Pax World Balanced

Discussion with Management

Background

The Pax World Balanced fund is a global balanced investment vehicle managed with a socially responsible investment (SRI) theme. Over the past year, the fund has underperformed its Moderate (60/40 equity/fixed income) benchmark by a fairly wide margin, -8.19%. Heintzberger Payne interviewed portfolio manager Chris Brown, who has managed the fund for around 14 years to discuss the fund's strategy, SRI screen, and current positioning in order to evaluate the fund's appropriateness as an investment alternative in a DC plan.

		QTR	YTD	1Yr
Pax World Balanced	Mutual Fund	-3.87	4.97	-2.35
S&P 500	Large Companies	-2.75	9.49	5.45
S&P 600	Small Companies	-3.58	7.98	1.44
Barcap Aggregate Bond	Fixed Income	2.06	1.75	6.83
MSCI EAFE	Foreign	-7.13	2.96	-13.83

Themes

The fund invests in a consistent manner with several themes, which shape the top-down allocation process. Currently, there are several themes in the portfolio including large cap dividend payers, agriculture, water scarcity, energy efficiency and mobility. According to management, agriculture has been a consistent theme in the portfolio for about 8 years, and mobility has been a longer-term focus as well, though Apple was only recently added to the portfolio.

Portfolio, Management and Construction Process

Management: Portfolio manager Chris Brown, has been at the helm of the Pax World Balanced fund for 14 years. He is supported by a staff 6 portfolio managers, 2 equity analysts and 2 fixed income analysts. Equity analysts specialize in specific sectors.

Allocation Ranges: Historically, the fund has allocated between 50-75% to equity, 15-20% to foreign stocks and 20-25% to small and mid-cap companies. In recent years, the fund has held a slightly more aggressive allocation compared to its peers, with an equity allocation near 70%. This overweight to equity would be consistent with the fund outperforming its peers during a market rally and underperforming when equity markets post larger losses than fixed income.

Equity Construction Process: The fund follows a top-down portfolio construction process, as opposed to a bottom-up process. The primary driver of the fund's performance is intended to be the allocation between stocks and bonds, although the fund has averaged a 70/30 stock/bond ratio for the past several years. Sector weights and themes drive the stock selection process, and a socially responsible screen is applied to the companies before they are added to the portfolio.

Stock Selection: The fund's analysts and the Portfolio Manager rely on stock screens to identify individual names for the portfolio based on individual stocks' relative values. Screens may include criteria of the price/earnings growth ratio, return on equity, return on assets, price/sales ratios, and sometimes the enterprise value to EBITDA ratio. A discounted cash flow analysis is conducted if needed. HPA was able to confirm that the fund does not employ a separate screening process for Growth stocks compared to Value stocks. Additionally, the fund has demonstrated a growth tilt since at least 2004, though this is common consequence of SRI investing due to the types of companies typically excluded.

Fixed Income: The fixed income portion of the portfolio is actively managed and intended to reflect the performance of the Barclays Capital Aggregate Bond Index, without significant focuses on large duration relative overweights or underweights. Fixed income sector selection relative to the benchmark is the method by which management attempts to generate outperformance. According to management, the fund has seen a degree of underperformance due to the slightly conservative duration position relative to the benchmark in the fixed income portfolio as the yield curve has flattened and Treasury yields have fallen. Additionally, an underweight to Treasuries has impaired relative performance. Management avoids high yield bonds in the fixed income portfolio, which may impair performance on a peer-relative basis.

Socially-Responsible Criteria: The fund's management uses a set of criteria that consider environmental, social and governance factors that are applied to companies in all sectors and countries. Consequently, the fund does not invest in defense contractors, tobacco companies, or businesses that engage in unethical practices. According to Brown, the fund also tends to "avoid the obvious, such as companies in Darfur, and investments in Iran and North Korea."Only about 65% of the companies pass the socially responsible screen (if analysts did not pre-screen, then the pass rate would probably be in the 50% range according to management). Additionally, management admits that not all companies are perfect, and the fund will at times add companies that are "best in class," while encouraging management to adopt more stringent socially responsible practices.

Performance

Peer relative performance: According to management, several sources of underperformance have caused the fund to lag relative to its benchmark and/or peer group. These sources are:

- A 10% equity overweight relative to its peer group and benchmark during down markets.
- Apple, Inc. was only recently added to the portfolio and caused underperformance relative to the benchmark and peers.
- A short-duration position in fixed income eroded benchmark-relative performance.
- An aversion to high yield when compared to the fund's peer group has caused peer-relative underperformance.
- An underweight allocation to Treasuries in fixed income eroded benchmark-relative performance.
- The following sector overweights impaired performance on a peer relative basis in stocks: industrials, energy, consumer defensive and consumer cyclicals.

Stock selection: Despite peer- and benchmark-relative performance, the S&P 500 is up 5.45% over the past twelve months, and the Barclays Capital Aggregate Bond Index is up 6.8% over the past twelve months. Despite positive performance for both stocks and bonds, the fund is down -2.45% for the same period of time. The fund's management attributed the -8.2% difference (relative to the 60/40 moderate index) to stock selection and noted that the following names were the largest detractors: Ford, Nintendo, Ingredion, Statoil and Baker Hughes.

Conclusion

HPA has not identified any individual characteristic of the fund or its construction process that has demonstrated a compelling reason to hold the fund.

Management cites its primary means of outperformance generation as identifying the appropriate mix between stocks and bonds, but for several years has kept its allocation fairly static around 70%. For calendar years since at least 2004, with the exception of 2008, the fund has remained within around +/-3% of a 70% equity allocation. The portfolio has, however, remained fairly active within equity sectors and in allocating between the United States and Foreign Stocks while remaining fairly consistent in terms of market capitalization exposure. Since 2004, for example, the fund's Information Technology allocation has ranged between 11-18%, Industrials 8-12%, Healthcare 5-12%, and Consumer Defensive 4%-14%.

Although the fund has performed well in years past, stock-picking has dragged on performance in more recent periods. Despite the relatively-static nature of the stock/bond composition for the fund, 13-year veteran Chris Brown does seem to have the ability to rotate sectors to generate outperformance at times. However, based on the large performance miss attributable to stock selection, we would want to see improvements to the fund's bottom-up selection process before continuing to recommend it in the context of a Defined Contribution Plan. Consequently, HPA's recommendation is to replace or consolidate participants' investments in the fund to a fund with similar stock and bond exposure, with a well-defined selection process.

Alger Spectra (ASPIX)
Strategy Overview
June 2012

Category: US Large Growth
Expected Volatility Level: High
Main Types of Holdings: The common stock of large US companies in high-growth areas of the economy
Typical Range of # of Holdings: 80-120

Alger Spectra is a US large cap growth stock fund that can provide investors with exposure to companies with attractive prospects for economic growth and expansion.

Strategy Summary: Alger Spectra

Alger Spectra is a US large cap growth fund that focuses on companies that are experiencing or are expected to experience above-average earnings growth, and that reinvest their earnings into expansion, acquisitions, research and development. The Alger approach targets companies undergoing Positive Dynamic Change, which management associates with two distinct parts of a company's growth cycle. The first is when a company is "coming of age," and experiencing strong growth of sales and market share. The second is when a company becomes poised for a second stage of expansion, generally due to an internal or external positive catalyst. The fund is categorized as a US Large Cap Growth option, but management will typically include some mid- and smaller-sized US companies when they find compelling opportunities.

Growth investing can be useful to investors seeking exposure to companies or industries with innovative products that may become an important part of the economy. While such companies often trade at high valuations relative to their more established peers, the potential for growth can validate the premiums at which they trade.

The Alger Spectra Fund was founded in 1969 as a means to provide investors with exposure to growth investing, in contrast to the more prevalent style of classical value investing. Alger Spectra is considered the flagship fund of the Alger investment shop, which incorporates the highest conviction growth stocks that analysts recommend across all strategies.

