



FRANKLIN TEMPLETON  
INVESTMENTS

# The Untold Story

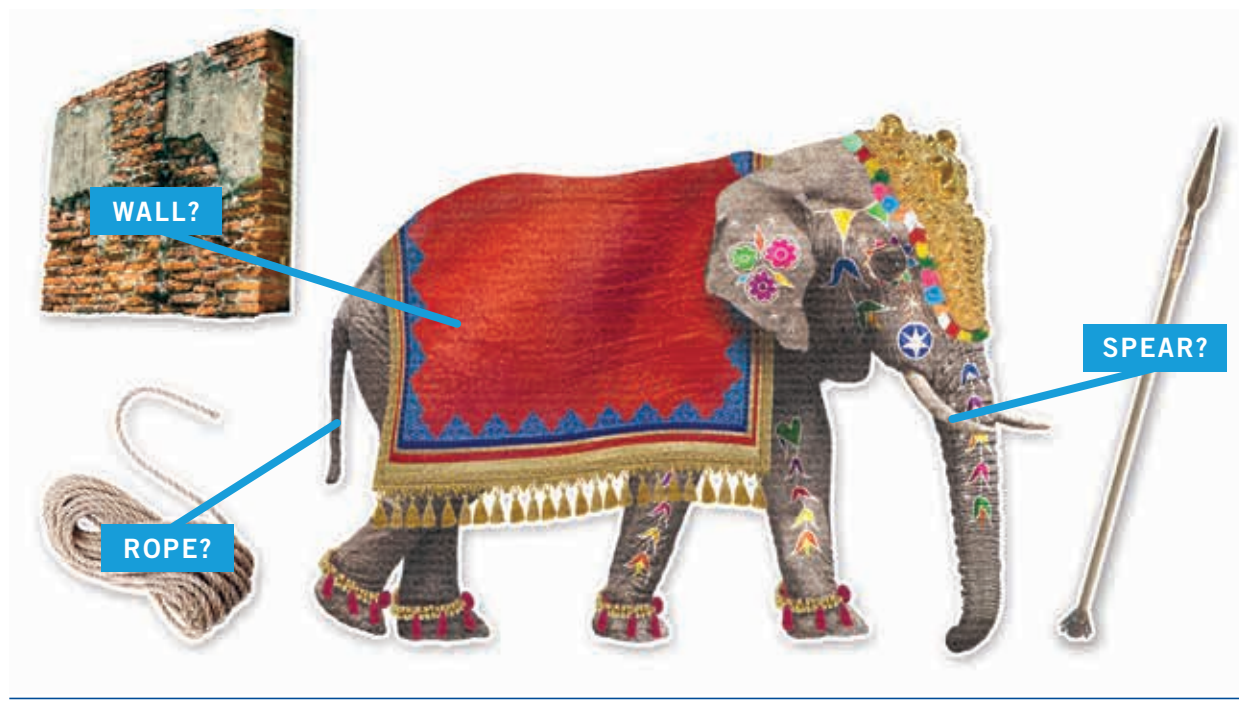
Taking a closer look at index performance and investor outcomes



# Missing the Elephant in the Room

The current discussion regarding the merits of actively managed mutual funds versus passive, index-tracking funds bears some similarity to an ancient parable. It's a tale about some blind men who each touch a different part of an elephant and try to describe the animal based on what they are laying their hands on.

One man runs his hand over the elephant's tusk and describes the elephant as a spear. A second man places his palm against the side of the powerful pachyderm and says the elephant is very much like a rough wall. Another man grabs the tail and quickly says the elephant is like a rope.



**The takeaway:** each of them is trying to make a judgment with very limited information, so they miss the big picture. Similarly, when actively managed mutual funds are compared to indexes, the examination is usually limited to a comparison of total returns at a set point in time. Once again, people are trying to make a judgment with limited data.

**The “Untold Story” of many actively managed funds is the experience of investors in these funds over multiple time periods and market cycles. When all the data is examined, the bigger picture can be revealed.**

# Which One Would You Choose?

The ongoing debate over the merits of actively managed mutual funds versus passive funds (index trackers) often focuses on a single metric—total return—usually measured against a single ending date (e.g. a one-year period).

