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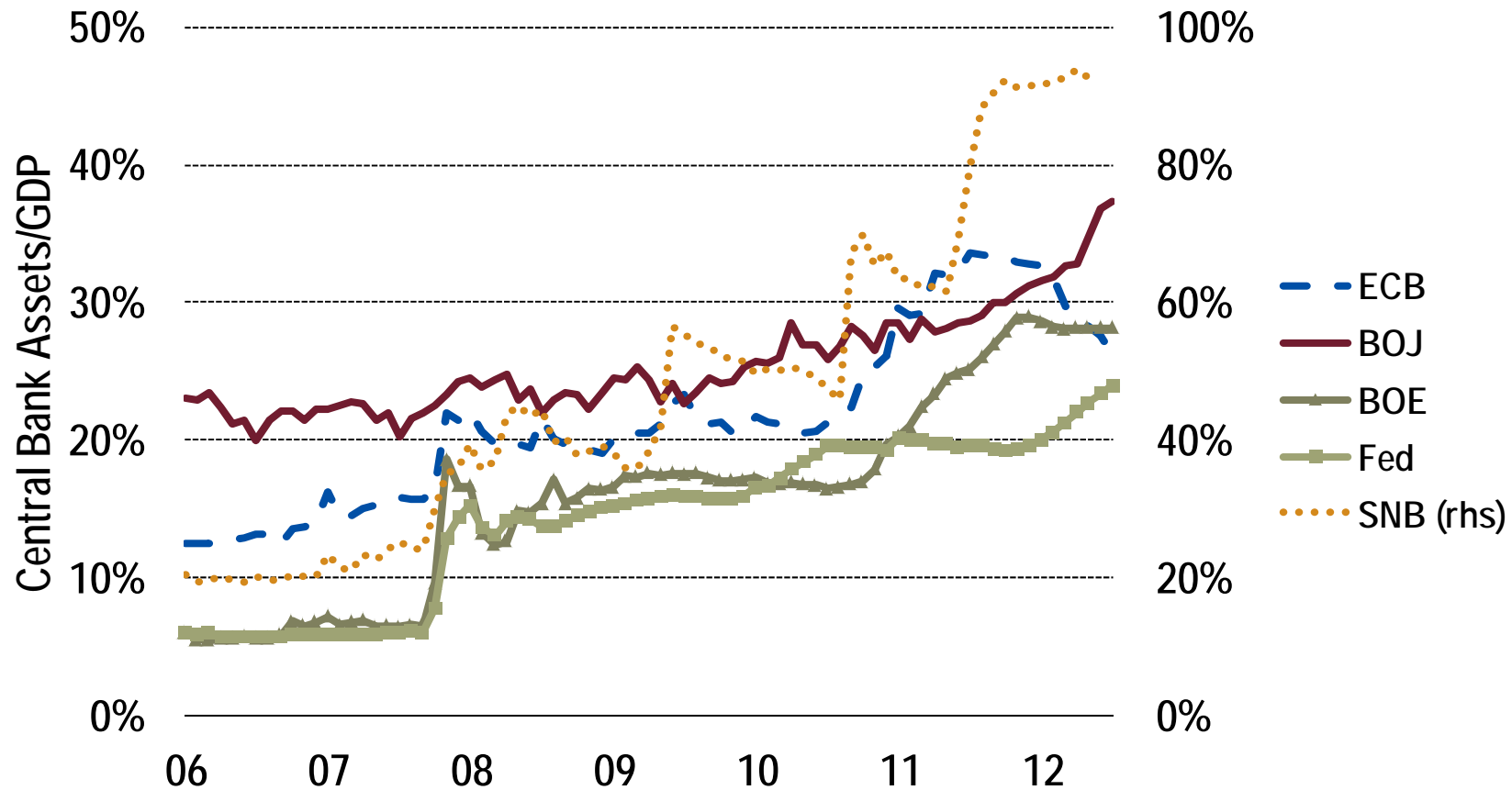
Global Opportunities in a Rising Rate Environment

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Vice President, Senior Product
Manager
Franklin Templeton Fixed Income
Group®

Content

- I. Key Macro Issues
- II. Investment Strategy for Global Fixed Income Investors

Capital Channel: Extraordinary Monetary Policy



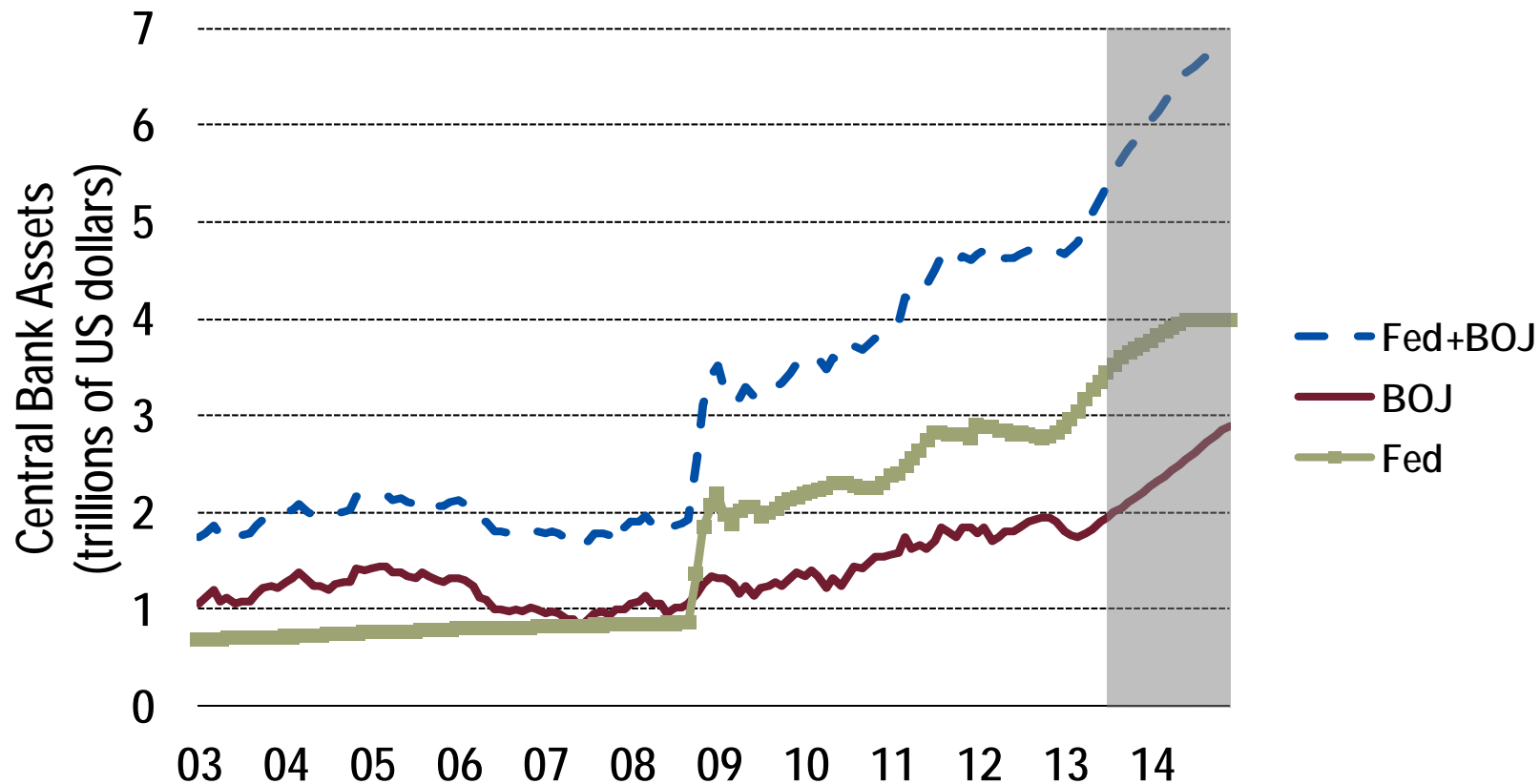
Sources: Federal Reserve, European Central Bank, Bank of England, and Bank of Japan, as of 6/30/2013. Swiss National Bank, as of 5/31/2013. As a percent of 2008 GDP, as of 6/30/2013.

Charts are for illustrative and discussion purposes only.

