FRANKLIN TEMPLETON
INVESTMENTS

This letter is important and requires your immediate attention.

If you are in doubt, please consult your legal, financial or professional advisers.

29 October 2010

Dear Shareholder,

Franklin Templeton Investment Funds (the "Company")

The purpose of this letter is to inform you of revisions to (I) the dividend payment period of A (Ydis) shares, (II) the fee payable to Franklin Templeton International Services S.A. and (III) the investment objectives and policies of the following sub-funds (each a "**Fund**") of the Company:

- **Franklin Mutual Global Discovery Fund**
- **Templeton Asian Bond Fund**
- **Templeton Emerging Markets Bond Fund**
- **Templeton Global Balanced Fund**
- **Templeton Global Bond Fund**
- **Templeton Global High Yield Fund**
- **Templeton Global Income Fund**
- **Templeton Global Total Return Fund**

I. Revision to Dividend Payment Period of A (Ydis) shares

With effect from 10 December 2010, it is anticipated that distributions in respect of A (Ydis) shares will be made, under normal circumstances, in July or August each year, instead of July only.

II. Revision to Fee Payable to Franklin Templeton International Services S.A.

With effect from 1 January 2011, the methodology applied to the calculation of the remuneration of Franklin Templeton International Services S.A., in its respective capacities as Registrar and Transfer, Corporate, Domiciliary and Administrative Agent ("**FTIS**"), will be modified by reducing the fixed amount levied on shareholder accounts from USD50 per shareholder account to USD30 per shareholder account at the relevant Class level over a one (1) year period* and adding an annual fee of 0.0175% of the net asset value of the Company. This is on top of the annual fee of 0.20% of the net asset value of the Company that FTIS now receives.

FTIS is not expected to receive more fees as a result of this change.

* For example, if the account is open for one month, the Company will pay FTIS USD$30/12 for that account for that month.

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III. **Revisions to Investment Objectives and Policies**

A. Franklin Mutual Global Discovery Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's investment objective is capital appreciation.
>
> The Fund pursues its objective principally through investments in common stock, preferred stock and debt securities convertible or expected to be convertible into common or preferred stock of companies of any nation as well as in sovereign debts and participations in foreign government debts that the Investment Manager believes are available at market prices less than their value based on certain recognised or objective criteria (intrinsic value). The Fund primarily invests in mid- and large-cap companies with a market capitalisation around or greater than 1.5 billion US dollars.
>
> The Fund may also seek to invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations or as to which there exist tender or exchange offers, and may participate in such transactions. To a lesser extent, the Fund may also purchase debt securities, both secured and unsecured, of companies involved in reorganisation or financial restructuring.
>
> The Investment Manager may take temporary defensive cash position when it believes the securities trading markets or the economies of countries where the Fund invests are experiencing excessive volatility, a prolonged general decline or other adverse conditions.
>
> The Fund may invest in financial derivative instruments, which may include, but are not limited to, futures, options, contracts for difference, forward contracts on financial instruments and options on such contracts, swaps such as credit default swaps, synthetic equity swaps or total return swaps. The Fund may, through the use of financial derivative instruments, hold covered short positions provided that the long positions held by the Fund be sufficiently liquid to cover, at any time, its obligations resulting from its short positions.
>
> Investments in low-rated and non-investment grade securities and financial derivative instruments are subject to a higher degree of risk as described in the section "Risk Considerations". The base currency of the Fund is US dollar.
>
> The Fund is suitable for investors seeking capital appreciation by investing in undervalued companies worldwide and planning to hold their investments for medium to long term."

The market capitalisation threshold for investment in mid- and large-cap companies will thus be reduced from 5 billion US dollars to 1.5 billion US dollars to achieve the investment objectives of the Fund.

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter.

The main risks of investing in Franklin Mutual Global Discovery Fund include the following:-

- Class hedging risk
- Counterparty risk
- Credit risk

- Defaulted debt securities risk
- Derivative risk
- Equity risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Restructuring companies risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

B. Templeton Asian Bond Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation and currency gains.
>
> The Fund seeks to achieve its objective by investing principally in a portfolio of fixed and floating rate debt securities and debt obligations issued by government and government-related issuers, and/or corporate entities located throughout Asia. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security, or is linked to assets or currencies of any Asian country. The Fund may also purchase mortgage and asset- backed securities and convertible bonds. The Fund may invest in investment grade and non-investment grade debt securities issued by Asian issuers including securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency, and it may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation. The Fund may also participate in mortgage dollar roll transactions.
>
> The Fund may invest up to 33% of its total assets, either directly or through the use of financial derivative instruments, in fixed and floating rate debt securities and debt obligations issued by government and government- related issuers or corporate entities located outside of Asia which are impacted by economic or financial dynamics in Asia.
>
> Investments in Emerging Market countries, financial derivative instruments, in non-investment grade debt securities, in securities in default and in mortgage- and asset- backed securities are subject to a higher degree of risk, as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

> The Fund is suitable for investors seeking total investment return consisting of interest income, capital appreciation and currency gains by investing primarily in debt securities of issuers located throughout Asia and planning to hold their investments for medium to long term."

The Fund may thus purchase fixed income securities and debt obligations denominated in any currency, and it may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation.

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter.

