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TEMPLETON AMERICAN TRUST INC

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TEMPLETON AMERICAN TRUST, INC.

THIS STATEMENT OF ADDITIONAL INFORMATION DATED
MAY 1, 1995 IS NOT A PROSPECTUS. IT SHOULD BE READ
IN CONJUNCTION WITH THE PROSPECTUS OF
TEMPLETON AMERICAN TRUST, INC. DATED
MAY 1, 1995, WHICH MAY BE OBTAINED WITHOUT CHARGE
UPON REQUEST TO THE PRINCIPAL UNDERWRITER,
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GENERAL INFORMATION AND HISTORY

Templeton American Trust, Inc. (the "Fund") was organized as a Maryland corporation on October 31, 1990, and is registered under the Investment Company Act of 1940 (the "1940 Act") as an open-end diversified management investment company.

INVESTMENT OBJECTIVE AND POLICIES

Investment Policies. The Fund's Investment Objective and Policies are described in the Prospectus under the heading "General Description -- Investment Objective and Policies." The Fund may invest for defensive purposes in commercial paper which, at the date of investment, must be rated A-1 by Standard & Poor's Corporation ("S&P") or Prime-1 by Moody's Investors Service, Inc. ("Moody's") or, if not rated, be issued by a company which at the date of investment has an outstanding debt issue rated AAA or AA by S&P or Aaa or Aa by Moody's.

Repurchase Agreements. Repurchase agreements are contracts under which the buyer of a security simultaneously commits to resell the security to the seller at an agreed-upon price and date. Under a repurchase agreement, the seller is required to maintain the value of the securities subject to the repurchase agreement at not less than their repurchase price. Templeton

Investment Counsel, Inc. (the "Investment Manager") will monitor the value of such securities daily to determine that the value equals or exceeds the repurchase price. Repurchase agreements may involve risks in the event of default or insolvency of the seller, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities. The Fund will enter into repurchase agreements only with parties who meet creditworthiness standards approved by the Board of Directors, i.e., banks or broker-dealers which have been determined by the Investment Manager to present no serious risk of becoming involved in bankruptcy proceedings within the time frame contemplated by the repurchase transaction.

Debt Securities. The Fund may invest in debt securities which are rated at least C by Moody's or C by S&P or deemed to be of comparable quality by the Investment Manager. As an operating policy, the Fund will invest no more than 5% of its assets in debt securities rated lower than Baa by Moody's or BBB by S&P.<F1> The market value of debt securities generally varies in response to changes in interest rates and the financial condition of each issuer. During periods of declining interest rates, the value of debt securities generally increases. Conversely, during periods of rising interest rates, the value of such securities generally declines. These changes in market value will be reflected in the Fund's net asset value.

[FN]

<F1> In the event that the Board of Directors should raise the percentage limitation on investment in lower rated securities, investors will receive 30 days' notice prior to the investment in lower rated securities rising above the current 5% limit. [FN]

Although they may offer higher yields than do higher rated securities, low rated and unrated debt securities generally involve greater volatility of price and risk of principal and income, including the possibility of default by, or bankruptcy of, the issuers of the securities. In addition, the markets in which low rated and unrated debt securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets for particular securities may diminish the Fund's ability to sell the securities at fair value either to meet redemption requests or to respond to a specific economic event such as a deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for certain low rated or unrated debt securities may also make it more difficult for the Fund to obtain accurate market quotations for the purposes of valuing the Fund's portfolio. Market quotations are generally available on many low rated or unrated securities only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the values and liquidity of low rated debt securities, especially in a thinly traded market. Analysis of the creditworthiness of issuers of low rated debt securities may be more complex than for issuers of higher rated securities, and the ability of the Fund to achieve its investment objective may, to the extent of investment in low rated debt securities, be more dependent upon such creditworthiness analysis than would be the case if the Fund were investing in higher rated securities.

Low rated debt securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than investment grade securities. The prices of low rated debt securities have been found to be less sensitive to interest rate changes than higher rated investments, but more sensitive to adverse economic downturns or individual corporate developments. A projection of an economic downturn or of a period of rising interest rates, for example, could cause a decline in low rated debt securities prices because the advent of a recession could lessen the ability of a highly leveraged company to make principal and interest payments on its debt securities. If the issuer of low rated debt securities defaults, the Fund may incur additional expenses to seek recovery.

The Fund may recognize income currently for Federal income tax purposes in the amount of the unpaid, accrued interest with respect to high yield bonds structured as zero coupon bonds or pay-in-kind securities, even though it receives no cash interest until the security's maturity or payment date. In order to

qualify for beneficial tax treatment, the Fund must distribute substantially all of its income to Shareholders (see "Tax Status"). Thus, the Fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash or leverage itself by borrowing cash, so that it may satisfy the distribution requirement.

Recent legislation, which requires federally insured savings and loan associations to divest their investments in low rated

debt securities, may have a material adverse effect on the Fund's net asset value and investment practices.

Futures Contracts. The Fund may purchase and sell financial futures contracts. Although some financial futures contracts call for making or taking delivery of the underlying securities, in most cases these obligations are closed out before the settlement date. The closing of a contractual obligation is accomplished by purchasing or selling an identical offsetting futures contract. Other financial futures contracts by their terms call for cash settlements.

The Fund may also buy and sell index futures contracts with respect to any stock index traded on a recognized stock exchange or board of trade. An index futures contract is a contract to buy or sell units of an index at a specified future date at a price agreed upon when the contract is made. The stock index futures contract specifies that no delivery of the actual stocks making up the index will take place. Instead, settlement in cash must occur upon the termination of the contract, with the settlement being the difference between the contract price and the actual level of the stock index at the expiration of the contract.

At the time the Fund purchases a futures contract, an amount of cash, U.S. Government securities, or other highly liquid debt securities equal to the market value of the futures contract will be deposited in a segregated account with the Fund's custodian. When writing a futures contract, the Fund will maintain with its custodian liquid assets that, when added to the amounts deposited with a futures commission merchant or broker as margin, are equal to the market value of the instruments underlying the contract. Alternatively, the Fund may "cover" its position by owning the instruments underlying the contract (or, in the case of an index futures contract, a portfolio with a volatility substantially similar to that of the index on which the futures contract is based), or holding a call option permitting the Fund to purchase the same futures contract at a price no higher than the price of the contract written by the Fund (or at a higher price if the difference is maintained in liquid assets with the Fund's custodian).

Options on Securities or Indices. The Fund may write covered call and put options and purchase call and put options on securities or stock indices that are traded on United States and foreign exchanges and in the over-the-counter markets. <FN2>

<FN2>

[FN]All option transactions entered into by the Fund will be traded on a recognized exchange, or will be cleared through a recognized formal clearing arrangement.[FN]

An option on a security is a contract that gives the purchaser of the option, in return for the premium paid, the right to buy a specified security (in the case of a call option) or to sell a specified security (in the case of a put option) from or to the writer of the option at a designated price during the term of the option. An option on a securities index gives the purchaser of the option, in return for the premium paid, the right to receive from the seller cash equal to the difference between the closing price of the index and the exercise price of the option.

The Fund may write a call or put option only if the option is "covered." A call option on a security written by the Fund is "covered" if the Fund owns the underlying security covered by the call or has an absolute and immediate right to acquire that security without additional cash consideration (or for additional cash consideration held in a segregated account by its custodian) upon conversion or exchange of other securities held in its portfolio. A call option on a security is also "covered" if the Fund holds a call on the same security and in the same principal amount as the call written where the exercise price of the call held (1) is equal to or less than the exercise price of the call written or (2) is greater than the exercise price of the call written if the difference is maintained by the Fund in cash or high grade U.S. Government securities in a segregated account with its custodian. A put option on a security written by the Fund is "covered" if the Fund maintains cash or fixed income securities with a value equal to the exercise price in a segregated account with its custodian, or else holds a put on the same security and in the same principal amount as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written.

The Fund will cover call options on stock indices that it writes by owning securities whose price changes, in the opinion

of the Investment Manager, are expected to be similar to those of the index, or in such other manner as may be in accordance with the rules of the exchange on which the option is traded and applicable laws and regulations. Nevertheless, where the Fund covers a call option on a stock index through ownership of securities, such securities may not match the composition of the index. In that event, the Fund will not be fully covered and could be subject to risk of loss in the event of adverse changes in the value of the index. The Fund will cover put options on

stock indices that it writes by segregating assets equal to the option's exercise price, or in such other manner as may be in accordance with the rules of the exchange on which the option is traded and applicable laws and regulations.

The Fund will receive a premium from writing a put or call option, which increases the Fund's gross income in the event the option expires unexercised or is closed out at a profit. If the value of a security or an index on which the Fund has written a call option falls or remains the same, the Fund will realize a profit in the form of the premium received (less transaction costs) that could offset all or a portion of any decline in the value of the portfolio securities being hedged. If the value of the underlying security or index rises, however, the Fund will realize a loss in its call option position, which will reduce the benefit of any unrealized appreciation in the Fund's investments. By writing a put option, the Fund assumes the risk of a decline in the underlying security or index. To the extent that the price changes of the portfolio securities being hedged correlate with changes in the value of the underlying security or index, writing covered put options on indices or securities will increase the Fund's losses in the event of a market decline, although such losses will be offset in part by the premium received for writing the option.

The Fund may also purchase put options to hedge its investments against a decline in value. By purchasing a put option, the Fund will seek to offset a decline in the value of the portfolio securities being hedged through appreciation of the put option. If the value of the Fund's investments does not

decline as anticipated, or if the value of the option does not increase, the Fund's loss will be limited to the premium paid for the option plus related transaction costs. The success of this strategy will depend, in part, on the accuracy of the correlation between the changes in value of the underlying security or index and the changes in value of the Fund's security holdings being hedged.

The Fund may purchase call options on individual securities to hedge against an increase in the price of securities that the Fund anticipates purchasing in the future. Similarly, the Fund may purchase call options on a securities index to attempt to reduce the risk of missing a broad market advance, or an advance in an industry or market segment, at a time when the Fund holds uninvested cash or short-term debt securities awaiting investment. When purchasing call options, the Fund will bear the risk of losing all or a portion of the premium paid if the value of the underlying security or index does not rise.

There can be no assurance that a liquid market will exist when the Fund seeks to close out an option position. Trading could be interrupted, for example, because of supply and demand imbalances arising from a lack of either buyers or sellers, or the options exchange could suspend trading after the price has

risen or fallen more than the maximum specified by the exchange. Although the Fund may be able to offset to some extent any adverse effects of being unable to liquidate an option position, the Fund may experience losses in some cases as a result of such inability.

Foreign Currency Hedging Transactions. In order to hedge against foreign currency exchange rate risks, the Fund may enter into forward foreign currency exchange contracts and foreign currency futures contracts, as well as purchase put or call options on foreign currencies, as described below. The Fund may also conduct its foreign currency exchange transactions on a spot (i.e., cash) basis at the spot rate prevailing in the foreign currency exchange market.

