



# TEMPLETON GLOBAL GROWTH FUND LTD

## Quarterly Investment Manager's Report

MARCH 2017

### INVESTMENT MANAGER

The Investment Manager of the Company's investment portfolio is Franklin Templeton Investments Australia Ltd. The Company's portfolio is managed in accordance with the investment philosophy of the Templeton Global Equities Group ("Templeton"), which forms part of the Franklin Templeton Investments group, a large U.S. based investment management organisation. Templeton is one of the pioneers in global investing and its successful investment philosophy has been refined over more than 60 years. The Templeton investment process endeavours to identify undervalued securities through fundamental company analysis, using a global focus and a long term investment horizon.

### INVESTMENT APPROACH

Templeton's time-tested investment approach is based on its philosophy of value, patience and bottom-up stock selection. Templeton focus on the rigorous analysis of individual stocks across geographic borders and seek to identify companies trading at significant discounts to Templeton's estimates of future earnings power, cash flow generation and/or asset value. As independent thinkers with strong conviction in their investment ideas, they take an unconstrained approach to finding value.

### CONTACT DETAILS

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### PERFORMANCE DATA<sup>1</sup> (AS OF 31/3/17)

#### Average Total Returns

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

	Quarter	1 Year	3 Years	5 Years	10 Years
Templeton Global Growth Fund Ltd - Pre-Tax Gross of Fees	1.2	18.8	8.5	16.4	4.7
Templeton Global Growth Fund Ltd - Net of Fees <sup>2</sup>	0.9	17.3	7.3	14.9	3.2
MSCI All Country World Free Index <sup>3</sup>	1.5	16.0	12.1	15.2	4.6

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

	31 December 2016	31 March 2017
TGG share price (cents)	1.23	1.30
NTA per share before tax (\$) <sup>4</sup>	1.430	1.440
Premium/(Discount) to NTA before tax (%)	(14.0)	(10.0)
NTA per share after tax (\$) <sup>4</sup>	1.379	1.388
Premium/(Discount) to NTA after tax (%)	(11.0)	(6.0)

The market value of the portfolio represents prices quoted on overseas stock markets in foreign currencies converted to Australian currency. The rate used for conversion of values of US currency securities was USD0.763 for March and USD0.724 for December.

### QUARTERLY MARKET REVIEW

Global equity markets rose in the first three months of 2017 as did the Australian dollar which increased against most major currencies and closed up 5.4% against the USD. Equities were buoyed by broadly positive economic indicators from multiple regions. Optimism about US President Donald Trump's pro-growth policy initiatives and concerns about upcoming elections in Europe were prominent early in the quarter, though investor sentiment on politics became less of a factor by period-end.

Developed stock markets advanced for the period, while emerging-market equities as a group rose higher. Firming economic data in Asia and diminished concerns over potential US trade policy helped lift emerging-market equities. China's official manufacturing and non-manufacturing purchasing managers' indexes increased month-over-month in both February and March.

The US Federal Reserve increased its key short-term interest rate in mid-March, signaling its continued confidence in the improving economy. Incoming US economic data generally unfolded to the upside, reflecting gradually accelerating inflation, improved manufacturing activity and stable consumer spending.

Elsewhere, Japan's annualized inflation rate in January increased from the previous month for the first time in a year, but it eased slightly in February. Euro area executive and consumer sentiment reached its highest level since 2011 in February, and eurozone unemployment for the same month was the lowest since May 2009. The bloc's annual inflation rate advanced in January to a four-year high and edged past the European Central Bank's target in February before easing in March.

## QUARTERLY PERFORMANCE ATTRIBUTION

Relative performance for the quarter was dampened by overweight positions in the financials and health care sector. Broadly within the financials sector, we believe the market is finally beginning to recognise value in a financials sector long out of favour amidst concerns of weak loan growth, balance sheet restructuring and re-regulation. Fundamentals have been improving, valuations remain compelling to us, and we see significant additional upside potential in our select and contrarian financial holdings.