The main risks of investing in Templeton Asian Bond Fund include the following:-

- Class hedging risk
- Counterparty risk
- Credit risk
- Credit-linked securities risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Mortgage- and asset-backed securities risk
- Swap agreements risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

C. Templeton Emerging Markets Bond Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's investment objective is to maximise, consistent with prudent investment management, total investment return, consisting of a combination of interest income, capital appreciation and currency gains.
>
> The Fund seeks to achieve its objective by investing principally in a portfolio of fixed and floating rate debt securities* and debt obligations issued by government and government-related issuers or corporate entities located in developing or emerging market countries. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security

or is linked to assets or currencies of any developing or emerging market country. In addition, the Fund may purchase preferred stock, common stock and other equity linked securities, warrants, and debt securities exchangeable or convertible into common stock and denominated in any currency. The Fund may hold up to 10% of its total net assets in securities in default. The Fund may purchase fixed income securities, debt obligations and equity securities denominated in any currency.

The Fund may invest up to 33% of its total assets, either directly or through the use of financial derivative instruments, in fixed and floating rate debt securities and debt obligations issued by government and government- related issuers or corporate entities located outside of developing or Emerging Market countries which are impacted by economic or financial dynamics in developing or emerging market countries.

Investments in Emerging Market countries, financial derivative instruments, non- investment grade debt securities and securities in default are subject to a higher degree of risk, as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking potentially above-average levels of income and capital appreciation by investing in Emerging Markets fixed income securities and planning to hold their investments for medium to long term.

*including non- investment grade debt securities"

The Fund may thus maximise total investment return, consisting of a combination of interest income, capital appreciation and currency gains. The Fund may also thus invest up to 33% of its total assets, either directly or through the use of financial derivative instruments, in fixed and floating rate debt securities and debt obligations issued by government and government- related issuers or corporate entities located outside of developing or Emerging Market countries which are impacted by economic or financial dynamics in developing or emerging market countries.

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter.

The main risks of investing in Templeton Emerging Markets Bond Fund include the following:-

- Counterparty risk
- Credit risk
- Credit-linked securities risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Equity risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Mortgage- and asset-backed securities risk
- Swap agreements risk
- Warrants risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

D. Templeton Global Balanced Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's investment objective is to seek capital appreciation and current income, consistent with prudent investment management, by investing principally in equity securities and government debt securities issued by entities throughout the world, including Emerging Markets.
>
> The Investment Manager anticipates that the majority of the Fund's portfolio is normally invested in equity or equity- linked securities, including debt or preferred stock convertible or exchangeable into equity securities, selected principally on the basis of their capital growth potential. The Fund seeks income by investing in fixed or floating rate debt securities and debt obligations issued by government and government- related issuers or corporate entities worldwide. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may purchase equities, fixed income securities and debt obligations. Notwithstanding the foregoing, at no time will the Investment Manager invest more than 40% of the Fund's total net assets into fixed income securities.
>
> Investments in Emerging Markets countries are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.
>
> The Fund is suitable for investors seeking a combination of capital appreciation and a level of income and seeking to access a portfolio of both equity and fixed income securities via a single fund. It is suitable for investors planning to hold their investments for medium to long term."

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter. The changes do not represent any alteration or deviation from the existing process, philosophy or investment strategy of the Fund.

The main risks of investing in Templeton Global Balanced Fund include the following:-

- Class hedging risk
- Counterparty risk
- Credit risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Equity risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

E. Templeton Global Bond Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation and currency gains.
>
> The Fund seeks to achieve its objective by investing principally in a portfolio of fixed or floating rate debt securities* and debt obligations issued by government or government-related issuers worldwide. The Fund may also, in accordance with the investment restrictions, invest in debt securities* of corporate issuers. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency or credit. The Fund may also invest in securities or structured products where the security is linked to or derives its value from another security or is linked to assets or currencies of any country. The Fund may hold up to 10% of its total net assets in securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency, and may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation.
>
> Investments in Emerging Market countries, in financial derivatives instruments, in non-investment grade securities and securities in default are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.
>
> The Fund is suitable for investors seeking to maximize total investment return consisting of a combination of interest income, capital appreciation and currency gains and planning to hold their investments for medium to long term.
>
> *including non- investment grade securities"

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter. The changes do not represent any alteration or deviation from the existing process, philosophy or investment strategy of the Fund.

The main risks of investing in Templeton Global Bond Fund include the following:-

- Class hedging risk
- Counterparty risk
- Credit risk
- Credit-linked securities risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk

- Low-rated or non-investment grade securities risk
- Market risk
- Mortgage- and asset-backed securities risk
- Swap agreements risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

F. Templeton Global High Yield Fund

With effect from 10 December 2010, the investment objectives and policies of the Fund will be revised and restated as follows:-

> "The Fund's principal investment objective is to earn a high level of current income. As a secondary objective, the Fund seeks capital appreciation, but only when consistent with its principal objective.
>
> The Fund invests principally in debt securities* of issuers globally, including those in Emerging Markets. For the purpose of this Fund, debt securities shall include all varieties of fixed and floating rate income securities (including bank loans through regulated investment funds subject to the limits indicated below), bonds, mortgage and other asset- backed securities and convertible securities. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency or credit. In addition, the Fund may invest in equity securities, credit- linked securities and money- market instruments and may seek exposure to floating rate loans through regulated investment funds. The Fund may invest up to 10% of its net assets in units of UCITS and other UCIs and up to 10% of its total assets in securities in default.
>
> Investments in Emerging Market countries, in financial derivative instruments, mortgage or asset-backed securities, non- investment grade securities and securities in default are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.
>
> The Fund is suitable for investors seeking a high level of income and prospects of capital appreciation and seeking to access a portfolio of high yield debt securities from issuers worldwide. It is suitable for investors planning to hold their investments for medium to long term.
>
> *including non- investment grade securities"

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter. The changes do not represent any alteration or deviation from the existing process, philosophy or investment strategy of the Fund.