Consider the example below, featuring an actively managed fund (Fund “A”) that is benchmarked against the MSCI World Index.

## By This Measure Alone, the Choice Seems Simple

Looking at the five-year period ended June 30, 2015, Fund “A” underperformed its benchmark. On this measure alone, some would argue that a passive investment that tracks the index would be a better choice than this fund.

### Average Annual Total Returns

Five-Year Period Ended June 30, 2015



*If the fund's 5.75% initial sales charge had been included, its return would have been lower.*

*Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.*



### Does the Comparison on the Left Speak to What Investors Want?

In a recent Franklin Templeton survey of investors in 23 countries including the US, respondents were nearly unanimous on one issue—**OVER 95%** of them said risk management was important.<sup>2</sup> With this in mind, the following pages will take a deeper look at the index versus the fund. Instead of just looking at one time period, multiple periods of time will be considered.

1. Sources: © 2015 Morningstar, MSCI. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information. Indexes are unmanaged and one cannot invest directly in an index.

2. Source: The 2015 Franklin Templeton Global Investor Sentiment Survey, conducted in partnership with ORC International, included responses from 11,508 individuals in 23 countries: Brazil, Chile and Mexico in Latin America; Australia, China, Hong Kong, India, Japan, Malaysia, South Korea and Singapore in Asia; France, Germany, Greece, Italy, Poland, Spain, Sweden and the UK in Europe; South Africa and the UAE in the Middle East and Africa; and the United States and Canada in North America. Survey respondents were between the ages of 25 and 65 in Latin America, Asia (except for Japan) and South Africa, and 25 and older in Europe, Japan, the UAE, Canada and the US. Respondents were required to own investable assets, such as stocks, bonds, mutual funds, etc. In addition, a minimum investable asset threshold was set for each country to ensure that the respondent had sufficient investments, providing a knowledge base from which to answer the survey questions. The survey was completed from February 12 to March 2, 2015, in all countries.

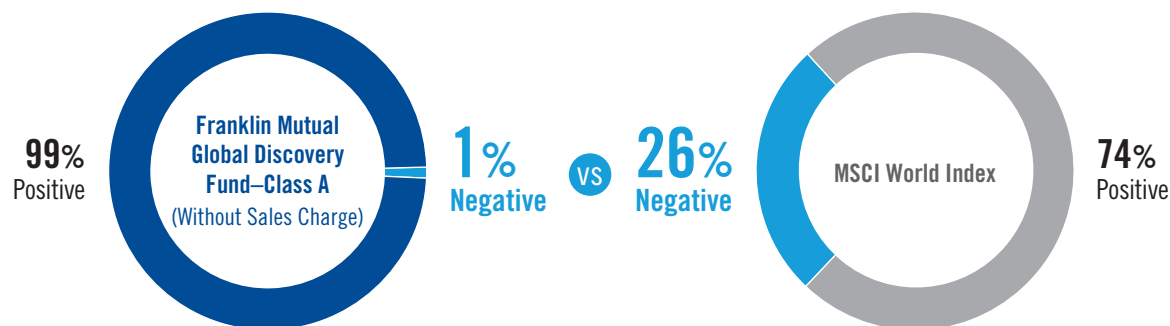
# Taking a Look at the Bigger Picture

## Which Would You Choose Now?

Fund “A” from the chart on the previous page is actually **Franklin Mutual Global Discovery Fund–Class A** (TEDIX). While this fund did underperform the MSCI World Index over the most recent five-year period, a very different picture emerges when you consider every one of the 211 (month over month) rolling five-year periods going back to the inception of the fund. And, given investors’ focus on risk, an examination into the frequency of positive and negative return periods may be a more valuable way to look at historical investor outcomes.