The Fund may enter into forward foreign currency exchange contracts ("forward contracts") to attempt to minimize the risk to the Fund from adverse changes in the relationship between the U.S. dollar and foreign currencies. A forward contract is an obligation to purchase or sell a specific currency for an agreed price at a future date which is individually negotiated and privately traded by currency traders and their customers. The Fund may enter into a forward contract, for example, when it enters into a contract for the purchase or sale of a security denominated in a foreign currency in order to "lock in" the U.S. dollar price of the security. In addition, for example, when the Fund believes that a foreign currency may suffer a substantial decline against the U.S. dollar, it may enter into a forward contract to sell an amount of that foreign currency approximating the value of some or all of the Fund's portfolio securities denominated in such foreign currency, or when the Fund believes that the U.S. dollar may suffer a substantial decline against a foreign currency, it may enter into a forward contract to buy that foreign currency for a fixed dollar amount. This second investment practice is generally referred to as "cross-hedging." Because in connection with the Fund's forward foreign currency transactions an amount of the Fund's assets equal to the amount of the purchase will be held aside or segregated to be used to pay for the commitment, the Fund will always have cash, cash equivalents or high quality debt securities available sufficient to cover any commitments under these contracts or to limit any potential risk. The segregated account will be marked-to-market on a daily basis. While these contracts are not presently regulated by the Commodity Futures Trading Commission ("CFTC"), the CFTC may in the future assert authority to regulate forward contracts. In such event, the Fund's ability to utilize forward contracts in the manner set forth above may be restricted. Forward contracts may limit potential gain from a positive change in the relationship between the U.S. dollar and foreign currencies. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not engaged in such contracts.

The Fund may purchase and write put and call options on foreign currencies for the purpose of protecting against declines in the dollar value of foreign portfolio securities and against increases in the dollar cost of foreign securities to be acquired. As is the case with other kinds of options, however, the writing of an option on foreign currency will constitute only a partial hedge, up to the amount of the premium received, and the Fund could be required to purchase or sell foreign currencies at disadvantageous exchange rates, thereby incurring losses. The purchase of an option on foreign currency may constitute an effective hedge against fluctuation in exchange rates, although, in the event of rate movements adverse to the Fund's position, the Fund may forfeit the entire amount of the premium plus related transaction costs. Options on foreign currencies to be written or purchased by the Fund will be traded on U.S. and foreign exchanges or over-the-counter.

The Fund may enter into exchange-traded contracts for the purchase or sale for future delivery of foreign currencies ("foreign currency futures"). This investment technique will be used only to hedge against anticipated future changes in exchange rates which otherwise might adversely affect the value of the Fund's portfolio securities or adversely affect the prices of securities that the Fund intends to purchase at a later date. The successful use of foreign currency futures will usually depend on the Investment Manager's ability to forecast currency exchange rate movements correctly. Should exchange rates move in an unexpected manner, the Fund may not achieve the anticipated benefits of foreign currency futures or may realize losses.

Investment Restrictions. The Fund has imposed upon itself certain Investment Restrictions which, together with its Investment Objective, are fundamental policies except as otherwise indicated. No changes in the Fund's Investment Objective or these Investment Restrictions can be made without the approval of the Fund's Shareholders. For this purpose, the provisions of the 1940 Act require the affirmative vote of the lesser of either (1) 67% or more of the Shares of the Fund present at a Shareholder's meeting at which more than 50% of the outstanding Shares are present or represented by proxy or (2) more than 50% of the outstanding Shares of the Fund.

The Fund will not:

1. Invest in real estate, unlisted real estate limited partnerships, or mortgages on real estate (although the Fund may invest in readily marketable securities secured by real estate or interests therein or issued by companies or investment trusts which invest in real estate or interests therein); invest in other open-end investment companies except as permitted by the 1940

Act; invest in interests (other than debentures or equity stock interests) in oil, gas or other mineral leases, exploration or development programs; or

purchase or sell commodity contracts (except futures contracts as described in the Fund's Prospectus).

2. Purchase or retain securities of any company in which Directors or officers of the Fund or of its Investment Manager, individually owning more than 1/2 of 1% of the securities of such company, in the aggregate own more than 5% of the securities of such company.
3. With respect to 75% of its total assets, purchase more than 5% of any class of securities of any one company, including more than 10% of its outstanding voting securities,<FN3> or invest in any company for the purpose of exercising control or management.

[FN]

<FN3>As a non-fundamental policy, with respect to 100% of its total assets, the Fund will not purchase more than 10% of any company's outstanding voting securities. In addition, with respect to 75% of its total assets, the Fund will not invest more than 5% of its total assets in securities issued by any one company or government, exclusive of U.S. government securities. [FN]

4. Act as an underwriter; issue senior securities except as set forth in Investment Restriction 6 below; or purchase on margin or sell short (but the Fund may make margin payments in connection with options on securities or securities indices, and foreign currencies; futures contracts and related options; and forward contracts and related options).
5. Loan money apart from the purchase of a portion of an issue of publicly distributed bonds, debentures, notes and other evidences of indebtedness, although the Fund may buy from a bank or broker-dealer U.S. Government obligations with a simultaneous agreement by the seller

to repurchase them within no more than seven days at the original purchase price plus accrued interest and may loan its portfolio securities.

6. Borrow money, except that the Fund may borrow money from banks in an amount not exceeding 33-1/3% of the value of its total assets (including the amount borrowed).
7. Invest more than 5% of the value of its total assets in securities of issuers which have been in continuous operation less than three years.
8. Invest more than 5% of its total assets in warrants, whether or not listed on the New York or American Stock Exchanges, including no more than 2% of its total assets which may be invested in warrants that are not listed on those exchanges. Warrants acquired by the

Fund in units or attached to securities are not included in this Investment Restriction.

9. Invest more than 25% of its total assets in a single industry.
10. Participate on a joint or a joint and several basis in any trading account in securities. (See "Investment Objective and Policies -- Trading Policies" as to transactions in the same securities for the Fund and/or other mutual funds with the same or affiliated advisers.)

Whenever any Investment Policy or Investment Restriction states a maximum percentage of the Fund's assets which may be invested in any security or other property, it is intended that such maximum percentage limitation be determined immediately after and as a result of the Fund's acquisition of such security or property. Assets are calculated as described in the Prospectus under the heading "How to Buy Shares of the Fund." If the Fund receives from an issuer of securities held by the Fund

subscription rights to purchase securities of that issuer, and if the Fund exercises such subscription rights at a time when the Fund's portfolio holdings of securities of that issuer would otherwise exceed the limits set forth in investment restrictions 3 or 9 above, it will not constitute a violation if, prior to receipt of securities upon exercise of such rights, and after announcement of such rights, the Fund has sold at least as many securities of the same class and value as it would receive on exercise of such rights.

Risk Factors. The Fund may invest up to 35% of its total assets in securities in any foreign country, developed or developing, if they are listed on a stock exchange, as well as a limited right to purchase such securities if they are unlisted. Investors should consider carefully the substantial risks involved in securities of companies and governments of foreign nations, which are in addition to the usual risks inherent in domestic investments. There may be less publicly available information about foreign companies comparable to the reports and ratings published about companies in the United States. Foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards, and auditing practices and requirements may not be comparable to those applicable to United States companies. The Fund, therefore, may encounter difficulty in obtaining market quotations for purposes of valuing its portfolio and calculating its net asset value. Foreign markets have substantially less volume than the New York Stock Exchange, and securities of some foreign companies are less liquid and more volatile than securities of comparable United States companies. Although the Fund may not invest more than 15% of its total assets in unlisted foreign securities, including not more than 10% of its total assets in securities with a limited trading market, in the opinion of the Investment Manager such

securities with a limited trading market do not present a significant liquidity problem. Commission rates in foreign countries, which are generally fixed rather than subject to negotiation as in the United States, are likely to be higher. In many foreign countries there is less government supervision and regulation of stock exchanges, brokers and listed companies than

in the United States.

Investments in companies domiciled in developing countries may be subject to potentially higher risks than investments in developed countries. These risks include (1) less social, political and economic stability; (2) the small current size of the markets for such securities and the currently low or nonexistent volume of trading, which result in a lack of liquidity and in greater price volatility; (3) certain national policies which may restrict the Fund's investment opportunities, including restrictions on investment in issuers or industries deemed sensitive to national interests; (4) the absence of developed legal structures governing private or foreign investment or allowing for judicial redress for injury to private property; (5) the absence, until recently in certain Eastern European countries, of a capital market structure or market-oriented economy; and (6) the possibility that recent favorable economic developments in Eastern Europe may be slowed or reversed by unanticipated political or social events in such countries.

In addition, many countries in which the Fund may invest have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries. Moreover, the economies of some developing countries may differ favorably or unfavorably from the United States economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position.

Despite the recent dissolution of the Soviet Union, the Communist Party may continue to exercise a significant or, in some countries, dominant role in certain Eastern European countries. To the extent of the Communist Party's influence, investments in such countries will involve risks of nationalization, expropriation and confiscatory taxation. The Communist governments of a number of Eastern European countries expropriated large amounts of private property in the past, in many cases without adequate compensation, and there can be no assurance that such expropriation will not occur in the future. In the event of such expropriation, the Fund could lose a substantial portion of any investments it has made in the affected countries. Further, no accounting standards exist in Eastern European countries. Finally, even though certain Eastern European currencies may be convertible into U.S. dollars, the

conversion rates may be artificial to the actual market values and may be adverse to Fund Shareholders.

Investing in Russian companies involves a high degree of risk and special considerations not typically associated with investing in the United States securities markets, and should be considered highly speculative. Such risks include: (a) delays in settling portfolio transactions and risk of loss arising out of Russia's system of share registration and custody; (b) the risk that it may be impossible or more difficult than in other countries to obtain and/or enforce a judgment; (c) pervasiveness of corruption and crime in the Russian economic system; (d) currency exchange rate volatility and the lack of available currency hedging instruments; (e) higher rates of inflation (including the risk of social unrest associated with periods of hyper-inflation); (f) controls on foreign investment and local practices disfavoring foreign investors and limitations on repatriation of invested capital, profits and dividends, and on the Fund's ability to exchange local currencies for U.S. dollars; (g) the risk that the government of Russia or other executive or legislative bodies may decide not to continue to support the economic reform programs implemented since the dissolution of the Soviet Union and could follow radically different political and/or economic policies to the detriment of investors, including non-market-oriented policies such as the support of certain industries at the expense of other sectors or investors, or a return to the centrally planned economy that existed prior to the dissolution of the Soviet Union; (h) the financial condition of Russian companies, including large amounts of inter-company debt which may create a payments crisis on a national scale; (i) dependency on exports and the corresponding importance of international trade; (j) the risk that the Russian tax system will not be reformed to prevent inconsistent, retroactive and/or exorbitant taxation; and (k) possible difficulty in identifying a purchaser of securities held by the Fund due to the underdeveloped nature of the securities markets.