The main risks of investing in Templeton Global High Yield Fund include the following:-

- Counterparty risk
- Credit risk
- Credit-linked securities risk

- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Restructuring companies risk
- Warrants risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

G. Templeton Global Income Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's investment objective is to maximize current income while maintaining prospects for capital appreciation.
>
> Under normal market conditions, the Fund invests in a diversified portfolio of debt and equity securities worldwide. The Fund seeks income by investing in a portfolio of fixed and floating rate debt securities and debt obligations issued by government and government- related issuers or corporate entities worldwide, including in Emerging Markets, as well as stocks the Investment Manager believes offer attractive dividend yields. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may invest in investment grade and non- investment grade debt securities issued by US and non-US issuers including securities in default. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency or credit. The Fund may invest up to 10% of its net assets in units of UCITS and other UCIs. The Fund may invest in fixed or floating rate debt securities either directly or through regulated investment funds (subject to the limits indicated above). The Investment Manager may take temporary defensive cash position when it believes the securities trading markets or the economies of countries where the Fund invests are experiencing excessive volatility or prolonged general decline or other adverse conditions.
>
> Investments in Emerging Market countries, financial derivative instruments, non- investment grade securities, and securities in default are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.
>
> The Fund is suitable for investors seeking a combination of current income and capital appreciation from a portfolio of both equity and fixed income securities via a single fund and planning to hold their investments from the medium to long term."

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter. The changes do not represent any alteration or deviation from the existing process, philosophy or investment strategy of the Fund.

The main risks of investing in Templeton Global Income Fund include the following:-

- Counterparty risk
- Credit risk
- Credit-linked securities risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Equity risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Mortgage- and asset-backed securities risk
- Swap agreements risk

Please refer to the Appendix II attached to this letter for a summary of the risk factors listed above. Further details of the relevant risk considerations are provided in the Hong Kong Explanatory Memorandum.

H. Templeton Global Total Return Fund

With effect from 10 December 2010, the investment objective and policies of the Fund will be revised and restated as follows:-

> "The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation, and currency gains.
>
> The Fund seeks to achieve its objective by investing principally in a portfolio of fixed and/or floating rate debt securities and debt obligations issued by government and government-related issuers or corporate entities worldwide. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, currency, or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security or is linked to assets or currencies of any country. The Fund may also purchase mortgage and asset- backed securities and convertible bonds. The Fund may invest in investment grade and non- investment grade debt securities issued by US and non-US issuers including securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency and may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation. The Fund may also invest up to 10% of its net assets in units of UCITS and other UCIs. The Fund may also participate in mortgage dollar roll transactions.

In order to effectively manage cash flows in or out of the Fund, the Fund may buy and sell financial futures contracts or options on such contracts. The Fund may use futures contracts on US Treasury securities to help manage risks relating to interest rates and other market factors, to increase liquidity, and to quickly and efficiently cause new cash to be invested in the securities markets or, if cash is needed to meet shareholder redemption requests, to remove Fund assets from exposure to the market. On an ancillary basis, the Fund may gain exposure to debt market indexes by investing in index- based financial derivatives and credit default swaps.

Investments in Emerging Market countries, financial derivative instruments, non- investment grade debt securities, securities in default, and mortgage- and asset- backed securities are subject to a higher degree of risk, as more fully described in the Section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking a high level of income and capital preservation, and to lesser extent capital growth and seeking to invest in fixed income securities of any global government or corporate issuers. It is suitable for investors planning to hold their investments for medium to long term."

The Fund may thus purchase fixed income securities and debt obligations denominated in any currency and may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation.

For your ease of comparison, the relevant changes are marked up and set out in the Appendix I attached to this letter.

The main risks of investing in Templeton Global Total Return Fund include the following:-

- Class hedging risk
- Counterparty risk
- Credit risk
- Credit-linked securities risk
- Defaulted debt securities risk
- Derivative risk
- Emerging markets risk
- Foreign currency risk
- Interest rate securities risk
- Liquidity risk
- Low-rated or non-investment grade securities risk
- Market risk
- Mortgage- and asset-backed securities risk
- Mortgage dollar roll risk
- Swap agreements risk

Please refer to the Appendix II attached to this letter for a description of the risk factors listed above. Further details of the relevant risk considerations are available in the Hong Kong Explanatory Memorandum.

* * * * * *

If you do not agree with the above changes in respect of the Franklin Mutual Global Discovery Fund, the Templeton Asian Bond Fund, the Templeton Emerging Markets Bond Fund and the Templeton Global Total Return Fund, you may request, free of charge until 4 p.m. 9 December 2010 (Hong Kong time), the exchange of your shares of these four Funds into shares of other funds of the Company, details of which are disclosed in the Hong Kong Explanatory Memorandum.

The Company comprises a wide range of funds catering for many different objectives. Exchanges of your existing holding may be made into other SFC-authorised funds within the Company. On receipt of your instruction in respect of the Franklin Mutual Global Discovery Fund, the Templeton Asian Bond Fund, the Templeton Emerging Markets Bond Fund and the Templeton Global Total Return Fund, we will execute the exchange for you in accordance with the provisions of the Hong Kong Explanatory Memorandum, free of any charge.

