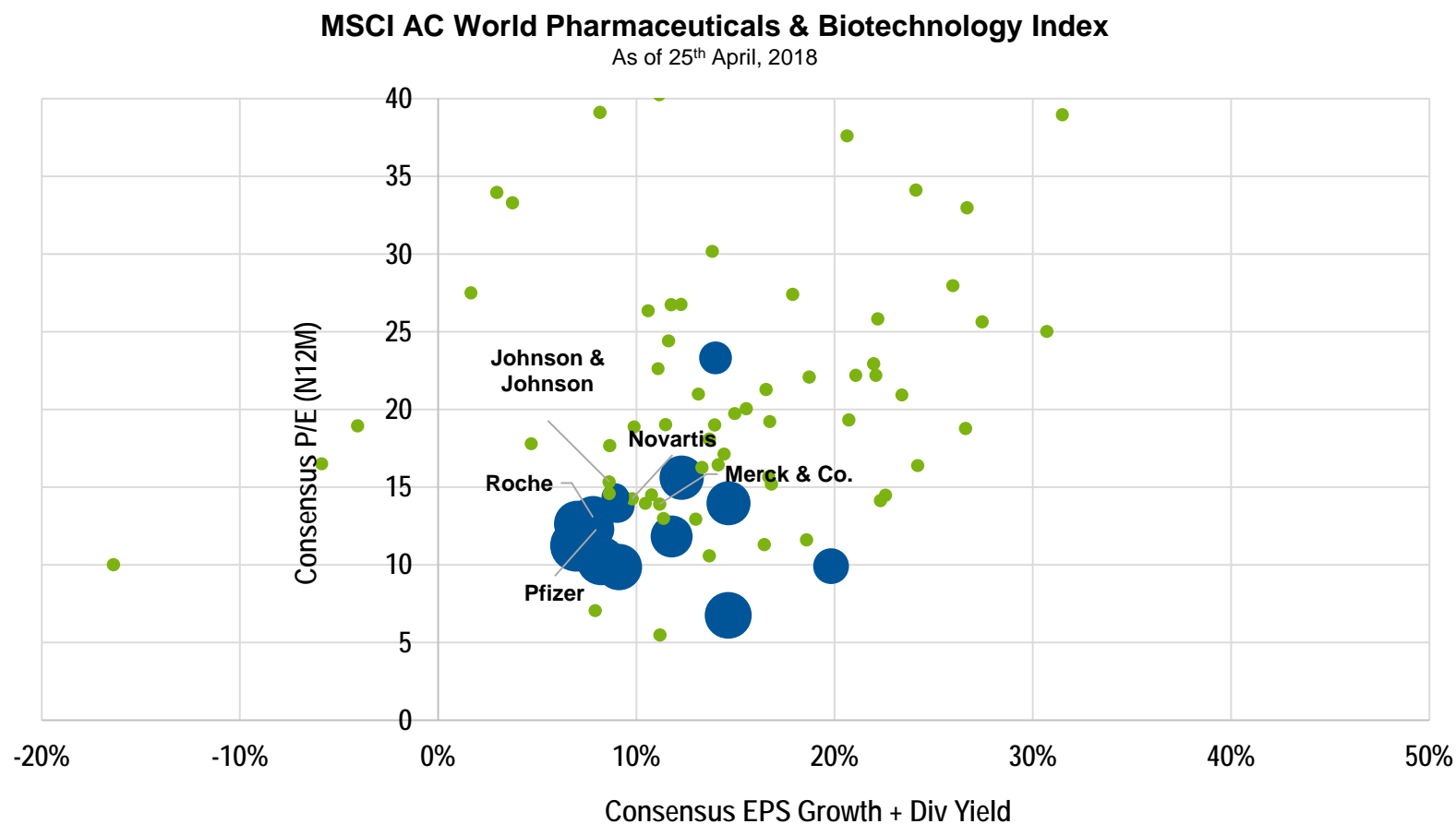
1. Source: Anthony Saunders & Berry Wilson, Impact of consolidation and safety net support on Canadian, US and UK banks, 1892-1992 (1999). Michael Keeley, Deposit Insurance, Risk and Market Power in Banking (1990). FDIC – History of the 1980s. Datastream, SNL. Autonomous Research. * ignores war years, and one-off years at below 1x BV.