There is little historical data on Russian securities markets because they are relatively new and a substantial proportion of securities transactions in Russia are privately negotiated outside of stock exchanges. Because of the recent formation of the securities markets as well as the underdeveloped

state of the banking and telecommunications systems, settlement, clearing and registration of securities transactions are subject to significant risks. Ownership of shares (except where shares are held through depositories that meet the requirements of the 1940 Act) is defined according to entries in the company's share register and normally evidenced by extracts from the register or by formal share certificates. However, there is no central registration system for shareholders and these services are carried out by the companies themselves or by registrars located throughout Russia. These registrars are not necessarily subject to effective state supervision and it is possible for the Fund to lose its registration through fraud, negligence or even mere

oversight. While the Fund will endeavor to ensure that its interest continues to be appropriately recorded either itself or through a custodian or other agent inspecting the share register and by obtaining extracts of share registers through regular confirmations, these extracts have no legal enforceability and it is possible that subsequent illegal amendment or other fraudulent act may deprive the Fund of its ownership rights or improperly dilute its interests. In addition, while applicable Russian regulations impose liability on registrars for losses resulting from their errors, it may be difficult for the Fund to enforce any rights it may have against the registrar or issuer of the securities in the event of loss of share registration.

Furthermore, although a Russian public enterprise with more than 1,000 shareholders is required by law to contract out the maintenance of its shareholder register to an independent entity that meets certain criteria, in practice this regulation has not always been strictly enforced. Because of this lack of independence, management of a company may be able to exert considerable influence over who can purchase and sell the company's shares by illegally instructing the registrar to refuse to record transactions in the share register. This practice may prevent the Fund from investing in the securities of certain Russian companies deemed suitable by the Investment Manager. Further, this also could cause a delay in the sale of Russian company securities by the Fund if a potential purchaser is deemed unsuitable, which may expose the Fund to potential loss on the investment.

The Fund endeavors to buy and sell foreign currencies on as favorable a basis as practicable. Some price spread in currency exchange (to cover service charges) will be incurred, particularly when the Fund changes investments from one country to another or when proceeds of the sale of Shares in U.S. dollars are used for the purchase of securities in foreign countries. Also, some countries may adopt policies which would prevent the Fund from transferring cash out of the country or withhold portions of interest and dividends at the source. There is the possibility of cessation of trading on national exchanges, expropriation, nationalization or confiscatory taxation, withholding and other foreign taxes on income or other amounts, foreign exchange controls (which may include suspension of the ability to transfer currency from a given country), default in foreign government securities, political or social instability, or diplomatic developments which could affect investments in securities of issuers in foreign nations.

The Fund may be affected either unfavorably or favorably by fluctuations in the relative rates of exchange between the currencies of different nations, by exchange control regulations and by indigenous economic and political developments. Some countries in which the Fund may invest may also have fixed or managed currencies that are not free-floating against the U.S. dollar. Further, certain currencies have experienced a steady devaluation relative to the U.S. dollar. Any devaluations in the

currencies in which a Fund's portfolio securities are denominated may have a detrimental impact on the Fund. Through the flexible policy of the Fund, the Investment Manager endeavors to avoid unfavorable consequences and to take advantage of favorable developments in particular nations where from time to time it places the investments of the Fund.

The exercise of this flexible policy may include decisions to purchase securities with substantial risk characteristics and other decisions such as changing the emphasis on investments from one nation to another and from one type of security to another. Some of these decisions may later prove profitable and others may

not. No assurance can be given that profits, if any, will exceed losses.

The Directors consider, at least annually, the likelihood of the imposition by any foreign government of exchange control restrictions which would affect the liquidity of the Fund's assets maintained with custodians in foreign countries, as well as the degree of risk from political acts of foreign governments to which such assets may be exposed. The Directors also consider the degree of risk involved through the holding of portfolio securities in domestic and foreign securities depositories (see "Investment Management and Other Services -- Custodian and Transfer Agent"). However, in the absence of willful misfeasance, bad faith or gross negligence on the part of the Investment Manager, any losses resulting from the holding of the Fund's portfolio securities in foreign countries and/or with securities depositories will be at the risk of the Shareholders. No assurance can be given that the Directors' appraisal of the risks will always be correct or that such exchange control restrictions or political acts of foreign governments might not occur.

The Fund's ability to reduce or eliminate its futures and related options positions will depend upon the liquidity of the secondary markets for such futures and options. The Fund intends to purchase or sell futures and related options only on exchanges or boards of trade where there appears to be an active secondary market, but there is no assurance that a liquid secondary market will exist for any particular contract or at any particular time. Use of stock index futures and related options for hedging may involve risks because of imperfect correlations between movements in the prices of the futures or related options and movements in the prices of the securities being hedged. Successful use of futures and related options by the Fund for hedging purposes also depends upon the Investment Manager's ability to predict movements in the direction of the market correctly, as to which no assurance can be given.

Trading Policies. The Investment Manager and its affiliated companies serve as investment adviser to other investment companies and private clients. Accordingly, the respective portfolios of these funds and clients may contain many or some of

the same securities. When any two or more of these funds or clients are engaged simultaneously in the purchase or sale of the same security, the transactions are placed for execution in a manner designed to be equitable to each party. The larger size of the transaction may affect the price of the security and/or the quantity which may be bought or sold for each party. If the transaction is large enough, brokerage commissions in certain countries may be negotiated below those otherwise chargeable.

Sale or purchase of securities, without payment of brokerage commissions, fees (except customary transfer fees) or other remuneration in connection therewith, may be effected between any of these funds, or between funds and private clients, under procedures adopted by the Fund's Board of Directors pursuant to Rule 17a-7 under the 1940 Act.

Personal Securities Transactions. Access persons of the Franklin Templeton Group, as defined in SEC Rule 17(j) under the 1940 Act, who are employees of Franklin Resources, Inc. or their subsidiaries, are permitted to engage in personal securities transactions subject to the following general restrictions and procedures: (1) The trade must receive advance clearance from a Compliance Officer and must be completed within 24 hours after this clearance; (2) Copies of all brokerage confirmations must be sent to the Compliance Officer and within 10 days after the end of each calendar quarter, a report of all securities transactions must be provided to the Compliance Officer; (3) In addition to items (1) and (2), access persons involved in preparing and making investment decisions must file annual reports of their securities holdings each January and also inform the Compliance Officer (or other designated personnel) if they own a security that is being considered for a fund or other client transaction or if they are recommending a security in which they have an ownership interest for purchase or sale by a fund or other client.

MANAGEMENT OF THE FUND

The name, address, principal occupation during the past five years and other information with respect to each of the Directors and Principal Executive Officers of the Fund are as follows:

Name, Address and Offices with Fund	Principal Occupation During Past Five Years
----------------------------------------	------------------------------------------------

HARMON E. BURNS*
777 Mariners Island Blvd.
San Mateo, California
Director

Executive vice president, secretary, and director of Franklin Resources, Inc.; executive vice president and director of Franklin Templeton Distributors, Inc.; executive vice president of Franklin Advisers, Inc.; officer and/or director, as the case may be, of other subsidiaries of Franklin Resources, Inc.; and officer and/or director, trustee or general partner, as the case may be, for 41 of the investment companies in the Franklin Templeton Group.

CONSTANTINE DEAN TSERETOPOULOS
Lyford Cay Hospital
P.O. Box N-7776
Nassau, Bahamas
Director

Physician, Lyford Cay Hospital (1987-present); cardiology fellow, University of Maryland (1985-1987); Internal Medicine Intern, Greater Baltimore Medical Center (July 1982-July 1985); and director or trustee of other Templeton Funds.

FRANK J. CROTHERS
P.O. Box N-3238
Nassau, Bahamas
Director

President and chief executive officer of Atlantic Equipment & Power Ltd.; vice chairman of Caribbean Utilities Co., Ltd.; president of Provo Power Corporation; director of various other business and

WILLIAM YOUNG BOYD II**
Apartado Postal 805
Panama 1, Panama
Director

nonprofit organizations; and
director or trustee of other
Templeton Funds.

Owner and operator of Boyd
Steamship Corporation; and a
director or trustee of other
Templeton Funds.

HARRIS J. ASHTON
Metro Center, 1 Station Place
Stamford, Connecticut
Director

Chairman of the Board,
president and chief executive
officer of General Host
Corporation (nursery and craft
centers); director of RBC
Holdings Inc. (a bank holding
company) and Bar-S Foods; and
director, trustee or managing
general partner, as the case
may be, for most of the
investment companies in the
Franklin Templeton Group.

S. JOSEPH FORTUNATO
200 Campus Drive
Florham Park, New Jersey
Director

Member of the law firm of
Pitney, Hardin, Kipp & Szuch;
director of General Host
Corporation; and director,
trustee or managing general
partner, as the case may be,
for most of the investment
companies in the Franklin
Templeton Group.

FRED R. MILLSAPS
2665 N.E. 37th Drive
Fort Lauderdale, Florida
Director

Manager of personal
investments (1978-present);
chairman and chief executive
officer of Landmark Banking
Corporation (1969-1978);
financial vice president of
Florida Power and Light (1965-

1969); vice president of Federal Reserve Bank of Atlanta (1958-1965); and director of various other business and nonprofit organizations.

ANDREW H. HINES, JR.
150 2nd Avenue N.
St. Petersburg, Florida
Director

Consultant, Triangle Consulting Group; chairman of the board and chief executive officer of Florida Progress Corporation (1982-February, 1990) and director of various of its subsidiaries; chairman and director of Precise Power Corporation; executive-in-residence of Eckerd College (1991-present); director of Checkers Drive-In Restaurants, Inc.; and a director or trustee of other Templeton Funds.

JOHN G. BENNETT, JR.
3 Radnor Corporate Center
Suite 150

Founder, chairman of the board and president of the Foundation for New Era

100 Matsonford Road
Radnor, Pennsylvania
Director

Philanthropy; president and chairman of the boards of Evelyn M. Bennett Memorial Foundation and NEP International Trust; chairman of the board and chief executive officer of The Bennett Group International, LTD; chairman of the boards of Human Service Systems, Inc. and Multi-Media Communications, Inc.; director or trustee of many national and international organizations, universities, and grantmaking foundations serving in various executive board capacities; and member of the Public Policy Committee of the Advertising Council.

GORDON S. MACKLIN
8212 Burning Tree Road
Bethesda, Maryland
Director

Chairman of White River Corporation (information services); director of Fund America Enterprises Holdings, Inc., Lockheed Martin Corporation, MCI Communications Corporation, Fusion Systems Corporation, Infovest Corporation, and Medimmune, Inc.; formerly, chairman of Hambrecht and Quist Group; director of H&Q Healthcare Investors; president of the National Association of Securities Dealers, Inc.; and director, trustee, or managing general partner, as the case may be, of most of the investment companies in the Franklin Templeton Group.