If you do not wish to exchange your shares and would like to redeem and receive a cash payment, the redemption will be made in accordance with the provisions of the Hong Kong Explanatory Memorandum. Please send your instructions to the Hong Kong Representative at 17/F, Chater House, 8 Connaught Road Central, Hong Kong. Please note that should you decide to redeem any shares subject to a contingent deferred sales charge ("CDSC"), such redemption will be subject to the applicable CDSC as more fully disclosed in the Hong Kong Explanatory Memorandum of the Company.

You should consult your professional advisers as to the possible tax or other consequences of buying, holding, transferring or selling any of the Company's shares affected by the changes described above, under the laws of your country of citizenship, residence and domicile.

* * * * * *

The investment managers of the Company and the Directors of the Company accept full responsibility for the accuracy of the information contained in this letter as at the date of its publication and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.

If you require further information please do not hesitate to contact your investment consultant or call our Investor Hotline on +852 2829 0600.

Yours faithfully,

For and on behalf of
Franklin Templeton Investments (Asia) Limited

David Chang
Director

Appendix I

Below is the marked-up version of the revised investment objectives and policies for the Funds:

A. Franklin Mutual Global Discovery Fund

"The Fund's investment objective is capital appreciation.

The Fund pursues its objective principally through investments in common stock, preferred stock and debt securities convertible or expected to be convertible into common or preferred stock of companies of any nation as well as in sovereign debts and participations in foreign government debts that the Investment Manager believes are available at market prices less than their value based on certain recognised or objective criteria (intrinsic value). The Fund ~~generally~~ primarily invests in mid- and large-cap companies with a market capitalisation around or greater than ~~5~~ 1.5 billion US dollars.

The Fund may also seek to invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations or as to which there exist tender or exchange offers, and may participate in such transactions. To a lesser extent, the Fund may also purchase debt securities, both secured and unsecured, of companies involved in reorganisation or financial restructuring.

The Investment Manager may take temporary defensive cash position when it believes the securities trading markets or the economies of countries where the Fund invests are experiencing excessive volatility, a prolonged general decline or other adverse conditions.

The Fund may invest in financial derivative instruments, which may include, but are not limited to, futures, options, contracts for difference, forward contracts on financial instruments and options on such contracts, swaps such as credit default swaps, synthetic equity swaps or total return swaps. The Fund may, through the use of financial derivative instruments, hold covered short positions provided that the long positions held by the Fund be sufficiently liquid to cover, at any time, its obligations resulting from its short positions.

Investments in low-rated and non-investment grade securities and financial derivative instruments are subject to a higher degree of risk as described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking capital appreciation by investing in undervalued companies worldwide and planning to hold their investments for medium to long term."

B. Templeton Asian Bond Fund

"The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation and currency gains.

~~Under normal market conditions, the~~ The Fund seeks to achieve its objective by investing principally ~~invests~~ in a portfolio of fixed and floating rate debt securities and debt obligations issued by ~~of~~ governments~~s~~ and~~/or~~ government- related issuers, and/or corporate entities located throughout Asia. The Fund may also ~~invest in debt securities of corporate issuers and in securities or structured products where the security is linked to or derives its value from another security, assets or currencies of any Asian country. The Fund may~~ purchase debt obligations issued by ~~governments and~~ supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also ~~purchase~~

~~mortgage- and asset-backed securities, convertible bonds, and invest in~~ utilise financial derivative instruments for ~~hedging and~~ investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, ~~or~~ currency or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security or is linked to assets or currencies of any Asian country. The Fund may also purchase mortgage and asset- backed securities and convertible bonds. The Fund may invest in investment grade and non- investment grade debt securities issued by Asian issuers including securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency and it may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation. The Fund may also participate in mortgage dollar roll transactions.

The Fund may invest up to 33% of its total assets, either directly or through the use of financial derivative instruments, in fixed and floating rate debt securities and debt obligations issued by ~~of~~ governments~~,~~ and government-_related issuers or corporate entities ~~issuers~~ located outside of Asia which are impacted by economic or financial dynamics in Asia.

~~The Fund may also participate in mortgage dollar roll transactions.~~ Investments in Emerging Market countries, ~~in~~ financial derivative instruments~~, in mortgage- and asset-backed securities~~, in non-investment grade debt securities ~~as well as~~, in securities in default, and in mortgage- and asset- backed securities are subject to a higher degree of risk, as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking total investment return consisting of interest income, capital appreciation and currency gains by investing primarily in debt securities of issuers located throughout Asia and planning to hold their investments for medium to long term."

C. Templeton Emerging Markets Bond Fund

"The Fund's investment objective is to maximise, consistent with prudent investment management, total investment return, consisting of a combination of interest income ~~and~~, capital appreciation and currency gains.