Within the health care sector, significant detractors included Israeli specialty pharmaceutical firm Teva Pharmaceutical Industries. Its shares slumped after the firm trimmed its profit forecast for 2017 amidst an unexpected slowdown in the introduction of new generic medicines. The setback weighed on shares that were already under pressure from mergers and acquisition missteps and regulatory and political headwinds. Yet selling pressure looks excessive, based on our analysis. While executing a deal with Allergan (not a fund holding) took longer than anticipated, the merger has now closed and ongoing generics integration should help Teva realise valuable synergies. We believe Teva, with its strong outlook for long-term volume growth and prolific cash generation potential, has remained an attractive bargain at recent depressed valuations.

Conversely, security selection in the industrials sector supported relative fund performance. Shares of German airline Deutsche Lufthansa outperformed in the first quarter after the company's strong set of results and conference call including the new chief financial officer were well received by many investors. In addition, the company successfully negotiated a labour agreement with its pilots' union, ending a bitter dispute that had lasted over five years.

Stock selection in the telecommunication services sector also enhanced returns for the first quarter of 2017. Shares of Telefonica, a Spanish integrated and diversified telecommunication services firm with operations in Europe and Latin America, rose steadily during the reporting period. Many investors cheered the company's plan to sell a significant stake in its telecom tower subsidiary, representing an initial step in addressing Telefonica's significant debt. The sector has continued to offer up a mix of selective bargains ranging from Asian operators that appear well-positioned to benefit from increasing mobile and data penetration to European incumbents offering attractive dividends and the potential to gain market share as the industry continues to consolidate.

Although health care was an overall detractor at the sector level, the fund's investment in US-based biotechnology giant Amgen enhanced performance, notwithstanding a pull-back by the shares in March. Its shares rallied to a record high after the company reported better-than-expected fourth-quarter earnings and confirmed positive results from the much-anticipated trial of a potentially blockbuster cholesterol treatment. We believe Amgen remains an attractive long-term holding, with what we view as a base business that has proven far more sustainable than the market anticipated, a powerful and innovative pipeline of growth opportunities, and a commitment to turning prodigious free cash flow into shareholder value through dividends, buybacks and sensible acquisitions.

## INVESTMENT OUTLOOK

With many global stock markets near record levels, we have continued to focus on mitigating near-term downside potential. We believe it is ultimately our commitment to a long-term time horizon that has continued to set us apart. Only a small (and shrinking) percentage of money in equity markets seems to be invested with a multi-year horizon: Traditional active funds (including hedge funds) have tended to be much shorter term, while passive funds are agnostic about fundamentals and do not attempt to exploit mispricing on any horizon. That means the inefficiencies of the longer-term time horizon remain as exploitable as ever, and the value premium should not only persist, but also improve, for the few remaining investors with the patience and discipline to operate on such a long-term arc of opportunity.

Long-term value investors like Templeton may be regarded by some observers as "behind the curve" of "innovative" new investment strategies and techniques—many of which, incidentally, have yet to prove their mettle at scale, over time or in crisis. Yet we think as more investors abandon a fundamental approach and a long-term horizon, the greater the opportunity becomes for those with the fortitude and discipline to apply these time-tested principles. We have been increasingly finding such opportunities outside of the United States, in those places where depressed valuations appear to have excessively discounted political risk while overlooking broad-based improvements in corporate and economic fundamentals.

## PORTFOLIO CHARACTERISTICS – AS AT 31/3/17

	TEMPLETON GLOBAL GROWTH FUND LTD	MSCI All Country World Free Index
Weighted Average Market Cap (AUD Million)	139,742	122,618
Number of Securities	107	2,480

### Price to Earnings

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	17.1x	21.0x

### Price to Cash Flow

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	6.9x	11.9x

### Dividend Yield

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	2.6%	2.4%

### Price to Book Value

	Templeton Global Growth Fund Ltd	MSCI All Country World Free Index
Weighted Average	1.4x	2.2x

