Outstanding Investor Digest

PERSPECTIVES AND ACTIVITIES OF THE NATION'S MOST SUCCESSFUL MONEY MANAGERS.

Volume XII Number 5 | 1997 Patient Subscriber's Bonus Edition

TEMPLETON EMERGING MARKETS' MARK MOBIUS
"INVESTORS SHOULD STAY PATIENT & YOUNG AT HEART. EMERGING MARKETS' FUTURE REMAINS BRIGHT INDEED."

Please accept this *Patient Subscriber's Bonus Edition* as a token of our appreciation for your patience and support in 1997 and always.

Just as John Templeton has long been considered the dean of international investing, one of his successors, Templeton Emerging Markets' Mark Mobius is considered by many to be the dean of emerging-markets investing.

Limitations of space prevented us from including Mobius' remarks with those of associate Mark Holowesko in our Templeton Funds annual meeting feature last issue. But with the trauma in more than a few emerging markets still very fresh in people's minds and indeed still ongoing, we thought his long-term perspectives might provide a much-needed counterpoint to the negative headlines and no less negative sentiment which dominate that area today. We hope you find his comments as enlightening as we do.

EMERGING MARKETS' SLICE OF THE PIE IS ABOUT TO WIDEN — AND VERY RAPIDLY.

I finally feel safe returning to North America....

Mark Mobius: It's great to be here — and it's particularly great to be in North America again because my sister-in-law lives here. And she now *loves* me.

She was in the unfortunate position of having purchased our Emerging Markets Fund at the peak of the market in early 1994. And I was in the unfortunate position of visiting her in 1995 after the Mexican Crash. I knocked on the door of her home — my brother's home. And I heard a voice behind the door saying, "Who's there?" I said, "It's Mark." She said, "I'm not opening the door. And give me my money back...."

I said, "If you open the door, I'll tell you how you can get your money back." She opened the door and I said, "What you should do is buy *more*." She slammed the door in my face.

Well, I just met her last week. And, so, I asked her, "Did you take my advice?" — because the Fund is up something like 30% since that low. She sheepishly replied, "No." — unfortunately. But she's still making money again and she's happy. So I feel safe to return to North America.

Emerging markets have people and land, but not the GDP.

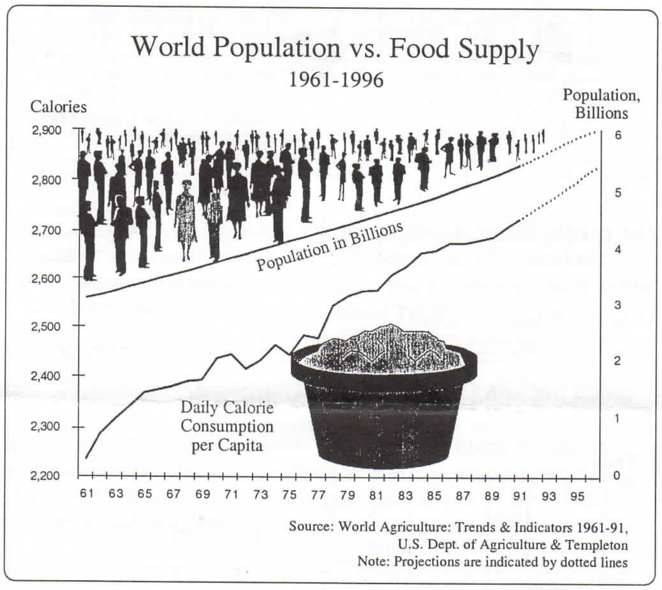
Mobius: What I'd like to do today is to review for you why we're in emerging markets and why we think the future is so great for emerging markets.

First, we live in a period of mankind's history in which *86%* of the world's population lives in emerging markets. By the way, we consider all the countries in Latin America, all the countries in Africa, most of the countries in Asia, and, now, Eastern Europe and Russia to be within the emerging markets group. And *76%* of the world's land area is in emerging markets. As you know, Russia has the largest land mass of any country in the world. But only *23%* of the world's *GDP* is in emerging markets.