The Fund seeks to achieve ~~this~~ its objective ~~through a policy of~~ by investing principally in a portfolio of fixed and floating rate debt securities* and debt obligations issued by ~~corporations, governments or~~ government and government- related issuers or corporate entities ~~of~~ located in developing or emerging ~~nations~~ market countries~~, including Brady bonds (issued as a result of an exchange for previously defaulted bank debt), and~~. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments~~. In addition, the Fund may purchase preferred stock, common stock and other equity linked securities, warrants, and debt securities exchangeable or convertible into common stock. The Fund may hold up to 10% of its total net assets in securities in default.~~, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise financial derivative instruments for investment purposes ~~and invest in securities or structured products linked to assets or currencies in any developing or emerging nation~~. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration, ~~or~~ currency or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security, or is linked to assets or currencies of any developing or emerging market country. In addition, the Fund may purchase preferred stock, common stock and other equity linked securities, warrants, and debt securities exchangeable or convertible into common stock and denominated in any currency. The Fund may hold up to 10% of its total net assets in securities in default. The Fund may purchase fixed income securities, ~~and~~ debt obligations and equity securities ~~the Fund invests in may be~~ denominated in any currency.

The Fund may invest up to 33% of its total assets, either directly or through the use of financial derivative instruments, in fixed and floating rate debt securities and debt obligations issued by government, government- related issuers, or corporate entities located outside of developing or Emerging Market countries which are impacted by economic or financial dynamics in developing or emerging market countries.

Investments in ~~securities in default, in financial derivative instruments, and in~~ Emerging Market countries, financial derivative instruments, non- investment grade debt securities and securities in default are subject to a higher degree of risk, as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking potentially above-average levels of income and capital appreciation by investing in Emerging Markets fixed income securities and planning to hold their investments for medium to long term.

*including non- investment grade debt securities"

D. Templeton Global Balanced Fund

"The Fund's investment objective is to seek capital appreciation and current income, consistent with prudent investment management, by investing principally in equity securities and government debt securities issued by entities throughout the world, including Emerging Markets.

The Investment Manager anticipates that the majority of the Fund's portfolio is normally invested in equity or equity- linked securities, including debt or preferred stock convertible or exchangeable into equity securities, selected principally on the basis of their capital growth potential. The Fund seeks income by investing in fixed or floating rate debt securities and debt obligations ~~of~~ issued by government~~,~~ and government- related issuers ~~and~~ or corporate ~~issuers in countries around the world, including~~ entities worldwide. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, ~~(~~such as the International Bank for Reconstruction and Development or the European Investment Bank~~)~~. The Fund may purchase equities, fixed income securities and debt obligations. Notwithstanding the foregoing, at no time will the Investment Manager invest more than 40% of the Fund's total net assets into fixed income securities.

Investments in Emerging Market~~s~~ countries are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking a combination of capital appreciation and a level of income and seeking to access a portfolio of both equity and fixed income securities via a single fund. It is suitable for investors planning to hold their investments for medium to long term."

E. Templeton Global Bond Fund

"The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation and currency gains.

The Fund seeks to achieve its objective by investing principally in a portfolio of fixed or floating rate debt securities* and debt obligations ~~of~~ issued by government or government- related issuers worldwide. The Fund may also, in accordance with the investment restrictions, invest in debt securities* of corporate issuers~~, securities or structured products linked to assets or currencies of any nation~~. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. ~~The Fund may hold up to 10% of its total net assets in securities in default.~~ The Fund may also utilise financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative exposures in a specific yield curve/duration~~, or~~ currency or credit. The Fund may ~~purchase US dollar and non-US dollar denominated~~ also invest in securities or structured products where the security is linked to or derives its value from another security, or is linked to assets or currencies of any country. The Fund may hold up to 10% of its total net assets in securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency, and may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation.

Investments in Emerging Market~~s~~ countries, in financial derivatives instruments, ~~in securities in default and~~ in non- investment grade securities, and securities in default are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking to maximize total investment return consisting of a combination of interest income, capital appreciation and currency gains and planning to hold their investments for medium to long term.

*including non- investment grade securities"

F. Templeton Global High Yield Fund

"The Fund's principal investment objective is to earn a high level of current income. As a secondary objective, the Fund seeks capital appreciation, but only when consistent with its principal objective.

The Fund invests principally in debt securities* of issuers globally, including those in Emerging Markets. For the purpose of this Fund, debt securities shall include all varieties of fixed and floating rate income securities (including bank loans through regulated investment funds subject to the limits indicated below), bonds, mortgage and other asset- backed securities and convertible securities. The Fund may also utilise financial derivative instruments for investment purposes~~, which~~. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of ~~the~~ financial derivative instruments may result in negative exposures in a specific yield curve/duration~~ or~~, currency or credit. In addition, the Fund may invest in equity securities, credit- linked securities and money-market instruments and may seek exposure to floating rate loans through regulated investment funds. The Fund may invest up to 10% of its net assets in units of UCITS and other UCIs and up to 10% of its total assets in securities in default.

Investments in Emerging Market~~s~~ countries, in financial derivative instruments, ~~in~~ mortgage or asset-backed securities, ~~in securities in default and in~~ non- investment grade securities and securities in default are subject to a higher degree of risk as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking a high level of income and prospects of capital appreciation and seeking to access a portfolio of high yield debt securities from issuers worldwide. It is suitable for investors planning to hold their investments for medium to long term.

*including non- investment grade securities"

G. Templeton Global Income Fund

"The Fund's investment objective is to maximise current income while maintaining prospects for capital appreciation.

