mutual objectives™

Mutual Fund Analysis And Perspectives

Category:
International Equity

Inception Date:
December, 1988

Advisor:
Templeton Management Ltd.

Sub-Advisor:
None

Templeton International Stock Fund

Analysts: Ian S. Filderman, MBA, Jennifer Gilbert

COMMENTS

Sometimes referred to as the sister fund of the better known Templeton Growth Fund, there are two significant differences between the two: namely a different portfolio manager (Don Reed in this case) and a different mandate. This fund can only invest in stocks of companies outside of North America, whereas the Growth Fund can invest anywhere in the world. This distinction between the two is absolutely crucial, as some investors have mistakenly viewed them as like funds, comparing only performance numbers.

This fund has been around for over a decade, making it somewhat younger than the Templeton Growth Fund, but among the oldest in Canada with this type of mandate. Through those years, and like the Growth Fund, it has delivered above average returns with very controlled risk characteristics and a disciplined value investment style.

While the results speak for themselves over the fund's history, performance has been somewhat lacklustre of late. We attribute this to the same factors behind a general lack of success for fundamental value managers over the past couple of years and less so recently, as value investing seems to be experiencing a resurgence. With equity valuations stretched in much of the developed world, Don had been buying and holding more unloved stocks in these markets, as well as being exposed to more out of favour companies and markets in places like the Far East and the emerging markets. This value discipline has had him underperforming in the past few years, but has given him solid performance of late. Don has stayed consistent with his investment style, doing what he is supposed to be doing given the fund's value mandate.

We recommend this fund as a core, international value holding for most accounts where such exposure is appropriate. It is generally best used along with dedicated exposure to Canada and the US.

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Templeton International Stock Fund

PROCESS AND DISCIPLINE

Although Don Reed is the named portfolio manager for this fund and is ultimately responsible for the final stock selection, he is backed by a very strong team and investment process. The Templeton organization is built on the premise of value investing on a global basis. Value investing, as it is approached by Templeton, is founded on the belief that stock prices do not always reflect the true value of companies. Templeton looks for companies that represent value insofar as an intrinsic value can be established for a company, and the stock can be purchased at a significant "margin of safety" below that intrinsic value.

Templeton has 33 analysts on their global equity team, each of whom has research responsibility for both an industry and a country. The analysts are responsible for conducting in-depth research on companies in their industry to identify those that represent a true value investment opportunity. Valuation techniques and measures such as price to earnings, price to book and price to cash flow ratios are used, and a company's business prospects are modelled out and assessed using a three to five year time horizon. As well, extensive visits and meetings with company management are a staple of their investment process.

Templeton uses weekly meetings with all of the analysts (in person and by conference call) as a forum in which new ideas for the "bargain list" are put forward and discussed. All the analysts must be in agreement that a company represents a good value investment idea in order to be included on the bargain list. Mr. Reed then constructs the portfolio from the ex-North American stocks on the list.

PORTFOLIO MANAGER

Don Reed is responsible for managing both global and international portfolios and currently manages several mutual funds and large institutional accounts for Templeton Management Limited. He is President of Templeton Institutional Funds, Inc. and Templeton Investment Counsel, Inc., and Director of Templeton Worldwide, Inc. Don is also a member of the Executive Committee of Franklin Resources, Inc.

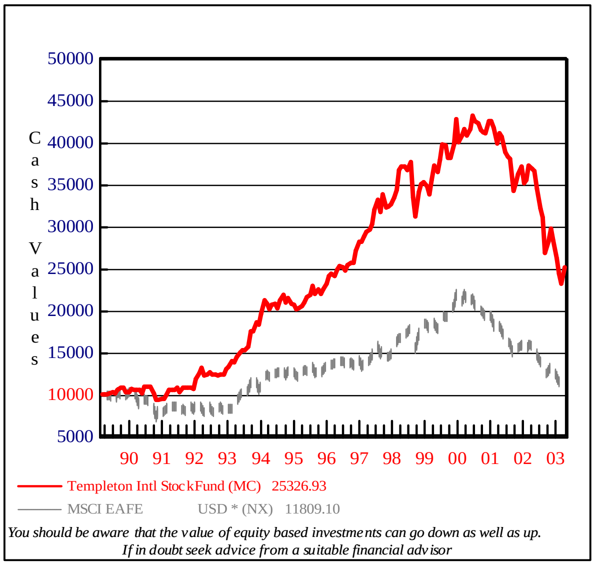
Prior to joining Templeton, he was President and Director of investment manager, Reed Monahan Nicolishen Investment Counsel.