The fund's lead manager Patrick Kelley joined Alger in 1999 as an analyst and became portfolio manager in 2004. Under Kelley's direction the fund has amassed impressive performance, though it has occasionally been punctuated by substantial declines during market corrections. Kelley is supported by a team of over two-dozen investment professionals including analysts, portfolio managers and quantitative risk managers. While Kelley has final responsibility for decision-making, the idea-generation, due diligence, price-targeting and research falls squarely on Alger's staff of analysts.

Quick Facts

- A large cap growth fund emphasizing companies that are experiencing Positive Dynamic Change
- Substantial analytical depth in high-growth areas of the economy
- Very long-term record of identifying and analyzing growth stocks
- The fund has the ability to short stocks
- High upside in rising markets, but can lose ground in economic downturns
- Managed by Patrick Kelley since 2004
- Growth holdings typically trade at higher valuations than most peers
- Net Expense Ratio: 1.32%

Investment Philosophy

Alger Investment Management is deeply rooted in the analysis of growth investing. Fred Alger founded the company in 1964 on the basis that value investors were overlooking opportunities found in growing companies. Alger Spectra is managed according to the underlying philosophy that companies undergoing Positive Dynamic Change offer the best investment opportunities. The companies experiencing Positive Dynamic Change early in their life cycles are generally experiencing growing demand, high free cash flows, acquiring greater market share, and otherwise dominating their markets. Analysts seek out companies that are exhibiting indicators of growth, such as a product that is gaining fast market acceptance within a business line that is becoming a greater part of the economy. Established growth companies are typically those that have matured past their initial growth phase, have since decelerated in earnings growth, but appear poised to enter a second leg of expansion and earnings acceleration. In this stage of the growth cycle, analysts identify companies with a growth catalyst, such as product innovation, beneficial regulations, superior management, or acquisitions. This emphasis on identifying companies that appear attractive from a forward-looking business perspective gives the fund a definite tilt towards growth stocks.

The fund is designed to incorporate all the best investment opportunities that Alger analysts are finding across all market capitalizations. As such, the fund can include exposure to mid- and small-sized companies, though management typically anchors the portfolio in large and mega-cap stocks (usually roughly 70% of the fund's stocks are US Large Caps). Stocks are typically sold as soon as they reach their target price, when better ideas are uncovered, or when company fundamentals deteriorate. Selling decisions are completely determined by Patrick Kelley, though analysts can provide their input.

The fund has the ability to sell short up to 10% of the portfolio. In "shorting" a stock, an investor borrows shares from a custodian and sells them in the open market with the agreement to return the shares when they buy them back later, presumably at a lower market price (this is equivalent to betting a company will decline in value). Management will generally short companies they believe are facing long-term structural challenges, and may invest the proceeds in companies in the same industry in which they have higher conviction (this if often referred to as a "pair trading"). The fund's short exposure is not necessarily a forecast on the broader stock market, but is rather an incremental attempt to add value. Short positions are typically very small and diversified in order to limit risk. While historical fund performance has been strong, it should be noted that a pairs trade can introduce additional downside risk if both positions move in the direction opposite of what is anticipated.

Fund Management

Research is the core of Alger's competitive edge, and analyst recommendations are the sole basis for ideas coming into the portfolio. Analysts undergo an intensive two-year training program in which they learn how to perform research, analyze financial statements, and identify attractive growth companies from Alger's Positive Dynamic Change perspective. Alger will also seek out personnel with professional experience working within a given sector to cover their areas of expertise.

Management believes that sector specialization best allows analysts to identify and analyze compelling growth companies. The result is an analytical team organized by economic sector, with the majority of the analytical base concentrated in growing sectors of the economy such as information technology and healthcare. Lead manager Patrick Kelley can only purchase stocks that analysts have recommended, but must approve a recommendation in order for it to become a portfolio holding. Analysts are tasked with identifying attractive investment opportunities, and calculate three separate financial models (a bull, bear, and base case scenario), with associated price targets and probabilities for each scenario. Analysts are incentivized to provide stocks that can outperform over a 12-18 month horizon and their compensation is based in part on the performance of their recommendations, regardless of whether they make it into the portfolio.

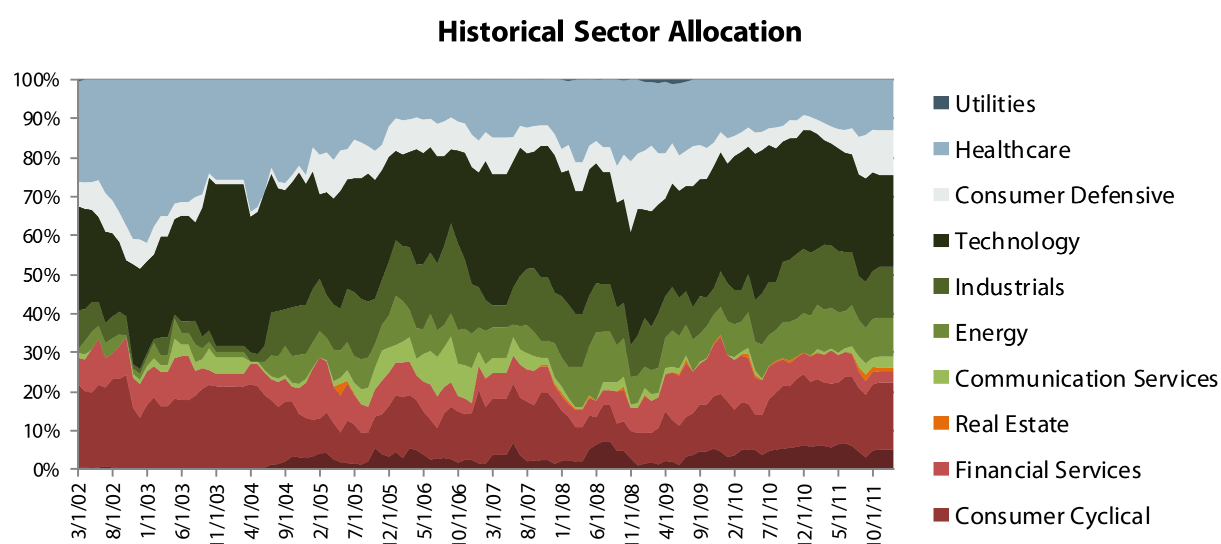
Analysts and portfolio managers have formal meetings on a weekly basis during which analysts pitch their ideas to the entire investment team and respond to questions and criticism. Portfolio manager Patrick Kelley regularly reviews the analysts' valuation reports, ranking the underlying stocks according to their expected return relative to their range of probable outcomes. He then combines the best ideas and uses them to construct an "optimal" portfolio, emphasizing companies that analysts perceive to have the greatest upside potential.

Kelley also reviews various "look-through" portfolio valuations (such as stock price relative to earnings, enterprise value relative to free cash flow, and many others) to evaluate the portfolio's exposure to various industries as well as other risk-factors. Alger's quantitative research team provides an additional layer of risk-analysis and generates weekly reports detailing which market factors have the most impact on the portfolio, bringing a broad range of risk exposures to management's attention.

Alger's well-defined investment philosophy and team structure centers around the collective abilities of its team of analysts, rather than a star portfolio manager. Our conversations with fund personnel and reviews of fund literature all indicate that the shop views analyst contributions as its primary driver of investment value. Interestingly, we reviewed past personnel turnover and have found that Alger tends to have fairly high turnover on the junior and associate level. Often times analysts will complete the Alger analyst training program and leverage the background to pursue new opportunities in finance, such as with hedge funds (where compensation is typically higher), though some departures are for personal reasons. To provide analysts and managers with a greater stake in the company, Alger recently instituted a program providing senior partners with an equity stake in the firm. Patrick Kelley, for example, is a part-owner and receives a dividend from firm profits. Otherwise the firm is entirely independently owned by the Alger family.

