

MORGAN STANLEY EMERGING MARKETS DEBT FUND INC  
Form N-CSRS  
September 04, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-07694

Morgan Stanley Emerging Markets Debt Fund, Inc.  
(Exact name of registrant as specified in charter)

522 Fifth Avenue, New York, New York  
(Address of principal executive offices)

10036  
(Zip code)

John H. Gernon

522 Fifth Avenue, New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-0289

Date of fiscal year December 31,  
end:

Date of reporting period: June 30, 2018

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Item 1 - Report to Shareholders

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**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**Directors**

Frank L. Bowman

Kathleen A. Dennis

Nancy C. Everett

Jakki L. Haussler

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

Patricia Maleski

Michael E. Nugent,

*Chair of the Board*

W. Allen Reed

Fergus Reid

**Officers**

John H. Gernon

*President and Principal  
Executive Officer*

Timothy J. Knierim

*Chief Compliance Officer*

Francis J. Smith

*Treasurer and Principal  
Financial Officer*

Mary E. Mullin

*Secretary*

Michael J. Key

*Vice President*

**Adviser and Administrator**

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

**Custodian**

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111

**Stockholder Servicing Agent**

Computershare Trust Company, N.A.

211 Quality Circle, Suite 210

College Station, Texas 77845

**Legal Counsel**

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

**Counsel to the Independent Directors**

Perkins Coie LLP

30 Rockefeller Plaza

New York, New York 10112

**Independent Registered Public Accounting Firm**

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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## INVESTMENT MANAGEMENT

Morgan Stanley  
Investment Management Inc.  
Adviser

Morgan Stanley  
Emerging Markets  
Debt Fund, Inc.  
NYSE: MSD

Semi-Annual Report

June 30, 2018

CEMSDSAN  
2196848 EXP 08.31.2019

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**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2018**

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## **Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2018**

Letter to Stockholders (unaudited)

### **Performance**

For the six months ended June 30, 2018, the Morgan Stanley Emerging Markets Debt Fund, Inc. (the "Fund") had total returns of -6.39%, based on net asset value, and -9.62% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Emerging Markets Bond Global Index (the "Index")\*, which returned -5.23%. On June 30, 2018, the closing price of the Fund's shares on the New York Stock Exchange was \$8.75, representing a 12.3% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

### **Factors Affecting Performance**

- Emerging market (EM) fixed income assets continued to suffer with politics and policies weighing on sentiment. Commodity prices fell over the period with concerns over trade weighing on the demand outlook, especially for copper, soybeans and corn. Energy prices rose during the same period as the Trump administration withdrew from the Iran nuclear deal, which would re-impose sanctions on Iran and limit its ability to sell oil internationally. The move higher was in spite of an announced production increase by the Organization of the Petroleum Countries and Russia. Idiosyncratic EM volatility has increased, notably in Brazil, Argentina and Turkey. With investors worried about rising rates in the developed world once again, EM currencies have been pressured and investors are turning their attention to the reaction function of EM central banks.
- Key events during the period included the U.S. increasing sanctions on Russian companies, causing Russian assets to underperform as risk was repriced, despite S&P upgrading the country's long-term foreign currency debt to investment grade. Tensions in the Korean peninsula eased as North and South Korean leaders held a historic meeting and produced a joint statement outlining shared peace goals. A U.S.-North Korea summit also went ahead as planned. Currency weakness was pronounced during this period, with the Argentine peso and Turkish lira among the hardest hit. The central banks of Argentina and Turkey took emergency measures to stem the currency slides. In addition, Argentina and the International Monetary Fund (IMF) agreed to a \$50 billion rescue package.
- Political uncertainty loomed in Mexico and Brazil, with upcoming presidential elections in July and October, respectively. In Mexico, Andres Manuel Lopez Obrador (known as AMLO) was projected to win. However, the left-leaning populist candidate's policies could be hampered by a possible split congress, which might limit the more extreme policy actions he could take. In Brazil, a truckers' strike over fuel prices forced a weak Temer administration to subsidize diesel fuel and led to the resignation of Petrobras' CEO. Local yields and Brazilian real traded poorly during the period, and caused the Central Bank of Brazil to act more cautiously. Brazil's long-term foreign currency debt rating was downgraded during the period, and analysts have been steadily lowering 2018 gross domestic product (GDP) forecasts.
- Elsewhere, we believe the reelection of President Erdogan in Turkey is negative for the economic outlook and institutional strength of the country, which has deteriorated under his leadership. In South Africa, President Zuma resigned due to pressure from within his party, leaving Cyril Ramaphosa as president of the nation. While the markets considered this a positive development and Moody's removed the country off of negative ratings watch, Ramaphosa's rise to power has not yet had a