Don graduated with a Bachelor of Commerce degree from Acadia University. He is a CFA, a Chartered Investment Counselor and a member of The Toronto Stock Exchange's Investors and Issuers Advisory Committee. He was also co-founder of the International Society of Financial Analysts and has served as a director of that organization since its inception.

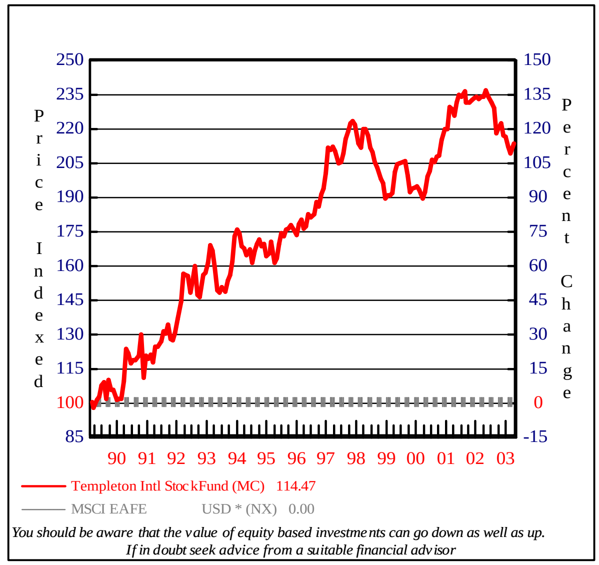
Templeton International Stock Fund

HISTORICAL PERFORMANCE
January 31, 1989 to April 30, 2003

$10,000 Investment Vs. Benchmark



Relative Performance Vs. Benchmark



Nominal Performance (Calendar Years to December 31, 2002; YTD to April 30, 2003)

	YTD	Qtl	2002	Qtl	2001	Qtl	2000	Qtl	1999	Qtl	1998	Qtl	1997	Qtl
Fund	-10.97	4	-24.09	4	-12.60	1	-0.58	1	21.43	3	8.11	4	15.90	1
Benchmark (MSCI EAFE)	-9.45		-18.36		-17.75		-12.24		18.36		26.90		4.65	
Peer Average International Equity Fund	-8.84		-20.39		-17.72		-7.65		30.84		16.23		8.00	
Performance Relative to Benchmark	-1.52		-5.73		5.15		11.66		3.07		-18.79		11.25	
Performance Relative to Peer Average	-2.13		-3.70		5.12		7.07		-9.41		-8.12		7.90	

	1996	Qtl	1995	Qtl	1994	Qtl	1993	Qtl	1992	Qtl	1991	Qtl	1990	Qtl
Fund	21.55	1	12.21	1	5.20	2	48.15	1	12.22	1	25.71	1	-11.46	2
Benchmark (MSCI EAFE)	4.92		6.39		12.56		35.92		-5.34		9.79		-24.57	
Peer Average International Equity Fund	11.10		6.62		4.95		41.64		0.16		9.78		-9.62	
Performance Relative to Benchmark	16.63		5.82		-7.36		12.23		17.56		15.92		13.11	
Performance Relative to Peer Average	10.45		5.59		0.25		6.51		12.06		15.93		-1.84	

Standard Performance (as of April 30, 2003)

	1 Yr	Qtl	3 Yr	Qtl	5 Yr	Qtl	10 Yr	Qtl
Fund	-31.73	4	-13.98	1	-7.55	3	4.10	1
Benchmark (MSCI EAFE)	-25.20		-16.95		-7.03		0.40	
Peer Average International Equity Fund	-26.59		-17.08		-6.69		1.21	
Performance Relative to Benchmark	-6.53		2.97		-0.52		3.70	
Performance Relative to Peer Average	-5.14		3.10		-0.86		2.89	

Templeton International Stock Fund

RISK ANALYSIS

Modern Portfolio Theory Statistics

	Alpha	Beta	R2	Correlation
3 Year	0.51	1.12	0.88	0.94
5 Year	-0.04	0.99	0.85	0.92
10 Year	0.33	0.88	0.75	0.87

Risk Adjusted Performance (to April 30, 2003)