Types of Holdings

Alger Spectra is managed in a "benchmark aware" manner but is not heavily constrained to the allocations of its prospectus benchmark (the Russell 3000 Growth Index). The portfolio typically stays close to fully invested in growth stocks and on average holds roughly 5% of assets in cash, with the remaining 95% allocated to large-cap companies, though management will also hold meaningful positions in mid- and small-cap stocks. The fund can hold up to 20% in foreign stocks, though the range has typically been closer to 5 to 10%. Historically the fund has been moderately concentrated, at most. The percentage of assets in top 10 holdings usually ranges between 25-40%, while the number of stock holdings has ranged anywhere from 50-150. No more than 40% of assets can go into any one sector, and individual stock positions are limited to 5% of total assets. Sector allocations are typically within 5 to 6 percentage points of the Russell 3000 Growth Index.



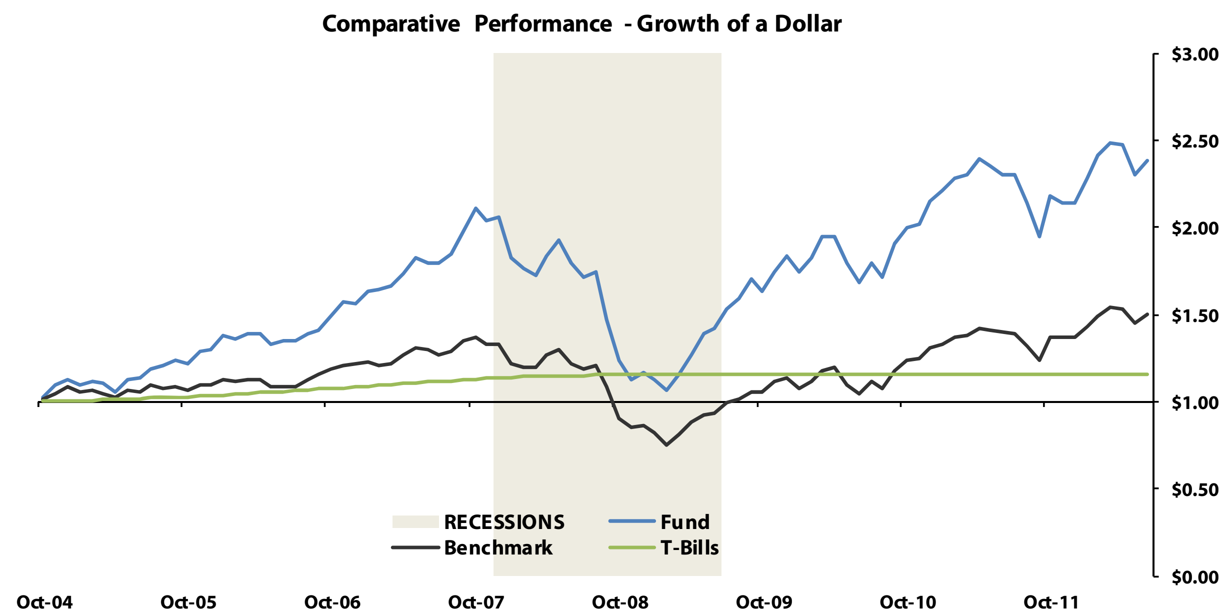
Management tends to tilt the portfolio towards sectors they believe have the greatest growth potential. For the past several years the majority of the fund's assets have been in the information technology and healthcare sectors, areas where Alger Spectra has the most analytical staff. The fund typically has little if any exposure to communications and utility stocks, areas where companies seldom meet Alger's screening criteria.

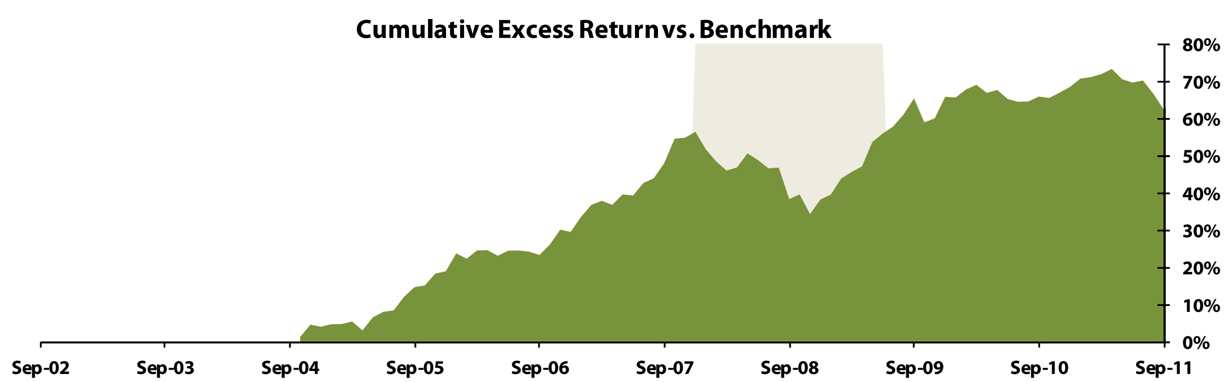
Risk and Return Profile

Alger Spectra typically has performed very well to the upside, though it has some downside risks. Under Kelley's management the fund has provided impressive and consistently strong performance that appears to be indicative of active management skill rather than any single variable swinging in the fund's favor. Fund performance has been strongest in cases when the financial climate is relatively calm and business conditions are becoming more favorable (as exhibited by falling volatility, falling corporate borrowing costs, or small-cap stocks outperforming). The strategy has also provided positive returns with greater frequency than most of its peers.

Under current management, the fund has done quite well to the upside with a greater frequency of positive returns compared to the S&P 500 Growth Index and category average. While the fund's average negative return has been larger, the fund has not experienced negative returns as frequently as its benchmark or peers. Additionally, performance has not been particularly sensitive to which investment style (growth or value) was in favor at a given time and has been strong in both cases.

One area for caution is the fund's downside volatility, which under most cases is higher than that of its peers. The chart and tables below show the performance over the past ten years compared to the S&P 500 Growth Index and the category average for US Large Cap Growth funds. During most years, particularly under Kelley's management, the fund has handily outperformed both the benchmark and the category average. Years 2002 and 2008 however, both show that the fund has entailed more downside risk than its peers and therefore may be best suited for more aggressive portfolios with longer time horizons. It is also worth noting, that the fund has been much quicker to recover losses, and has provided a better "round-trip" performance albeit with high volatility.





Summary Information

Alger Spectra is a US Large Cap Growth fund that draws heavily on the contributions of its underlying analysts in order to identify attractive growth prospects. The fund may be an effective vehicle for investors seeking capital appreciation (as opposed to current income) and exposure to companies with bright possibilities for economic growth and expansion.

In most markets, this fund has been able to provide attractive upside potential but investors should be fully aware that it has occasionally entailed higher volatility than most of its US Large Growth peers and has endured some meaningful losses. While overall performance has been very competitive, the fund is likely best suited for investors with a long-term time horizon and the ability to endure some volatility along the way.

Share Classes Available

Share Class	Ticker	Total Fund Operating Expenses	Short Term Redemption Fees	Minimum Investment	
				Retirement Accounts	Non Retirement Accounts
I	ASPIX	1.32%	None	$0 Waived for HPA Clients	

Share Class data as of the March 2012 Prospectus.

Pros vs. Cons and Possible Uses for Investors

	Asset Class	Alger Spectra (ASPIX)
Advantages	Gain exposure to innovative companies with high growth potential. Dynamic growth companies can offer tremendous upside, particularly in an expanding economy, as their products gain acceptance.	Alger Spectra has substantial analytical depth in high-growth areas of the economy and a very long-term record of identifying and analyzing growth stocks. Very high upside participation in rising markets.
Disadvantages	Can endure abrupt reversals if earnings do not live up to expectations. Growth stocks often trade at relatively high valuations, making them seem “expensive” relative to value stocks.	The fund has lost ground during economic downturns, such as the internet bust or the financial crisis. Alger Spectra’s holdings have typically traded at higher valuations than its US Large Cap Growth peers or the broader US stock market.