But, for many reasons, that's about to change — and fast.

Mobius: We believe that situation is going to change and is changing before our very eyes. And that portion of the pie taken by emerging markets is going to be widening — and widening rather rapidly.

Why? Because of a convergence of factors in the emerging markets involving demography, technology, communications and a host of other variables which together form an extremely positive combination.



Food supply outstripping population growth.

Mobius: First are world population and food supply. As you see on the chart [above], world population is on the rise. However, food supply is running much *faster*.

That's thanks, in part, to a lot of Canadian and American farmers. But that's *also* thanks to *technology* because now a place like India, which two decades ago faced starvation, is now an *exporter* of food. So food supply is outpacing population growth. And, therefore, per capita consumption of food is rising.

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TEMPLETON EMERGING MARKETS'
MARK MOBIUS
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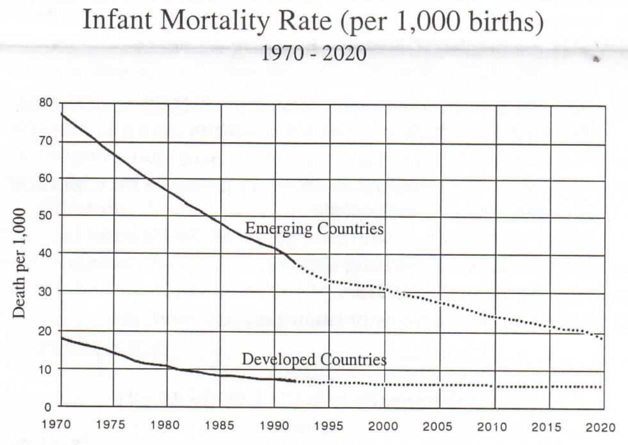
Health care in emerging markets is improving fast.

Mobius: Another important trend involves health — actually health services and pharmaceuticals. Now there are many life-saving pharmaceuticals and more and more physicians serving the emerging countries. Between 1965 and 1996, there's been an increase of more than 176% in the number of physicians per 1,000 population in emerging countries versus an increase of 71% in the developed countries.



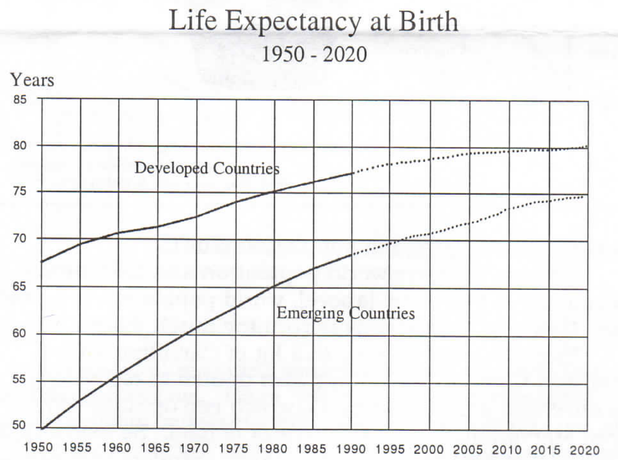
Source: World Bank & United Nations
Note: Projections are indicated by dotted lines

The result: lower infant mortality & longer life expectancy.