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No Shortage of Global Liquidity



Sources: Federal Reserve, Bank of Japan, and Franklin Templeton Investments, as of 6/30/2013. Shaded area indicates Franklin Templeton Investments projections starting July 2013. There is no assurance that any projection, estimate or forecast will be realized. Federal Reserve projections assume that the Quantitative Easing program is halved in September 2013 and ends in September 2014. Bank of Japan projections assume that the balance sheet is increased to \$2.2 trillion by the end of 2013 in equal increments each month, and to \$2.9 trillion by the end of 2014 in equal increments each month.

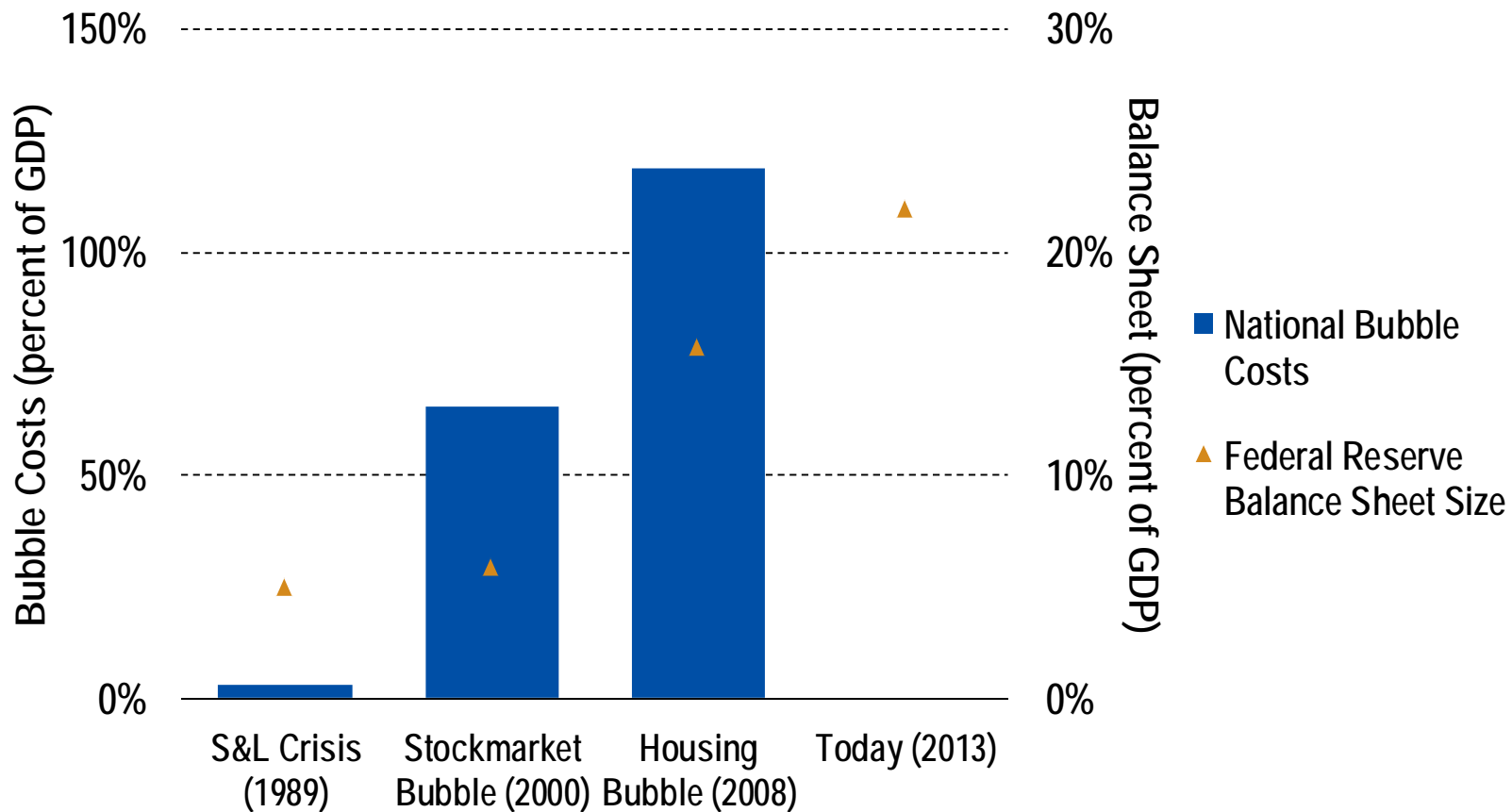
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Fed: Crisis and Response



Savings & Loan Crisis bubble size is estimated by the FDIC as the total cost to private industry and taxpayers. Stockmarket Bubble and Housing Bubble size are estimated by the Financial Crisis Inquiry Commission as the total losses in household net worth. Size of Federal Reserve Balance Sheet during historical bubbles shown at year-end. Data as of June 2013 for Today.

Sources: FDIC, History of the Eighties: Lessons for the Future, Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States, Bureau of Economic Analysis, and the Federal Reserve, as of 6/30/2013.

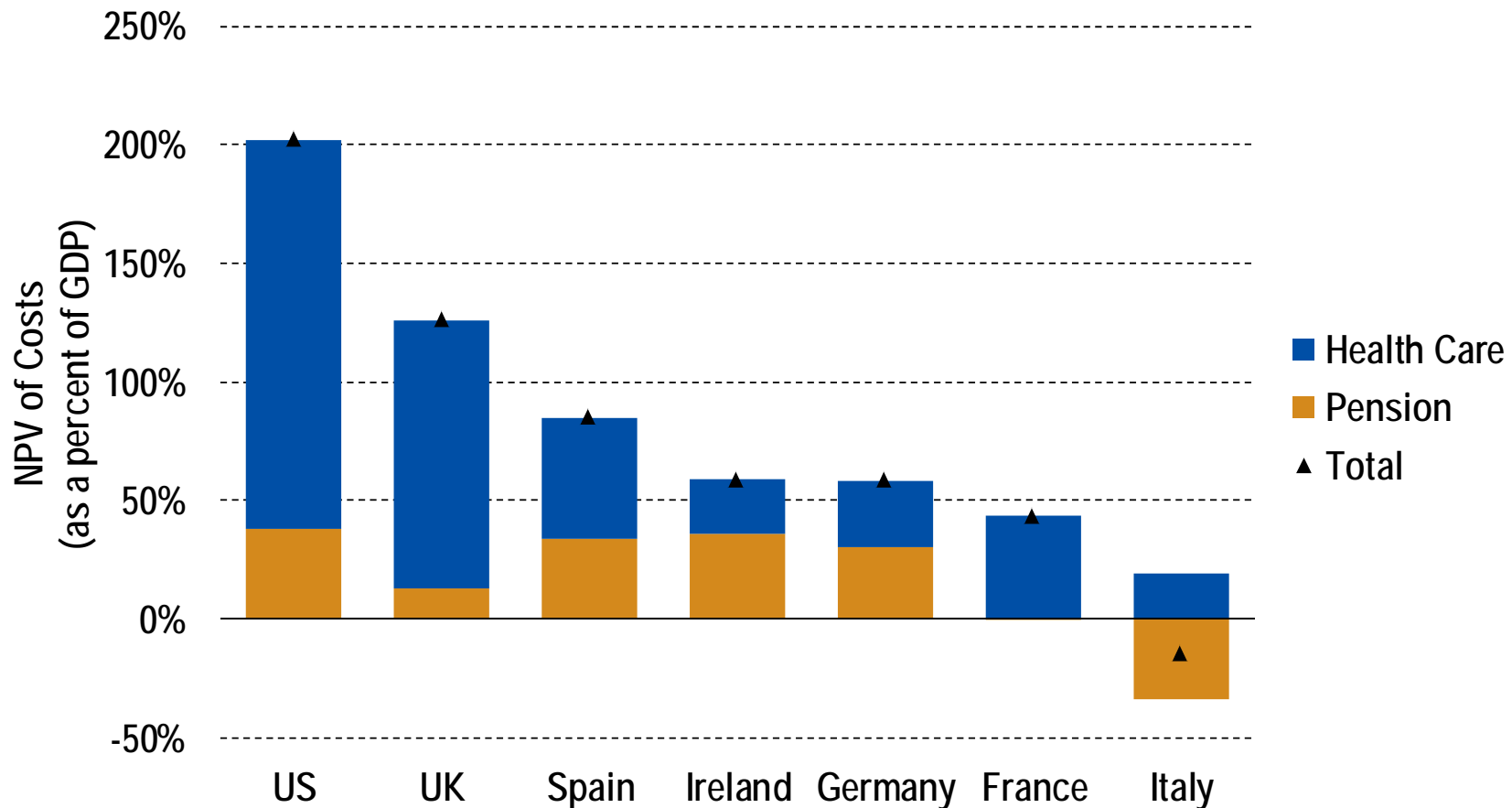
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Funding Gaps



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Sources: Copyright © 2012, International Monetary Fund, Fiscal Monitor, April 2012.