Risk Free = 4%	Sharpe - 3Yr	Treynor - 3Yr	Sharpe - 5Yr	Treynor - 5Yr	Sharpe - 10Yr	Treynor - 10Yr
Fund	-1.11	-16.84	-0.68	-11.62	0.09	1.54
Rank	23	22	35	36	3	3
Peer Avg / # of Funds	-1.37 / 119	20.93 / 119	-0.60 / 55	-10.61 / 55	-0.09 / 13	-1.58 / 13
Benchmark	-1.55	-21.85	-0.71	-10.97	-0.17	-2.38

Other Risk Indicators (January 31, 1989 to April 30, 2003)

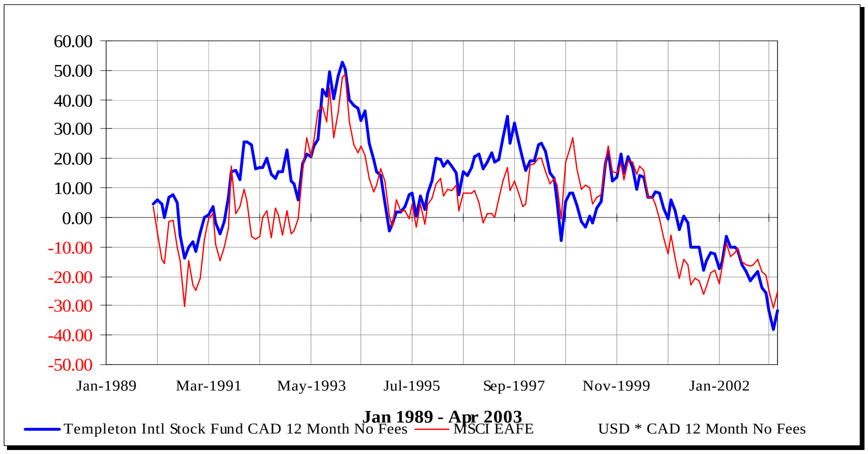
	Std. Deviation	Gains: Losses	% Pos Mths
Fund	14.00	1.51	57.31
Benchmark	16.83	1.12	53.22
Peer Avg / # of Funds	14.64 / 4	1.32 / 4	55.99 / 4
	Ann Avg Returns	**Max Loss**	**Ann Avg: Max Loss**
Fund	6.74	-46.59	0.14
Benchmark	1.17	-49.98	0.02
Peer Avg / # of Funds	4.34 / 4	-51.66 / 4	0.09 / 4

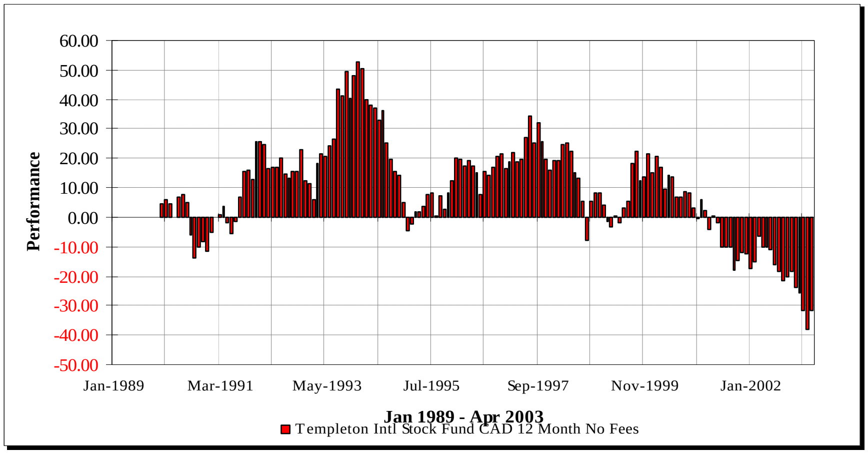
Holding Period	1 Year		3 Year		5 Year	
From: 31 Jan 1989 To: 30 Apr 2003	Templeton International Stock Fund	MSCI EAFE	Templeton International Stock Fund	MSCI EAFE	Templeton International Stock Fund	MSCI EAFE
Summary Statistics						
Average	9.33	3.23	43.37	20.60	91.24	44.08
Minimum Return	-38.11	-30.70	-44.56	-49.81	-37.14	-33.86
Maximum Return	52.76	48.38	114.18	72.27	173.98	105.63

Note: All returns are total (non-compounded) returns.