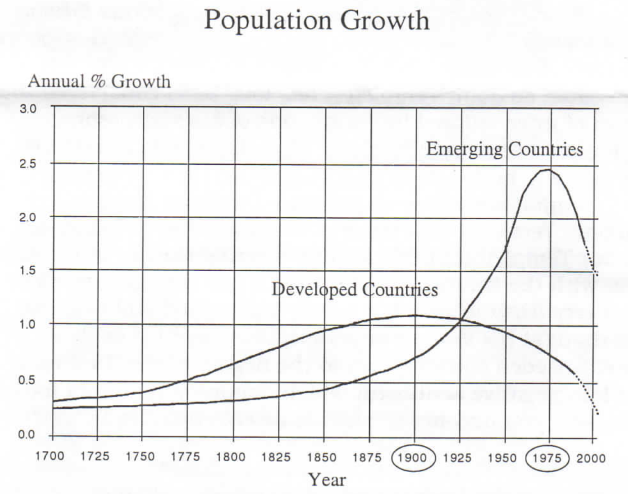
Mobius: What is the effect of better health care and better food supply? First of all, infant mortality goes down dramatically. The chart [above] shows what the trend has been in infant mortality in emerging countries and how it compares to the trend in developed countries.

As you can see, there's a convergence developing between the infant mortality level in emerging countries and the level in developed countries. In other words, the two are beginning to look more and more alike.

Also, there's a trend towards longer life expectancy. The chart [at the bottom of the last column] shows life expectancy at birth beginning in 1950 within emerging countries compared to ... developed countries. And, here again, you see a convergence of life expectancy developing between the two. In other words, people in emerging markets countries are living longer and longer.



Source: United Nations
Note: Projections are indicated by dotted lines



Source: M. Livi-Bacci, History of World Population

As in developed countries, population growth is slowing.

Mobius: The problem with this in the eyes of many alarmists is that if you have lower infant mortality and longer life expectancy, your population is going to explode. And of course, that's what's happened. We saw that development in the developed countries as shown by the [above] chart.

In 1900, the developed countries were growing at a very rapid pace. However, at that time, as you can see in this chart, we saw a deceleration in population growth.... And about that same time, the emerging markets started to explode — their population started to grow very rapidly. But, as this chart indicates, we are now beginning to see a deceleration in population growth. The growth in the number of babies born in emerging countries, as in the developed countries, is beginning to decline.

For example, Singapore goes from baby boom to baby bust.

Mobius: I saw that with my own eyes in Singapore when I first visited the country in 1986. Singapore's government was very concerned about population growth. And they had an active campaign to encourage people to have fewer babies. Singapore is this small island. And, so, they worried that there would be too many people.

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TEMPLETON EMERGING MARKETS'
MARK MOBIUS
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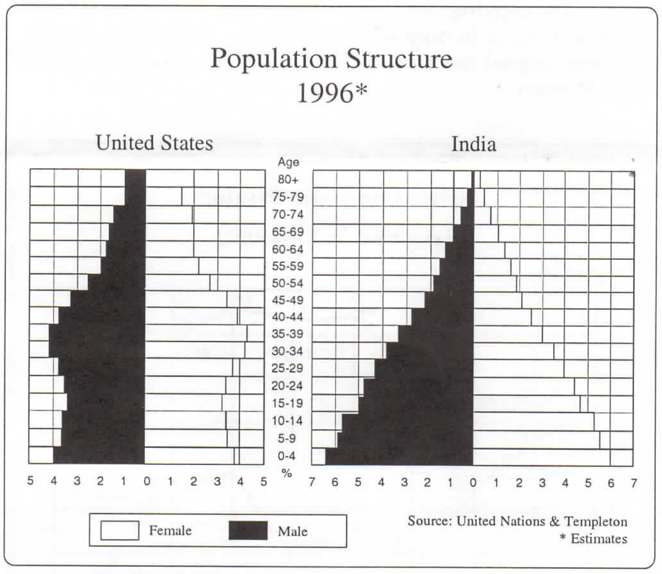
However, today, the government is actually encouraging people to have *more* babies because there's been a rapid decline in the number of babies born and they're afraid that they'll have too *few* young people.

My personal theory as to the reason why is that everybody's watching television and going out shopping. But, in any case, that's what we're seeing take place.