## **Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2018**

Letter to Stockholders (unaudited) (cont'd)

substantive impact on economic activity. Malaysia's surprise election results returned former leader Mahathir Mohamad to power. Honoring campaign promises, Prime Minister Mahathir suspended massive infrastructure projects with Singapore and China, and removed the Goods and Services Tax (GST). Rating agencies warned that such actions, in the absence of offsetting measures, would be credit negative. However, the market reaction was muted, as higher oil prices could help buffer the fiscal impact of lower tax revenue.

- Escalating trade tensions between the U.S. and China added to the Trump administration's ongoing disputes with Mexico, Canada and Europe, further dampening global trade sentiment and weighing on the Chinese renminbi. This also coincided with the People's Bank of China holding rates steady in its most recent meeting, while loosening overall monetary policy to combat the weaker growth outlook, as activity indicators eased in May. The stock market sell-off in China made global headlines, as did concerns about the property markets. Tighter financing constraints and the state's efforts to rein in prices have weighed on the bonds of property developers. However, we believe the reforms could lead to a healthier developer market going forward.
- EM external sovereign and quasi-sovereign debt returned -5.23% in the period, as measured by the Index. Bonds from Belize, Latvia, Serbia, Lithuania, Trinidad & Tobago, Costa Rica and Honduras outperformed the broader market. Conversely, bonds from Argentina, Zambia, Ecuador, Senegal and Lebanon lagged the broader market.
- For the period, underweight positions in Turkey, Lebanon, Oman and Sri Lanka contributed to relative returns. Security selection in Kazakhstan also contributed to relative performance in the period.
- Conversely, an overweight position and the use of local currency in Argentina detracted from relative performance in the period. Positioning in Venezuela and Hungary also detracted from relative performance. Overweight positions in Ukraine, Ghana and Indonesia detracted from relative performance, as did security selection in Jamaica.
- Derivatives, primarily the use of currency forwards to adjust currency exposure, had no significant impact on portfolio performance.

### **Management Strategies**

- EM assets had a rough first half of 2018, as the tail risks regarding trade wars are becoming more prominent amid a strengthening U.S. dollar and a marginally more hawkish tone from the Federal Reserve. The sharp depreciation of the renminbi in June also weighed on market sentiment, as markets struggle to determine whether it was engineered to boost sluggish growth due to tighter credit conditions, or as a response to Trump's tariffs on Chinese exports, or a combination of both. Furthermore, President Trump's trade agenda is not constrained to China, as evidenced by a lack of progress on North American Free Trade Agreement (NAFTA) negotiations and a brewing trade spat with the European Union (EU) over car exports to the U.S.
- Against this backdrop, the outlook for EM remains challenging. Though we see the different trade announcements as part of a negotiating process, many of the trade measures will likely become effective before any progress in trade talks is realized. As a



**Morgan Stanley Emerging Markets Debt Fund, Inc.**

**June 30, 2018**

Letter to Stockholders (unaudited) (cont'd)

result, we should see a negative, though marginal impact on gross domestic product and trade flows for targeted countries, but more importantly, an overall deterioration in business and consumer confidence. Though EM economies are differently exposed to a trend towards more protectionism, with less open economies in a more solid position to withstand it, a worsening global trade picture should weigh on global growth and have negative implications for all risky assets, and EM in particular. On the positive side, the EM policy response has been more proactive as of late, with many economies deemed as vulnerable reacting more forcefully to market turbulence, as evidenced by a shift towards tighter monetary policy in countries such as Argentina, Turkey and Indonesia, among others. Furthermore, the sharp sell-off we witnessed in the second quarter of 2018 appears to be overdone in countries with improving fundamentals (such as South Africa and Indonesia), thus offering attractive entry points should we see a de-escalation in trade-war rhetoric. Finally, EM politics may contribute to heightened uncertainty in the second half of 2018, with upcoming elections in Mexico and Brazil, which feature competitive anti-establishment candidates.