### Frequency of Negative Five-Year Returns<sup>3</sup>

Monthly Rolling Five-Year Periods from December 31, 1992–June 30, 2015



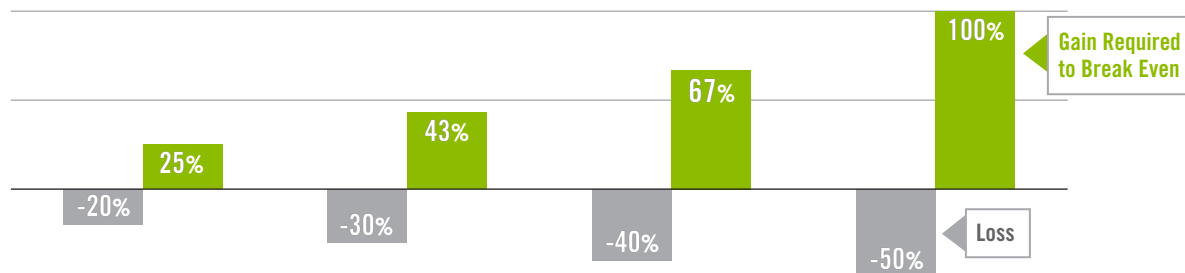
*If the fund's 5.75% initial sales charge had been included, its returns would have been lower.*

*Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.*

## A Quick Reminder about the Impact of Volatility

It's also important to remember the mathematical implications of a loss. For example, a 20% gain will not get an investment back to even after a 20% loss. When investors lose money, it takes an even bigger percentage point gain in order to make a full recovery.

### Gains Required to Get Back to Even after a Loss



*This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.*

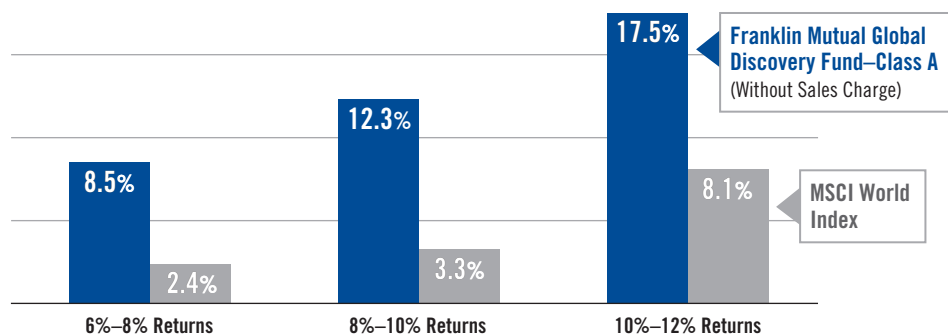
3. Sources: © 2015 Morningstar, MSCI. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information. Indexes are unmanaged and one cannot invest directly in an index.

## The Challenge: Meeting Investor Expectations

While many investors put a high priority on avoiding losses, they also have expectations of returns on their investments. The chart below shows that Franklin Mutual Global Discovery Fund—Class A produced monthly rolling five-year average annual returns between 6% and 12% more often than the MSCI World Index.

### Frequency of Returns within Ranges<sup>4</sup>

Monthly Rolling Five-Year Periods from December 31, 1992–June 30, 2015



### Survey Says...

When asked in the Franklin Templeton Global Investor Sentiment Survey what kind of return US investors thought they should earn on their portfolio over the next five years, the median answer they gave was 8%.<sup>5</sup>