IMF Projections over 2010-2050 period, as of April 2012. Note that data does not take into account reforms enacted after December 2011.

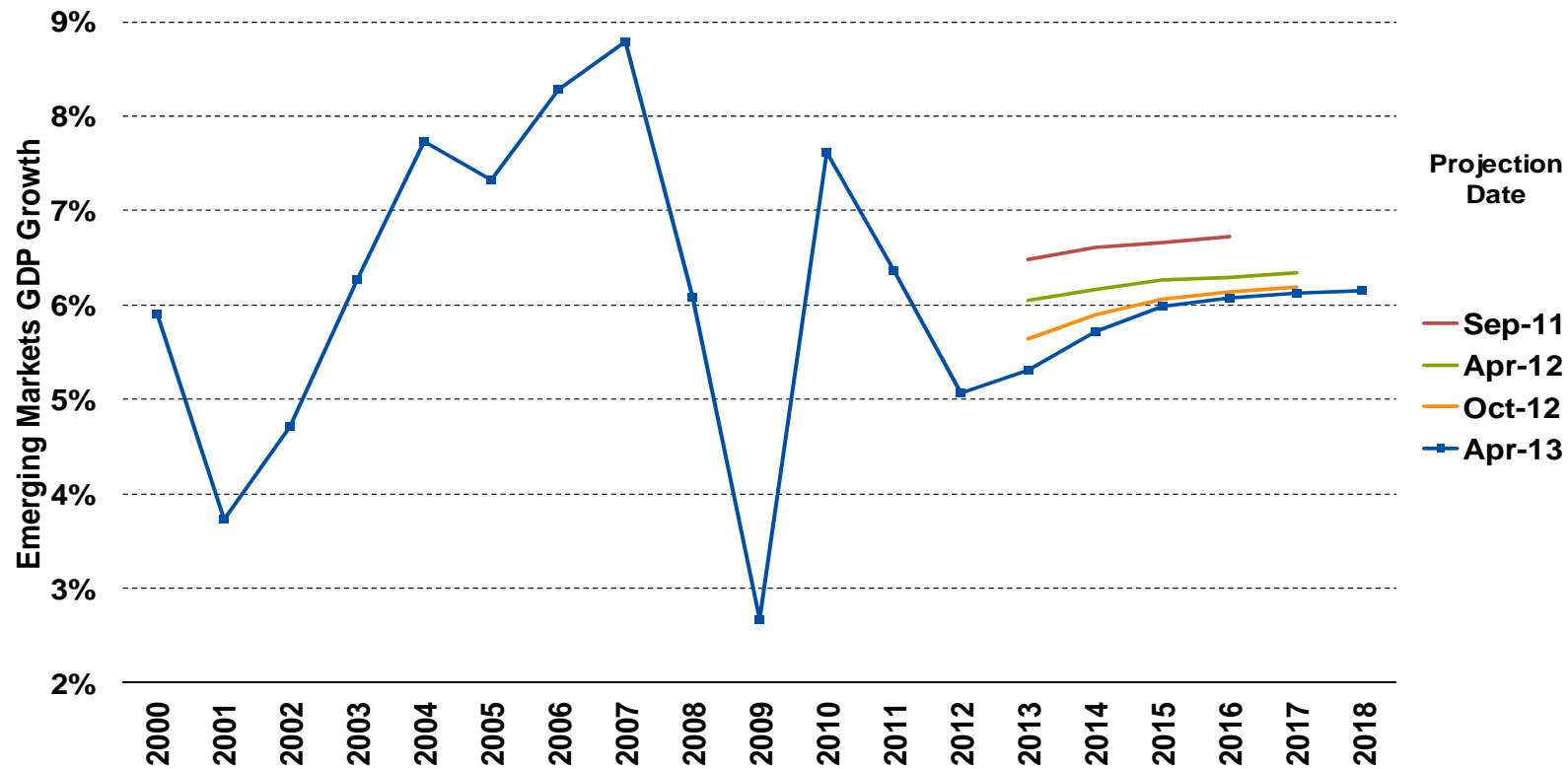
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Revisions to IMF GDP Growth Projections in Emerging Markets



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Shaded area represents International Monetary Fund staff estimates.

As a percent of GDP, historical data as of April 2013, IMF Projections through 2018.

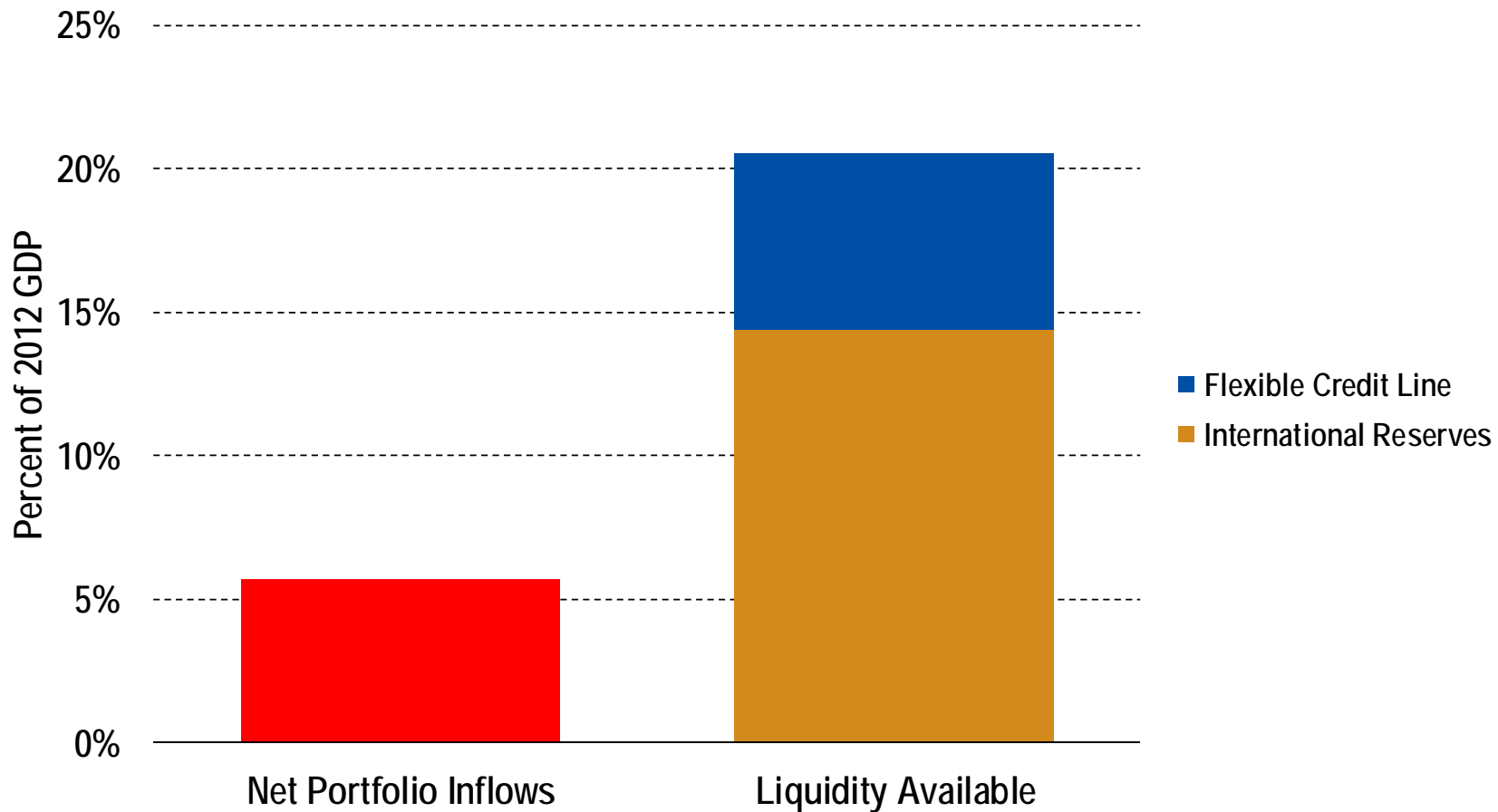
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EM Buffers – Mexico