Sincerely,

John H. Gernon  
President and Principal Executive Officer July 2018

\*The J.P. Morgan Emerging Markets Bond Global Index tracks total returns for U.S. dollar-denominated debt instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds and local market instruments for emerging market countries. It is not possible to invest directly in an index.



**Morgan Stanley Emerging Markets Debt Fund, Inc.****June 30, 2018**

Portfolio of Investments (unaudited)

*(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
<b>FIXED INCOME SECURITIES (94.1%)</b>		
<b>Angola (0.8%)</b>		
<b>Sovereign (0.8%)</b>		
Angolan Government International Bond, 9.38%, 5/8/48 (a)	\$ 1,650	\$ 1,670
<b>Argentina (7.2%)</b>		
<b>Corporate Bonds (4.3%)</b>		
Province of Santa Fe, 6.90%, 11/1/27 (a)	1,180	989
Provincia de Buenos Aires, BADLAR + 3.75%, 30.66%, 4/12/25 (b)	ARS 20,340	550
BADLAR + 3.83%, 35.19%, 5/31/22 (b)	18,762	547
Provincia de Cordoba, 7.45%, 9/1/24 (a)	\$ 1,610	1,450
Provincia de Entre Rios Argentina, 8.75%, 2/8/25 (a)	2,230	1,962
Provincia de Mendoza Argentina, BADLAR + 4.38%, 36.06%, 6/9/21 (b)	ARS 16,600	496
Provincia de Rio Negro, 7.75%, 12/7/25 (a)	\$ 580	455
Provincia del Chaco Argentina, 9.38%, 8/18/24 (a)	1,880	1,584
YPF SA, 8.50%, 7/28/25	1,120	1,071
		9,104
<b>Sovereign (2.9%)</b>		
Argentine Republic Government International Bond, 6.88%, 1/26/27 - 1/11/48	3,870	3,170
7.13%, 7/6/36	720	581
7.13%, 6/28/17 (c)	970	742
7.50%, 4/22/26	730	676
Republic of Argentina, 2.50%, 12/31/38 (d)	1,750	999

		6,168
		15,272
<b>Bahrain (0.3%)</b>		
<b>Sovereign (0.3%)</b>		
Bahrain Government		
International Bond,		
7.00%, 10/12/28		
	620	557
	<b>Face</b>	<b>Value</b>
	<b>Amount</b>	<b>(000)</b>
	<b>(000)</b>	<b>(000)</b>
<b>Belarus (0.4%)</b>		
<b>Sovereign (0.4%)</b>		
Republic of Belarus		
International Bond,		
6.20%, 2/28/30 (a)		
	\$ 900	\$ 853
<b>Brazil (4.9%)</b>		
<b>Corporate Bonds (1.8%)</b>		
Minerva Luxembourg SA,		
5.88%, 1/19/28 (a)		
	1,360	1,192
8.75%, 4/3/19 (a)(e)		
	1,290	1,306
Petrobras Global Finance BV,		
6.13%, 1/17/22		
	219	223
Rumo Luxembourg Sarl,		
7.38%, 2/9/24		
	1,070	1,084
		3,805
<b>Sovereign (3.1%)</b>		
Brazilian Government		
International Bond,		
5.00%, 1/27/45		
	2,988	2,373
6.00%, 4/7/26		
	4,060	4,159
		6,532
		10,337
<b>Chile (1.7%)</b>		
<b>Corporate Bonds (1.2%)</b>		
Colbun SA,		
4.50%, 7/10/24 (a)		
	1,372	1,370
Geopark Ltd.,		
6.50%, 9/21/24 (a)		
	850	820
Latam Finance Ltd.,		
6.88%, 4/11/24 (a)		
	340	334
		2,524
<b>Sovereign (0.5%)</b>		
Empresa Nacional del Petroleo,		
4.75%, 12/6/21		
	1,102	1,122
		3,646
<b>China (3.6%)</b>		
<b>Sovereign (3.6%)</b>		
Sinopec Group Overseas		
Development 2013 Ltd.,		
4.38%, 10/17/23		
	4,740	4,862

Three Gorges Finance I Cayman  
Islands Ltd.,

2.30%, 6/2/21 (a)	2,000	1,940
3.70%, 6/10/25 (a)	780	763
		7,565

The accompanying notes are an integral part of the financial statements.