2. Source: FactSet, MSCI. Data from January 31, 1995 to June 30, 2018 MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

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Where is the Value?

Growth at a Value Price in Health Care

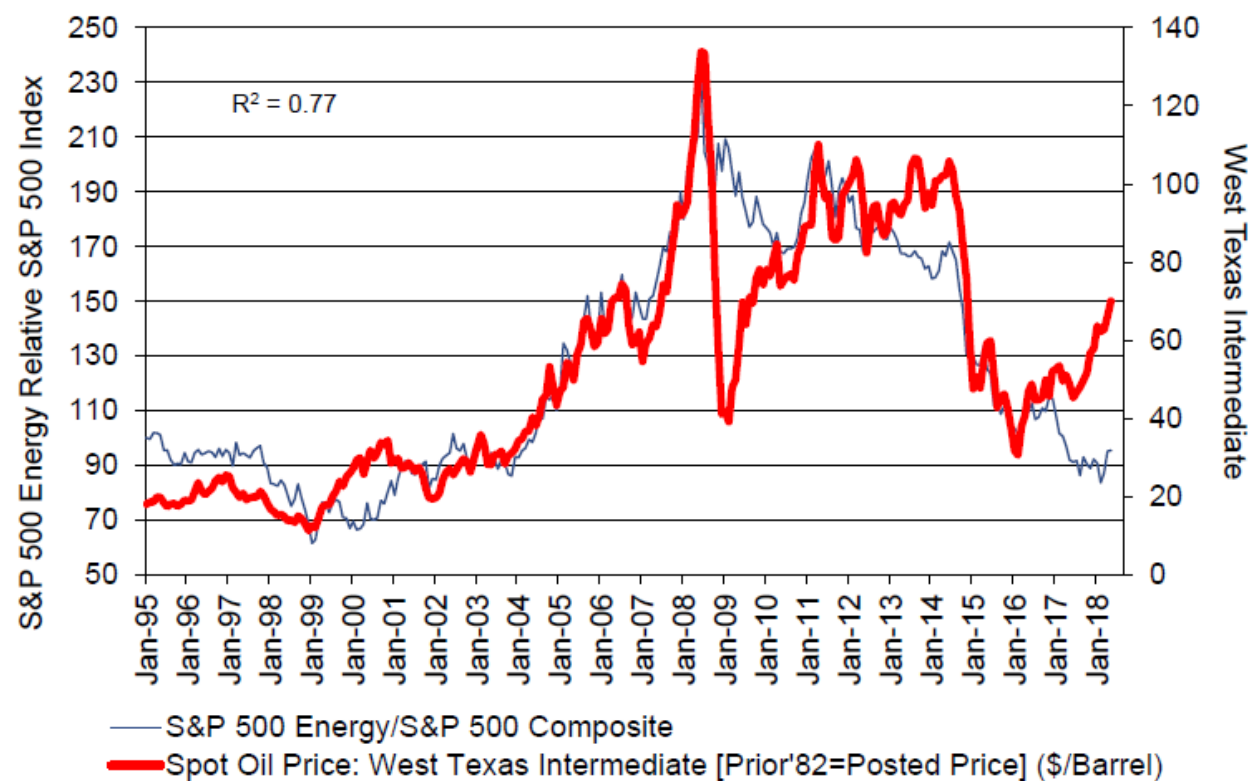


Source: FactSet, MSCI. Blue dots are portfolio holdings. Green dots are constituents of the MSCI AC World Pharmaceutical index that are not portfolio holdings. Constituents lacking consensus estimates, or with extreme values as defined by lying outside the chart axis, are not shown. EPS growth shown for year after next 12 months. Companies named are the largest 5 by free-float market capitalisation. Bubble size is an illustration of portfolio holding size.