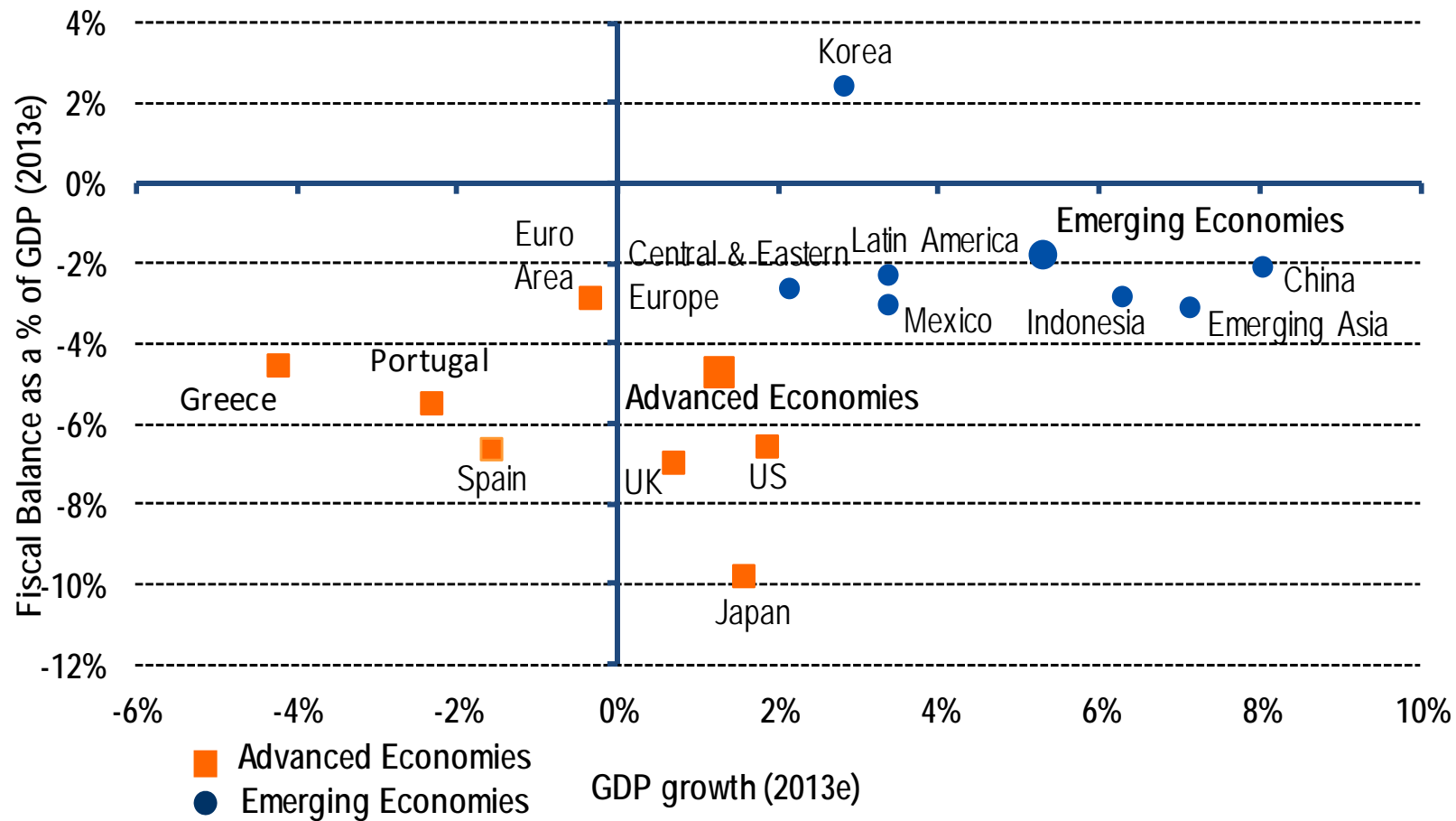
Net Portfolio Inflows shown cumulatively over the four quarters ending June 2013

Sources: Copyright © 2012, International Monetary Fund, World Economic Outlook Database, April 2012. Central Bank of Mexico.

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Fundamentals Favor Emerging Markets



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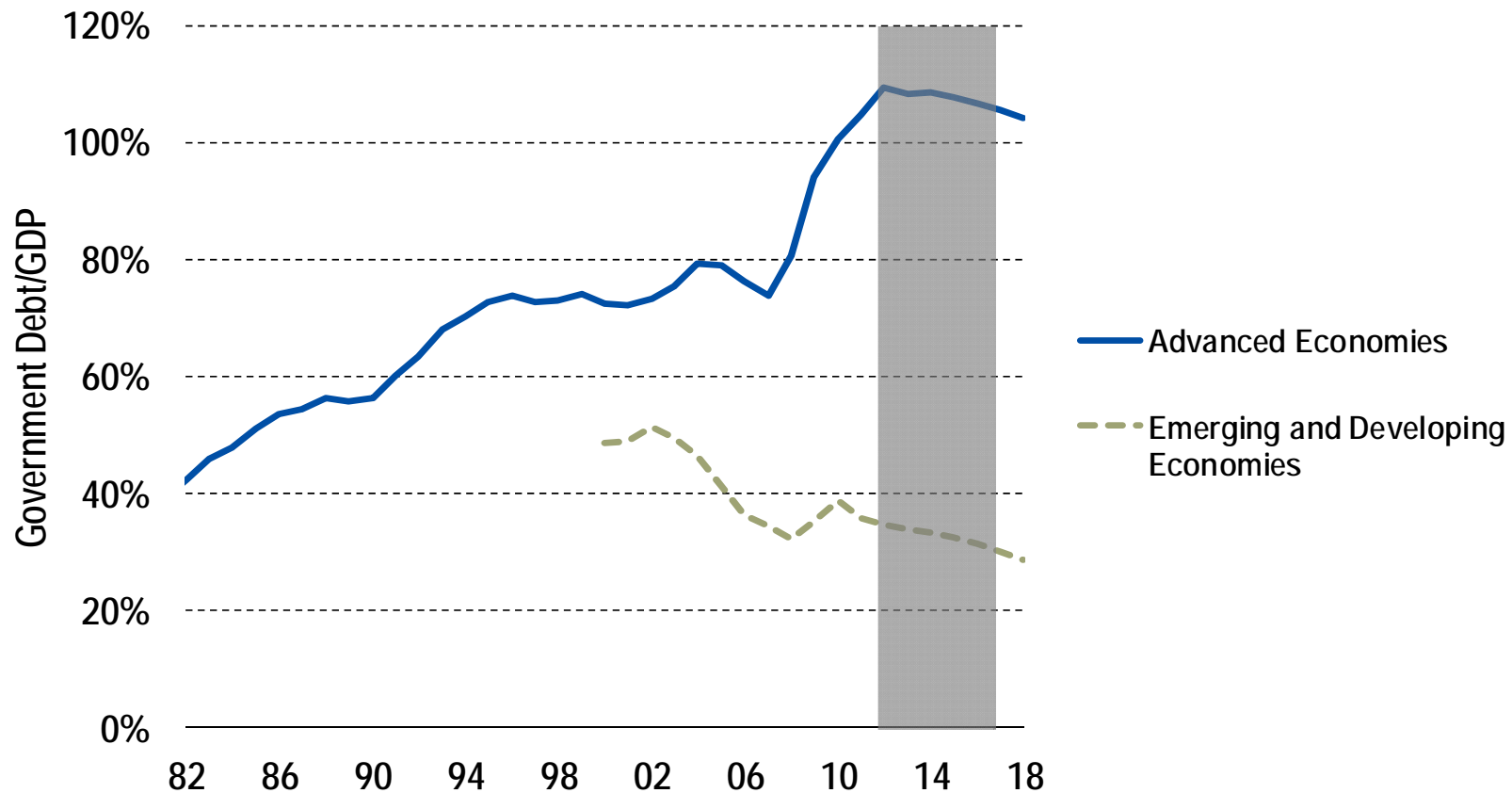
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Tables Turn for Emerging Market Debt



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As a percent of GDP, historical data as of April 2013, IMF Projections through 2018.