Under normal market conditions, the Fund invests in a diversified portfolio of debt and equity securities worldwide. The Fund seeks income by investing in a portfolio of fixed and floating rate debt securities and debt obligations ~~of~~ issued by government~~s~~, and government- related issuers or corporate ~~issuers~~ entities worldwide, including in Emerging Markets, as well as stocks the Investment Manager believes offer attractive dividend yields. ~~In particular, the~~ The Fund may also purchase debt obligations issued by ~~governments and~~ supranational entities organised ~~and~~ or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may invest in investment grade and non- investment grade debt~~s~~ securities issued by US and non-US issuers including securities in default. The Fund may also utilise financial derivative instruments for investment purposes~~, which~~. These financial derivative instruments may be dealt either in regulated markets or over- the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of ~~these~~ financial derivative instruments may result in negative exposures in a specific yield curve/duration ~~or~~, currency or credit. The Fund may invest up to 10% of its net assets in units of UCITS and other UCIs. The Fund may invest in fixed or floating rate debt securities either directly or through regulated investment funds (subject to the limits indicated above). The Investment Manager may take temporary defensive cash position when it believes the securities trading markets or the economies of countries where the Fund invests are experiencing excessive volatility or prolonged general decline or other adverse conditions.

Investments in Emerging Market~~s~~ countries, financial derivative instruments, non- investment grade securities, and ~~in~~ securities in default are subject to a higher degree of risk, as more fully described in the section "Risk Considerations". The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking a combination of current income and capital appreciation from a portfolio of both equity and fixed income securities via a simple fund and planning to hold their investments from the medium to long term."

H. Templeton Global Total Return Fund

"The Fund's principal investment objective is to maximise, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation, and currency gains. ~~Under normal market conditions, the Fund invests~~

The Fund seeks to achieve its objective by investing principally in a portfolio of fixed and/or floating rate debt securities and debt obligations ~~(including convertible bonds) of~~ issued by government~~s~~, and government- related issuers or corporate entities ~~issuers~~ worldwide. The Fund may also purchase debt obligations issued by supranational entities organised or supported by several national governments, such as the International Bank for Reconstruction and Development or the European Investment Bank. The Fund may also utilise~~ as well as in certain ~~financial derivative instruments for investment purposes. These financial derivative instruments may be dealt either in regulated markets or over--the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps), forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of ~~these ~~financial derivative instruments may result in negative exposures in a specific yield curve/duration~~ or~~, currency, or credit. The Fund may also, in accordance with the investment restrictions, invest in securities or structured products where the security is linked to or derives its value from another security~~,~~ or is linked to assets or currencies of any country~~nation. More specifically, the Fund may purchase debt obligations issued by governments and supranational entities organised or supported by several national governments~~. The Fund may also purchase mortgage and asset- backed securities and convertible bonds. The Fund may invest in investment grade and non- investment grade debt securities issued by US and non-US issuers including securities in default. The Fund may purchase fixed income securities and debt obligations denominated in any currency and may hold equity securities to the extent that such securities result from the conversion or exchange of a preferred stock or debt obligation. The Fund may also invest up to 10% of its net assets in units of UCITS and other UCIs. The Fund may also participate in mortgage dollar roll transactions.

In order to effectively manage cash flows in or out of the Fund, the Fund may buy and sell financial futures contracts or options on such contracts. The Fund may use futures contracts on US Treasury securities to help manage risks relating to interest rates and other market factors, to increase liquidity, and to quickly and efficiently cause new cash to be invested in the securities markets or, if cash is needed to meet shareholder redemption requests, to remove Fund assets from exposure to the market. ~~The Fund may also participate in mortgage dollar roll transactions.~~ On an ancillary basis, the Fund may gain exposure to debt market indexes by investing in index- based financial derivatives and credit default swaps.

Investments in Emerging Market countries, financial derivative instruments, ~~in~~ non- investment grade debt securities, ~~ and in ~~securities in default and mortgage- and asset- backed securities are subject to a higher degree of risk, as more fully described in the Section “Risk Considerations”. The base currency of the Fund is US dollar.

The Fund is suitable for investors seeking a high level of income and capital preservation, and to a lesser extent capital growth and seeking to invest in fixed income securities of any global government or corporate issuers. It is suitable for investors planning to hold their investments for medium to long term.”

Appendix II

- **Class hedging risk**

The Company may engage in currency hedging transactions with regards to a certain class of shares (the "Hedged Share Class"). Hedged Share Classes are designed (i) to reduce exchange rate fluctuations between the currency of the Hedged Share Class and the base currency of the Fund or (ii) to reduce exchange rate fluctuations between the currency of the Hedged Share Class and other material currencies within the Fund's portfolio.

The hedging will be undertaken to reduce exchange rate fluctuations in case the base currency of the Fund or other material currencies within the Fund (the "reference currency(ies)") is(are) declining or increasing in value relative to the hedged currency.

No assurance can be given that the hedging objective will be achieved.

Investors should be aware that the hedging strategy may substantially limit shareholders of the relevant Hedged Share Class from benefiting from any potential increase in value of the share class expressed in the reference currency (ies), if the Hedged Share Class currency falls against the reference currency(ies). Additionally, shareholders of the Hedged Share Class may be exposed to fluctuations in the net asset value per share reflecting the gains/losses on and the costs of the relevant financial instruments. The gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant Hedged Share Class.

- **Counterparty risk**

When over-the-counter (OTC) or other bilateral contracts are entered into (inter alia OTC derivatives, repurchase agreements, security lending etc.) the Company may find itself exposed to risks arising from the solvency of its counterparties and from their ability to respect the conditions of these contracts. The Company is exposed to the risk that the counterparty will fail to respect its commitments under the term of each contract.