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Where is the Value?

Disconnect between Oil and Energy Stocks

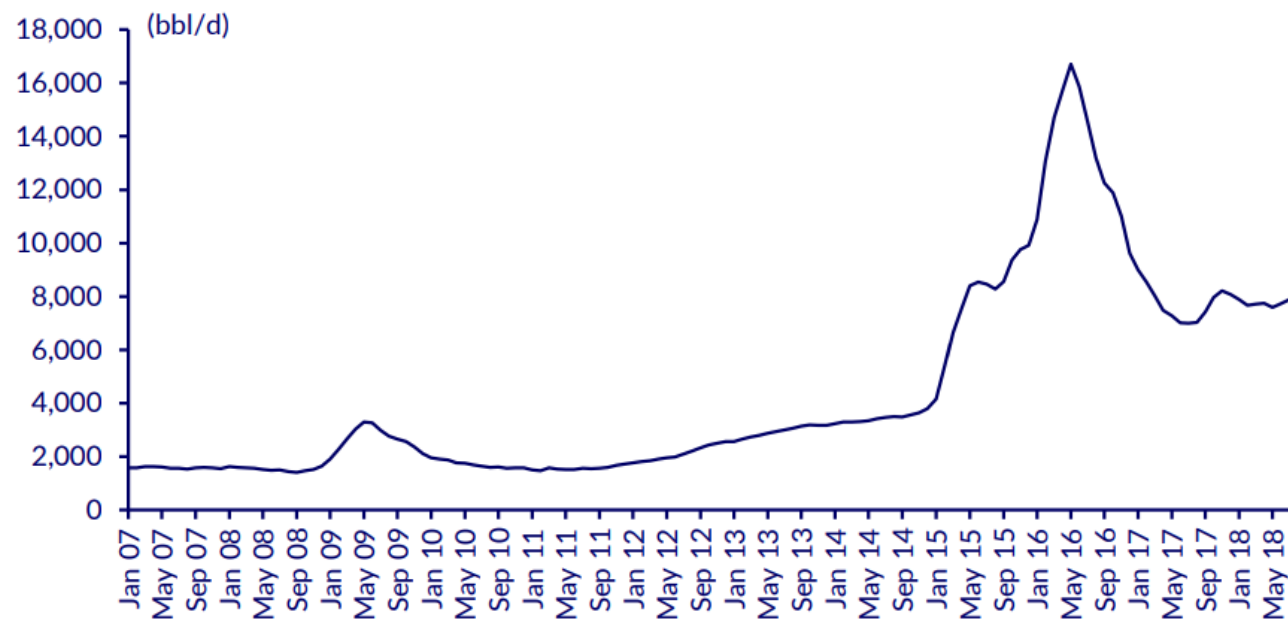


Source: Factset, Haver Analytics and Citi Research

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