EMERGING MARKETS HAVE ALL THE RIGHT STUFF: POPULATION, LITERACY, ETC. — EVEN "BAYWATCH".

These macro trends can tell you where demand *will* be.

Mobius: Why are these population trends so important? The chart [above] tells the story. It deals with population structure. On the left is the U.S. On the right is India. Each bar, starting at the very bottom, represents an age group: age zero to four, five to nine, all the way up to age 80 and above.

And, looking at that chart, as a manufacturer of paper, diapers, pencils, motorcycles, bicycles or automobiles, which will be more important — the U.S. or India — for the future of your company?

Per capita income in the U.S. is much greater than it is in India, of course. However, the more important *future* market for consumer goods is in *India* — because over 30% of the population is below the age of 14 and over *50%* is below the age of 30. So we're seeing the makings of a tremendous and growing market in these countries.

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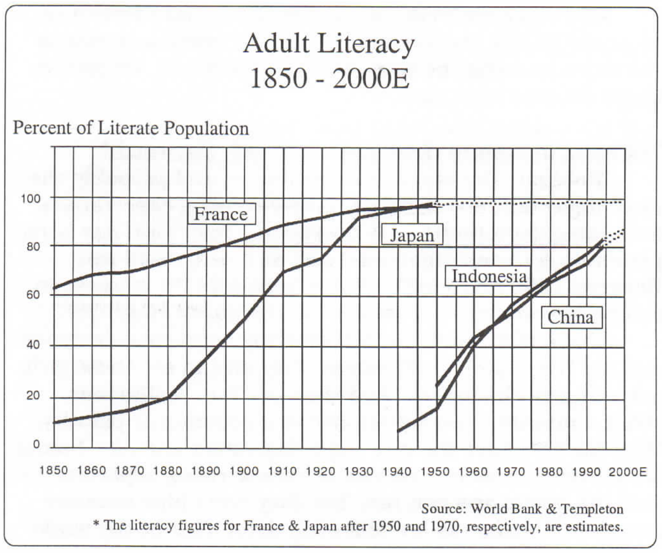
And emerging countries' literacy rates are climbing fast.

Mobius: But that's not enough. For them to be a wonderful market, they must have much higher income. And although population growth is decelerating, for them to have higher per capita income, they must become more productive. But to become more productive, they must be able to absorb new technology rapidly. And to do that, they need rising literacy — i.e., they must be able to *read*. And, there, fortunately, another wonderful trend within the emerging countries is rapidly rising literacy.

In 1850, France — which, in those days, was already considered a developed nation — had a literacy rate of about 60%. By contrast, Japan had a literacy rate of 10%. And the Japanese, once they came into contact with Western thought and Western technology, became alarmed. They realized that if they *didn't* catch up that they would be taken over by these Western countries.

Therefore, Emperor Meiji began to build schools and encourage his people to learn how to read and write. And so, by 1940, Japan raised its literacy rate to above 90%. And, as you know, it became a world power. At that time, of course, it became a military power and used that power in the wrong way. But they clearly became a world power.



Today, countries like Indonesia and China are doing the same thing. In 1940, the literacy rate in Indonesia was less than *10%*. By contrast, today, their literacy rate is well over *80%*. In 1950, China's literacy was below 30%. Now it's well over 80%. And you can see that trend in many, many countries around the world.

Today, you get a phone line (pre-strung) *and* a dial tone.

Mobius: Furthermore, thanks to telecommunications, information can not only be *absorbed*, but it can *travel* much faster — like this session which is traveling around the world at the speed of light thanks to fiber optics and satellites. And to give you some idea, telephone lines per thousand people from 1975 and 1996 rose 263% in the emerging countries versus 103% in the developed countries.

Our portfolios contain many telecommunications companies because they're growing very rapidly in the emerging countries. In fact, when we started the first Emerging Markets Fund in the United States in 1987, my

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TEMPLETON EMERGING MARKETS'
MARK MOBIUS
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Filipino friends were concerned because I was buying Philippine Long Distance Telephone Company. They said, "This is a terrible company. We've been waiting five years for a telephone. And we're still waiting."