- **Credit Risk**

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due. Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields. Generally, government securities are considered to be the safest in terms of credit risk, while corporate debt, especially those with poorer credit ratings, have the highest credit risk. Changes in the financial condition of an issuer, changes in economic and political conditions specific to an issuer, are all factors that may have an adverse impact on an issuer's credit quality and security values.

- **Credit-linked Securities Risk**

Credit-linked securities are debt securities that represent an interest in a pool of, or are otherwise collateralised by one or more corporate debt obligations or credit default swaps incorporated debt or bank loan obligations. Such debt obligations may represent the obligations of one or more corporate issuers. The Fund has the right to receive periodic interest payments from the issuer of the credit-linked security (usually the seller of the underlying credit default swap(s)) at an agreed-upon interest rate, and a return of principal at the maturity date.

The Fund bears the risk of loss of its principal investment, and the periodic interest payments expected to be received for the duration of its investment in the credit-linked security, in the event that one or more of the debt obligations underlying the credit default swaps go into default or otherwise become non-performing.

In addition, the Fund bears the risk that the issuer of the credit-linked security will default or become bankrupt. In such an event, the Fund may have difficulty being repaid, or fail to be repaid, the principal amount of its investment and the remaining periodic interest payments thereon.

The market for credit-linked securities may suddenly become illiquid, and the Fund could experience difficulty in selling such security at a price the Investment Manager believes is fair.

- **Defaulted Debt Securities Risk**

Some Funds may invest in debt securities on which the issuer is not currently making interest payments (defaulted debt securities). These Funds may buy defaulted debt securities if, in the opinion of the investment manager, it appears likely that the issuer may resume interest payments or other advantageous developments appear likely in the near future. These securities may become illiquid.

The risk of loss due to default may also be considerably greater with lower-quality securities because they are generally unsecured and are often subordinated to other creditors of the issuer. If the issuer of a security in a Fund's portfolio defaults, the Fund may have unrealised losses on the security, which may lower the Fund's net asset value per share. Defaulted securities tend to lose much of their value before they default. Thus, the Fund's net asset value per share may be adversely affected before an issuer defaults. In addition, the Fund may incur additional expenses if it must try to recover principal or interest payments on a defaulted security.

Included among the issuers of debt securities or obligations in which the Company may invest are entities organised and operated solely for the purpose of restructuring the investment characteristics of various securities or obligations. These entities may be organised by investment banking firms, which receive fees in connection with establishing each entity and arranging for the placement of its securities.

- **Derivative risk**

For the purpose of efficient portfolio management, the Company may, within the context of the Fund's overall investment policy, and within the limits set forth in the investment restrictions applicable to the Fund, engage in certain transactions involving the use of derivative instruments, including; (i) put and call options on securities, debt obligations, indices and currencies (including over-the-counter options); (ii) stock index and interest rate futures contracts and options thereon; (iii) structured products, where the security is linked to or derives its value from another security; and (iv) delayed delivery or when-and-if issued securities such as may be created as a result of a debt restructuring. The Company may engage, within the limits established by the investment restrictions, in various portfolio strategies involving the use of hedging instruments in order to hedge against market and currency risks. If the Fund intends to engage in transactions involving the use of derivative instruments as part of its investment strategy, rather than on an occasional basis, this will be described in the investment objective of such Fund.

- **Emerging Markets Risk**

All Fund investments in the securities issued by corporations, governments, and public-law entities in different nations and denominated in different currencies involve certain risks. These risks are typically increased in developing countries and emerging markets. Such risks, which can have adverse effects on portfolio holdings, may include: (i) investment and repatriation restrictions; (ii) currency fluctuations; (iii) the potential for unusual market volatility as compared to more industrialised nations; (iv) government involvement in the private sector; (v) limited investor information and less stringent investor disclosure requirements; (vi) shallow and substantially smaller liquid securities markets than in more industrialised countries, which means a Fund may at times be unable to sell certain securities at desirable prices; (vii) certain local tax law considerations; (viii) limited regulation of the securities markets; (ix) international and regional political and economic developments; (x) possible imposition of exchange controls or other local governmental laws or restrictions; (xi) the increased risk of adverse effects from deflation and inflation; (xii) the possibility of limited legal recourse for the Fund; and (xiii) the custodial and/or the settlement systems may not be fully developed.

Investors in Funds investing in Emerging Markets should in particular be informed that the liquidity of securities issued by corporations and public-law entities in Emerging Markets may be substantially smaller than with comparable securities in industrialised countries.

- **Equity risk**

The value of all Funds that invest in equity and equity related securities will be affected by economic, political, market, and issuer specific changes. Such changes may adversely affect securities, regardless of company specific performance. Additionally, different industries, financial markets, and securities can react differently to these changes. Such fluctuations of the Fund’s value are often exacerbated in the short-term as well. The risk that one or more companies in a Fund’s portfolio will fall, or fail to rise, can adversely affect the overall portfolio performance in any given period.

- **Foreign Currency Risk**

Since the Company values the portfolio holdings of each of its Funds in either US dollar, Japanese Yen or Euro, changes in currency exchange rates adverse to those currencies may affect the value of such holdings and each respective Fund's yield thereon.

Since the securities held by a Fund may be denominated in currencies different from its base currency, the Fund may be affected favourably or unfavourably by exchange control regulations or changes in the exchange rates between such reference currency and other currencies. Changes in currency exchange rates may influence the value of a Fund’s shares, and also may affect the value of dividends and interests earned by the Fund and gains and losses realised by said Fund. If the currency in which a security is denominated appreciates against the base currency, the price of the security could increase. Conversely, a decline in the exchange rate of the currency would adversely affect the price of the security.