NICHOLAS F. BRADY*
The Bullitt House
102 East Dover Street
Easton, Maryland
Director

Chairman, Templeton Emerging Markets Investment Trust PLC; chairman, Templeton Latin America Investment Trust PLC; chairman of Darby Overseas Investments, Ltd. (an investment firm), (1994-present); director of the Amerada Hess Corporation, Capital Cities/ABC, Inc., Christiana Companies, and the H.J. Heinz Company; Secretary of the United States Department of the Treasury (1988-January 1993); chairman of the board of Dillon, Read & Co. Inc. (investment banking) prior thereto; and director or trustee of other Templeton Funds.

GARY P. MOTYL
500 East Broward Blvd.
Fort Lauderdale, Florida
President

Senior vice president and director of Templeton Investment Counsel, Inc.; director of Templeton Global Investors, Inc.; and president or vice president of other Templeton Funds.

CHARLES B. JOHNSON
777 Mariners Island Blvd.
San Mateo, California
Vice President

President, chief executive officer and director of Franklin Resources, Inc.; chairman of the board and director of Franklin Advisers, Inc. and Franklin Templeton Distributors, Inc.; director of Franklin Administrative Services, Inc., General Host Corporation, and Templeton

Global Investors, Inc.; and officer and director, trustee or managing general partner, as the case may be, of most other subsidiaries of Franklin Resources, Inc. and of most of the investment companies in the Franklin Templeton Group.

MARTIN L. FLANAGAN
777 Mariners Island Blvd.
San Mateo, California
Vice President

Senior vice president, treasurer and chief financial officer of Franklin Resources, Inc.; director, chief executive officer, and executive vice president of Templeton Investment Counsel, Inc.; director, president and chief executive officer of Templeton Global Investors, Inc.; director or trustee and president or vice president of the Templeton Funds; accountant, Arthur Andersen & Company (1982-1983); and member of the International Society of Financial Analysts and the American Institute of Certified Public Accountants.

MARK G. HOLOWESKO
Lyford Cay
Nassau, Bahamas
Vice President

President, chief executive officer and director of Templeton, Galbraith & Hansberger Ltd.; director of

global equity research for Templeton, Galbraith & Hansberger Ltd.; president or vice president of the Templeton Funds; and investment administrator with Roy West Trust Corporation (Bahamas) Limited (1984-1985).

JOHN R. KAY
500 East Broward Blvd.
Fort Lauderdale, Florida
Vice President

Vice president of the Templeton Funds; vice president and treasurer of Templeton Global Investors, Inc. and Templeton Worldwide, Inc.; assistant vice president of Franklin Templeton Distributors, Inc.; formerly, vice president and controller of the Keystone Group, Inc.

THOMAS M. MISTELE
700 Central Avenue
St. Petersburg, Florida
Secretary

Senior vice president of Templeton Global Investors, Inc.; vice president of Franklin Templeton Distributors, Inc.; secretary of the Templeton Funds; attorney, Dechert Price &

Rhoads (1985-1988) and Freehill, Hollingdale & Page (1988); and judicial clerk, U.S. District Court (Eastern District of Virginia) (1984-1985).

JAMES R. BAIO
500 East Broward Blvd.

Certified public accountant; treasurer of the Templeton

Fort Lauderdale, Florida
Treasurer

Funds; senior vice president of Templeton Worldwide, Inc., Templeton Global Investors, Inc., and Templeton Funds Trust Company; formerly, senior tax manager of Ernst & Young (certified public accountants) (1977-1989).

JACK L. COLLINS
700 Central Avenue
St. Petersburg, Florida
Assistant Treasurer

Assistant treasurer of Templeton Funds Trust Company; and former partner of Grant Thornton, independent public accountants.

JEFFREY L. STEELE
1500 K Street, N.W.
Washington, D.C.
Assistant Secretary

Partner, Dechert Price & Rhoads.

* Messrs. Burns and Brady are Directors who are "interested persons" of the Fund as that term is defined in the 1940 Act. Messrs. Boyd, Crothers, Tseretopoulos, Ashton, Fortunato, Millsaps, Macklin, Hines, and Bennett are Directors who are not "interested persons" of the Fund. Mr. Brady and Franklin Resources, Inc. are limited partners of Darby Overseas Partners, L.P. ("Darby Overseas"). Mr. Brady established Darby Overseas in February, 1994, and is Chairman and a shareholder of the corporate general partner of Darby Overseas. In addition, Darby Overseas and Templeton, Galbraith & Hansberger Ltd. are limited partners of Darby Emerging Markets Fund, L.P.

** Mr. Boyd has tendered his resignation as a director. A special meeting of Shareholders of the Fund has been called for May 4, 1995, for the purpose of electing Directors of the Fund. Betty P. Krahmer has been nominated to stand for election as a director at that meeting to succeed Mr. Boyd.

TRUSTEE COMPENSATION

All of the Fund's Officers and Directors also hold positions with other investment companies in the Franklin Templeton Group. No compensation is paid by the Fund to any officer or Director who is an officer, trustee or employee of the Investment Manager

or its affiliates. Each Templeton Fund pays its independent directors and trustees and Mr. Brady an annual retainer and/or fees for attendance at Board and Committee meetings, the amount of which is based on the level of assets in each fund. Accordingly, based upon the assets of the Fund as of December 31, 1994, the Trust currently pays the independent Directors and Mr. Brady an annual retainer of \$100 and a fee of \$0 per meeting attended of the Board and its Committees. The independent Directors and Mr. Brady are reimbursed for any expenses incurred in attending meetings, paid pro rata by each Franklin Templeton Fund in which they serve. No pension or retirement benefits are accrued as part of Fund expenses.

The following table shows the total compensation paid to the Directors by the Fund and by all investment companies in the Franklin Templeton Group for the fiscal year ended December 31, 1994:

Name of Director	Aggregate Compensation from the Fund	Number of Franklin Templeton Fund Boards on Which Director Serves	Total Compensation from all Funds in Franklin Templeton Group
Harris J. Ashton	\$1,525	54	\$319,925
John G. Bennett, Jr.	1,525	23	105,625
Nicholas F. Brady	1,525	23	86,125
Frank J. Crothers	2,025	4	12,850
S. Joseph Fortunato	1,525	56	336,065
Andrew H. Hines, Jr.	2,025	23	106,125
William Young Boyd II	1,000	4	4,000
Gordon S. Macklin	1,525	51	303,685
Fred R. Millsaps	1,525	23	106,125

Constantine Dean Tseretopoulos	2,025	4	12,850
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PRINCIPAL SHAREHOLDERS

As of March 31, 1995, there were 3,242,187 Shares of the Fund outstanding, of which 4,201 Shares (less than 1%) were owned beneficially by all the Directors and Officers of the Fund as a group. As of that date, to the knowledge of management, no person owned beneficially or of record 5% or more of the Fund's outstanding Shares, except Merrill Lynch, Pierce, Fenner & Smith Inc., P.O. Box 45286, Jacksonville, Florida 32232-5286 owned of record 333,033 Shares (representing 10% of the outstanding Shares).

INVESTMENT MANAGEMENT AND OTHER SERVICES

Investment Management Agreement. The Investment Manager of the Fund is Templeton Investment Counsel, Inc., a Florida corporation with offices in Fort Lauderdale, Florida. The

Investment Management Agreement dated October 30, 1992 was approved by Shareholders of the Fund on October 30, 1992, was last approved by the Board of Directors, including a majority of the Directors who were not parties to the Agreement or interested persons of any such party, at a meeting on February 24, 1995, and will continue through April 30, 1996. The Investment Management Agreement will continue from year to year thereafter, subject to approval annually by the Board of Directors or by vote of the holders of a majority of the outstanding shares of the Fund (as

defined in the 1940 Act) and also, in either event, with the approval of a majority of those Directors who are not parties to the Investment Management Agreement or interested persons of any such party in person at a meeting called for the purpose of voting on such approval.

The Investment Management Agreement requires the Investment Manager to manage the investment and reinvestment of the Fund's assets. The Investment Manager is not required to furnish any personnel, overhead items or facilities for the Fund, including daily pricing or trading desk facilities.

The Investment Management Agreement provides that the Investment Manager will select brokers and dealers for execution of the Fund's portfolio transactions consistent with the Fund's brokerage policy (see "Brokerage Allocation"). Although the services provided by broker-dealers in accordance with the brokerage policy incidentally may help reduce the expenses of or otherwise benefit the Investment Manager and other investment advisory clients of the Investment Manager and of its affiliates, as well as the Fund, the value of such services is indeterminate, and the Investment Manager's fee is not reduced by any offset arrangement by reason thereof.

When the Investment Manager determines to buy or sell the same securities for the Fund that the Investment Manager or one or more of its affiliates has selected for one or more of its other clients or for clients of its affiliates, the orders for all such securities transactions are placed for execution by methods determined by the Investment Manager, with approval by the Board of Directors, to be impartial and fair, in order to seek good results for all parties (see "Investment Objective and Policies -- Trading Policies"). Records of securities transactions of persons who know when orders are placed by the Fund are available for inspection at least four times annually by the compliance officer of the Fund so that the non-interested Directors (as defined in the 1940 Act) can be satisfied that the procedures are generally fair and equitable for all parties.

The Investment Management Agreement further provides that the Investment Manager shall have no liability to the Fund or any Shareholder of the Fund for any error of judgment, mistake of law, or any loss arising out of any investment or other act or omission in the performance by the Investment Manager of its duties under the Investment Management Agreement or for any loss or damage resulting from the imposition by any government of exchange control restrictions which might affect the liquidity of the Fund's assets, or from acts or omissions of custodians or securities depositories, or from any wars or political acts of any foreign governments to which such assets might be exposed, except for any liability, loss or damage resulting from willful

misfeasance, bad faith or gross negligence on the Investment Manager's part or reckless disregard of its duties under the Investment Management Agreement. The Investment Management

Agreement will terminate automatically in the event of its assignment, and may be terminated by the Fund at any time without payment of any penalty on 60 days' written notice, with the approval of a majority of the Directors of the Fund in office at the time or by vote of a majority of the outstanding Shares of the Fund (as defined by the 1940 Act).

Management Fees. For its services, the Fund pays the Investment Manager a monthly fee equal on an annual basis to 0.70% of its average daily net assets during the year. Each class of Shares pays a portion of the fee, determined by the proportion of the Fund that it represents. During the fiscal years ended December 31, 1994, 1993 and 1992, the Investment Manager (and, prior to October 30, 1992, TGH, the Fund's previous Investment Manager) received from the Fund fees of \$255,905, \$223,035, and \$139,914, respectively. The Investment Manager will comply with any applicable state regulations which may require the Investment Manager to make reimbursements to the Fund in the event that the Fund's aggregate operating expenses, including the management fee, but generally excluding interest, taxes, brokerage commissions and extraordinary expenses, are in excess of specific applicable limitations. The strictest rule currently applicable to the Fund is 2.5% of the first \$30,000,000 of net assets, 2% of the next \$70,000,000 of net assets and 1.5% of the remainder.