**Morgan Stanley Emerging Markets Debt Fund, Inc.****June 30, 2018**

Portfolio of Investments (unaudited) (cont'd)

*(Showing Percentage of Total Value of Investments)*

	Face Amount (000)	Value (000)
<b>Colombia (2.0%)</b>		
<b>Sovereign (2.0%)</b>		
Colombia Government International Bond, 4.38%, 7/12/21	\$ 1,460	\$ 1,493
5.00%, 6/15/45	1,930	1,903
11.75%, 2/25/20	815	929
		4,325
<b>Costa Rica (0.7%)</b>		
<b>Sovereign (0.7%)</b>		
Costa Rica Government International Bond, 7.16%, 3/12/45 (c)	1,400	1,389
<b>Croatia (0.5%)</b>		
<b>Sovereign (0.5%)</b>		
Croatia Government International Bond, 5.50%, 4/4/23	970	1,022
<b>Dominican Republic (1.1%)</b>		
<b>Sovereign (1.1%)</b>		
Dominican Republic International Bond, 6.85%, 1/27/45 (a)	432	429
6.88%, 1/29/26 (a)	1,215	1,290
7.45%, 4/30/44 (a)	666	695
		2,414
<b>Ecuador (1.4%)</b>		
<b>Sovereign (1.4%)</b>		
Ecuador Government International Bond, 8.75%, 6/2/23 (a)	1,160	1,091
8.88%, 10/23/27 (a)	1,050	932
10.75%, 3/28/22 (a)	1,010	1,040
		3,063
<b>Egypt (2.3%)</b>		
<b>Sovereign (2.3%)</b>		
Egypt Government International Bond, 4.75%, 4/16/26	EUR 480	516

5.88%, 6/11/25	\$ 980	914
6.13%, 1/31/22 (a)	1,320	1,301
7.50%, 1/31/27 (a)	840	828

**Who are the Executive Officers of the Fund?**

Officers of the Fund are appointed by the Trustees and serve at the pleasure of the Board. Listed below, for the Executive Officers, are their names, years of birth and addresses, as well as their positions and length of service with the Fund, and principal occupations during at least the past five years.

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>
<b>Rupert H. Johnson, Jr.</b>	Chairman of the Board, Trustee and Vice President	Chairman of the Board and Trustee since 2013 and Vice President since 1996

Please refer to the table “Nominees for Interested Trustee to serve until 2022 Annual Meeting of Shareholders” for additional information about Mr. Rupert H. Johnson, Jr.

<b>Alison E. Baur</b> (1964) One Franklin Parkway, San Mateo, CA 94403-1906	Vice President and Assistant Secretary	Since 2012
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**Principal Occupation During at Least the Past 5 Years:**

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

<b>Aliya S. Gordon</b>	Vice President and	Since 2009
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(1973) Assistant  
One Secretary  
Franklin  
Parkway  
San Mateo,  
CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

**Steven J.** Vice President Since 2009

**Gray** (1955) and  
One  
Franklin Assistant  
Parkway Secretary  
San Mateo,  
CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

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**Matthew T.** Chief Since 2017  
**Hinkle** Executive  
(1971) Officer— Finance  
One and  
Franklin Administration  
Parkway  
San Mateo,  
CA

94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Vice President, Global Tax (2012–April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009–2017).

**Robert G. Kubilis** Chief Financial Officer, Since 2017  
(1973)  
300 S.E. 2<sup>nd</sup> Street  
Fort Lauderdale, FL  
33301-1923  
and Treasurer

**Principal Occupation During at Least the Past 5 Years:**

Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 16 of the investment companies in Franklin Templeton Investments.

**Robert Lim** Vice President—AML, Since 2016  
(1948) One Compliance  
Franklin Parkway  
San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

**Kimberly H. Novotny** Vice President and Since 2013  
(1972)  
300 S.E. 2<sup>nd</sup>

Street                      Assistant  
Fort                         Secretary  
Lauderdale,  
FL  
33301-1923

**Principal Occupation During at Least the Past 5 Years:**

Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.

**Robert C.                      Chief                      Since 2013**  
**Rosselot                      Compliance**  
(1960)                      Officer  
300 S.E. 2<sup>nd</sup>  
Street  
Fort  
Lauderdale,  
FL  
33301-1923

**Principal Occupation During at Least the Past 5 Years:**

Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007–2013); and Secretary and Vice President, Templeton Group of Funds (2004–2013).