Use of US Large Cap Growth Stocks in a Portfolio

US Large Cap Growth Stocks can be used as a capital appreciation investment for long-term investors. Since performance depends largely on an underlying company's ability to successfully manage their growth prospects, avoid over-investment, strategically expand into fertile markets, and benefit from an economic background that is supportive, they are heavily dependent on a number of variables going in their favor. While the upside prospects for successful growth investing can be lucrative, they do entail risks that are typically more substantial than established, blue-chip companies that pay high dividends. As such, they are generally better suited for longer-term investors with some risk-tolerance that are not heavily-reliant on current income.

First Eagle Overseas Fund Strategy Overview June 2012

Category: Foreign Value
Expected Volatility Level: High
Main Types of Holdings: Large and Mid-sized Foreign Stocks
Typical Range of # of Holdings: 125-175

The First Eagle Overseas Fund is a foreign value fund that seeks long-term capital growth through investing primarily in foreign equities.

Strategy Summary: First Eagle Overseas Fund

The First Eagle Overseas Fund is a diversified foreign investment fund seeking long-term capital growth and the preservation of investor purchasing power. The fund's investments in foreign companies have historically provided a return stream that added diversification to an investment portfolio as well as exposure to growth outside of the US market. In addition, the fund may invest in companies based in emerging markets and provide access to the growth of the middle class in those markets. Management uses a bottom-up investment approach, and seeks to minimize risk by investing in companies trading at a discount, or as First Eagle calls it, a margin of safety to their intrinsic value. The management team is comprised of Matthew McLennan and Abhay Deshpande along with Kimball Brooker, Jr., who was added as an associate portfolio manager in early 2010. The strategy is supported by First Eagle's Global Value Team consisting of six additional seasoned portfolio managers to add insight to the strategy (including former Portfolio Manager of the Overseas fund Jean-Marie Eveillard) as well as an eleven person analyst department to assist with research duties.

The strategy invests at least 80% of its assets in equities issued by non-US corporations in both developed and emerging markets, and can have up to a 20% allocation in fixed-income. A unique feature of the strategy is the fund's allocation to cash as well as a significant holding in gold (both mining companies as well as directly in gold bullion). Gold is thought of as a hedge and store of value within the portfolio: as the price of gold increases, managers will sell positions to maintain a strategic level of gold without allowing the position to gain weight in the portfolio. The fund also buys derivatives to hedge against exchange rate fluctuations and to maintain stable growth of capital without additional volatility caused by currency.

Investment Philosophy

Fundamentally, the fund seeks a value approach, striving to achieve a margin of safety by making purchases with the goal of avoiding permanent capital impairment. Management achieves this by purchasing investments at a discount to what they perceive as the investment's intrinsic value. As long-term investors,

Quick Facts

- Fund invests in large and midcap foreign securities
- Focuses on long-term capital protection
- Uses cash allocation strategically and is not always fully invested
- Fund has exposure to gold bullion and gold mining companies
- Looks to purchase stock at a margin of safety to avoid permanent losses
- Provided positive returns in 17 of last 18 calendar years
- Uses basics of value investing to select securities within the portfolio
- Expense Ratio: 0.92%
- Managed by a team of 3; supported by a Global Value Team and eleven analysts
- STRF of 2% for 60 days

the strategy does not focus on top-down economic strategies, but instead relies on their fundamental investment analysis that seeks to invest in companies with favorable competitive positions, the potential for healthy cash flows, prudent management, strong balance sheets, and most importantly, modest prices. In addition to adding value by seeking out temporarily undervalued investments, the fund utilizes a number of other methodologies, including arbitrage transactions, cash holdings, investments in gold and derivatives to hedge currency risk.

Currency exchange transactions serve as hedges against possible variations in the exchange rates between currencies held in the portfolio and the U.S. Dollar. The fund's currency transactions may include transaction hedging and portfolio hedging involving either specific transactions or portfolio positions. Management does not implement forward contracts to speculate on changing exchange rates rather to protect existing position against volatility.

First Eagle uses five key principals to minimize downside variance. Key principals include Margin of Safety, Diversification, Avoidance of High Leverage, Balanced Portfolio and Protection Against Extreme Outcomes. By combining these five elements management has been able to minimize the permanent loss of capital to investors over time. The fund has produced positive returns in 16 of the last 17 calendar years. Below is a brief description of each element.

Element	Description
Margin of Safety	Attempt to not overpay for assets, look to pay for sustainable earnings levels and not peak earnings
Diversification	Widely diversify across businesses, industries and countries since non-systematic risks may be minimized
Avoidance of High Leverage	Avoid situations of high leverage, which can leave companies vulnerable to catastrophic failure in adverse circumstances
Balanced Portfolio	In addition to stocks, hold fixed income and cash to defend against extended deflationary periods. Also purchase real asset businesses to offset an inflationary environment.
Protection Against Extreme Outcomes	Keep a portion of portfolio in hard assets to protect against disorder and adverse macroeconomic circumstances

First Eagle utilizes a purely bottom-up research process relying on strong company fundamentals rather than speculating on economic developments or future market movements. By pursuing investments in good businesses that can be acquired at discounted prices, the strategy seeks to establish a margin of safety in their process. Although they remain aware of the macro environment and seek to factor those risks into their investment decisions, ultimately the strategy seeks to be macro-event agnostic and sees market volatility as an opportunity to acquire good companies at discounted prices.

When selecting the underlying stocks within the portfolio, management focuses on three major factors related to a company's health: earnings potential, sustainable earnings, and management rationality. Below is a table outlining the fund's three guidelines for selecting strong, high-quality investments.

Guideline	Description
Earnings Potential	The value of a business depends ultimately on its cash flow, which should coincide with a business's accounting earnings. First Eagle calculates an estimate of sustainable average earnings without making any provision for future growth potential. By treating growth separately, it isolates earnings estimates from the uncertainties associated with future growth rates. Earnings in any particular year may be volatile and affect profit margins far more than they affect sales. Thus, average profit margins are estimated over the full range of a business cycle, five to ten years.
Sustainable Earnings	First Eagle estimates how sustainable the historical average earnings level is likely to be in the future. In a market economy, sustainable earnings must be protected from competitive erosion either by the cost of the assets necessary to produce those earnings or by economic conditions that produce barriers to entry. Therefore, after calculating average earnings, the second focus is on identifying either asset protection of those earnings or, in the absence of asset protection, identifiable and reliable barriers to entry. Though First Eagle always looks for adequate asset protection, if margins are stable or rising over time and there has been little or no effective entry into the markets by a competitor, earnings may be sustainable without the necessary level of asset protection.
Management Rationality	The Portfolio Management Team seeks to measure how well company specific management redeploys earnings. There are instances when management reinvests earnings at returns below those that investors require. They often do this in pursuit of their own goals, such as prestige, growth for its own sake or survival. Some part of the value of earnings is then destroyed and intrinsic values are correspondingly impaired. First Eagle seeks prudent, not aggressive management teams, who make decisions that will benefit the business over the long term.

Fund Management

First Eagle Investment Management is the investment advisor to the First Eagle family of funds, as well as the assets of several corporations, foundations, major retirement plans and high-net-worth individuals, with a total of $38 billion under management. First Eagle utilizes a team approach to managing the five First Eagle Funds, with each portfolio being overseen by at least two managers. Matthew McLennan and Abhay Deshpande have served as the Overseas Fund's Portfolio Managers since September 2008 and September 2007 respectively, and Associate Portfolio Manager Kimball Brooker, Jr. has been with the strategy since March 2010. The Fund's pervious portfolio manager, Jean-Marie Eveillard, continues to serve in a senior advisory position in which he provides investment consultation and advice to the portfolio management teams and to senior management. McLennan, Deshpande, and Benepe, in conjunction with senior analysts and the firm's Director of Research, Professor Bruce Greenwald, are responsible for hiring, training and supervising the First Eagle Global Value Team's research analysts.