Funds which use currency management strategies, including the use of cross currency forwards and currency futures contracts, may substantially change the Fund’s exposure to currency exchange rates and could result in losses to the Fund if the currencies do not perform as the Investment Manager expects.

- **Interest Rate Securities Risk**

All Funds that invest in debt securities or money market instruments are subject to interest rate risk. A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Interest rate risk is the chance that such movements in interest rates will negatively affect a security's value or, in a Fund's case, its net asset value. Fixed income securities with longer-term maturities tend to be more sensitive to interest rate changes than shorter-term securities.

- **Liquidity risk**

Reduced liquidity may have an adverse impact on market price and the Company's ability to sell particular securities when necessary to meet the Company's liquidity needs or in response to a specific economic event such as the deterioration in the creditworthiness of an issuer.

- **Low-Rated or non-investment grade securities risk**

Some Funds may invest in higher-yielding securities rated lower than investment grade. Accordingly, an investment in these Funds is accompanied by a higher degree of credit risk. Below investment grade securities such as, for example, high yield debt securities, may be considered a high risk strategy and can include securities that are unrated and/or in default. Lower-quality, higher-yielding securities may also experience greater price volatility when compared to higher-quality, lower-yielding securities. Additionally, default rates tend to rise for companies with poorer rated securities during economic recessions or in times of higher interest rates. Companies issuing high yield debt securities are not as strong financially and their low creditworthiness may increase the potential for their insolvency. The companies are more likely to encounter financial difficulties and are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates that could affect their ability to make interest and/or principal payments.

- **Market risk**

This is a general risk which affects all types of investment. Price trends are determined mainly by financial market trends and by the economic development of the issuers, who are themselves affected by the overall situation of the global economy and by the economic and political conditions prevailing in each country. Because the securities the Fund holds fluctuate in price, the value of investments in the Fund will go up and down. An investor may not get back the amount invested.

- **Mortgage- and asset-backed securities risk**

Some Funds may invest in mortgage- and asset-backed securities. Mortgage-backed securities differ from conventional debt securities because principal is paid back over the life of the security rather than at maturity. The Fund may receive unscheduled prepayments of principal before the security's maturity date due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. To the Fund this means a loss of anticipated interest, and a portion of its principal investment represented by any premium the Fund may have paid. Mortgage prepayments generally increase when interest rates fall.

Mortgage-backed securities also are subject to extension risk. An unexpected rise in interest rates could reduce the rate of prepayments on mortgage-backed securities and extend their life. This could cause the price of the mortgage-backed securities to be more sensitive to interest rate changes. Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Like mortgage-backed securities, asset-backed securities are subject to prepayment and extension risks.

- **Mortgage Dollar Roll risk**

Some Funds, especially the Templeton Global Total Return Fund, may engage in mortgage dollar roll transactions. In a mortgage dollar roll, a Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (name, type, coupon, and maturity) securities on a specified future date. During the period between the sale and repurchase (the “roll period”), the Fund foregoes principal and interest paid on the mortgage-backed securities. The Fund is compensated by the difference between the current sales price and the lower forward price for the future purchase (often referred to as the “drop”), as well as by the interest earned on the cash proceeds of the initial sale. The Fund could suffer a loss if the contracting party fails to perform the future transaction and the Fund is therefore unable to buy back the mortgage-backed securities it initially sold. Mortgage dollar rolls will be entered into only with high quality government securities dealers and member banks of the US Federal Reserve System.

Mortgage dollar rolls transactions may (due to the deemed borrowing position involved), increase the Fund's overall investment exposure and result in losses. Mortgage dollar rolls will be considered borrowings for purposes of the Fund's borrowing limitations unless the Fund segregates on its books an offsetting cash position or a position of liquid securities of equivalent value.

- **Restructuring companies risk**

Some Funds, especially the Franklin Mutual Global Discovery Fund and the Templeton Global High Yield Fund may also invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations or as to which there exist tender or exchange offers, and may participate in such transactions; they may also purchase indebtedness and participations therein, both secured and unsecured, of debtor companies engaged in reorganisation or financial restructuring. Such investments also involve greater credit risks.

- **Swap agreements risk**

The Company may enter into interest rate, index and currency exchange rate swap agreements for the purposes of attempting to obtain a particular desired return at a lower cost to the Company than if the Company had invested directly in an instrument that yielded that desired return. Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few days to more than one year. In a standard “swap” transaction, two parties agree to exchange the returns (or differential in rates of return) earned or realised on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount”, ie, the return on or increase in value of a particular US dollar amount invested at a particular interest rate, in a particular foreign currency, or in a “basket” of securities representing a particular index. The “notional amount” of the swap agreement is only a fictive basis on which to calculate the obligations which the parties to a swap agreement have agreed to exchange. The Company's obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the “net amount”).

Whether the Company's use of swap agreements will be successful in furthering its investment objective will depend on the ability of the Investment Managers to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two party contracts and because they may have terms of greater than seven (7) calendar days, swap agreements may be considered to be illiquid. Moreover, the Company bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Investment Managers will cause the Company to enter into swap agreements in accordance with the guidelines set out in the section “Investment Restrictions” in the Hong Kong Explanatory Memorandum.

- **Warrants risk**

Investments in and holding of warrants may result in increased volatility of the net asset value of certain Funds, which may make use of warrants, and accordingly is accompanied by a higher degree of risk.