The Investment Manager. The Investment Manager is an indirect wholly owned subsidiary of Franklin Resources, Inc. ("Franklin"), a publicly traded company whose shares are listed on the New York Stock Exchange. Charles B. Johnson (an officer of the Fund), Rupert H. Johnson, Jr., and R. Martin Wiskemann are principal shareholders of Franklin and own, respectively, approximately 20%, 16% and 9.2% of its outstanding shares. Messrs. Charles B. Johnson and Rupert H. Johnson, Jr. are brothers.

Business Manager. Templeton Global Investors, Inc. performs certain administrative functions for the Fund including:

- o providing office space, telephone, office equipment and supplies for the Fund;
- o paying all compensation of the Fund's officers;
- o authorizing expenditures and approving bills for payment on behalf of the Fund;
- o supervising preparation of annual and semiannual reports to Shareholders, notices of dividends, capital gains distributions and tax credits, and attending to correspondence and other communications with individual Shareholders;

- o daily pricing of the Fund's investment portfolio and preparing and supervising publication of daily quotations of the bid and asked prices of the Fund's Shares, earnings reports and other financial data;
- o providing trading desk facilities for the Fund;
- o monitoring relationships with organizations serving the Fund, including the custodian and printers;
- o supervising compliance by the Fund with recordkeeping requirements under the 1940 Act and regulations thereunder, and with state regulatory requirements, maintaining books and records for the Fund (other than those maintained by the custodian and transfer agent), and preparing and filing tax reports other than the Fund's income tax returns;
- o monitoring the qualifications of the tax-deferred retirement plans offered by the Fund; and

- o providing executive, clerical and secretarial help needed to carry out these responsibilities.

For its services, the Business Manager receives a monthly fee equal on an annual basis to 0.15% of the first \$200,000,000 of the Fund's average daily net assets, reduced to 0.135% annually of the Fund's net assets in excess of \$200,000,000, further reduced to 0.1% annually of such net assets in excess of \$700,000,000, and further reduced to 0.075% annually of such net assets in excess of \$1,200,000,000. Each class of Shares pays a portion of the fee, determined by the proportion of the Fund that it represents. Since the Business Manager's fee covers services often provided by investment advisers to other funds, the Fund's combined expenses for advisory and administrative services are higher than those of most other investment companies. During the fiscal years ended December 31, 1994, 1993 and 1992, the Fund paid business management fees of \$54,836, \$47,794 and \$29,983, respectively.

The Business Manager is relieved of liability to the Fund for any act or omission in the course of its performance under the Business Management Agreement in the absence of willful misfeasance, bad faith or gross negligence. The Business Management Agreement may be terminated by the Fund at any time on 60 days' written notice without payment of penalty, provided that such termination by the Fund shall be directed or approved by vote of a majority of the Directors of the Fund in office at the time or by vote of a majority of the outstanding voting securities of the Fund (as defined by the 1940 Act), and shall terminate automatically and immediately in the event of its assignment.

Templeton Global Investors, Inc. is an indirect wholly owned subsidiary of Franklin.

Custodian and Transfer Agent. The Chase Manhattan Bank, N.A. serves as custodian of the Fund's assets, which are maintained at the custodian's principal office, MetroTech Center,

Brooklyn, New York 11245, and at the offices of its branches and agencies throughout the world. The custodian has entered into agreements with foreign sub-custodians approved by the Directors pursuant to Rule 17f-5 under the 1940 Act. The custodian, its branches and sub-custodians generally do not hold certificates for the securities in their custody, but instead have book records with domestic and foreign securities depositories, which in turn have book records with the transfer agents of the issuers of the securities. Compensation for the services of the custodian is based on a schedule of charges agreed on from time to time.

Franklin Templeton Investor Services, Inc. serves as the Fund's transfer agent. Services performed by the transfer agent include processing purchase, transfer and redemption orders; making dividend payments, capital gain distributions and reinvestments; and handling routine communications with Shareholders. The transfer agent receives from the Fund an annual fee of \$13.74 per Shareholder account plus out-of-pocket expenses, such fee to be adjusted each year to reflect changes in the Department of Labor Consumer Price Index.

Legal Counsel. Dechert Price & Rhoads, 1500 K Street, N.W., Washington, D.C. 20005, is legal counsel for the Fund.

Independent Accountants. The firm of McGladrey & Pullen, LLP, 555 Fifth Avenue, New York, New York 10017, serves as independent accountants for the Fund. In addition to reporting annually on the financial statements of the Fund, the Fund's accountants review certain filings of the Fund with the Securities and Exchange Commission and prepare the Fund's Federal and state corporation tax returns.

Reports to Shareholders. The Fund's fiscal year ends on December 31. Shareholders will be provided at least semiannually with reports showing the portfolio of the Fund and other information, including an annual report with financial statements audited by independent accountants.

BROKERAGE ALLOCATION

The Investment Management Agreement provides that the Investment Manager is responsible for selecting members of securities exchanges, brokers and dealers (such members, brokers and dealers being hereinafter referred to as "brokers") for the execution of the Fund's portfolio transactions and, when applicable, the negotiation of commissions in connection therewith. It is not the duty of the Investment Manager, nor

does it have any obligation, to provide a trading desk for the Fund's portfolio transactions. All decisions and placements are made in accordance with the following principles:

1. Purchase and sale orders will usually be placed with brokers who are selected by the Investment Manager as able to achieve "best execution" of such orders. "Best execution" means prompt and reliable execution at the most favorable securities price, taking into account the other provisions hereinafter set forth. The determination of what may constitute best execution and price in the execution of a securities transaction by a broker involves a number of considerations, including without limitation, the overall direct net economic result to the Fund (involving both price paid or received and any commissions and other costs paid), the efficiency with which the transaction is effected, the ability to effect the transaction at all where a large block is involved, availability of the broker to stand ready to execute possibly difficult transactions in the future, and the financial strength and stability of the broker. Such considerations are judgmental and are weighed by the Investment Manager in determining the overall reasonableness of brokerage commissions.
2. In selecting brokers for portfolio transactions, the Investment Manager takes into account its past experience as to brokers qualified to achieve "best execution," including brokers who specialize in any foreign securities held by the Fund.
3. The Investment Manager is authorized to allocate brokerage business to brokers who have provided brokerage and research services, as such services are defined in Section 28(e) of the Securities Exchange Act of 1934 (the "1934 Act"), for the Fund and/or other accounts, if any, for which the Investment Manager exercises investment discretion (as defined in Section 3(a)(35) of the 1934 Act) and, as to transactions as to which fixed minimum commission rates are not applicable, to cause the Fund to pay a commission for effecting a securities transaction in excess of the

amount another broker would have charged for effecting that transaction, if the Investment Manager determines in good faith that such amount of commission is reasonable in relation to the value of the brokerage and research services provided by such broker, viewed in terms of either that particular transaction or the Investment Manager's overall responsibilities with respect to the Fund and the other accounts, if any, as to which it exercises investment discretion. In reaching such determination, the Investment Manager is not required to place or attempt to place a specific dollar value on the research or execution services of a

broker or on the portion of any commission reflecting either of said services. In demonstrating that such determinations were made in good faith, the Investment Manager shall be prepared to show that all commissions were allocated and paid for purposes contemplated by the Fund's brokerage policy; that commissions were paid only for products or services which provide lawful and appropriate assistance to the Investment Manager in the performance of its investment decision-making responsibilities; and that the commissions paid were within a reasonable range. The determination that commissions were within a reasonable range shall be based on any available information as to the level of commissions known to be charged by other brokers on comparable transactions, but there shall be taken into account the Fund's policies that (a) obtaining a low commission is deemed secondary to obtaining a favorable securities price, since it is recognized that usually it is more beneficial to the Fund to obtain a favorable price than to pay the lowest commission; and (b) the quality, comprehensiveness and frequency of research studies which are provided for the Fund and the Investment Manager are useful to the Investment Manager in performing its advisory services under its Investment Management Agreement with the Fund. Research services provided by brokers to the Investment Manager are considered to be in addition to, and not in

lieu of, services required to be performed by the Investment Manager under its Investment Management Agreement. Research furnished by brokers through whom the Fund effects securities transactions may be used by the Investment Manager for any of its accounts, and not all such research may be used by the Investment Manager for the Fund. When execution of portfolio transactions is allocated to brokers trading on exchanges with fixed brokerage commission rates, account may be taken of various services provided by the broker, including quotations outside the United States for daily pricing of foreign securities held in the Fund's portfolio.

4. Purchases and sales of portfolio securities within the United States other than on a securities exchange shall be executed with primary market makers acting as principal except where, in the judgment of the Investment Manager, better prices and execution may be obtained on a commission basis or from other sources.
5. Sales of the Fund's Shares (which shall be deemed to include also shares of other investment companies registered under the 1940 Act which have either the same investment adviser or an investment adviser affiliated with the Fund's Investment Manager) made by a broker are one factor among others to be taken into account in deciding to allocate portfolio transactions

(including agency transactions, principal transactions, purchases in underwritings or tenders in response to tender offers) for the account of the Fund to that broker; provided that the broker shall furnish "best execution" as defined in paragraph 1 above, and that such allocation shall be within the scope of the Fund's policies as stated above; and provided further, that in every allocation made to a broker in which the sale of Shares is taken into account there shall be no increase in the amount of the commissions or other compensation paid to such broker beyond a reasonable commission or other compensation determined, as set forth in

paragraph 3 above, on the basis of best execution alone or best execution plus research services, without taking account of or placing any value upon such sale of Shares.

Insofar as known to management, no Director or officer of the Fund, nor the Investment Manager or the Principal Underwriter or any person affiliated with any of them, has any material direct or indirect interest in any broker employed by or on behalf of the Fund. Franklin Templeton Distributors, Inc., the Principal Underwriter for the Fund, is a registered broker-dealer, but has never executed any purchase or sale transactions for the Fund's portfolio or participated in commissions on any such transactions, and has no intention of doing so in the future. During the fiscal years ended December 31, 1994, 1993 and 1992, the Fund paid brokerage commissions of \$34,622, \$20,620 and \$42,000, respectively. All portfolio transactions are allocated to broker-dealers only when their prices and execution, in the good faith judgment of the Investment Manager, are equal to the best available within the scope of the Fund's policies. There is no fixed method used in determining which broker-dealers receive which order or how many orders.

PURCHASE, REDEMPTION AND PRICING OF SHARES

The Prospectus describes the manner in which the Fund's Shares may be purchased and redeemed. See "How to Buy Shares of the Fund" and "How to Sell Shares of the Fund."