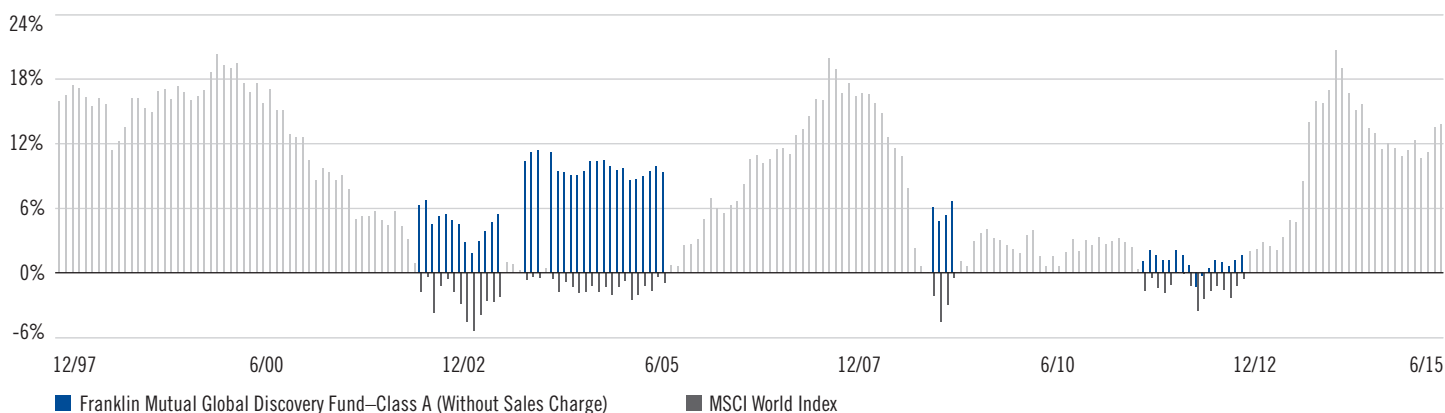
*If the fund's 5.75% initial sales charge had been included, its returns would have been lower. Performance data represents past performance, which does not guarantee future results.*

## When Outperformance May Matter Most

As shown below, the MSCI World Index produced negative average annual total returns in 54 of the 211 monthly rolling five-year periods dating back to December 1992. **Franklin Mutual Global Discovery Fund—Class A delivered better returns 100% of the time during these periods.**<sup>4</sup>

### Performance During Negative Periods of the MSCI World Index

Monthly Rolling Five-Year Periods from December 31, 1992–June 30, 2015



*If the fund's 5.75% initial sales charge had been included, its returns would have been lower. Performance data represents past performance, which does not guarantee future results.*

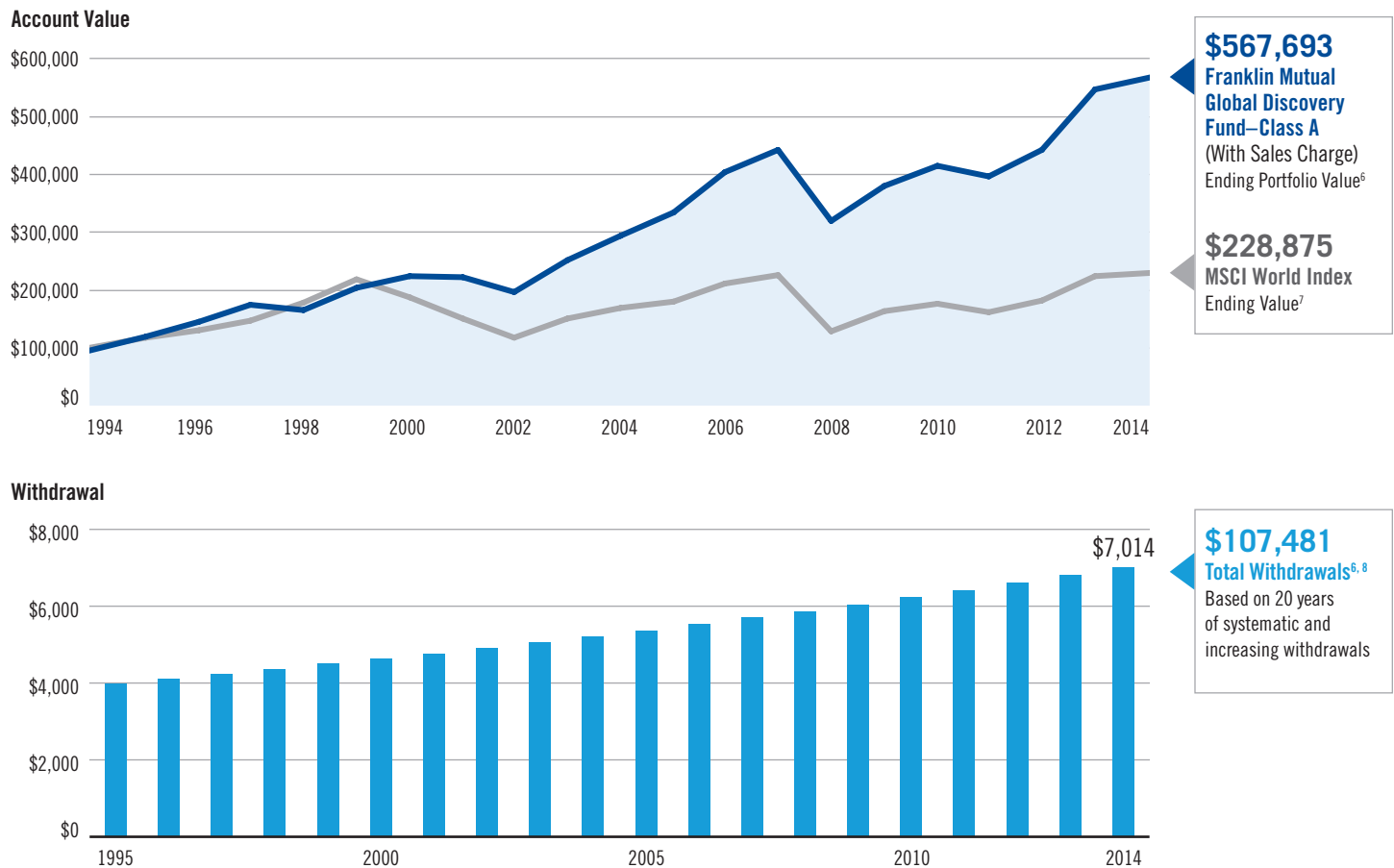
4. Sources: © 2015 Morningstar, MSCI. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information. Indexes are unmanaged and one cannot invest directly in an index.