First Eagle Fund Management	Matthew McLennard, CFA	Abhay Deshpande, CFA	Kimball Brooker Jr. (Associate)	Rachael Benepe
Overseas Fund	September 2008	September 2007	March 2010	
Global Fund	September 2008	September 2007	March 2010	
US Value	September 2008	September 2008	March 2010	
Gold Fund		February 2009		February 2009

Matthew McLennan has 20 years of experience, is the head of the First Eagle Global Value Team and manages the Overseas Fund as well as two additional strategies in the firm. McLennan assumed these positions when he joined the firm in September 2008 after holding various senior positions with Goldman Sachs Asset Management in London and New York. While at his predecessor firm for over fourteen years, McLennan was Chief Investment Officer of a London-based investment team from 2003 to 2008 where he was responsible for managing a focused value-oriented global equity product. He also held positions from 1994 to 2003 that included portfolio management and investment analyst responsibilities for small-cap and mid-cap value equity portfolios.

Abhay Deshpande also manages the Overseas Fund, in addition to three other strategies. He has 20 years of investment experience and joined the firm in 2000, serving as a senior member of the First Eagle Global Value analyst team and portfolio manager for a number of accounts for the adviser. He assumed his current management responsibilities for the funds in September 2007 (February 2009 in the case of Gold Fund and September 2008 for the U.S. Value Fund). Prior to 2000, Mr. Deshpande spent three years as a research analyst with Harris Associates, investment adviser to the Oakmark Funds.

Kimball Brooker, Jr. has been an Associate Portfolio Manager of the Overseas Fund since March 2010, and holds the same position with two other strategies. In addition he is a member of the First Eagle Global Value analyst team. Brooker has 19 years of experience and joined the firm in January 2009. For the five years prior to that, he was Chief Investment Officer and Managing Director of Corsair Funds.

The portfolio managers are supported by a team of investment professionals, such as analysts, associate portfolio managers and trading personnel who assist with idea generation, research and operations. Ultimately, however, only the managers have final responsibility for the fund's investment decisions.

First Eagle employs the First Eagle Global Value Team to generate investment ideas and execute decisions for all of the firm's funds. The First Eagle Global, Overseas, U.S. Value and Gold Funds are founded upon the fundamentals of value investing. The funds are managed by First Eagle's Global Value Team and offer a fully complementary range of value-oriented investment options. While each fund has its own distinct investment mandate, all shares focus on discovering well-managed companies with conservative balance sheets priced below the team's estimate of the company's intrinsic value. Through prudent, bottom-up security selection with an emphasis on downside protection, the team creates a well-diversified portfolio. The Portfolio Managers' interests are aligned with shareholders as many members of both the Global Value Team and the firm's key employees are invested in the fund.

Compensation consists of a salary, a performance bonus and participation in a company-funded retirement plan, with the performance bonus representing an important portion of total compensation. The bonus, which is subject to agreed minimum amounts, reflects the investment performance of the funds and accounts managed, the firm's financial performance, and the individual's contributions to the firm. There is no pre-determined performance or other benchmarks for this bonus. The managers of the fund also manage pooled investment vehicles for which the compensation is in part based on the performance of the accounts. The statement of additional information discloses additional compensation for McLennan, specifically a performance-based bonus with respect to the investment returns of the Global Fund, and an employee forgivable loan. McLennan also received reimbursement for certain relocation and personal expenses.

Types of Holdings

The First Eagle Overseas Fund seeks to invest in companies located in foreign developed and emerging markets. Specifically, management seeks companies that have financial strength and stability, strong management, and fundamental value. The fund normally invests at least 80% of its total assets in foreign equity securities, which are selected without regard to the capitalization of the companies. Up to 20% of the fund may be allocated to fixed-income securities.

The fund may invest directly in precious metals (such as gold bullion), in the securities of companies in the gold mining sector, or purchase or sell gold related futures. The fixed income portion of the fund may be invested in securities that are below investment grade ("high yield bonds"), which are considered speculative and carry a higher risk of default. There are no restrictions as to the ratings of debt securities acquired by the fund or the portion of the fund's assets that may be invested in debt securities in a particular rating category, except for the overarching 20% fixed-income limit for the portfolio. The fund may also invest up to 15% of its net assets in illiquid securities.

The fund may use derivatives, such as futures contracts, options, swaps and other related products to preserve a return or spread on a particular investment, to protect against currency fluctuations or to protect against any increase in the price of securities it anticipates purchasing at a later date. The fund may enter into interest rate, currency and index swaps, and the purchase or sale of related caps, floors and collars.

The fund has an allocation to cash when management believes valuations are high, but also has the flexibility to enter a defensive strategy during which the fund may hold some or all of its assets in cash or high quality debt securities. This portion of the portfolio provides both a potential hedge against dramatic declines under negative conditions and liquidity to take advantage of the opportunities that such markets present.

Risk and Return Profile

As stated in the previous section, the fund has a structural allocation to cash, but also has the flexibility to enter a defensive strategy during which the fund may hold some or all of its assets in cash or high quality debt securities. This portion of the portfolio provides both a potential hedge against dramatic declines under negative conditions and liquidity to take advantage of the opportunities that such markets present. Although this tends to mitigate volatility as the fund is less susceptible to large market corrections, an investor should also expect to lag the benchmark during market rallies.

In an attempt to minimize unforeseen risks in holding the securities of a single issuer, the fund seeks to provide investment diversification. It is also the general practice of the fund to invest in securities with ready markets, mainly issues listed on US and foreign national securities exchanges. Although there is no restriction on the number of changes in security holdings, purchases generally are made with an intent to hold for the long-term and not for short-term trading purposes. The Fund's portfolio turnover rates for the fiscal years ended December 31, 2011, 2010, 2009, and 2008, were 12%, 20%, and 9% respectively. However, during rapidly changing economic, market, and political conditions, portfolio turnover may be higher than in a more stable period.

Over the trailing ten year period, the fund has outperformed its benchmark 53% of the time on a monthly basis. When the benchmark was down greater than -2% on the month, the fund outperforms 92% of the time. The fund has historically added value during large down-movements but provided muted returns in market rebounds. Its annualized three-year standard deviation is 12.53% compared to 21.47% for the benchmark. The fund has outperformed its benchmark in 61% of trailing 1-year periods and has had positive returns for 16 of the last 17 year calendar periods.

Since inception, the fund has had an upside capture ratio of 70.63%, and a downside ratio of 46.62%. As of October 2011, it has been in the top of its peer group for the trailing 1-, 2-, 3-, 5-, and ten-year periods. Although 2008 proved a rough year for markets, with the MSCI EAFE Value returning -44.05%, the fund was in the top 25% of its Foreign Large Value peer group and experienced a calendar year loss of only -20.75%. The worst peak-to-trough performance of the fund has been minus 31.91% and occurred over a 16 month period of time starting November 1, 2007. The fund recouped this loss over 19 months by September 1, 2010.

Summary Information

First Eagle Overseas is an excellent low volatility option to gain exposure to both developed and emerging market demand. The fund utilizes a Value investing approach to select companies trading at a discount or as First Eagle calls it "Margin of Safety." Although the fund has lagged during market rallies, management has added tremendous value with their strategy over a full market cycle by protecting to the downside. The fund gives investors relatively low volatility exposure to the asset class, but investors should have a long-term time horizon when investing in this fund as foreign developed stocks, foreign emerging stocks, and gold can each be volatile investments on their own.

Share Classes Available

Share Class	Ticker	Total Operating Expenses	Short Term Redemption Fees	Minimum Investment	
				Retirement Accounts	Non Retirement Accounts
I	SGOIX	0.89%	2% 60 days	$1,000,000 Initial $100 Subsequent	$1,000,000 Initial $100 Subsequent
A	SGOVX	1.14%	2% 60 days	$1,000 Initial $100 Subsequent	$2,500 Initial $100 Subsequent
C	FESOX	1.89%	2% 60 days	$1,000 Initial $100 Subsequent	$2,500 Initial $100 Subsequent

Notes: The STRF applies to amounts redeemed within 60 days of purchase. Any fees collected will be retained by the fund for the benefit of the remaining shareholders. Share Class data as of March 2012 Prospectus.