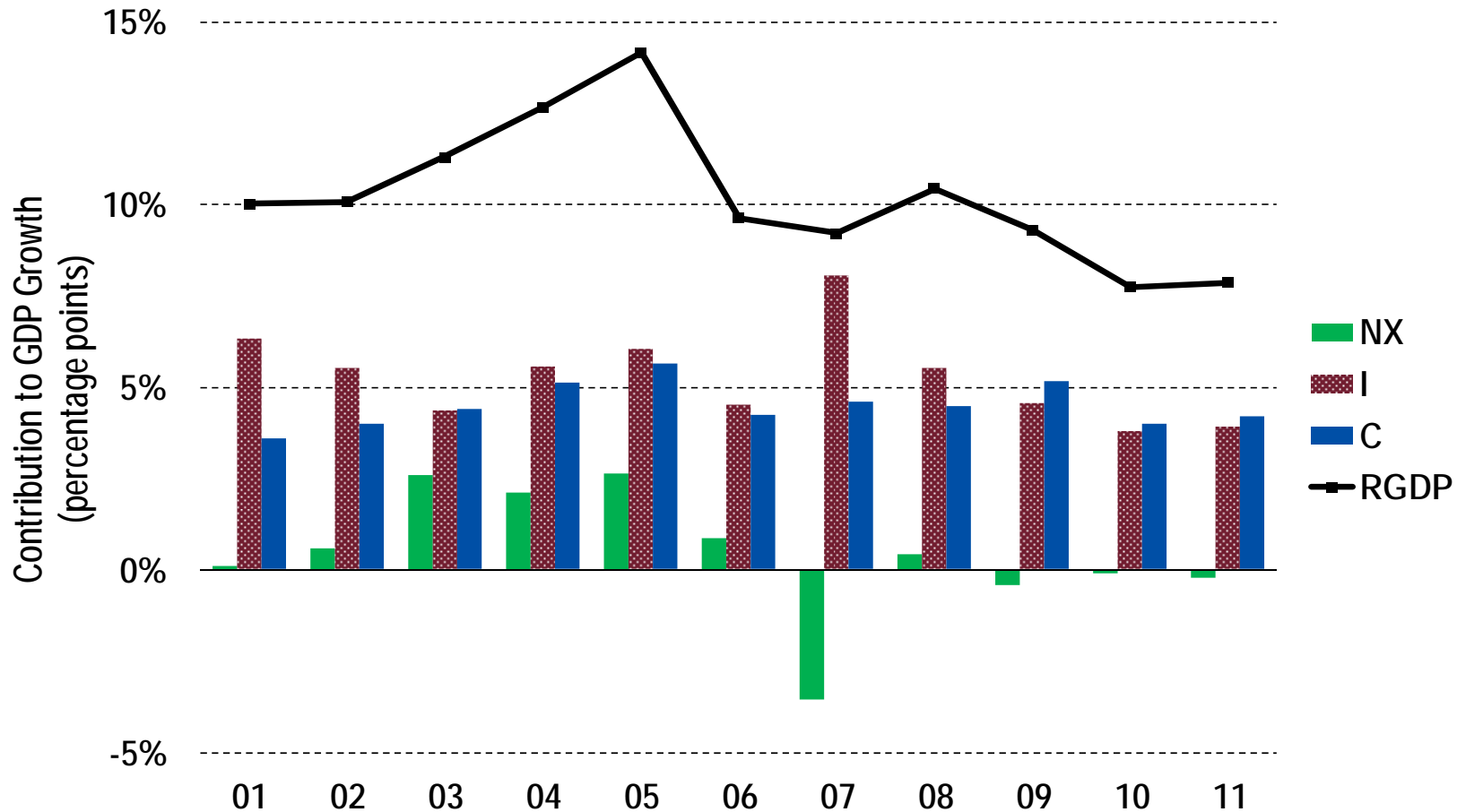
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China: No Hard Landing – Medium Term Drivers



Source: CEIC, December 2011

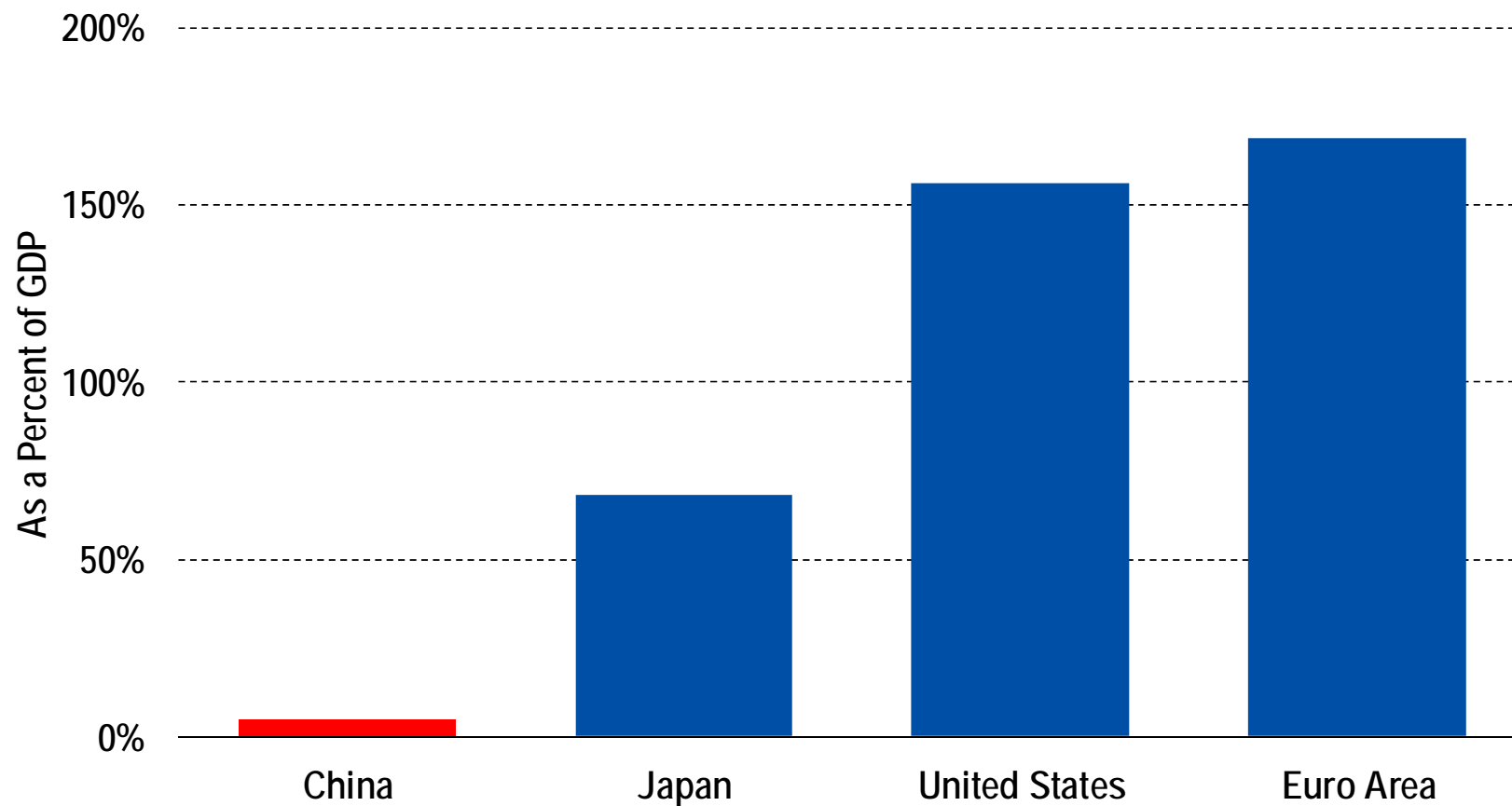
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Chinese Shadow Banking is Relatively Small