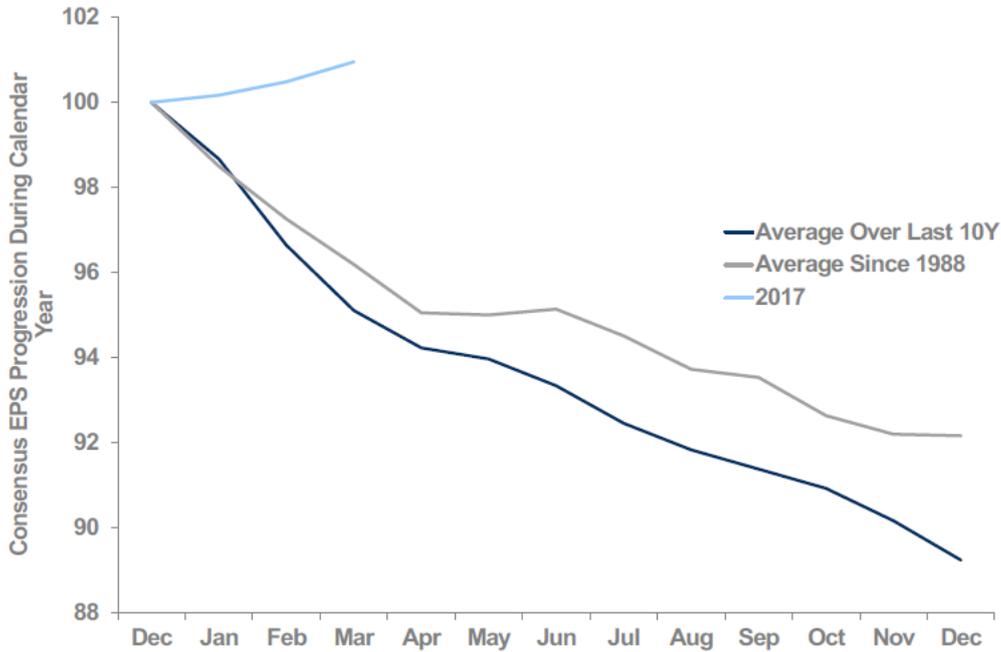
**INVESTMENT SPOTLIGHT**

For the first time in this report, we feature a “chart of the quarter” which highlights a specific investment issue, insight or observation by TGG’s portfolio manager.

The chart below from Morgan Stanley Research shows that corporate profit growth in Europe is finally improving, enjoying an Earnings Per Share (EPS) upgrade which is in sharp contrast to recent years. For example, over the last 10 years, estimates have on average fallen by 11% through the year.

There are signs the more recent robust results herald better times ahead. Earnings forecasts are in fact improving following actual company profit reports, breaking the typical pattern of downgrades, with estimates for European profits increasing by 1 percent since the start of the year.

**Europe Enjoying an Earnings Recovery**



Source: MSCI, IBES, Morgan Stanley Research

Europe has struggled as a “cheap” market for some time with a lack of earnings growth over the past years being the main reason behind European stocks trailing the performance of other regions, particularly the US.

European companies have failed to grow earnings for nearly seven years now at a time when U.S. earnings have accelerated to prior-cycle highs with companies struggling to raise their prices given the lack of inflation, which has hit margins. If inflation as we expect picks up, pricing should improve, thereby driving an increase in European profit margins.

The long-awaited earnings rebound should continue this year as key sectors such as banks and basic resources recover with data signaling an acceleration in the economy.

TGG shareholders would be aware that the portfolio has been overweight Europe from a regional perspective for some time now. As can be seen on the following page of this report, the portfolio currently has a 38.7% exposure to European stocks compared with a benchmark weighting of 21.4%.

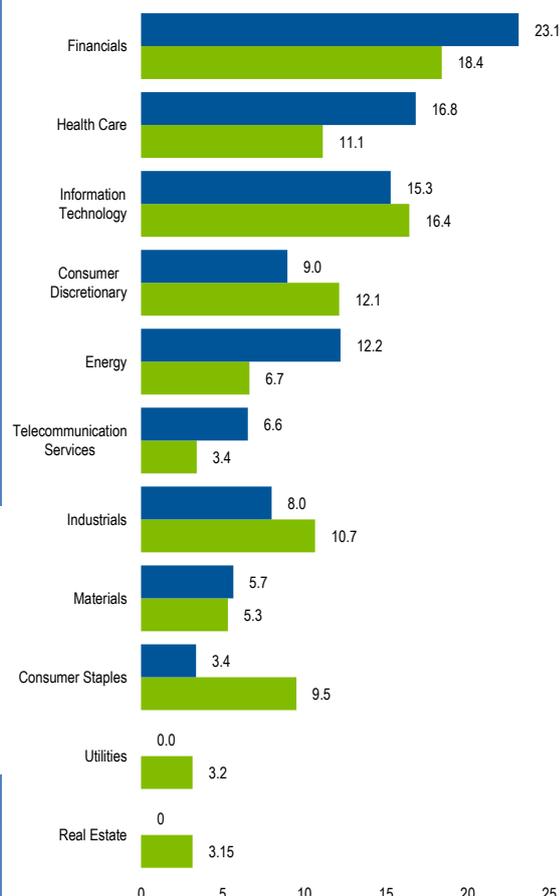
PORTFOLIO DIVERSIFICATION – TEMPLETON GLOBAL GROWTH FUND LTD (AS AT 31/3/17)