Pros vs. Cons and Possible Uses for Investors

	Asset Class (Foreign Investments)	The First Eagle Overseas Fund
Advantages	Potential to capture returns generated from growth outside domestic markets	Provide lower volatility exposure to growth within Foreign and Emerging economies
Disadvantages	Fluctuations in the US dollar exchange rate versus foreign currencies Risks related to investing in foreign countries, including less stable governments, tax structures, etc.	Tracking error related to the fund's structural allocations to cash and gold

Use of Foreign Investments

Foreign investments allow the investor to gain exposure to economic expansion outside of the US as well as to emerging markets' growing middle class. Investors should have a long-term investment horizon and be able to tolerate the higher volatility of a foreign investment within the context of a diversified portfolio.

Oppenheimer Developing Markets
Strategy Overview
June 2012

Category: Category
Expected Volatility Level: Level
Main Types of Holdings: Holdings
Typical Range of # of Holdings: Range

Oppenheimer Developing Markets is a Diversified Emerging Markets Stock fund that may provide exposure to companies that focus on growth in emerging markets.

Strategy Summary: Oppenheimer Developing Markets

Oppenheimer Developing Markets is categorized as a foreign stock fund focusing on emerging economies. Investing in emerging markets may expose investors to new sources of world demand and provide a hedge against the US dollar. The fund has been managed since May 2007 by Senior Vice President and lead portfolio manager Justin Leverenz, CFA. The fund will invest at least 80% of total assets in stocks of companies whose principal business activities are in at least three developing markets. Typically these securities consist of larger market capitalization companies, but the fund may also hold small- and mid-sized companies.

Investment Philosophy & Process

Oppenheimer's basic investment philosophy within the space is that the world will look towards emerging countries for economic growth. Management feels that these regions (which contain 65% of the world's population) will continue to grow and create a middle-class within their markets. The fund generates investment ideas and selects securities through its global equity team at Oppenheimer, which manages $60 billion. These themes then filter down into portfolio construction and the management team uses individual stock selection to add value through bottom-up stock picking.

Oppenheimer's team focuses on regions outside of the United States, Western Europe, Canada, Japan, Australia and New Zealand that have economies, industries, and stock markets that they believe will grow and gain stability. After this initial screen, a bottom-up analysis is performed to identify companies with attractive long-term growth prospects. Generally the team defines long-term growth opportunities as companies that have durable growth characteristics, high returns on capital, strong balance sheets, good management, and reasonable prices. Management believes these qualities within the emerging market space will identify investments with both a greater likelihood of survival and high long-term returns.

Quick Facts

- Invests in companies whose business activities are in at least three developed markets and that have long-term growth opportunities
- Portfolio built through bottom-up fundamental analysis
- The fund has historically protected to the downside
- Global equity team consists of seven portfolio managers and six analysts and are responsible for generating investment ideas
- Manager Justin Leverenz, CFA has managed the portfolio since May 2007
- Expenses:
  - Class N: 1.70%
  - Class Y: 1.00%
  - Class I: 0.89%

In addition to selection of securities, the manager monitors individual issuers for changes in valuation factors, which may trigger a decision to sell a security. Potential triggers of a sale would be a change in future growth projections, altered political environments, a change in upper management, or anything else that could impact a company's ability to grow and generate profits in the future. Management wants the portfolio to be limited to the equity team's best ideas, so they have the flexibility to replace names for other higher growth potential companies if needed. Although management has this ability, the fund typically has a low turnover ratio.

Fund Management

The lead manager of the fund is Justin Leverenz who has managed the fund since May of 2007. Leverenz spent three years as a senior global analyst with Oppenheimer, and has fifteen years of experience working as an international and emerging markets analyst. He worked in non-Japan Asia for roughly a decade working with Rajeev Bhaman (former eight year manager for the Oppenheimer Developing Markets fund 1996-2004) at the Oppenheimer Global Fund and has worked in emerging markets for more than 15 years. Leverenz had early exposure to emerging markets in college and graduate school, then began a career with larger equity research and trading firms in Asia by doing generalist analytical work (studying sectors and industries).

The fund leans heavily on Oppenheimer's Global Equity Team, from which all international, global, and emerging markets Oppenheimer strategies draw. The Oppenheimer international and global equity research teams work together providing analytical support without being segmented off by strategy. Investment ideas are generally shared by all international and global mutual fund strategies. This approach helps management find meta-themes to apply towards bringing companies into the portfolio. The Oppenheimer Funds Global Equity team focuses on several powerful themes that are thought to fuel future earnings growth around the world, which include mass affluence, new technology, and restructuring. These themes help narrow down the fund's company search by identifying firms that would benefit from these economic conditions before the team starts its bottom-up research on the individual stocks.

The Oppenheimer Global Equity Team consists of seven portfolio managers with an average of 21 years of industry experience and six additional analysts with an average of 8 years' experience. These individuals come from a range of backgrounds and together compile their ideas to support the various global strategies. The team includes three CFAs (including Leverenz) and two PhDs in Economics.

Types of Holdings

The fund mainly invests in common stock of companies located within emerging economies, which are defined as nations with social or business activity in the process of rapid growth and industrialization. Oppenheimer tends to hold between 100-140 securities, but has historically owned as many as 184. The fund does not focus on sector or geographic region weightings; however their bottom-up strategy often results in investments that are concentrated in certain sectors and regions. The fund will likely expand holdings in countries where interest rates are declining, as management believes this is where stocks are likely to outperform.

The fund can also invest in preferred stocks, convertible securities, US stocks, debt securities, and special situations, such as mergers, reorganizations, or restructurings. Additionally, the fund can invest up to 10% of their net assets in illiquid or restricted securities (the board can increase this limit to 15%). The fund's prospectus allows the use of hedging and derivatives such as options, futures, and forward contracts to allow the fund to increase or decrease exposure to certain markets or risks.

The fund typically uses a buy-and-hold strategy, which produces a low turnover ratio. When management adds a name to the portfolio it is based on future growth potential, which may take a few years to play out. Management has stated that it looks for companies that can double their stock price in five years, thus if their growth outlook remains high for the company they will not hesitate to hold the security if conditions have not changed or sell if they believe the industry's environment is unfavorable for the company. Management tends to pare down higher risk names when becoming defensive as risks within the market may become visible as issues in the economy play out. The number of holdings may vary depending on management's view of growth opportunities within the space.

Risk and Return Profile

The fund is designed primarily for aggressive investors seeking capital growth over the long term. Those investors should be willing to assume the risks of short term share price fluctuations and losses that are typical for an aggressive growth fund focusing on stocks of issuers in developing and emerging markets. That said, the fund has provided superb risk-adjusted returns compared to the index with a higher average annual return and less volatility. Historically, the fund has captured roughly 100% of the upside and provided protection to the downside by only capturing 88% of losses. The majority of alpha has been added during late cycles of bull markets and Oppenheimer's strongest returns have typically come during this time as well. This active strategy tended to perform well on a relative basis during market recoveries, as management does not sell severely beaten down stocks in a recession if they believe the stock has potential to double in five years. Rather than panic sell, the fund may view this as a buying opportunity to obtain heavier weights in particular positions at a discount.

Patience is a key piece of the fund's risk/reward characteristic as securities within the emerging market space tend to be more volatile. Management will focus on growth and its impact to longer-term risk/reward characteristics. If the fund has better investment ideas that provide higher future growth, then they will not hesitate to add or replace securities within the portfolio to compile management's best investment ideas.

Below are key historical risk/return statistics to illustrate where the fund has traditionally placed amongst its peers over the past ten years (from July 2002 to June 2012).

Statistics*	MSCI Emerging Index	Oppenheimer Developing Markets
Standard Deviation	24.68%	23.64%
Max Drawdown	-61.59%	-57.19%
Beta	1.00	0.93
Average Annualized Return	14.08%	17.83%

*Definitions:

Standard Deviation – Standard deviation is the statistical measurement of dispersion about an average, which depicts how widely a stock or portfolio's returns varied over a certain period of time.