In those days, the joke in the Philippines was that 10% of the population have a telephone; and of that 10%, 90% are still waiting for a dial tone. Now that situation has *changed* because of privatization all over the world.

When we first went to Argentina in 1988 and visited a chemical company, Ipako, the managing director had a big desk filled with telephones. And behind him, he had another desk which was also filled with telephones. He actually had about 30 telephones in that room. And there were wires going out the window behind him across the street in all directions.

So I facetiously asked him, "Are you having problems making a telephone call?" And he said, "Well, the telephone service is so bad that we decided to string our own telephone lines to each of our customers around the city."

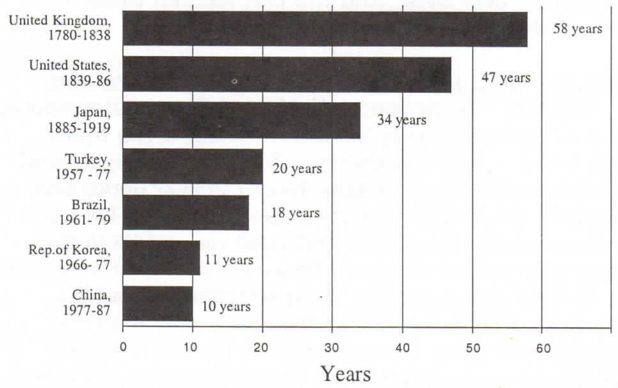
And when we went out on the street and I looked up, we could hardly see the sun — because everybody *else* in the city was doing the same thing. [chuckles]. Of course, that's all gone now, too.

The most important development of all? Baywatch!

Mobius: The other development — and probably the most important one because it means rising expectations and rising aspirations — is television. Television has been penetrating the emerging markets at a *very* rapid rate. Between 1980 and 1996, there's been a 245% increase in emerging countries versus 28% in developed countries.

Think of it. Now, in the emerging countries, everyone can see "Baywatch". Of course, they love to see these girls cavorting on the beach. And they ask their politicians, "Wait a minute. You say we live in a communist paradise. Why can't we have the nice big refrigerators and nice homes we see on television?" So you see these rising expectations. And the politicians can run, but they can't hide because portable TV cameras are following them all over the world.

Period During Which
Output per Person Doubled



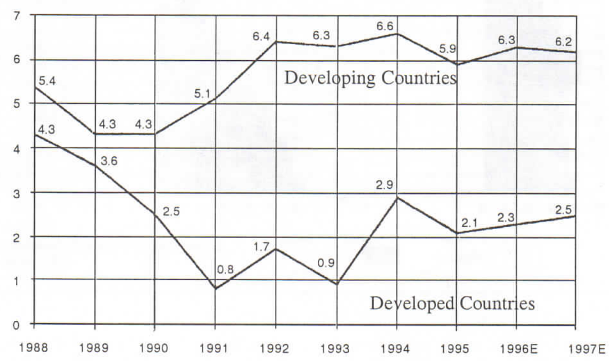
Source: World Bank

Emerging markets are developing faster and faster.

Mobius: Also, this same combination of factors — changing population structure, higher literacy, better telecommunications, more technology, higher technology — means that emerging countries can actually leapfrog past developed nations. They can acquire the *latest* technology faster than ever before in the history of mankind.

The chart [at the bottom of the last column] demonstrates that point. It shows how long it's taken countries to double their output per person. For example, it took the United Kingdom — which, of course, started the industrial revolution — 58 years to double their output per person. By copying the United Kingdom, the United States was able to do it in only 47 or 48 years. And Japan, which, of course, copied the United States was able to do it in a mere 34 years.