<b>Manraj S. Sekhon</b> (1969)	President and Chief	Since August 2018
7 Temasek Blvd., Suntec Tower 1, #38-03, Singapore 03898	Executive Officer—  Investment Management	

**Principal Occupation During at Least the Past 5 Years:**

Chief Investment Officer, Franklin Templeton Emerging Markets Equity; officer of four of the investment companies in Franklin Templeton Investments; and **formerly**, Chief Executive and Chief Investment Officer, Fullerton Fund Management Company Ltd. (2011–2016).

<b>Karen L. Skidmore</b> (1952)	Vice President and	Since 2009
One Franklin Parkway San Mateo, CA 94403-1906	Assistant Secretary	

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.

<b>Navid J. Tofigh</b> (1972)	Vice President and	Since 2015
One Franklin Parkway San Mateo, CA 94403-1906	Assistant Secretary	

**Principal Occupation During at Least the Past 5 Years:**

Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin

Templeton Investments.

**Craig S. Tyle** (1960) Vice President and Since 2005

One Franklin Parkway, San Mateo, CA 94403-1906 Assistant Secretary

**Principal Occupation During at Least the Past 5 Years:**

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

**Lori A. Weber** (1964) Vice President and Secretary since 2011 and Secretary since 2013

300 S.E. 2<sup>nd</sup> Street Fort Lauderdale, FL 33301-1923

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.

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## **PROPOSAL 2: RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

### ***How are independent auditors selected?***

The Board has a standing Audit Committee currently comprised of David W. Niemiec (Chairman), Ann Torre Bates, J. Michael Luttig and Constantine D. Tseretopoulos, all of whom are Independent Trustees and considered to be “independent” as that term is defined by the NYSE’s listing standards. The Audit Committee is responsible for the appointment, compensation and retention of the Fund’s independent registered public accounting firm (“independent auditors”), including evaluating their independence, recommending the selection of the Fund’s independent auditors to the full Board, and meeting with such independent auditors to consider and review matters relating to the Fund’s financial reports and internal controls.

### ***Which independent auditors did the Board select?***

The Audit Committee and the Board have selected the firm of PricewaterhouseCoopers LLP as the independent auditors for the Fund for the current fiscal year. PwC has examined and reported on the fiscal year-end financial statements dated August 31, 2018, and certain related SEC filings. You are being asked to ratify the Board’s selection of PwC for the current fiscal year ending August 31, 2019. Services to be performed by the independent auditors include examining and reporting on the fiscal year-end financial statements of the Fund and certain related filings with the SEC.

The selection of PwC as the independent auditors for the Fund for the fiscal year ending August 31, 2019, was recommended by the Audit Committee and approved by the Board on October 23, 2018. PwC’s reports on the financial statements of the Fund for the fiscal years for which it has served as auditors did not contain an adverse opinion or a disclaimer of opinion, nor were qualified or modified as to uncertainty, audit scope or accounting principles.

The Audit Committee and the Board have been advised by PwC that neither PwC nor any of its members have any material direct or indirect financial interest in the Fund. Representatives of PwC are not expected to be present at the Meeting, but will have the opportunity to make a statement if they wish, and will be available to respond to appropriate questions.

## **AUDITOR INFORMATION**

***Audit Fees.*** The aggregate fees paid to PwC for professional services rendered by PwC for the audit of the Fund’s annual financial statements or for services that are normally provided by PwC in connection with statutory and regulatory filings or engagements were \$45,273 for the fiscal year ended August 31, 2018, and \$45,203 for the fiscal year ended August 31, 2017.

***Audit-Related Fees.*** There were no fees paid to PwC for assurance and related services rendered by PwC to the Fund that are reasonably related to the performance of the audit of the Fund’s financial statements and not reported under “Audit Fees” above for the fiscal years ended August 31, 2018 and August 31, 2017.

In addition, the Audit Committee pre-approves PwC’s engagement for audit-related services to be provided to the Investment Manager and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund, which engagements relate directly to the





operations and financial reporting of the Fund. For the fiscal years ended August 31, 2018, and August 31, 2017, there were no fees paid to PwC for such services.

**Tax Fees.** There were no fees paid to PwC for professional services rendered by PwC to the Fund for tax compliance, tax advice and tax planning for the fiscal years ended August 31, 2018, and August 31, 2017.