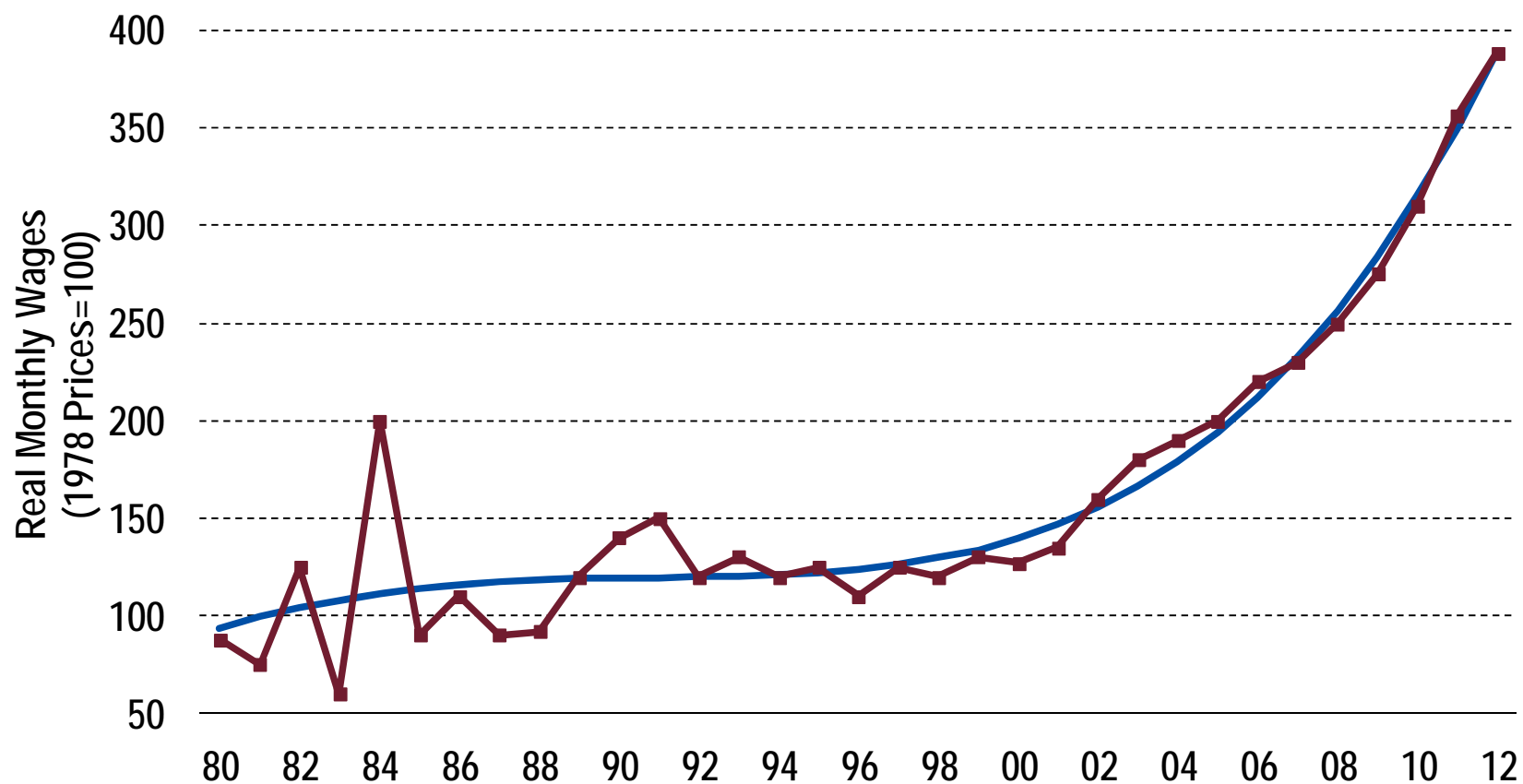


Source: Bank for International Settlements and Financial Stability Board. Global Shadow Banking Monitoring Report 2012. November 18, 2012
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Chinese Migrant Workers Monthly Salary



Polynomial Trend with four degrees

Source: Lu Feng, "Employment expansion and wage growth (2001-2010)", China Macroeconomic Research Center, Peking University, Beijing, 12 June 2011. Barclays Capital.

As of December 2012.

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Key Components to Managing a Rising Rate Environment

- I. Expanded Opportunity Set
- II. Low Duration
- III. Long US dollar vs. yen and euro

A Benchmark Worldview

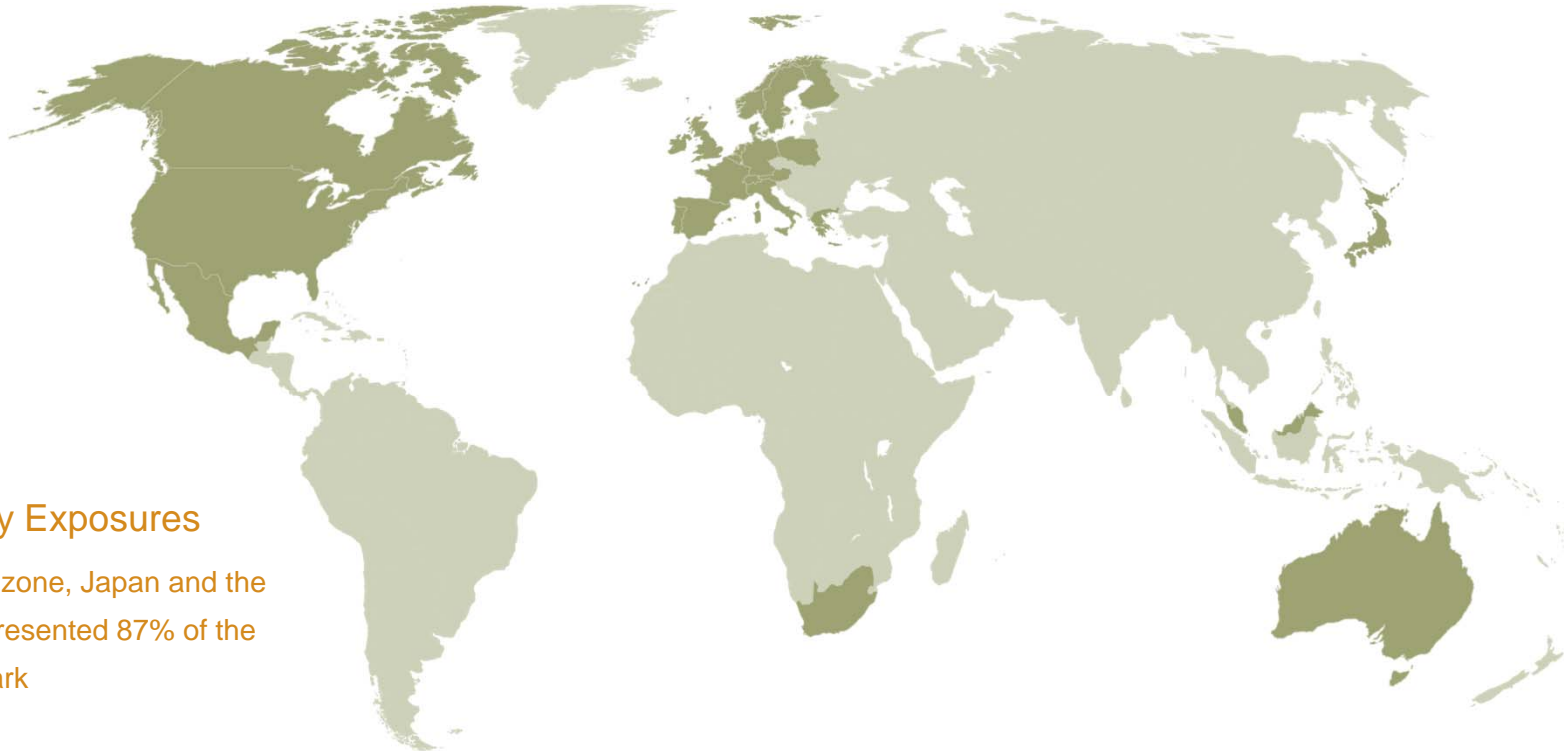
Historic Country Allocation of Citigroup World Government Bond Index

June 30, 2005–June 30, 2013

25

Country Exposures

The eurozone, Japan and the USA represented 87% of the benchmark



For illustrative purposes only. The Templeton Global Bond Fund is managed in a benchmark unconstrained manner. Indexes are unmanaged, and one cannot invest directly in an index.