Net asset value per Share is determined as of the scheduled closing of the New York Stock Exchange (generally 4:00 p.m., New York time) every Monday through Friday (exclusive of national business holidays). The Fund's offices will be closed, and net asset value will not be calculated, on those days on which the New York Stock Exchange is closed, which currently are: New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Trading in securities on European and Far Eastern securities exchanges and over-the-counter markets is normally completed well before the close of business in New York on each day on which the New York Stock Exchange is open. Trading of European or Far

Eastern securities generally, or in a particular country or countries, may not take place on every New York business day. Furthermore, trading takes place in various foreign markets on days which are not business days in New York and on which the Fund's net asset value is not calculated. The Fund calculates net asset value per Share, and therefore effects sales, redemptions and repurchases of its Shares, as of the close of the New York Stock Exchange once on each day on which that Exchange is open. Such calculation does not take place contemporaneously with the determination of the prices of many of the portfolio securities used in such calculation, and if events occur which materially affect the value of those foreign securities, they will be valued at fair market value as determined by the management and approved in good faith by the Board of Directors.

The Board of Directors may establish procedures under which the Fund may suspend the determination of net asset value for the whole or any part of any period during which (1) the New York Stock Exchange is closed other than for customary weekend and holiday closings, (2) trading on the New York Stock Exchange is restricted, (3) an emergency exists as a result of which disposal of securities owned by the Fund is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or (4) for such other period as the Securities and Exchange Commission may by order permit for the protection of the holders of the Fund's Shares.

Ownership and Authority Disputes. In the event of disputes involving multiple claims of ownership or authority to control a Shareholder's account, the Fund has the right (but has no obligation) to: (a) freeze the account and require the written agreement of all persons deemed by the Fund to have a potential property interest in the account, prior to executing instructions regarding the account; or (b) interplead disputed funds or accounts with a court of competent jurisdiction. Moreover, the Fund may surrender ownership of all or a portion of an account to the Internal Revenue Service in response to a Notice of Levy.

In addition to the special purchase plans described in the Prospectus, other special purchase plans also are available:

Tax-Deferred Retirement Plans. The Fund offers its Shareholders the opportunity to participate in the following types of retirement plans:

- o For individuals, whether or not covered by other qualified plans;

- o For simplified employee pensions;
- o For employees of tax-exempt organizations;
- o For corporations, self-employed individuals and partnerships.

Capital gains and income received by the foregoing plans generally are exempt from taxation until distribution from the plans. Investors considering participation in any such plan should review specific tax laws relating thereto and should consult their attorneys or tax advisers with respect to the establishment and maintenance of any such plan. Additional information, including the fees and charges with respect to all of these plans, is available upon request to the Principal Underwriter. No distribution under a retirement plan will be made until Franklin Templeton Trust Company, the custodian of the retirement plans, receives the participant's election on IRS Form W-4P (available on request from Franklin Templeton Trust Company) and such other documentation as it deems necessary, as to whether or not U.S. income tax is to be withheld from such distribution.

Individual Retirement Account (IRA). All U.S. individuals (whether or not covered by qualified private or governmental retirement plans) may purchase Shares of the Fund pursuant to an Individual Retirement Account. However, contributions to an IRA by an individual who is covered by a qualified private or governmental plan may not be tax-deductible depending on the individual's income. Custodial services for Individual Retirement Accounts are available through Franklin Templeton Trust Company. Disclosure statements summarizing certain aspects of Individual Retirement Accounts are furnished to all persons investing in such accounts, in accordance with Internal Revenue Service regulations.

Simplified Employee Pensions (SEP-IRA). For employers who wish to establish a simplified form of employee retirement program investing in Shares of the Fund, there are available Simplified Employee Pensions invested in IRA plans. Details and materials relating to these plans will be furnished upon request

to the Principal Underwriter.

Retirement Plan for Employees of Tax-Exempt Organizations (403(b)). Employees of public school systems and certain types of charitable organizations may enter into a deferred compensation arrangement for the purchase of Shares of the Fund without being taxed currently on the investment. Contributions which are made by the employer through salary reduction are excludable from the gross income of the employee. Such deferred compensation plans, which are intended to qualify under Section 403(b) of the Internal Revenue Code of 1986, as amended (the "Code"), are available through the Principal Underwriter. Custodian services are provided by Franklin Templeton Trust Company.

Qualified Plan for Corporations, Self-Employed Individuals and Partnerships. For employers who wish to purchase Shares of the Fund in conjunction with employee retirement plans, there is a prototype master plan which has been approved by the Internal Revenue Service. A "Section 401(k) Plan" is also available. Franklin Templeton Trust Company furnishes custodial services for

these plans. For further details, including custodian fees and plan administration services, see the master plan and related material which is available from the Principal Underwriter.

Letter of Intent. Purchasers who intend to invest \$50,000 or more in Class I Shares of the Fund or any other fund in the Franklin Templeton Group within 13 months (whether in one lump sum or in installments the first of which may not be less than 5% of the total intended amount and each subsequent installment not less than \$25, including automatic investment and payroll deduction plans), and to beneficially hold the total amount of such Class I Shares fully paid for and outstanding simultaneously for at least one full business day before the expiration of that period, should execute a Letter of Intent ("LOI") on the form provided in the Shareholder Application in the Fund's Prospectus. Payment for not less than 5% of the total intended amount must accompany the executed LOI. Those Class I Shares purchased with the first 5% of the intended amount stated in the LOI will be

held as "Escrowed Shares" for as long as the LOI remains unfulfilled. Although the Escrowed Shares are registered in the investor's name, his full ownership of them is conditional upon fulfillment of the LOI. No Escrowed Shares can be redeemed by the investor for any purpose until the LOI is fulfilled or terminated. If the LOI is terminated for any reason other than fulfillment, the Transfer Agent will redeem that portion of the Escrowed Shares required and apply the proceeds to pay any adjustment that may be appropriate to the sales commission on all Class I Shares (including the Escrowed Shares) already purchased under the LOI and apply any unused balance to the investor's account. The LOI is not a binding obligation to purchase any amount of Shares, but its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to an LOI may be included under a subsequent LOI executed within 90 days of such purchase. In this case, an adjustment will be made at the end of 13 months from the effective date of the LOI at the net asset value per Share then in effect, unless the investor makes an earlier written request to the Principal Underwriter upon fulfilling the purchase of Shares under the LOI. In addition, the aggregate value of any Shares, including Class II Shares, purchased prior to the 90-day period referred to above may be applied to purchases under a current LOI in fulfilling the total intended purchases under the LOI. However, no adjustment of sales charges previously paid on purchases prior to the 90-day period will be made.

If an LOI is executed on behalf of a benefit plan (such plans are described under "How to Buy Shares of the Fund -- Net Asset Value Purchases (Both Classes)" in the Prospectus), the level and any reduction in sales charge for these employee benefit plans will be based on actual plan participation and the projected investments in the Franklin Templeton Funds (except Templeton Capital Accumulator Fund, Inc., Templeton Variable Annuity Fund, Templeton Variable Products Series Fund, Franklin

Valuemark Funds and Franklin Government Securities Trust) under the LOI. Benefit Plans are not subject to the requirement to reserve 5% of the total intended purchase, or to any penalty as a

result of the early termination of a plan, nor are Benefit Plans entitled to receive retroactive adjustments in price for investments made before executing LOIs.

Special Net Asset Value Purchases. As discussed in the Prospectus under "How to Buy Shares of the Fund - Description of Special Net Asset Value Purchases," certain categories of investors may purchase Class I Shares of the Fund at net asset value (without a front-end or contingent deferred sales charge). Franklin Templeton Distributors, Inc. ("FTD") or one of its affiliates may make payments, out of its own resources, to securities dealers who initiate and are responsible for such purchases, as indicated below. FTD may make these payments in the form of contingent advance payments, which may require reimbursement from the securities dealers with respect to certain redemptions made within 12 months of the calendar month following purchase, as well as other conditions, all of which may be imposed by an agreement between FTD, or its affiliates, and the securities dealer.

The following amounts will be paid by FTD or one of its affiliates, out of its own resources, to securities dealers who initiate and are responsible for (i) purchases of most equity and fixed-income Franklin Templeton Funds made at net asset value by certain designated retirement plans (excluding IRA and IRA rollovers): 1.00% on sales of \$1 million but less than \$2 million, plus 0.80% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more; and (ii) purchases of most fixed-income Franklin Templeton Funds made at net asset value by non-designated retirement plans: 0.75% on sales of \$1 million but less than \$2 million, plus 0.60% on sales of \$2 million but less than \$3 million, plus 0.50% on sales of \$3 million but less than \$50 million, plus 0.25% on sales of \$50 million but less than \$100 million, plus 0.15% on sales of \$100 million or more. These payment breakpoints are reset every 12 months for purposes of additional purchases. With respect to purchases made at net asset value by certain trust companies and trust departments of banks and certain retirement plans of organizations with collective retirement plan assets of \$10 million or more, FTD, or one of its affiliates, out of its own resources, may pay up to 1% of the amount invested.

TAX STATUS

The Fund intends normally to pay a dividend at least once annually representing substantially all of its net investment income (which includes, among other items, dividends and interest) and any net realized capital gains. By so doing and meeting certain diversification of assets and other requirements

of the Code, the Fund intends to qualify annually as a regulated investment company under the Code. The status of the Fund as a regulated investment company does not involve government supervision of management or of its investment practices or policies. As a regulated investment company, the Fund generally will be relieved of liability for U.S. Federal income tax on that portion of its net investment income and net realized capital gains which it distributes to its Shareholders. Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement also are subject to a nondeductible 4% excise tax. To prevent application of the excise tax, the Fund intends to make distributions in accordance with the calendar year distribution requirement.

Dividends representing net investment income and short-term capital gains (the excess of net short-term capital gains over net long-term capital losses) are taxable to Shareholders as ordinary income. Distributions representing net investment income (not including short-term capital gains) may be eligible for the dividends-received deduction available to corporations to the extent attributable to the Fund's qualifying dividend income. However, the alternative minimum tax applicable to corporations may reduce the benefit of the dividends-received deduction. Distributions of net long-term capital gains (the excess of net long-term capital gains over net short-term capital losses) designated by the Fund as capital gain dividends are taxable to Shareholders as long-term capital gains, regardless of the length of time the Fund's Shares have been held by a Shareholder, and are not eligible for the dividends-received deduction. Generally, dividends and distributions are taxable to Shareholders, whether received in cash or reinvested in Shares of the Fund. Any distributions that are not from a Fund's investment company taxable income or net capital gain may be characterized as a return of capital to Shareholders or, in some cases, as capital gain. Shareholders will be notified annually as to the Federal tax status of dividends and distributions they receive and any tax withheld thereon.

Distributions by the Fund reduce the net asset value of the

Fund Shares. Should a distribution reduce the net asset value below a Shareholder's cost basis, the distribution nevertheless may be taxable to the Shareholder as ordinary income or capital gain as described above, even though, from an investment standpoint, it may constitute a partial return of capital. In particular, investors should be careful to consider the tax implication of buying Shares just prior to a distribution by the Fund. The price of Shares purchased at that time includes the amount of the forthcoming distribution, but the distribution will generally be taxable to them.