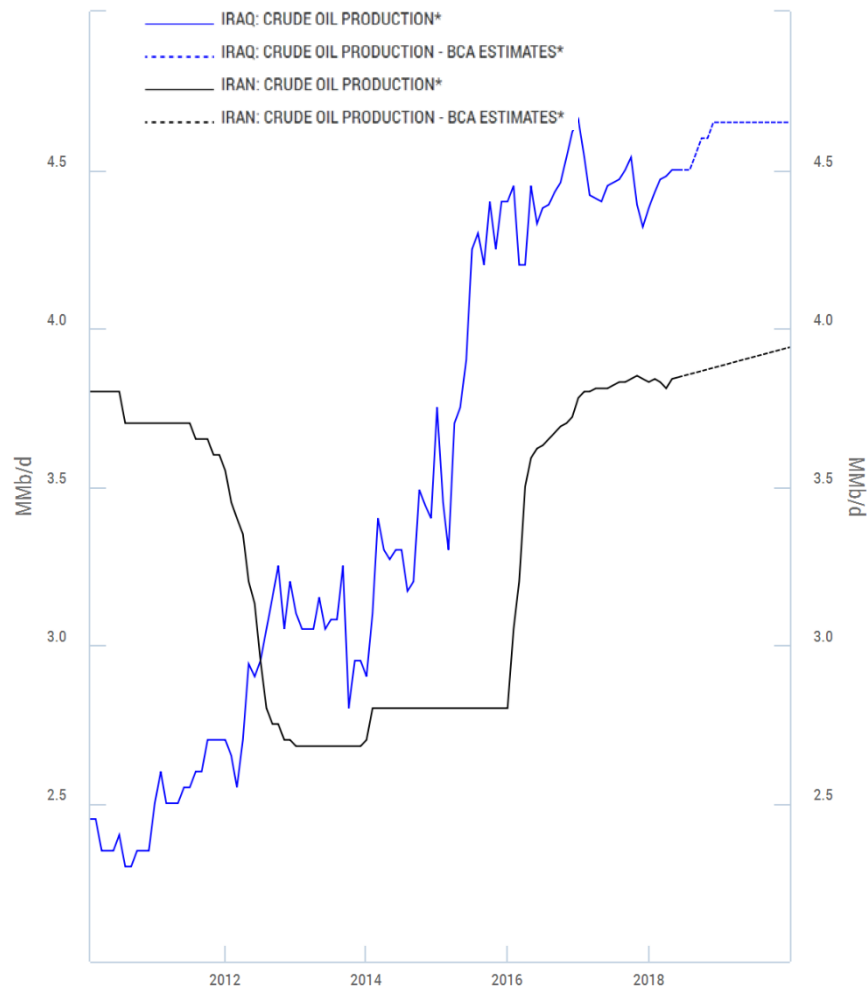
Where is the Value?

US Average oil production per rig from seven major shale regions¹



Where is the Value?

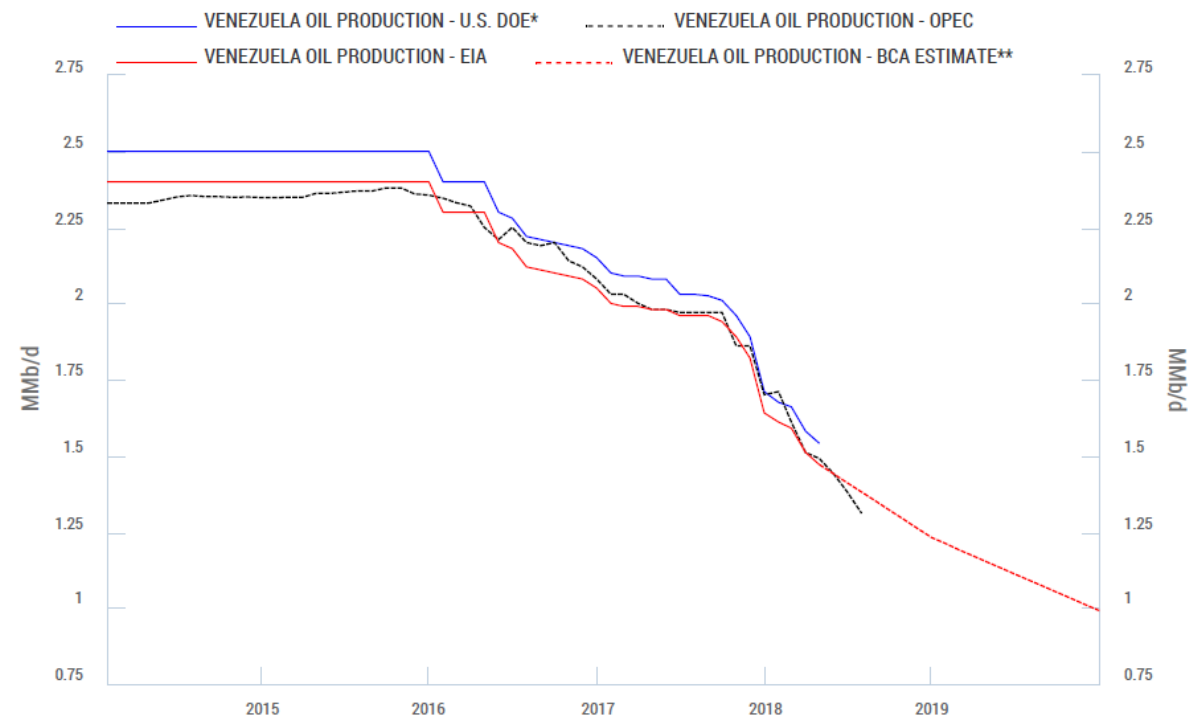
Current and Future Iran Production Is At Risk