In addition, the Audit Committee pre-approves PwC's engagement for tax services to be provided to the Investment Manager and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund, which engagements relate directly to the operations and financial reporting of the Fund. For the fiscal years ended August 31, 2018 and August 31, 2017, there were no fees paid to PwC for such services.

**All Other Fees.** The aggregate fees paid to PwC for products and services rendered by PwC to the Fund, other than the services reported above, were \$113 for the fiscal year ended August 31, 2018, and \$0 for the fiscal year ended August 31, 2017. The services for which these fees were paid included review of materials provided to the Fund Board in connection with the investment management contract renewal process.

In addition, the Audit Committee pre-approves PwC's engagement for other services to be provided to the Investment Manager and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund, which engagements relate directly to the operations and financial reporting of the Fund. For the fiscal years ended August 31, 2018 and August 31, 2017, there were no fees paid to PwC for such services.

**Aggregate Non-Audit Fees.** The aggregate fees paid to PwC for non-audit services rendered by PwC to the Fund or to the Investment Manager and to any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund were \$113 for the fiscal year ended August 31, 2018, and \$0 for the fiscal year ended August 31, 2017.

The Audit Committee has considered whether the provision of the non-audit services that were rendered to the Investment Manager and to any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund is compatible with maintaining PwC's independence.

**Audit Committee Pre-Approval Policies and Procedures.** As of the date of this proxy statement, the Audit Committee has not adopted written pre-approval policies and procedures within the meaning of Regulation S-X. As a result, all such services described above and provided by PwC must be directly pre-approved by the Audit Committee or by a designated member of the Audit Committee.

**Audit Committee Charter.** The Board has adopted and approved a formal written charter for the Audit Committee which sets forth the Audit Committee's responsibilities. A copy of the charter is attached as Exhibit B to this proxy statement.

As required by the charter, the Audit Committee reviewed the Fund's audited financial statements and met with management, as well as with PwC, the Fund's independent auditors, to discuss the financial statements.

***Audit Committee Report.*** The Audit Committee received the written disclosures and the letter from PwC required by the applicable requirements of the Public Company Accounting Oversight Board (“PCAOB”) regarding PwC’s communications with the Audit Committee concerning independence. The Audit Committee also received the report of PwC regarding the results of their audit. In connection with the Audit Committee’s review of the financial statements and PwC’s report, the members of the Audit Committee discussed with a representative of PwC, PwC’s independence, as well as the matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committees, issued by the PCAOB, including the following: PwC’s responsibilities in accordance with generally accepted auditing standards; PwC’s responsibilities for information prepared by management that accompanies the Fund’s audited financial statements and any procedures performed and the results; the initial selection of, and whether there were any changes in, significant accounting policies or their application; management’s judgments and accounting estimates; whether there were any significant audit adjustments; whether there were any disagreements with management; whether there was any consultation with other accountants; whether there were any major issues discussed with management prior to PwC’s retention; whether the auditors encountered any difficulties in dealing with management in performing the audit; and PwC’s judgments about the quality of the Fund’s accounting principles.

Based on its review and discussions with management and PwC, the Audit Committee did not become aware of any material misstatements or omissions in the financial statements. Accordingly, the Audit Committee recommended to the Board that the audited financial statements be included in the Fund’s Annual Report to Shareholders for the fiscal year ended August 31, 2018, for filing with the SEC.

#### AUDIT COMMITTEE

David W. Niemiec (Chairman)

Ann Torre Bates

J. Michael Luttig

Constantine D. Tseretopoulos

#### ADDITIONAL INFORMATION ABOUT THE FUND’S BOARD OF TRUSTEES

***Board Role in Risk Oversight.*** The Board, as a whole, considers risk management issues as part of its general oversight responsibilities throughout the year at regular Board meetings, through regular reports that have been developed by management in consultation with the Board and its counsel. These reports address certain investment, valuation and compliance matters. The Board also may receive special written reports or presentations on a variety of risk issues, either upon the Board’s request or upon the Investment Manager’s initiative. In addition, the Audit Committee of the Board meets regularly with the Investment Manager’s internal audit group to review reports on their examinations of functions and processes within Franklin Templeton Investments that affect the Fund.