Top Ten Holdings<sup>5</sup>

SECURITY	COUNTRY	INDUSTRY GROUP
SAMSUNG ELECTRONICS	South Korea	Technology Hardware & Equipment
MICROSOFT CORP	United States	Software & Services
ORACLE CORP	United States	Software & Services
BP PLC	United Kingdom	Energy
ROYAL DUTCH SHELL	United Kingdom	Energy
ALPHABET INC	United States	Software & Services
CITIGROUP INC	United States	Financials
JPMORGAN CHASE	United States	Financials
SOFTBANK GROUP	Japan	Telecommunication Services
HSBC HOLDINGS PLC	United Kingdom	Financials

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

Percent of Equity Ranked by Fund Weighting



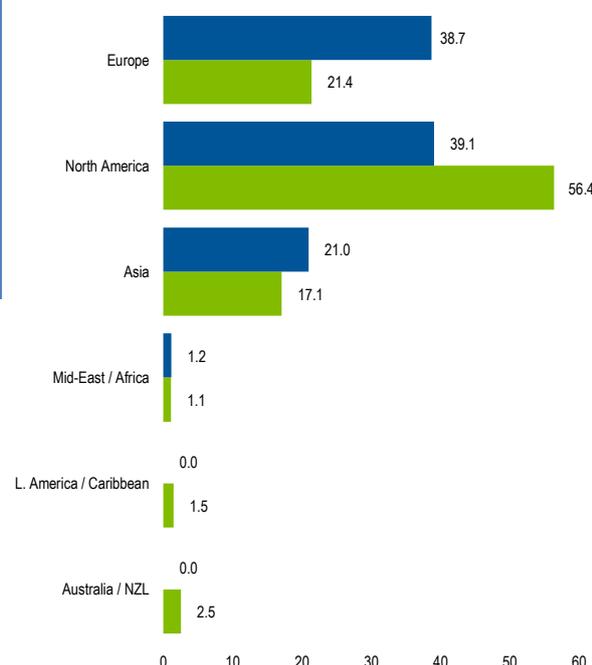
Country Allocation

The Company's portfolio of listed investments was spread over the following countries as at 31 March 2017.

COUNTRY	%	COUNTRY	%
CANADA	1.3	SINGAPORE	1.6
CHINA	5.3	SOUTH KOREA	6.1
FRANCE	7.9	SPAIN	0.5
GERMANY	5.0	SWEDEN	0.8
IRELAND	1.1	SWITZERLAND	3.5
ISRAEL	1.1	THAILAND	0.8
ITALY	2.2	UNITED KINGDOM	11.8
JAPAN	6.4	UNITED STATES	36.4
NETHERLANDS	3.9	Liquidity	3.6
NORWAY	0.7		