Source: U.S. EIA, BCA Research

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Venezuela in Decline



Where is the Value?

Still there in Shell, Despite the Promise (Threat) of EVs



Attractions of Shell today

- Acquisition of BG makes Shell the global leader in LNG
- Gearing expected to hit 20% target in 2018
- Shell raised their Free Cash Flow (FCF) targets by 20%
 - FCF target for 2021 at \$65 oil delivers a 10% FCF yield
 - FCF higher than when oil was at \$100/barrel
- 6% dividend yield for 2018



Where is the Value?

World Class Consumer and Commercial Bank



Why we bought (during mid-'11)

- Market concerns about 'bad' assets post-GFC
- Underappreciated Citi's emerging market businesses
- Company was trading at ~0.8x FY1 P/TBV, ~10x FY1 P/E

Why it worked

- Completed multi-year restructuring by exiting dozens of businesses, closing branches and exiting entire countries
- The Fed has approved \$20bn p.a. of capital returns to equity holders
- Management focused on 13% RoTE target by 2020 and 16% longer term
- Still trading on 1.2x TBV, 11x FY1 P/E



Historical Performance

Templeton Global Growth Fund

As of 30 June 2018

Average Annual Total Returns (%)

	Inception Date	6 Mths*	1 Yr	2 Yrs	3 Yrs	5 Yrs	10 Yrs	Since Incept
Templeton Global Growth Fund—Gross of Fees	27.05.87	4.0	12.6	17.9	7.8	13.0	9.4	**9.0
Templeton Global Growth Fund—Net of Fees		3.4	11.1	16.4	6.5	11.7	7.9	7.4
MSCI AC World (Net Dividends) Index		5.4	15.0	15.1	9.6	14.2	8.6	6.8
Morningstar Australia Value Peers		3.5	10.7	12.4	7.1	11.9	6.4	

Source: Morningstar

Performance data is shown rounded to the nearest tenth.

When performance for either the portfolio or its benchmark has been converted, different foreign exchange closing rates may be used between the portfolio and its benchmark.

*Cumulative Total Returns

**Performance Prior to Jul 06 was estimated due to limited availability of data gross of fees.

Past performance is not an indicator or a guarantee of future performance.