The countries depicted on this slide represent those that the index had exposure to at any time during the stated time period, and are not necessarily the countries that the index had exposure to on June 30, 2013.

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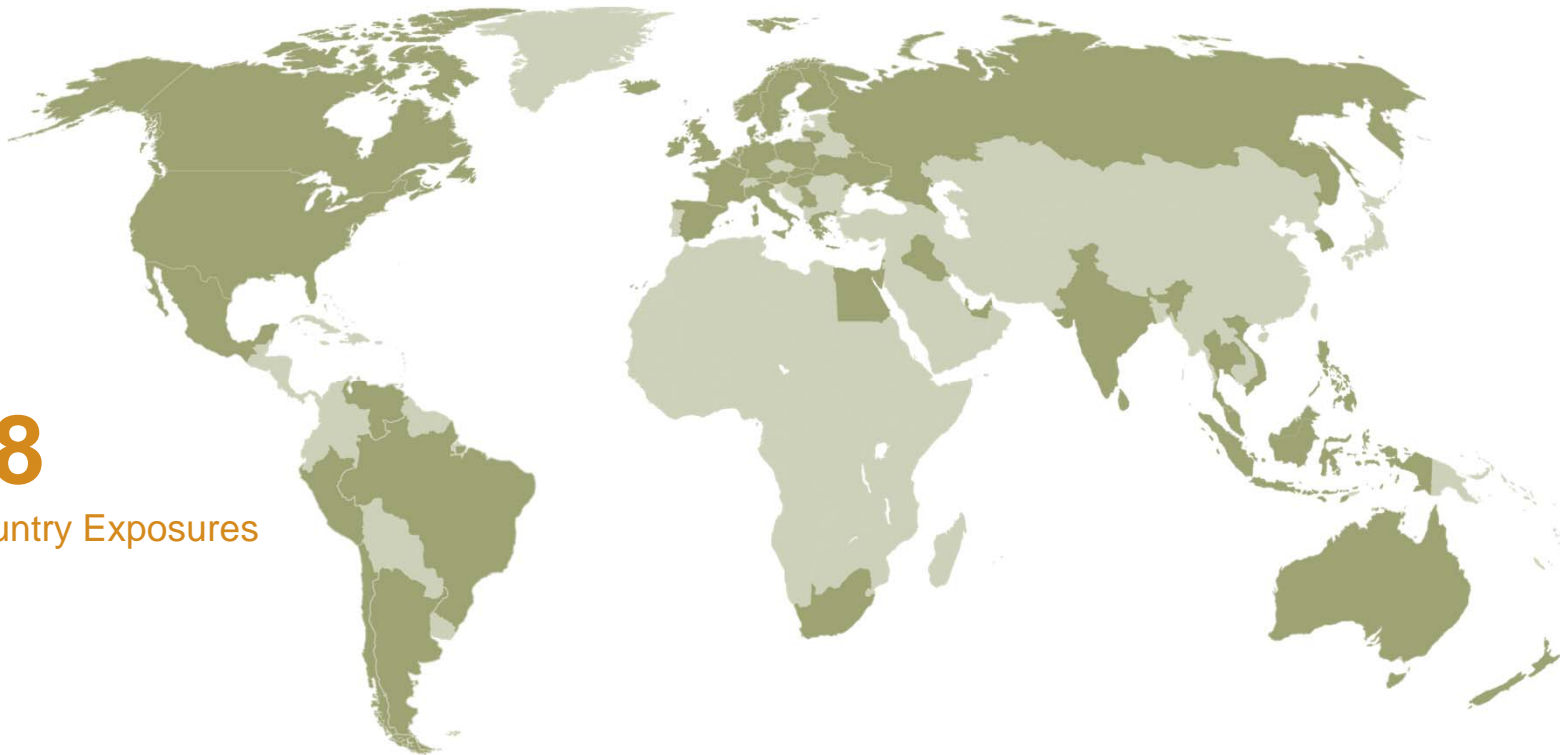
Franklin Templeton's Worldview

Historic Country Allocation of the Templeton Global Bond Fund

June 30, 2005–June 30, 2013

48

Country Exposures



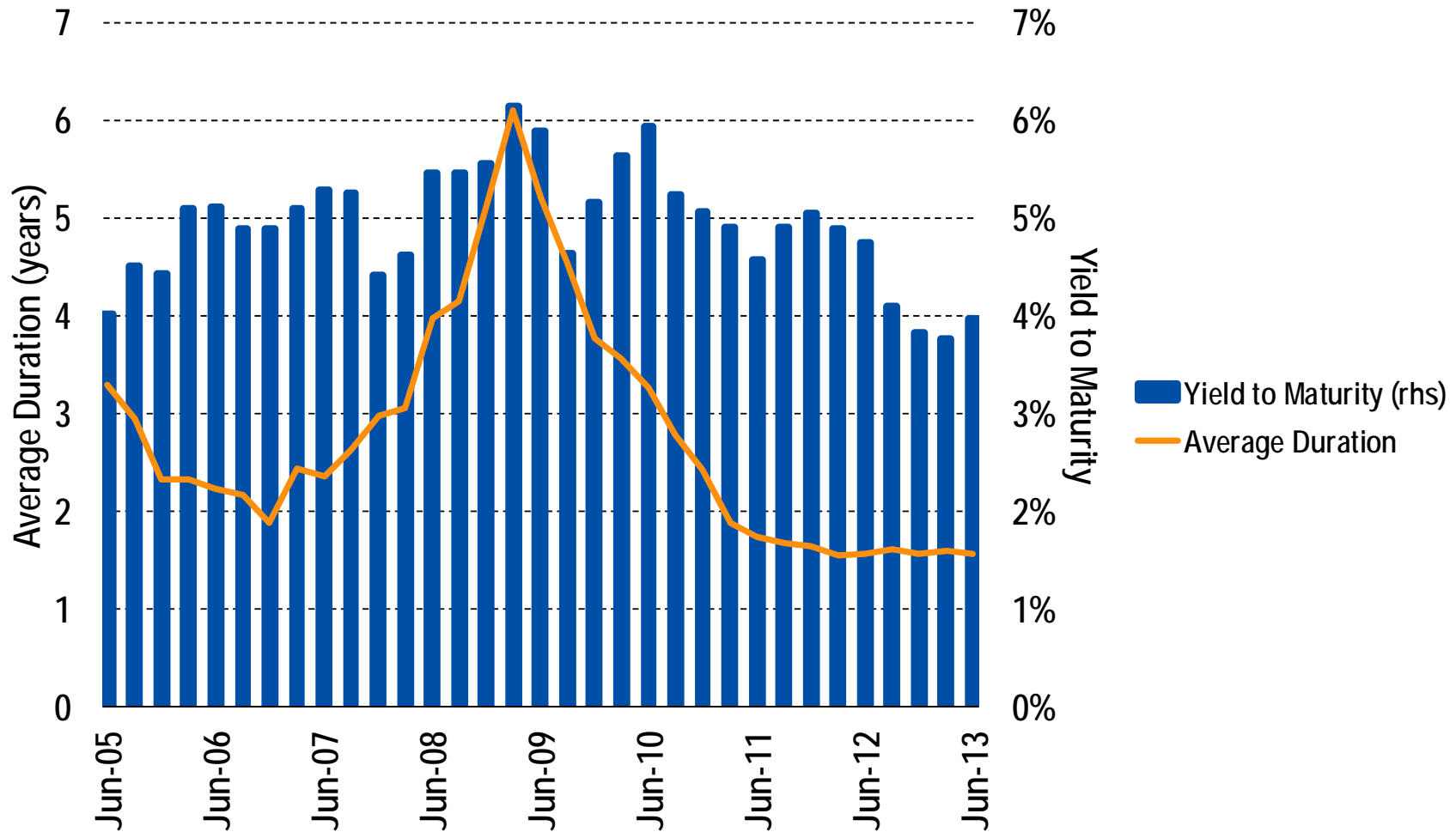
Country allocations may change without notice and are not a complete analysis of every material fact regarding any country. The chart should not be viewed as investment recommendations, but is intended to provide insight into the portfolio's country holdings. Holdings are subject to change.
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Active Duration Management