5. 2015 Franklin Templeton Global Investor Sentiment Survey conducted in partnership with ORC International from February 12, 2015 to February 26, 2015. It included 500 online responses from participants age 25 and older in the US.

# Hypothetical Illustration Showing 20 Years of Systematic and Increasing Withdrawals

Many investors seek to take distributions from their investments. This hypothetical chart shows the impact of withdrawals on Franklin Mutual Global Discovery Fund–Class A (with sales charge) vs. the MSCI World Index over a 20-year span. Notably, the fund's ending value is more than twice that of the index after over \$107,000 in withdrawals.

**\$100,000 Initial Investment, \$4,000 First-Year Withdrawal, 3% Annual Increase in Withdrawal Amount**  
December 31, 1994–December 31, 2014



This illustration shows how this fund and use of systematic withdrawals may fit as part of a well-diversified portfolio.

*Performance data represents past performance, which does not guarantee future results.*

6. Assumes reinvestment of all dividends and capital gains at net asset value. The rate or amount chosen for withdrawal determines the value remaining at the end of the period. In a period of declining market values, continued withdrawals could eventually exhaust the principal. This hypothetical investment does not take into account federal, state or municipal taxes. If taxes were taken into account, the hypothetical values shown would have been lower. The results of such a program vary substantially depending on investment performance during the period the program is in effect.

7. Sources: © 2015 Morningstar, MSCI. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information. Indexes are unmanaged and one cannot invest directly in an index.

8. It's important to note that the amounts withdrawn do not represent dividends or income, but rather the proceeds from the sale of shares. This illustration assumes sufficient shares are sold from the shareholder's account at the time of each withdrawal to provide for such payments. Investors participating in a systematic withdrawal plan should annually review with their financial advisor the results being obtained and the value of remaining shares. Based on this annual review, individuals can increase or decrease the amount of withdrawals, as appropriate. A retirement period could last more than 20–30 years; investing in a Franklin Templeton fund does not guarantee one's retirement income needs will be met.