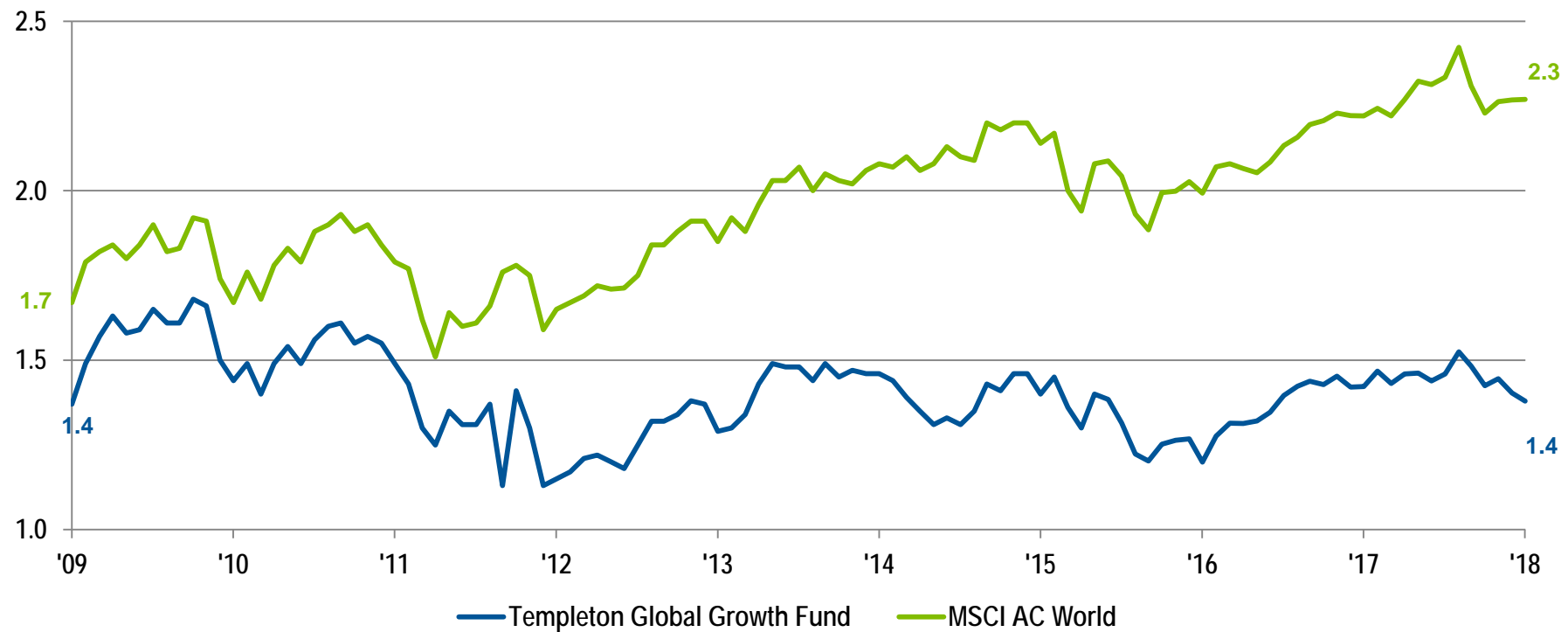
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Portfolio Characteristics

Templeton Global Growth Fund vs. MSCI All Country World Index

Price to Book Ratio

30th June, 2009 to 30th June, 2018



Top Ten Holdings

Templeton Global Growth Fund

As of 30 June 2018

Name of Issuer	Country	Industry	% of Total
BP PLC	United Kingdom	Energy	2.4
ROYAL DUTCH SHELL	United Kingdom	Energy	2.4
SAMSUNG ELECTRONICS CO LTD	South Korea	Technology Hardware & Equipment	2.2
ORACLE CORP	United States	Software & Services	2.2
BNP PARIBAS SA	France	Banks	2.0
ALPHABET	United States	Software & Services	1.8
TEVA PHARMACEUTICAL	Israel	Pharmaceuticals, Biotechnology & Life Sciences	1.8
CITIGROUP INC	United States	Banks	1.7
CAPITAL ONE FINANCIAL CORP	United States	Diversified Financials	1.6
SOFTBANK GROUP CORP	Japan	Telecommunication Services	1.6
Total			19.7

The Ten Largest Holdings represent the ten largest holdings of the fund as of the date indicated. These securities do not represent all of the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in the securities listed was or will be profitable. All portfolio holdings are subject to change.