Gross Domestic Product
(Annual % Change)



Sources: IMF & World Bank

And emerging countries are growing their productivity faster and faster. Turkey is increasing its productivity at a rate that will double its output per person in 20 years. For Brazil, the figure is 18 years. For Korea, it's 11. And for China, the world's most populous country, it's 10 years or less.

Average growth is *twice* as fast in the emerging countries.

Mobius: If you increase productivity at that kind of rate, what happens to economic growth? Well, obviously, it goes up. And sure enough, we're seeing a widening gap between economic growth in the emerging countries and that in the developed countries.

As you can see [in the above chart], growth within the emerging countries was pretty close to that within the developed countries until 1991. But beginning that year, developed countries' growth began to slow until today, the average annual growth within the emerging countries — even including many basket cases which aren't yet growing because they haven't reformed their economies — is more than *double* the average growth of the developed countries: 6.2% versus 2.5%.

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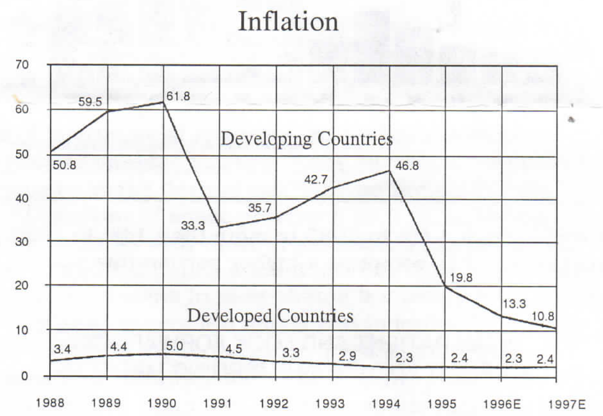
TEMPLETON EMERGING MARKETS'
MARK MOBIUS
(cont'd from preceding page)

NO TEARS FOR EVITA — EXCEPT IN THE MOVIES.
FREE MARKET POLICIES YIELD BIG BENEFITS.

Runaway inflation is now a thing of the past....
Mobius: The other wonderful development has to do with peoples' lives. In 1988, the inflation for the emerging countries averaged *51%*. In the developed countries, it was already low — about 3.4%. But since that time, inflation in these countries has declined rapidly.



Sources: IMF & World Bank
* Inflation: CPI - Annual % Change

In contrast, I remember when we first went to Brazil how it was confusing when we went to change our money because you gave them your dollars and you got these bills that were very worn. And they had many stamps on them. The original value was 10. Then they were stamped 100, then 1,000, then 100,000 and then 1,000,000. Of course, they weren't printing any more money because the money quite literally wasn't worth the paper it was printed on. Inflation was running around 2,000% a year.

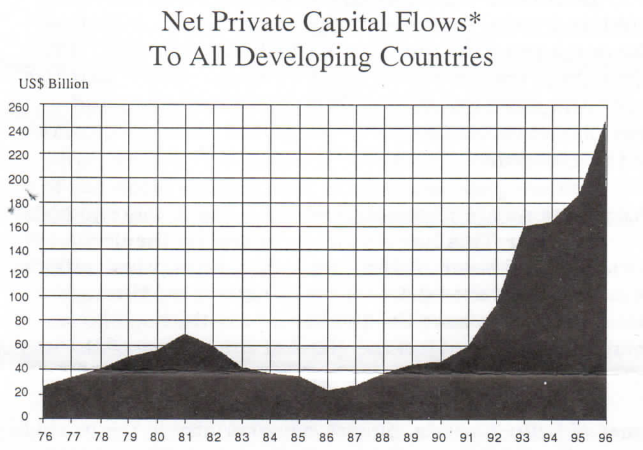
But inflation's now on the way down. So that's all over.

I enjoyed "Evita" more than Argentina enjoyed Perónism....
Mobius: The reason why is that countries like Brazil and Argentina have reformed. And most important and most earth-shaking is their adoption of market economies. They've adopted market economies and rejected socialism, communism and Perónism.

