

Templeton Global Equity Income Fund Fourth Quarter 2009

Overview

- Equities saw modest gains over the quarter as economic activity firmed and corporate earnings exceeded forecasts, offsetting a modest head-wind from bond markets.
- For the quarter ended 31 December 2009, the fund rose 1.81% (net in U.S. dollars). The fund's benchmark, the MSCI All Country World Index, rose 4.72% (also in U.S. dollars).
- Strong contributions from PaperlinX preference shares, integrated oil holdings and Microsoft did not offset disappointments from European telecoms and financial stocks.
- A position in European forestry was sold, while a UK insurer, a U.S. consumer products business and an Australian transport infrastructure operator were added to the portfolio.
- Entering the New Year, the background for equities appears supportive, although necessary reductions in economic and monetary stimulus may present a challenge going forward.

Market Review

After a brief decline in October, global equities regained momentum, rising in November and December to complete their third consecutive quarter of positive returns and best annual performance in six years. Reported data continued to indicate incremental improvements in global economic variables and corporate profitability. In the United States, jobless claims and durable goods orders improved, and the economy expanded modestly after its worst recession in six decades. European economic conditions also improved, largely on the back of an export recovery in Germany and France. In Japan, industrial production rebounded and the government said the economy would expand for the first time in three years. The ongoing recovery in the developing world was even more dramatic. Spurred by organic demand recovery and official stimulus, equities reflected optimistic expectations for sustained economic recovery and returned over 80% in Brazil, Russia, India and China during 2009 (in local currency terms).

Performance Review and Contributors to Performance

The energy sector provided the strongest returns for the fund in the fourth quarter. European integrated oil stocks Total and BP enjoyed strong December performance on rising oil prices and a weather-related boost to demand. In materials, PaperlinX preference shares gained significantly over the quarter on plans to sell or close the company's remaining manufacturing capacity, which will leave it a pure paper merchant business. Software giant Microsoft Corp. rose as third-quarter profits exceeded market expectations and strong demand for the Windows 7 operating system fueled optimism about other new product launches due in 2010. U.S. drug giant Pfizer enjoyed solid performance as concerns about U.S. health care reforms eased and investors factored in savings, notably in research and development, from its acquisition of

smaller rival Wyeth. South African furniture retailer JD Group rallied in December on results showing that its new business model was operating well.

In contrast, the fund's European telecoms generally disappointed. Telekom Austria was hit particularly hard after a profit warning in December that suggested a severe weakening in margins for its eastern European operations. A planned share buy back was shelved, although the generous dividend was maintained. France Telecom saw flat performance on concerns that the issue of a new mobile license in its home market would hurt profit margins. Similar concerns also affected French media/telecoms business Vivendi, where an unwelcome Brazilian telecoms acquisition also affected sentiment. Elsewhere, Dutch banking group ING fell on concerns about the degree of restructuring imposed by the European Union as the price of state aid, along with substantial capital raising. Italian bank Unicredito saw profit-taking after strong summer performance as concerns mounted about regulatory change and weakness in its eastern European markets. A capital raising exercise also dampened investor enthusiasm.

Strategy and Activity

A position in European forestry was sold, while a UK insurer, a U.S. consumer products business and an Australian transport infrastructure operator were added to the portfolio. The most significant overweighted allocations were to telecommunication services, health care and consumer discretionary, while underweighted allocations to consumer staples, materials and financials reflected a lack of clearly attractive yield and valuation opportunities in those sectors.

Investment Outlook

While conditions in financial markets and the global economy have undoubtedly improved since the beginning of 2009, the swift and sharp recovery in equities has been largely driven by a revival of optimism. It has been the implicit guarantee by global governments to underpin the financial system, rather than a dramatic or broad-based improvement in economic or business fundamentals, that was the main impetus to the market's dramatic rally since the March trough. As these guarantees are withdrawn and global economies are forced to stand on their own, the current disconnect between value and share prices should lessen, with markets becoming far more discriminating going forward. In such a climate, we believe it is more important than ever to focus on companies with the financial strength to thrive regardless of economic conditions. At Templeton, we continue to use bottom-up equity analysis to uncover these promising value opportunities for long-term investors. We remain encouraged by the bargains that still exist among high-quality, financially resilient and historically undervalued stocks in a number of industry sectors.

Fund performance as of end of period under review:

	1-mth	3-mth	6-mth	1-year	3-year	5-year	Since Launch (27/05/05)
Total Return	1.4%	1.8%	25.2%	31.5%	-21.4%	N/A	4.9%
AACR ¹	N/A	N/A	N/A	24.9%	-9.3%	N/A	-0.1%

Source: Franklin Templeton Investments. Fund performance computed in share class currency, on NAV-NAV basis and dividends reinvested.

¹ Average annual compounded return of Fund, taking into account relevant initial sales charge.

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