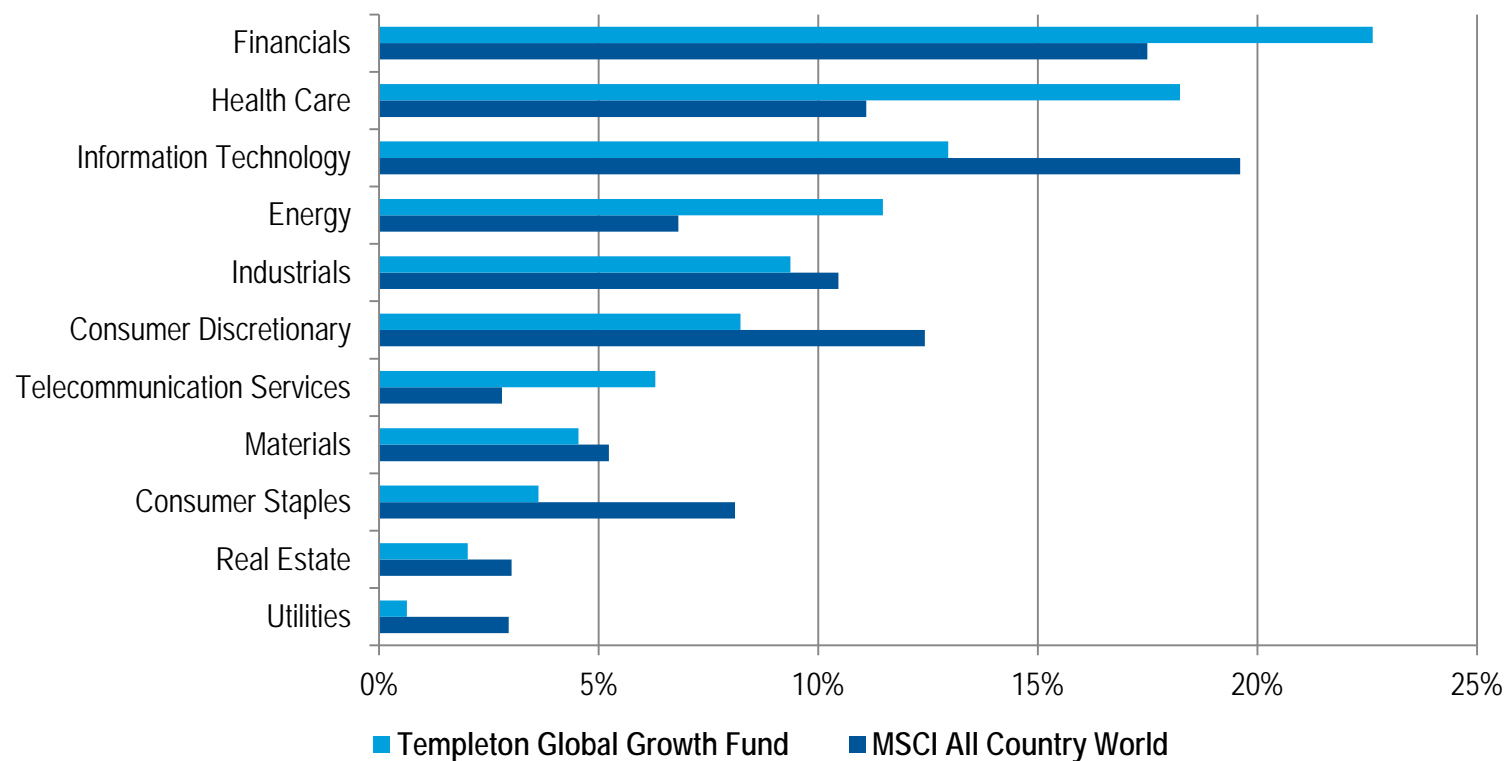
Holdings of the same issuer have been combined.

The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included in the top 10 holdings list.