Income received by the Fund from sources within foreign countries may be subject to withholding and other taxes imposed by such countries. Tax conventions between certain countries and the United States may reduce or eliminate these taxes. It is

impossible to determine the rate of foreign tax in advance, since the amount of the Fund's assets to be invested in various countries is not known.

If, at the close of any fiscal year, more than 50% of the value of the Fund's total assets are invested in securities of foreign corporations, the Fund generally may elect pursuant to Section 853 of the Code to pass through to its Shareholders the foreign income and similar taxes paid by the Fund in order to enable such Shareholders to take a credit (or deduction) for foreign income and similar taxes paid by the Fund. In that case, a Shareholder must include in his gross income on his Federal income tax return both dividends received by him from the Fund and the amount which the Fund advises him is his pro rata portion of foreign income and similar taxes paid with respect to, or withheld from, dividends, interest, or other income of the Fund from its foreign investments. The Shareholder may then subtract from his Federal income tax the amount of such taxes, or else treat such foreign taxes as an itemized deduction in computing taxable income; however, the above-described tax credit or deduction is subject to certain limitations which may reduce significantly the value of a credit or deduction. Foreign taxes generally may not be deducted by a Shareholder that is an individual in computing alternative taxable income and may at

most offset (as a credit) 90% of the alternative minimum tax.

The foregoing is only a general description of the foreign tax credit. Because application of the credit depends on the particular circumstances of each Shareholder, Shareholders are advised to contact their own tax advisers.

Since the Fund currently anticipates that its investments in foreign securities will be limited, the Fund does not expect to be eligible to make this election. If the Fund is ineligible to do so, the foreign income and similar taxes incurred by it generally will reduce the Fund's income that is distributable to Shareholders.

The Fund may invest in shares of foreign corporations which may be classified under the Code as passive foreign investment companies ("PFICs"). In general, a foreign corporation is classified as a PFIC if at least one-half of its assets constitute investment-type assets or 75% or more of its gross income is investment-type income. If the Fund receives a so-called "excess distribution" with respect to PFIC stock, the Fund itself may be subject to a tax on a portion of the excess distribution, whether or not the corresponding income is distributed by the Fund to Shareholders. In general, under the PFIC rules, an excess distribution is treated as having been realized ratably over the period during which the Fund held the PFIC shares. The Fund itself will be subject to tax on the portion, if any, of an excess distribution that is so allocated to prior Fund taxable years and an interest factor will be added to the tax, as if the tax had been payable in such prior taxable

years. Certain distributions from a PFIC as well as gain from the sale of PFIC shares are treated as excess distributions. Excess distributions are characterized as ordinary income even though, absent application of the PFIC rules, certain excess distributions might have been classified as capital gain.

The Fund may be eligible to elect alternative tax treatment with respect to PFIC shares. Under an election that currently is available in some circumstances, the Fund generally would be

required to include in its gross income its share of the earnings of a PFIC on a current basis, regardless of whether distributions are received from the PFIC in a given year. If this election were made, the special rules, discussed above, relating to the taxation of excess distributions, would not apply. In addition, another election may be available that would involve marking to market the Fund's PFIC shares at the end of each taxable year (and on certain other dates prescribed in the Code), with the result that unrealized gains are treated as though they were realized. If this election were made, tax at the Fund level under the PFIC rules would generally be eliminated, but the Fund could, in limited circumstances, incur nondeductible interest charges. The Fund's intention to qualify annually as a regulated investment company may limit its elections with respect to PFIC shares.

Because the application of the PFIC rules may affect, among other things, the character of gains, the amount of gain or loss and the timing of the recognition of income with respect to PFIC shares, as well as subject the Fund itself to tax on certain income from PFIC shares, the amount that must be distributed to Shareholders and which will be taxed to Shareholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not invest in PFIC shares.

Under the Code, gains or losses attributable to fluctuations in foreign currency exchange rates which occur between the time the Fund accrues income or other receivables or accrues expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such receivables or pays such liabilities generally are treated as ordinary income or ordinary loss. Similarly, on disposition of debt securities denominated in a foreign currency and on disposition of certain forward contracts, futures contracts and options, gains or losses attributable to fluctuations in the value of foreign currency between the date of acquisition of the security or contract and the date of disposition also are treated as ordinary gain or loss. These gains and losses, referred to under the Code as "section 988" gains and losses, may increase or decrease the amount of the Fund's net investment income to be distributed to its Shareholders as ordinary income. For example, fluctuations in exchange rates may increase the amount of income that the Fund must distribute in order to qualify for treatment as a regulated investment company and to prevent application of an excise tax on

undistributed income. Alternatively, fluctuations in exchange rates may decrease or eliminate income available for distribution. If section 988 losses exceed other net investment income during a taxable year, the Fund generally would not be able to make ordinary dividend distributions, or distributions made before the losses were realized would be recharacterized as return of capital to Shareholders for Federal income tax purposes, rather than as an ordinary dividend, reducing each Shareholder's basis in his Fund Shares, or as capital gain.

Certain of the options, futures contracts, and forward contracts in which the Fund may invest may be "section 1256 contracts." With certain exceptions, gains or losses on section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses ("60/40"). Also, section 1256 contracts held by the Fund at the end of each taxable year (and on certain other dates prescribed by the Code) are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss treated as 60/40 gain or loss.

The hedging transactions undertaken by the Fund may result in "straddles" for Federal income tax purposes. The straddle rules may affect the character of gains (or losses) realized by the Fund. In addition, losses realized by the Fund on positions that are part of a straddle may be deferred under the straddle rules, rather than being taken into account in calculating the taxable income for the taxable year in which such losses are realized. Because only a few regulations implementing the straddle rules have been promulgated, the tax consequences to the Fund of hedging transactions are not entirely clear. The hedging transactions may increase the amount of short-term capital gain realized by the Fund which is taxed as ordinary income when distributed to Shareholders.

The Fund may make one or more of the elections available under the Code which are applicable to straddles. If the Fund makes any of the elections, the amount, character and timing of the recognition of gains or losses from the affected straddle positions will be determined under rules that vary according to the elections(s) made. The rules applicable under certain of the elections may operate to accelerate the recognition of gains or losses from the affected straddle positions.

Because application of the straddle rules may affect the

character of gains or losses, defer losses and/or accelerate the recognition of gains or losses from the affected straddle positions, the amount which must be distributed to Shareholders, and which will be taxed to Shareholders as ordinary income or long-term capital gain may be increased or decreased substantially as compared to a Fund that did not engage in such hedging transactions.

Certain requirements that must be met under the Code in order for the Fund to qualify as a regulated investment company may limit the extent to which the Fund will be able to engage in transactions in options, futures, and forward contracts.

Some of the debt securities that may be acquired by the Fund may be treated as debt securities that are issued originally at a discount. Original issue discount can generally be defined as the difference between the price at which a security was issued and its stated redemption at maturity. Generally, the amount of the original issue discount ("OID") is treated as interest income and is included in income over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. A portion of the OID includable in income with respect to certain high-yield corporate debt securities may be treated as a dividend for Federal income tax purposes.

Some of the debt securities (with a fixed maturity date of more than one year from the date of issuance) that may be acquired by the Fund in the secondary market may be treated as having market discount. Generally, any gain recognized on the disposition of, and any partial payment of principal on, a debt security having market discount is treated as ordinary income to the extent the gain does not exceed the "accrued market discount" on such debt security. In addition, the deduction of any interest expenses attributable to debt securities having market discount may be deferred. Market discount generally accrues in equal daily installments. The Fund may make one or more of the elections applicable to debt securities having market discount,

which could affect the character and timing of recognition of income.

Some debt securities (with a fixed maturity date of one year or less from the date of issuance) that may be acquired by the Fund may be treated as having acquisition discount, or OID in the case of certain types of debt securities. Generally, the Fund will be required to include the acquisition discount, or OID, in income over the term of the debt security, even though payment of that amount is not received until a later time, usually when the debt security matures. The Fund may make one or more of the elections application to debt securities having acquisition discount, or OID, which could affect the character and timing of recognition of income.

The Fund generally will be required to distribute dividends to Shareholders representing discount on debt securities that is currently includable in income, even though cash representing such income may not have been received by the Fund. Cash to pay such dividends may be obtained from sales proceeds of securities held by the Fund.

Upon the sale or exchange (including a redemption) of Shares, a Shareholder will realize a taxable gain or loss

depending upon the basis in the Shares. Such gain or loss will be treated as capital gain or loss if the Shares are capital assets in the Shareholder's hands, and will be long-term if the Shareholder's holding period for the Shares is more than one year. Any loss realized on a sale will be disallowed to the extent that the Shares disposed of are replaced (including replacement through the reinvesting of dividends and capital gains distributions in the Fund) within a period of 61 days beginning 30 days before and ending 30 days after the disposition of the Shares. In such a case, the basis of the Shares acquired will be adjusted to reflect the disallowed loss. Any loss realized by a Shareholder on the sale of Fund Shares held by the Shareholder for six months or less will be treated for Federal income tax purposes as a long-term capital loss to the extent of any distributions of long-term capital gains received by the

Shareholder with respect to such Shares.

In some cases, Shareholders will not be permitted to take sales charges into account for purposes of determining the amount of gain or loss realized on the disposition of their Shares. This prohibition generally applies where (1) the Shareholder incurs a sales charge in acquiring the stock of a regulated investment company, (2) the stock is disposed of before the 91st day after the date on which it was acquired, and (3) the Shareholder subsequently acquires Shares of the same or another regulated investment company and the otherwise applicable sales charge is reduced or eliminated under a "reinvestment right" received upon the initial purchase of Shares of stock. In that case, the gain or loss recognized will be determined by excluding from the tax basis of the Shares exchanged all or a portion of the sales charge incurred in acquiring those Shares. This exclusion applies to the extent that the otherwise applicable sales charge with respect to the newly acquired Shares is reduced as a result of having incurred a sales charge initially. Sales charges affected by this rule are treated as if they were incurred with respect to the stock acquired under the reinvestment right. This provision may be applied to successive acquisitions of stock.

The Fund generally will be required to withhold Federal income tax at a rate of 31% ("backup withholding") from dividends paid, capital gain distributions, and redemption proceeds to Shareholders if (1) the Shareholder fails to furnish the Fund with the Shareholder's correct taxpayer identification number or Social Security number and to make such certifications as the Fund may require, (2) the Internal Revenue Service notifies the Shareholder or the Fund that the Shareholder has failed to report properly certain interest and dividend income to the Internal Revenue Service and to respond to notices to that effect, or (3) when required to do so, the Shareholder fails to certify that he is not subject to backup withholding. Corporate Shareholders and certain other Shareholders specified in the Code generally are exempt from backup withholding. Backup withholding is not an

additional tax. Any amounts withheld may be credited against the Shareholder's Federal income tax liability.