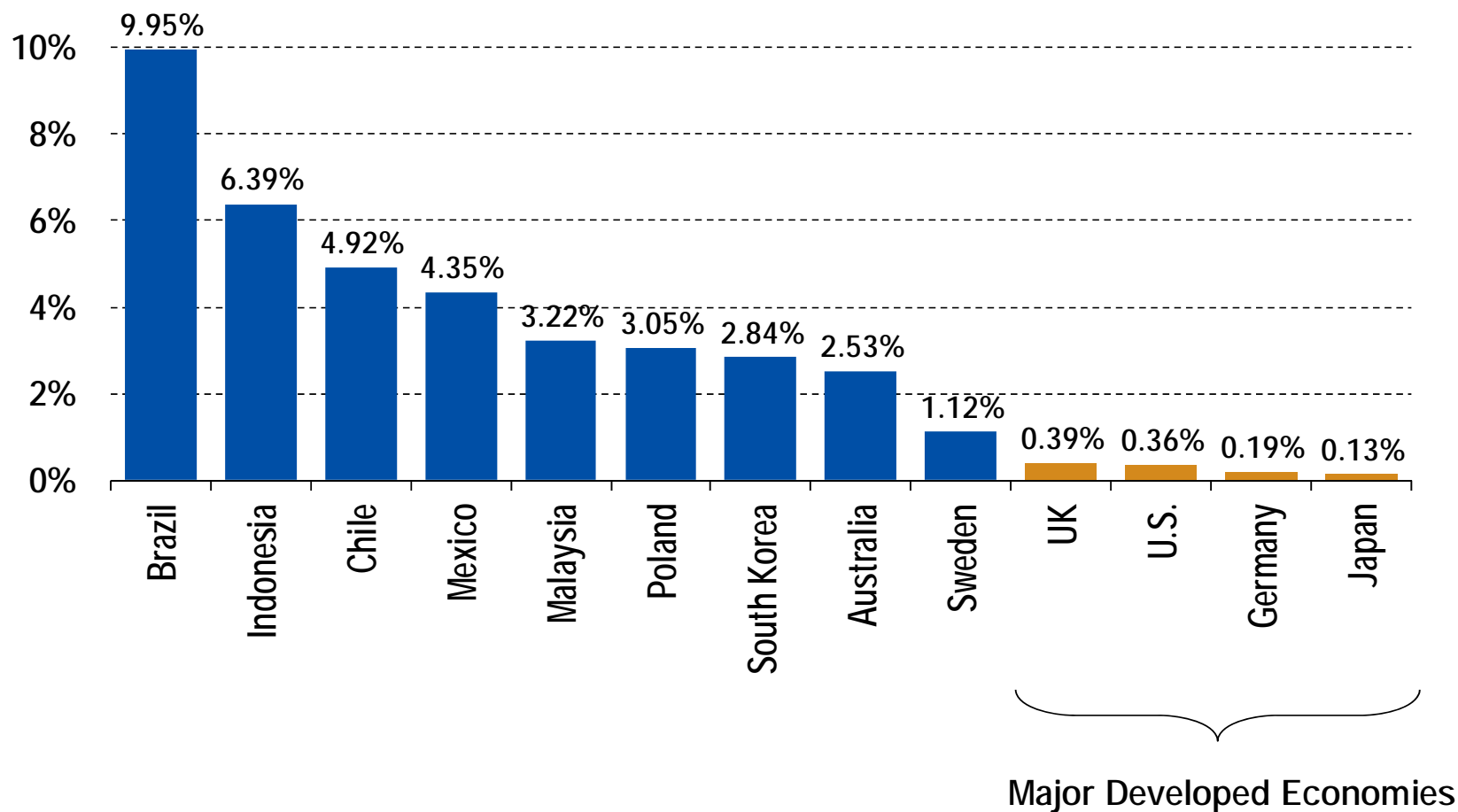


As of June 2013. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. Yield figures quoted should not be used as an indication of the income to be received.

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2-Year Government Bond Yields



Source: Bloomberg, as of 6/30/2013.

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The End of Risk-Free Assets



Source: United States Department of Labor, Bureau of Labor Statistics, Federal Reserve, as of 6/30/2013

Real 3-Month Certificate of Deposit Rate is deflated by y/y CPI.

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The End of Risk-Free Assets



Source: United States Department of Labor, Bureau of Labor Statistics, Bloomberg, as of 6/30/2013.

Real 10-year Treasury yield is deflated by y/y CPI.

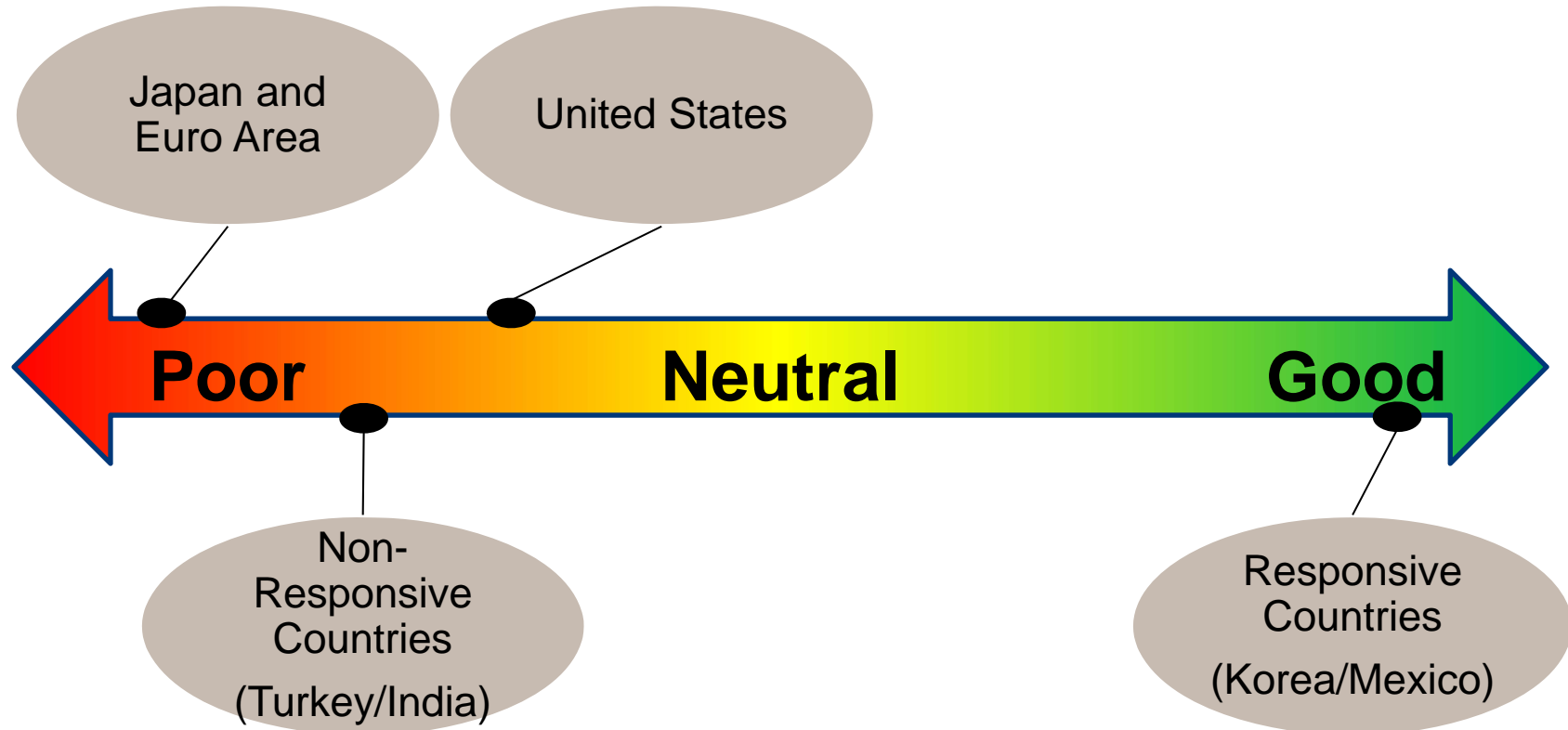
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Relative Currency Fundamentals



Responsive indicates the team's opinion regarding a country's prudent fiscal policy and proactive monetary policy, as well as strength of relative fundamentals.

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This slide and its contents are based on the opinion of the investment team.

As of June 2013.

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