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

Percent of Equity Ranked by Fund Weighting

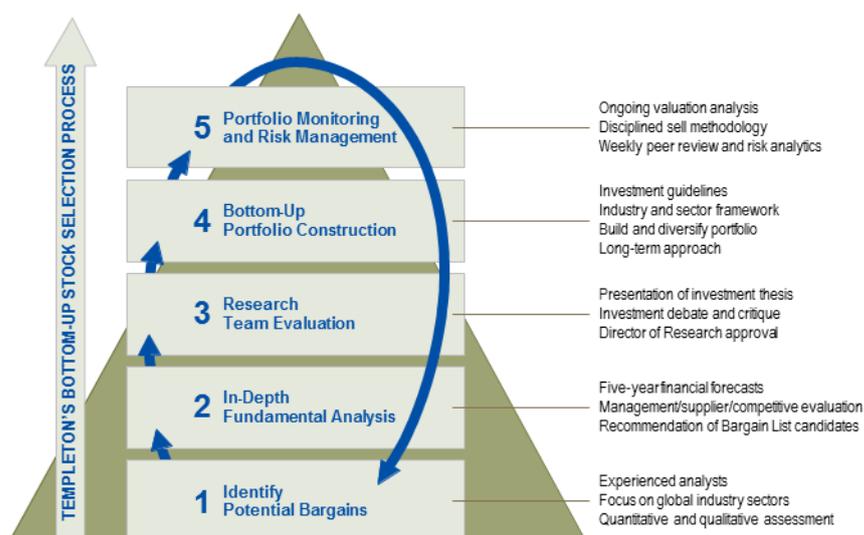


■ Templeton Global Growth Fund Ltd  
■ MSCI All Country World Index

## TEMPLETON INVESTMENT TEAM

TEMPLETON GLOBAL EQUITY MANAGEMENT TEAM	Years with Firm	Years Experience
Norman Boersma, CFA, Chief Investment Officer	24	30
Heather Arnold, CFA, Director of Research	11	32
Cindy Sweeting, CFA, Director of Portfolio Management	19	32
Peter Wilmshurst, CFA, Portfolio Manager/Research Analyst	18	23
TEMPLETON GLOBAL EQUITY TEAM	Number of Members	Average Years Experience
Portfolio Managers/Analysts	26	23
Research Analysts	10	11

## TEMPLETON INVESTMENT PHILOSOPHY AND PROCESS



### Templeton's Investment Philosophy

Templeton's investment philosophy is built upon a disciplined, yet flexible, long-term approach to value-oriented global and international investing. This time-tested approach is based on three tenets:

#### Value

Templeton seeks companies that it believes are trading at a discount to what their research indicates the company may be worth.

#### Patience

Security prices can fluctuate more widely than underlying security values. In Templeton's opinion, market efficiencies should recognise and correct these security prices over time.

#### Bottom-Up

Templeton identifies value through rigorous fundamental analysis of a company's business to determine what we consider its economic worth based on projected future earnings, cash flow or asset value potential.

## COMPLIANCE STATEMENT AND OTHER INFORMATION

Benchmark: The MSCI AC World Free Index is the primary benchmark. The benchmark is used for comparative purposes only and is provided to represent the investment environment existing during the time periods shown. The index is unmanaged and one cannot invest directly in an index.

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### Explanatory Notes:

- Periods of more than one year are annualised.
- Returns are based on movement in the Company's net assets per share (after deducting investment management fees), before all taxes, with dividends reinvested and adjusted for share issues and buy-backs.
- Source: Morgan Stanley Capital International (MSCI). All MSCI data is provided "as is." The Fund described herein is not sponsored or endorsed by MSCI. In no event shall MSCI, its affiliates or any MSCI data provider have any liability of any kind in connection with the MSCI data or the Fund described herein. Copying or redistributing the MSCI data is strictly prohibited.
- Estimated tax on unrealised gains.
- Top ten holdings represent the 10 largest equity holdings at the end of the quarter, and may not reflect the current or future portfolio holdings. This does not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities listed was or will be profitable. Holdings of the same issuer have been combined.

## IMPORTANT LEGAL INFORMATION

All investments involve risks including loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their smaller size and lesser liquidity. While stocks have historically outperformed other asset classes over the long term, they tend to fluctuate more dramatically over the short term. The use of derivatives and foreign currency techniques involve special risks, as such techniques may not achieve the anticipated benefits and/or may result in losses. Templeton Global Growth Fund Ltd. (ABN 44 006 558 149) issues this document with the intention to provide general information only and not investment or financial product advice. It does not take into account the individual objectives, financial situation or needs of any recipient. Nothing in this update should be construed as investment advice. Franklin Templeton Investments have exercised professional care and diligence in the collection of information in this recording. However, data from third party sources may have been used in its preparation and Franklin Templeton Investments has not independently verified, validated or audited such data.

**Past performance does not guarantee future results and results may differ over future time periods.**