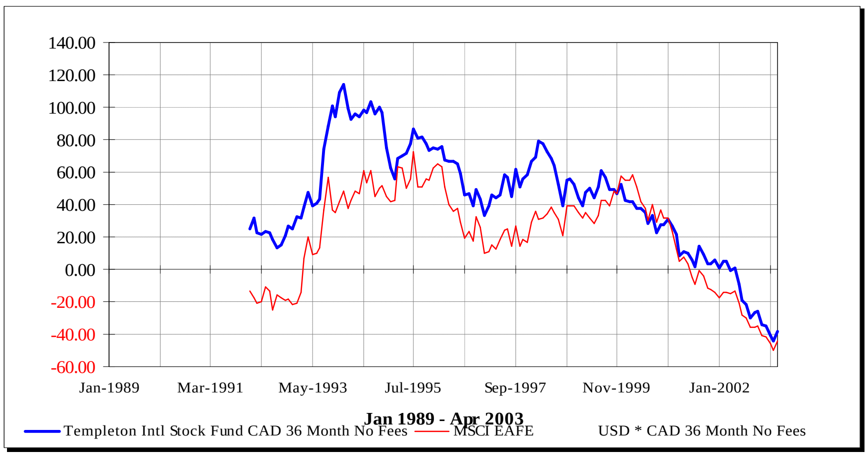
Templeton International Stock Fund

Holding Period Analysis - One Year Holding Periods



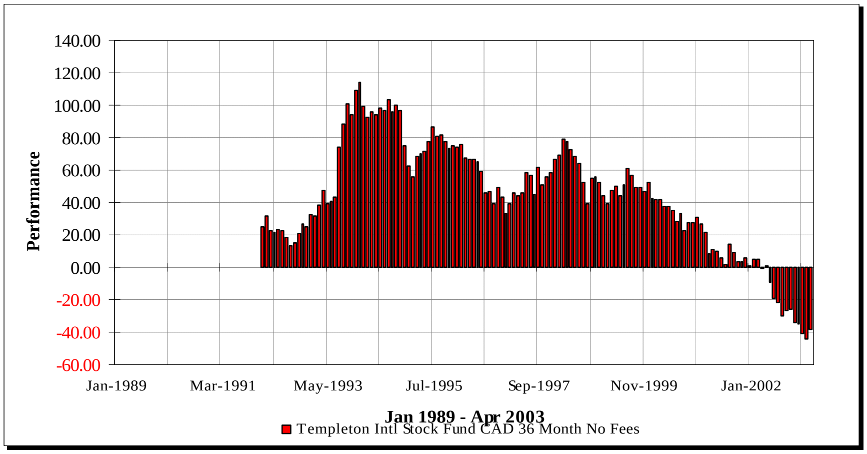


Holding Period Analysis - Three Year Holding Periods



Templeton International Stock Fund

Holding Period Analysis - Three Year Holding Periods



STYLE AND PORTFOLIO ANALYSIS

Portfolio and Style Indicators

Composition		Regional Allocation	
Cash	4.35%	Europe	68.20%
Bonds	0.00%	Asia	19.38%
Stocks	95.65%	Australia/New Zealand	3.69%
Portfolio Concentration		Latin America	3.55%
Top 10 Holdings	21.83%	North America	0.83%
Equity Style Summary		Other	4.35%
Avg Price/Earnings	11.4		
Avg Price/Book	1.30	**Market Cap of Equities**	
5 Yr EPS Growth Rate	n/a	Large	n/a
Avg Price/Cash Flow	5.2	Mid	n/a
Avg Market Cap	31,829 Ml	Small	n/a
Portfolio Turnover			

Top Holdings (as of April 30, 2003)

Total Equity Holdings: 128	% Net Assets		% Net Assets
Norsk Hydro ASA	2.45%	Telefonos de Mexico SA de CV (TELI	2.18%
Iberdrola SA	2.30%	Smiths Group PLC	2.15%
San Paolo-IMI SpA	2.21%	Telecom Corp. of New Zealand Ltd.	2.11%
BHP Billiton PLC	2.20%	Cheung Kong Holdings Ltd.	2.02%
Repsol YPF SA	2.19%	Portugal Telecom SGPS SA	2.02%

Templeton International Stock Fund

Data Sources: **Standard & Poor's Micropal Inc.** (Source and Copyright ã 1998 Standard & Poor's Micropal Limited. All rights therein reserved. 44-181-938-7100 - http://www.micropal.com)
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