I enjoyed seeing "Evita." It's a very pleasant, interesting story. But Perónism was not a very nice thing in Argentina. As a result of Perónism, Argentina went from being one of the richest countries in the world to being one of the poorest countries in the world. And, of course, that's because they nationalized companies. As a result, production declined, productivity declined and so forth.

Most important is fast GNP growth — especially in China.
Mobius: But the most important event we see in these emerging countries is that although their population is increasing, their GNP per capita is increasing *faster* [— again, 6.2% versus 2.5% in the developed countries].

Probably most important for all of us is the fact that the most populous country in the world — China with its 1.2 billion people — is increasing its per capita GNP by more than 10% a year. And if you consider the fact that

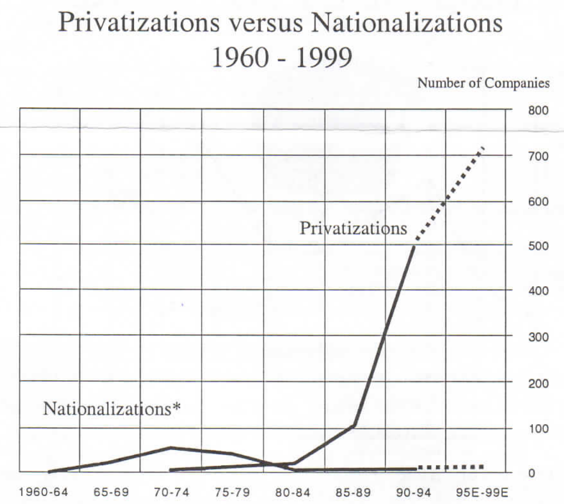


Sources: World Bank, Global Development Finance 1997 & World Debt Tables
* including portfolio equity flows, foreign direct investment & debt flows

the number of babies born in China each year is equal to the entire population of Australia, you'll realize that this is a very, very important fact indeed.

MORE PRIVATIZATION + LESS SOCIALISM
= MORE TRADING AND MORE OPPORTUNITY.

And these developments aren't lost on investors....
Mobius: The other important trend (getting closer to what we do in these emerging countries) is that the flow of capital by people like us into the emerging countries is growing at a rapid rate [as reflected in the chart above]....



Sources: UN Centre on Transnational Corporations; Privatization Int'l, Privatization Yearbook; and Templeton's estimates
* Nationalization acts passed by governments
E - estimate

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TEMPLETON EMERGING MARKETS'
MARK MOBIUS
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Because of the Latin American debt crisis, between 1981 and 1986, there was a *decline* in capital flows from the developed countries to the emerging countries. But since then, there's been a rapid increase. Why? Because more and more investors — both direct investors and portfolio investors like us — see growth and opportunities in these nations.

Privatizations are happening all over — with more to come.

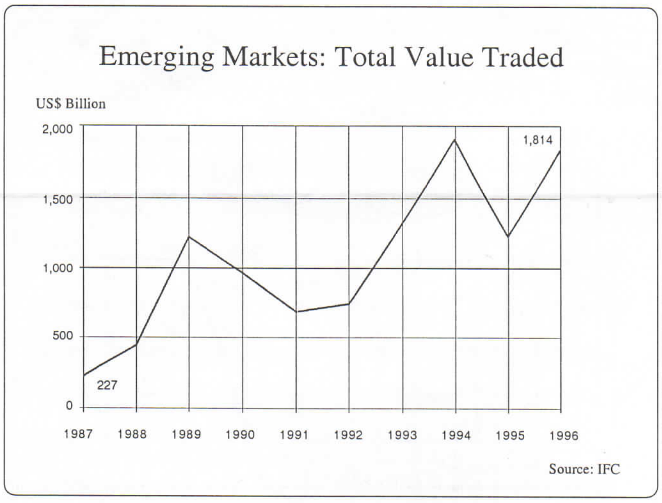
Mobius: This has also been helped by the decline of socialism and communism. And we've seen privatizations of state-owned enterprises increasing at a rapid rate. Nationalizations have declined and privatizations have increased as shown [on the chart at the bottom of the previous column]. And we expect this trend to continue.