Max Drawdown – The peak to trough decline during a specific record period of an investment or fund. It is usually quoted as the percentage between the peak to the trough.

Beta – Beta is a measure of a portfolio's sensitivity to market movements. The beta of the market is 1.00 by definition.

Average Annualized Return – The arithmetic mean of the total returns with respect to one year

Summary

The fund can be used, as part of a diversified investment portfolio, to gain exposure to new sources of global demand growth and provide a hedge against the US dollar. As compared to other asset classes, expect to see higher volatility, less liquidity, and greater uncertainty due to currency fluctuations, political environments and less developed securities markets. However, with proper investment selection, the fund can add value due to the mispricing of these risks. For the investor, the fund's objective is to maximize capital appreciation by investing in companies with high potential growth, which may fit the needs of an aggressive investor. The fund is not recommended for an investor seeking income. Historically the fund has been less volatile than the benchmark and typically performs well during late cycles of bull markets and market recoveries.

Share Classes Available

Share Class	Ticker	Total Fund Operating Expenses	Short Term Redemption Fees	Minimum Investment	
				Retirement Accounts	Non Retirement Accounts
N	ODVNX	1.70%	None	$500,000	N/A
Y	ODVYX	1.00%	None	$5 million	$5 million
I	ODVIX	0.89%	None	none	N/A

Notes: Share Class data as of December 2011 Prospectus.

Pros vs. Cons and Possible Uses for Investors

	Asset Class (Emerging Markets)	Oppenheimer Developing Markets
Advantages	• Exposure to new global demand • Hedge against U.S. dollar • Emerging Markets are less indebted than developed nations	• Focuses on companies with highest growth potential within the space • Invests in companies domiciled in emerging market economies • Management seeks companies with strong balance sheets that have room for growth
Disadvantages	• Volatile markets • High political risks • Lower liquidity	• Actively managed portfolio subject to greater stock selection risk • Invests in countries that have historically been known to have volatile political environments • Dramatic increases in fund flows, which may shrink investable universe

Use of Emerging Market Stocks in a Portfolio

Emerging market economies are expected to generate growth in global demand as developed countries plateau due to debt ridden governments and citizens. Emerging markets are considered to have high growth potential as these countries have not been consumed by debt and are attempting to establish a middle-class. In addition to exposure to new world growth, the asset class provides a hedge for investors against a potential decline in the U.S. dollar. Many of these countries' currencies are closely tied to commodities within the country and may combat currency deflation for U.S. investors.

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Templeton Global Bond
Strategy Overview

Category: **World Bond**
Expected Volatility Level: **Moderate**
Main Types of Holdings: **Global Government and Government Agency Fixed Income**
Typical Range of # of Holdings:**180 - 225**

Templeton Global Bond is a global bond fund that seeks to provide total return by investing in bonds issued by governments around the world.

Strategy Summary: Templeton Global Bond

Templeton Global Bond is a fund managing roughly $40 billion comprised of foreign investment grade government bonds and, at times, US bonds. The fund focuses on credit quality of global government debt, diverging interest rates, differing actions by central banks, and currency trends across the world. On the whole, the fund has outperformed both US Government and US High Yield bonds since inception (1/1997), and with less volatility than High Yield over the same period.

Generally speaking, global bonds can offer more diversification to a portfolio and can allow for investors to benefit from bonds backed by stable national issuers. Foreign bond exposure can help diversify US interest rate policy risk and take advantage of undervalued currencies relative to the US Dollar. Templeton's benchmark averse construction process and a global team of researchers focused in local markets attempts to amplify the typical benefits of global bonds in a portfolio.

Although the Global Bond asset category can be tracked by the BofA ML Global Government Bond Index, Templeton Global Bond does not construct itself with a strong eye toward the composition of the index, even though its performance is measured against it. As a result of the fund's unique construction process, it may face periods of relative underperformance and outperformance, historically this has been an advantage to investors in the fund.

Additionally, a diverse range of "bets" means that management does not allocate exposure based on one macro-economic view, a differentiating characteristic of the fund's process which has played out well in the very large Global Bond space. For example, instead of increasing allocation to the short or long end of the yield curve to slightly differentiate itself relative to a benchmark of a specific type of bonds (some funds do this), the fund maintains a well-diversified set of bets based on currency risk, interest rate risk, and credit quality. Some of these active bets and exposure to foreign currency can make Templeton Global Bond relatively volatile when compared to US Government and some US Corporate bond funds

Investment Philosophy

"We allocate the fund's assets based upon our assessment of changing market, political and economic conditions as well as our evaluation of interest rates, exchange rates, yield spreads and credit risks. We also selectively invest in emerging markets after extensive analysis and consideration of each country's economic prospects and political risks."

-Michael Hasenstab, Portfolio Manager

Benchmark Independence

Templeton Global Bond's track record stems, at least in part, from being run more independently of its benchmark than many of its peers. This allows for a more unique portfolio where higher-conviction positions are overweighted in greater proportion than those which would occur in a more benchmark-constrained portfolio. That being said, there are some constraints on Global Bond's positions including a 25% limit on non investment grade bonds; and it remains doubtful whether management of the fund would ignore large negative performance results relative to the benchmark. Other risk controls including Value-at-Risk are reviewed regularly by the fund's quantitative group

Local Research

In addition to its United States offices in San Mateo and New York, Templeton has a global research team with locations in Brazil, the United Arab Emirates, India, South Korea, China and the United Kingdom. Generally speaking, we view this as a favorable feature of the fund since investment research and idea generation can occur locally, where increased local-language information is available. Additionally, employees of the fund may have improved access to decision-makers including central bankers and policy-makers. For example, the fund recently added a South Korean member to its staff who had former involvement with the South Korean Central Bank.

Process

The fund seeks to identify diverging rates of growth between sovereigns, find investments that may benefit from these characteristics, determine the desired exposures, and create a portfolio within the constraints of a risk budget. Diverging economic growth rates and policies between nations may create opportunities in interest rates, currencies and sovereign credit issues.

The fund's investment process is designed to generate competitive returns in three areas: duration (interest rates), currencies, and sovereign credit. Within the fund, country analysis is focused on fundamentals, monetary and fiscal policy, macroeconomic conditions, and meetings with policy-makers. Macro modeling focuses on currency and interest rate valuations, trading, and opportunistic research consistent with the funds existing investment themes.

Combination of Top-Down, Bottom-Up and Quantitative Analysis

The fund combines top-down investment selection with bottom-up selection and quantitative analysis. Top-down asset allocation decisions are made by the fund's 16-member Fixed Income Policy Committee (FIPC), which meets weekly to identify favorable economic factors and global economic trends in currencies, interest rates, volatility and other global political and economic factors. Bottom-up security selection at Templeton is driven by sector teams, divided into the following groups:

- Corporate Credit (32 professionals)
- Global Sovereign/Emerging Markets Debt (21)
- Mortgages (8)
- Bank Loans (14)
- Municipals (27)

Sector specialists select individual securities within these groups and fit them into risk budgets and top-down targets generated by the quantitative research group and the FIPC. Global Fixed Income Research meetings for the entire group and regional research calls for regional specialists occur weekly, with daily morning meetings occurring between the groups as needed.

In addition to the FIPC and sector specialists, Templeton relies on quantitative analysts for responsibilities including risk budgeting, portfolio optimization and relative value analysis. While the quantitative group at Templeton plays a role in the fund, it is not the primary focus.

Fund Management

In addition to the fund's 16-member Fixed Income Policy Committee, the fund is managed by co-portfolio managers Michael Hasenstab and John Beck. While John Beck is a co-portfolio manager in title and plays a prominent role for the fund, much of the fund's focus appears to reside on the opinions of Dr. Michael Hasenstab. Hasenstab is based at the fund's headquarters in San Mateo, California while Beck operates out of London. Recently, the fund added a director of research to allow Dr. Hasenstab more time to focus more on investment decisions and less on managing the research group.