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Templeton Global Growth Fund vs. MSCI All Country World Index

As at 30th June, 2018



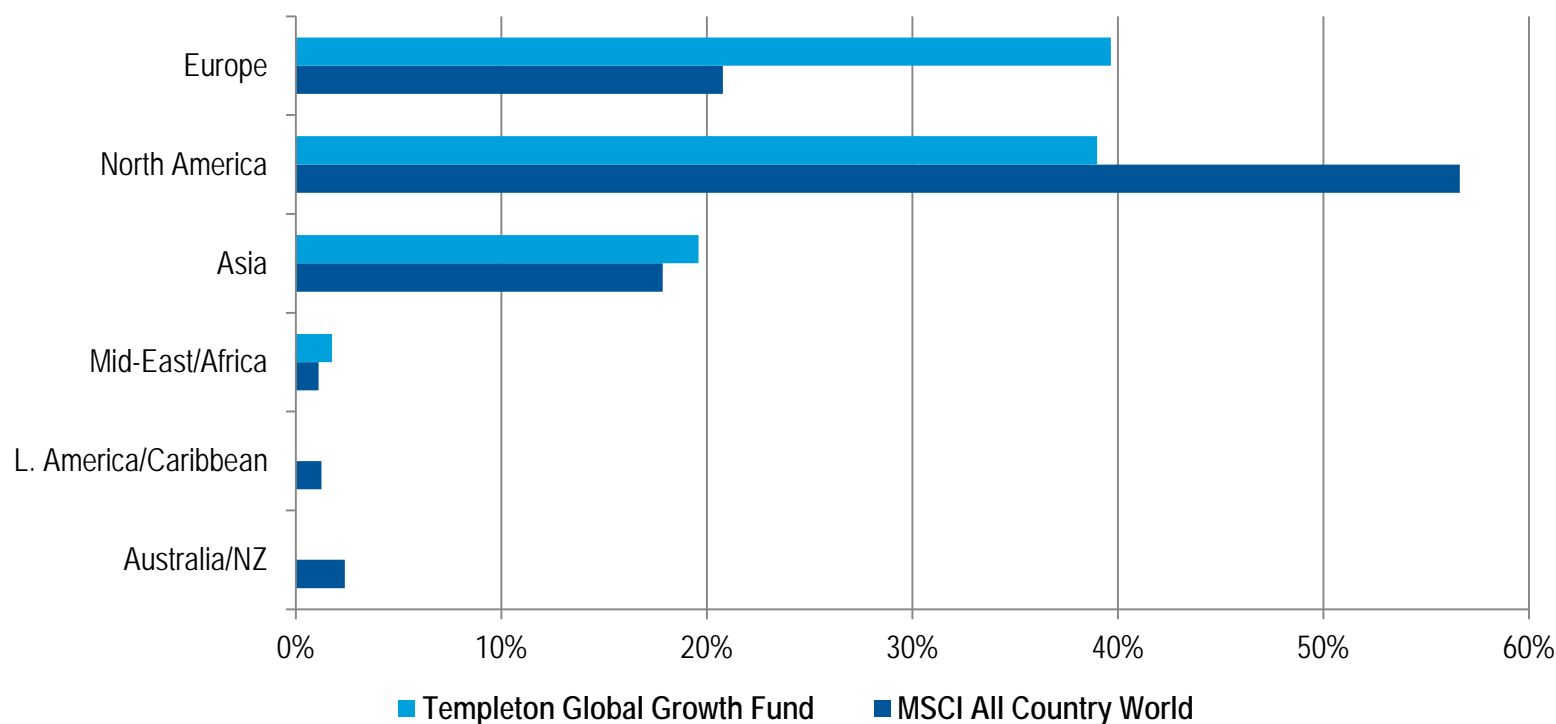
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Geographic Allocation

Templeton Global Growth Fund vs. MSCI All Country World Index

As at 30th June, 2018



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