As we've seen in Russia, all of Eastern Europe, and parts of Latin America, almost every country in the world is involved in privatizing its state-owned enterprises.

Emerging countries surpass developed countries in listings.

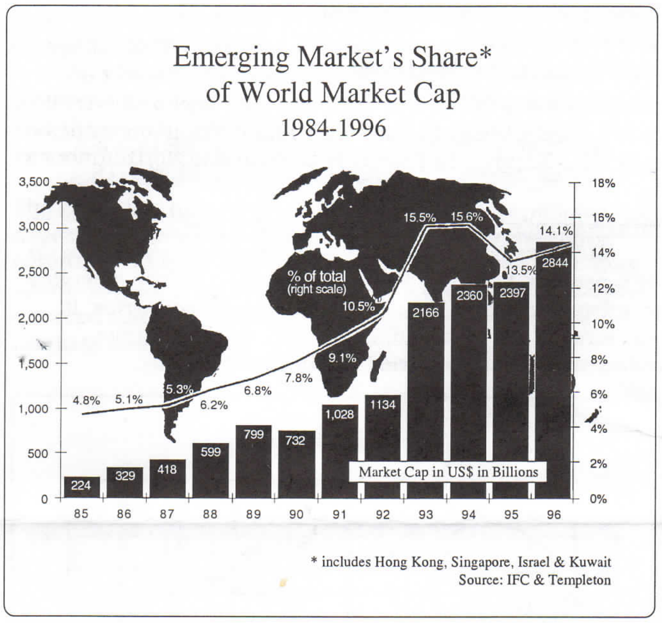
Mobius: And if you're going to distribute shares in privatizations, then you also need stock exchanges so that those shares can begin to be priced and traded. So we've also seen stock markets and capital markets generally spring up and grow very rapidly in emerging countries around the world.

And, as you might expect, emerging countries have increased the number of companies that they have listed very rapidly. In 1987, there were 17,500 companies listed in developed countries versus 11,700 in emerging countries. Today, the emerging countries have surpassed the developed countries with 23,000 total companies listed versus 19,000 for the developed countries.



The total value traded has gone up very rapidly, too. Many people ask me, "Gosh, you've gone from managing only $80 million in 1987 to $15 *billion*. How can you put all that money to work?" And the answer is in the chart above — namely that trading in emerging markets has skyrocketed.

Similarly, the share of world market capitalization represented by emerging markets has grown dramatically,



as well — from 4.8% in 1985 to more than 14% in 1996. And I expect it to comprise a higher portion this year....

STAY PATIENT AND LOOK FORWARD TO
A BRIGHT FUTURE IN EMERGING MARKETS.

It pays to be young at heart — and patient....

Mobius: I'd like to close with my favorite investor — this baby — because one of the things I like to emphasize is that it's very important for us to have a good relationship with our investors. And the best relationship we have is with her. I *love* young investors — particularly this one; [her picture is displayed on the screen] — because she doesn't complain about performance and she's patient.

By the way, she's part of our Templeton family because this is Charlie Sims' daughter, Tori. This picture shows her at nine months. She purchased $1,000 worth of our fund in January of 1992. Today, Tori is six years old....

She was very smart because, unlike my sister-in-law, after the Mexican Crisis she put in $1,000 *more.* [laughter] She's now in the first grade. Knowing Charlie, she'll earn very good grades. And her shares are now worth *$6,000.* So she's done quite well so far.

You don't have to be young to buy our funds. But I hope you're young at heart, patient, and that you look forward to a bright future for emerging markets....

Thank you very much.

—OID

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