# Franklin Mutual Global Discovery Fund

## Historical Performance

A go-anywhere value strategy, **Franklin Mutual Global Discovery Fund** offers global diversification by investing primarily in undervalued stocks of companies from around the world without constraints.



**Class Z** ★★★★★

**Class A** ★★★★★

**Overall Morningstar Rating™**

As of September 30, 2015, the fund's Class Z and Class A shares received a 4-star overall Morningstar Rating™, measuring risk-adjusted returns against 1,001, 758 and 393 U.S.-domiciled World Stock funds for the 3-, 5- and 10-year periods, respectively. The fund received Morningstar Ratings of 3, 3 and 5 stars for Class Z and 2, 3 and 5 for Class A for the 3-, 5- and 10-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.<sup>9</sup>

### Average Annual Total Returns

For Periods Ended September 30, 2015

|                                         | 1-Year  | 3-Year | 5-Year | 10-Year | 15-Year | Since Inception (12/31/92) | Expense Ratios |
|-----------------------------------------|---------|--------|--------|---------|---------|----------------------------|----------------|
| <b>Class Z (MDISX)<sup>10</sup></b>     | -5.99%  | 8.07%  | 7.49%  | 6.76%   | 7.99%   | 11.59%                     | 0.99%          |
| <b>Class A (TEDIX)<sup>10, 11</sup></b> |         |        |        |         |         |                            |                |
| With 5.75% Initial Sales Charge         | -11.69% | 5.64%  | 5.90%  | 5.80%   | 7.23%   | 10.92%                     | 1.29%          |
| Without Sales Charge                    | -6.29%  | 7.74%  | 7.16%  | 6.43%   | 7.65%   | 11.21%                     | —              |
| <b>MSCI World Index<sup>12</sup></b>    | -4.57%  | 9.18%  | 8.89%  | 5.31%   | 3.76%   | 7.59%                      | —              |

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and investors may have a gain or a loss when they sell their shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.

Class Z shares do not have sales charges or 12b-1 fees and are offered only to certain eligible investors as stated in the prospectus.

### What Are the Risks?

Value securities may not increase in price as anticipated or may decline further in value. The fund's investments in foreign securities involve certain risks, including currency fluctuations, and economic and political uncertainties. Smaller-company stocks have exhibited greater price volatility than larger-company stocks, particularly over the short term. The fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The fund may invest in lower-rated bonds, which entail higher credit risk. These and other risks are described more fully in the fund's prospectus.

9. Source: © 2015 Morningstar Inc. 9/30/15. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. For each fund with at least a 3-year history, Morningstar calculates a risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive a Morningstar Rating™ of 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. Each share class is counted as a fraction of one fund and rated separately. The fund received Morningstar Ratings of 3, 3 and 5 stars for Class Z and 2, 3 and 5 for Class A for the 3-, 5- and 10-year periods, respectively. Past performance does not guarantee future results.

10. This fund offers other share classes, subject to different fees and expenses that will affect their performance.

11. Prior to 11/1/96, the fund offered only a single class of shares without a sales charge and Rule 12b-1 expenses, Class Z shares. Figures reflect a restatement of the original share class to include both the Rule 12b-1 fees and maximum initial sales charges (when quoting figures with sales charges) applicable to each share class as though in effect from the fund's inception. For periods after 11/1/96, actual performance is used, reflecting all charges and fees applicable to Class A.

12. Sources: © 2015 Morningstar, MSCI. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for additional data provider information. Indexes are unmanaged and one cannot invest directly in an index.



Franklin Templeton Distributors, Inc.  
One Franklin Parkway  
San Mateo, CA 94403-1906  
(800) DIAL BEN® / 342-5236  
[franklintempleton.com](http://franklintempleton.com)

**Franklin Templeton Investments  
Your Source for:**

- Mutual Funds
- Retirement
- 529 College Savings Plans
- Separately Managed Accounts

**Franklin Mutual Global Discovery Fund Symbols:**

Class A: TEDIX  
Class C: TEDSX  
Class R: TEDRX  
Class R6: FMDRX  
Class Z: MDISX

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*