Ordinary dividends and capital gains distributions declared by the Fund in October, November or December with a record date in such a month and paid during the following January will be treated as having been paid by the Fund and received by Shareholders on December 31 of the calendar year in which declared, rather than the calendar year in which the dividends are actually received.

Distributions from the Fund and dispositions of Fund Shares also may be subject to state, local and foreign taxes. Non-U.S. Shareholders may be subject to U.S. tax rules that differ significantly from those summarized above.

Shareholders are advised to consult their own tax advisers for details with respect to the particular tax consequences to them of an investment in the Fund.

PRINCIPAL UNDERWRITER

Franklin Templeton Distributors, Inc. ("FTD" or the "Principal Underwriter"), P.O. Box 33030, St. Petersburg, Florida 33733-8030, toll free telephone (800) 237-0738, is the Principal Underwriter of the Fund's Shares. FTD is a wholly owned subsidiary of Franklin.

The Fund, pursuant to Rule 12b-1 under the 1940 Act, has adopted a Distribution Plan with respect to each class of Shares (the "Plans"). Under the Plan adopted with respect to Class I Shares, the Fund may reimburse FTD or others quarterly (subject to a limit of a 0.35% per annum of the Fund's average daily net assets attributable to Class I Shares) for costs and expenses incurred by FTD or others in connection with any activity that is primarily intended to result in the sale of Fund Shares. Under the Plan adopted with respect to Class II Shares, the Fund will pay FTD or others quarterly (subject to a limit of 1.00% per annum of the Fund's average daily net assets of which up to 0.25% of such net assets may be paid to dealers for personal service and/or the maintenance of Shareholder accounts) for costs and expenses incurred by FTD or others in connection with any activity which is primarily intended to result in the sale of Fund Shares. Payments to FTD or others could be for various types of activities, including (1) payments to broker-dealers who provide certain services of value to the Fund's Shareholders (sometimes referred to as a "trail fee") and advances of commissions on sales of Fund Shares, and interest or carrying charges in connection therewith; (2) expenses relating to selling and servicing efforts; (3) expenses of organizing and conducting sales seminars; (4) payments to employees or agents of

FTD who engage in or support distribution of Shares; (5) the costs of preparing, printing and distributing prospectuses and reports to prospective investors; (6) printing and advertising

expenses; and (7) such other similar services as the Fund's Board of Directors determines to be reasonably calculated to result in the sale of Shares.

During the fiscal year ended December 31, 1994, FTD incurred costs and expenses (including advanced commissions) of \$393,018 in connection with distribution of Class II Shares (Class I Shares were not offered during this period). During the same period, the Fund made payments of \$365,579 under the Plan applicable to Class II Shares. As indicated above, unreimbursed expenses, which amounted to \$880,589 as of December 31, 1994, may be reimbursed by the Fund during the fiscal year ending December 31, 1994 or in subsequent years. During the fiscal year ended December 31, 1994, FTD spent, pursuant to the Plan, the following amounts on: compensation to dealers, \$89,820; wholesale costs and expenses, \$1,027; advanced commissions, \$273,016; and printing, \$29,155.

The Distribution Agreement provides that the Principal Underwriter will use its best efforts to maintain a broad and continuous distribution of the Fund's Shares among bona fide investors and may sign selling contracts with responsible dealers, as well as sell to individual investors. The Principal Underwriter in all cases buys Shares from the Fund acting as principal for its own account. Dealers generally act as principal for their own account in buying Shares from the Principal Underwriter. No agency relationship exists between any dealer and the Fund or the Principal Underwriter.

During the fiscal years ended December 31, 1994, 1993 and 1992, FTD received \$59,594, \$60,701, and \$118,958, respectively, from contingent deferred sales charges on Class II Shares.

The Distribution Agreement provides that the Fund shall pay the costs and expenses incident to registering and qualifying the Fund's Shares for sale under the Securities Act of 1933 and under

the applicable Blue Sky laws of the jurisdictions in which the Principal Underwriter desires to distribute such Shares, and for preparing, printing and distributing prospectuses and reports to Shareholders. The Principal Underwriter pays the cost of printing additional copies of prospectuses and reports to Shareholders used for selling purposes. (The Fund pays costs of preparation, set-up and initial supply of the Fund's Prospectus for existing Shareholders.) The Distribution Plan is briefly described in the Prospectus.

The Distribution Agreement is subject to renewal from year to year in accordance with the provisions of the 1940 Act and terminates automatically in the event of its assignment. The Distribution Agreement may be terminated without penalty by either party upon 60 days' written notice to the other, provided termination by the Fund shall be approved by the Board of Directors or a majority (as defined in the 1940 Act) of the Shareholders. The Principal Underwriter is relieved of liability

for any act or omission in the course of its performance of the Distribution Agreement, in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations.

FTD is the Principal Underwriter for the other Templeton Funds.

DESCRIPTION OF SHARES

The Shares have non-cumulative voting rights so that the holders of a plurality of the Shares voting for the election of Directors at a meeting at which 50% of the outstanding Shares are present can elect all the Directors, and in such event, the holders of the remaining Shares voting for the election of Directors will not be able to elect any person or persons to the Board of Directors.

The Fund's Bylaws provide that the President or Secretary of the Fund will call a special meeting of Shareholders at the request in writing by Shareholders owning 25% of the capital

stock of the Fund issued and outstanding at the time of the call. The Directors are required to call a meeting for the purpose of considering the removal of a person serving as Director if requested in writing to do so by the holders of not less than 10% of the outstanding Shares of the Fund. In addition, the Fund is required to assist Shareholder communication in connection with the calling of Shareholder meetings to consider removal of a Director.

PERFORMANCE INFORMATION

The Fund may, from time to time, include its total return in advertisements or reports to Shareholders or prospective investors. Quotations of average annual total return for the Fund will be expressed in terms of the average annual compounded rate of return for periods in excess of one year or total return for periods of less than one year of a hypothetical investment in the Fund over periods of 1, 5 or 10 years (up to the life of the Fund) calculated pursuant to the following formula: $P(1 + T)^n = ERV$ (where P = a hypothetical initial payment of \$1,000, T = the average annual total return for periods of one year or more or the total return for periods of less than one year, n = the number of years, and ERV = the ending redeemable value of a hypothetical \$1,000 payment made at the beginning of the period). All total return figures reflect the deduction of the maximum contingent deferred sales charge and deduction of a proportional share of Fund expenses on an annual basis, and assume that all dividends and distributions are reinvested when paid. The Fund's average annual total return for the one-year period ended December 31, 1994 and for the period from February 27, 1991 (commencement of operations) to December 31, 1994 was (3.37)% and 9.59%, respectively.

Performance information for the Fund may be compared, in reports and promotional literature, to: (1) the Standard & Poor's 500 Stock Index, Dow Jones Industrial Average, or other unmanaged indices, so that investors may compare the Fund's results with those of a group of unmanaged securities widely regarded by investors as representative of the securities market in general;

(2) other groups of mutual funds tracked by Lipper Analytical Services, Inc., a widely used independent research firm which ranks mutual funds by overall performance, investment objectives and assets, or tracked by other services, companies, publications, or persons who rank mutual funds on overall performance or other criteria; and (3) the Consumer Price Index (measure for inflation) to assess the real rate of return from an investment in the Fund. Unmanaged indices may assume the reinvestment of dividends but generally do not reflect deductions for administrative and management costs and expenses.

Performance information for the Fund reflects only the performance of a hypothetical investment in the Fund during the particular time period on which the calculations are based. Performance information should be considered in light of the Fund's Investment Objective and Policies, characteristics and quality of the portfolio and the market conditions during the given time period, and should not be considered as a representation of what may be achieved in the future.

From time to time, the Fund and the Investment Manager may also refer to the following information:

- (1) The Investment Manager's and its affiliates' market share of international equities managed in mutual funds prepared or published by Strategic Insight or a similar statistical organization.
- (2) The performance of U.S. equity and debt markets relative to foreign markets prepared or published by Morgan Stanley Capital International or a similar financial organization.
- (3) The capitalization of U.S. and foreign stock markets as prepared or published by the International Finance Corporation, Morgan Stanley Capital International or a similar financial organization.
- (4) The geographic distribution of the Fund's portfolio.
- (5) The gross national product and populations, including age characteristics, literacy rates, foreign investment improvements due to a liberalization of securities laws and a reduction of foreign exchange controls, and improving communication technology, of various countries as published by various statistical organizations.

- (6) To assist investors in understanding the different returns and risk characteristics of various investments, the Fund may show historical returns of various investments and published indices (e.g., Ibbotson Associates, Inc. Charts and Morgan Stanley EAFE - Index).
- (7) The major industries located in various jurisdictions as published by the Morgan Stanley Index.
- (8) Rankings by DALBAR Surveys, Inc. with respect to mutual fund shareholder services.
- (9) Allegorical stories illustrating the importance of persistent long-term investing.
- (10) The Fund's portfolio turnover rate and its ranking relative to industry standards as published by Lipper Analytical Services, Inc. or Morningstar, Inc.
- (11) A description of the Templeton organization's investment management philosophy and approach, including its worldwide search for undervalued or "bargain" securities and its diversification by industry, nation and type of stocks or other securities.
- (12) Quotations from the Templeton organization's founder, Sir John Templeton,* advocating the virtues of diversification and long-term investing, including the following:
 - o "Never follow the crowd. Superior performance is possible only if you invest differently from the crowd."
 - o "Diversify by company, by industry and by country."
 - o "Always maintain a long-term perspective."
 - o "Invest for maximum total real return."

- o "Invest - don't trade or speculate."
- o "Remain flexible and open-minded about types of investment."

* Sir John Templeton sold the Templeton organization to Franklin Resources, Inc. in October, 1992 and resigned from the Fund's Board on April 16, 1995. He is no longer involved with the investment management process.

- o "Buy low."
- o "When buying stocks, search for bargains among quality stocks."
- o "Buy value, not market trends or the economic outlook."
- o "Diversify. In stocks and bonds, as in much else, there is safety in numbers."
- o "Do your homework or hire wise experts to help you."
- o "Aggressively monitor your investments."
- o "Don't panic."
- o "Learn from your mistakes."
- o "Outperforming the market is a difficult task.\$'
- o "An investor who has all the answers doesn't even understand all the questions."
- o "There's no free lunch."

- o "And now the last principle: Do not be fearful or negative too often."

In addition, the Fund and the Investment Manager may also refer to the number of Shareholders in the Fund or the aggregate number of shareholders of the Franklin Templeton Funds or the dollar amount of fund and private account assets under management in advertising materials.

FINANCIAL STATEMENTS

The financial statements contained in the Fund's Annual Report to Shareholders dated December 31, 1994 are incorporated herein by reference.