Michael Hasenstab first served as portfolio manager in 2001 after obtaining PhD in Economics from Australian National University and holds dual US & Australian citizenship. During PhD studies in Australia, Hasenstab developed significant Asia-Pacific regional travel and work experience.

John Beck is a member of the Fixed Income Policy Committee and co-manages Templeton Global Bond alongside Michael Hasenstab. Beck earned an MA from Exeter College, Oxford University and serves several roles for Templeton.

Types of Holdings

As mentioned previously, the fund focuses on selecting holdings to outperform based on duration (interest rates), currencies, and sovereign credit. Historically, Templeton has performed well by making a diverse variety of "bets," which can offset one another in the event that the fund makes an incorrect call in one area.

- **Interest Rate Sensitivity** – From 2008 through 2010, the fund has reigned in duration (sensitivity to interest rates), moving from 5.1 to 2.8 years. In-depth country analysis from a global team can help the Fixed Income Policy Committee determine a view on interest rates, as well. For example, the fund recently added a former employee of the South Koran Central Bank to its analytical team, continued with allocations to South Korea, and maintained short duration exposure for the nation in anticipation of rising rates from its Central Bank.

- **Currencies** – Through a combination of macro modeling an in-depth country research, the fund is able to initiate some "bets" based on currency exposures. One position that the fund has structured in the past includes a bond denominated in Mexican Pesos, converted to Indian Rupees. The fund purchased the Mexican bond due to its pricing relative to credit quality and the nation's interest rate environment, but purchased swaps to convert the currency exposure in the bond to Indian Rupees since the fund viewed the Indian Rupee as an undervalued currency at the time.

- **Sovereign Debt** – The fund identifies opportunities in sovereign debt by conducting local research and through the Fixed Income Policy Committee's top-down country research initiatives that establish a risk budget for bottom-up security selection by local research teams. Historically, the fund has focused on high quality sovereign debt, backed by nations with strong balance sheets.

Regional Exposure	
Asia	**40.7%**
Non-Japan Asia	40.7%
Japan	0.0%
Europe/Africa	**33.8%**
Non-EMU Europe/Africa	32.7%
EMU	1.1%
Americas	**14.5%**
Non-USA America	12.3%
USA	2.2%
Supranational	2.2%
ST Cash & Cash Equivalents	8.8%

Largest Currency Exposures	
US Dollar	42.8%
South Korean Won	14.3%
Malaysian Ringgit	10.5%
Australian Dollar	10.2%
Norwegian Krone	9.3%
Swedish Krona	9.2%
Japanese Yen	-18.5%
Euro	-27.9%

Credit Quality	
AAA	22.7%
AA	8.4%
A	36.4%
BBB	21.0%
BB	6.0%
B	4.5%
Other	1.0%
Total	**100.0%**

Although professionals at the fund are keen to separate these three rationale (currencies, sovereign debt and interest rate sensitivity), most investment ideas are most likely evaluated in combination. For example, a country with large cash reserves and a productive economy will likely be raising rates, which makes the investment attractive from a currency and credit standpoint. Due to the interest rate risk however, the fund may focus on short maturity bonds to isolate risk and benefit from the remaining two aspects.

Risk and Return Profile

Risk Controls & Metrics

The Portfolio Analysis and Investment Risk (PAIR) Team manages portfolio risk within Templeton Global Bond, conducting portfolio reviews using industry standard models and proprietary models. The team relies on measures and tools including value at risk (VaR), Conditional VaR, tracking error, standard deviation, semi-standard deviation, and various other measures. The team executes scenario analyses and stress tests on the portfolio, including sensitivities to different risk scenarios. Additionally, the team conducts performance attribution exercises to determine whether certain risk exposures are converting into excess returns. Daily risk is monitored for interest rate, security and credit risk through the Investment Risk Group.

Since Inception (1/1997)	Templeton Global Bond Adv	BofA ML Global Govt Bond Index
Correlation with Index		
Beta	0.89	1.00
R-Squared	46%	
Risk		
Largest Loss	-9.0%	-9.8%
Trough	10/2000	10/2008
Recovery	8/2001	1/2009
Standard Deviation	7.23%	5.77%
Historical Return		
Annualized Return	8.96%	6.32%

Operating risk is also taken into account, as the fund completes a quarterly formal audit, generates counterparty risk reports, and reviews any complex securities such as derivatives for compliance with risk policies under the Complex Securities Review Committee. Compliance risk is also mitigated as all trades pass through a pre-trade qualification.

Summary Information

- **Possible uses:** Templeton Global Bond could be used for investors who would like exposure to global government bonds. Capital preservation will be more stable than some stocks, but in some years may underperform stocks.

- **What to expect:** At extremes, the fund could exhibit volatility that is more comparable to stocks than bonds, but more generally the fund's volatility will remain in between high yield bonds and investment grade corporate bonds.

- **Expect/be prepared:** Because of the fund's unique approach, its price levels may not move in conjunction with most markets. Historically, this has benefitted the fund, but it is conceivable that the fund could decrease in value while the market increases in value.

- **Suitable for the following investors:** Although individual situations vary, this investment is suitable as an alternative to stocks for many investors, and suitable as an alternative to investors who already hold high yield bonds. Depending on market circumstances, the fund could be prudent substitute to some investment grade corporate holdings.

Share Classes Available

Share Class	Ticker	Total Fund Operating Expenses	Maximum Load	Deferred Sales Charge	Minimum Investment	
					Retirement Accounts	Non Retirement Accounts
A	TPINX	1.21%	4.25%	None	Brokerage: $1,000; Automatic investment plans: $50; Employer-sponsored retirement plans, Coverdell Education Savings Plans or Roth IRAs: $250; Broker-dealer sponsored wrap account programs: no minimum.	
R	FGBRX	1.71%	None	None		
C	TEGBX	2.01%	None	1.00%		
Advisor	TGBAX	0.71%	None	None	No minimum for HPA clients, $50,000 for all others.	

Pros vs. Cons and Possible Uses for Investors

	Asset Class (Sovereign Bonds)	Templeton Global Bond
Advantages	Good diversifier due to reduced correlation with US Government and US Corporate bonds Benefit from differing changes in economic growth between nations while maintaining investment-grade credit quality Potentially reduce losses due to rising interest rates	Successful track record: outranks at least 95% of peers over the last 3, 5 and 10 years. Annual expense ratio for advisor-class shares places fund in the least expensive 14% of its peer group.

Disadvantages	More volatility than most US-centric investment grade bond portfolios or US Government Securities Foreign sovereigns may introduce increased levels of risk compared to US Treasuries	The fund's unique strategy can increase volatility beyond other types of bond funds. Because Templeton is intentionally not constructed to track a benchmark, those allocating to the fund must be able to tolerate moderate levels of tracking error.

Use of Global Government Bonds in a Portfolio

Foreign government bonds can serve as a supplement to US government, US corporate and foreign corporate bonds; and offer the potential for increased capital appreciation albeit with increased volatility. While foreign governments may offer a reduced probability of default when compared to corporate issuers, foreign central banks may still reduce the currency value in which the bonds are denominated. Due to the unique nature of this subset of the bond markets, we recommend a specialist manager such as Templeton instead of a passively-managed index. Templeton's stated investment objectives include growth of capital and income, and as a result the fund can potentially generate equity-level returns with volatility near or below that of equities.

What are Global Government Bonds?

Government bonds are issued by national, regional and local governments throughout the world. Templeton Global Bond focuses on purchasing foreign government bonds rated as "Investment Grade" by major ratings agencies, though may hold some issues below this rating. Most of Templeton's foreign bond holdings are denominated in the issuer's currency. Government Agency bonds are bonds issued by governmental institutions or quasi-governmental institutions, for example Freddie Mac or Fannie Mae in the United States, and usually feature an implicit (as opposed to explicit) guarantee by the government with which they are associated. Though there are some government agencies that feature an explicit guarantee, such as Ginnie Mae in the United States, these are a smaller portion of the investable universe.