With respect to investment risk, the Board receives regular written reports describing and analyzing the investment performance of the Fund. In addition, the portfolio managers of the Fund meet regularly with the Board to discuss portfolio performance, including investment risk. To the extent that the Fund changes a particular investment strategy that could have a material impact on the Fund’s risk profile, the Board generally is consulted with respect to such change. To the extent that the Fund invests in certain complex securities, including derivatives, the Board receives periodic reports containing information about exposure of the Fund to such



instruments. In addition, the Investment Manager's investment risk personnel meet regularly with the Board to discuss a variety of issues, including the impact on the Fund of the investment in particular securities or instruments, such as derivatives and commodities, if applicable.

With respect to valuation, the Fund's administrator provides regular written reports to the Board that enable the Board to monitor the number of securities fair valued by management appraisal in the Fund's portfolio, the reasons for such fair valuation and the methodology used to arrive at the fair value. Such reports also include information concerning illiquid securities within the Fund's portfolio. The Board also reviews dispositional analysis information on the sale of securities that require special valuation considerations such as illiquid or certain fair valued securities. In addition, the Fund's Audit Committee reviews valuation procedures and results with the Fund's independent auditors in connection with the Committee's review of the results of the audit of the Fund's year-end financial statements.

With respect to compliance risks, the Board receives regular compliance reports prepared by the Investment Manager's compliance group and meets regularly with the Fund's Chief Compliance Officer ("CCO") to discuss compliance issues, including compliance risks. In accordance with SEC rules, the Independent Trustees meet regularly in executive session with the CCO and the CCO prepares and presents an annual written compliance report to the Board. The Fund's Board adopts compliance policies and procedures for the Fund and approves these procedures for the Fund's service providers. The compliance policies and procedures are specifically designed to detect and prevent violations of the federal securities laws.

The Investment Manager periodically provides an enterprise risk management presentation to the Board to describe the way in which risk is managed on a complex-wide level. The presentation covers such areas as investment risk, reputational risk, personnel risk, and business continuity risk.

**Board Structure.** Seventy-five percent or more of the Fund's Board members consist of Independent Trustees who are not deemed to be "interested persons" by reason of their relationship with the Fund's management or otherwise as provided under the 1940 Act. While the Chairman of the Board is an interested person, the Board is also served by a Lead Independent Trustee. The Lead Independent Trustee, together with independent counsel, reviews proposed agendas for Board meetings and generally acts as a liaison with Fund management with respect to questions and issues raised by the Independent Trustees. The Lead Independent Trustee also presides at separate meetings of Independent Trustees held in advance of each scheduled Board meeting where various matters, including those being considered at such Board meeting, are discussed. It is believed such structure and activities assure that proper consideration is given at Board meetings to matters deemed important to the Fund and its shareholders.

#### **ADDITIONAL INFORMATION ABOUT THE FUND**

**The Investment Manager.** The Investment Manager of the Fund is Templeton Asset Management Ltd., a Singapore company with a branch office at The Chater House, 17th Floor, 8 Connaught Road Central, Hong Kong. Pursuant to an investment management agreement, the Investment Manager manages the investment and reinvestment of Fund assets. The Investment Manager is an indirect, wholly owned subsidiary of Resources.

**The Administrator.** The administrator of the Fund is Franklin Templeton Services, LLC ("FT Services"), with offices at 300 S.E. 2nd Street, Fort Lauderdale, Florida 33301-1923. FT Services is an indirect, wholly

owned subsidiary of Resources and an affiliate of the Investment Manager. Pursuant to a subcontract for administrative services, FT Services performs certain administrative functions for the Fund.

**The Transfer Agent.** The transfer agent, registrar and dividend disbursement agent for the Fund is American Stock Transfer & Trust Company, LLC, 6201 15<sup>th</sup> Avenue, Brooklyn, NY 11219.

**The Custodian.** The custodian for the Fund is JPMorgan Chase Bank, 270 Park Avenue, New York, New York 10017-2070.

**Other Financial Information.** The Fund's latest audited financial statements and annual report for the fiscal year ended August 31, 2018, are available free of charge. To obtain a copy, please call (800) DIAL BEN®/342-5236 or forward a written request to Franklin Templeton Investor Services, LLC, P.O. Box 33030, St. Petersburg, Florida 33733-8030.

**Principal Shareholders.** As of December 17, 2018, the Fund had 16,817,080 shares outstanding and total net assets of \$248,745,853.03. The Fund's shares are listed on the NYSE (NYSE: EMF). To the knowledge of the Fund's management, as of December 17, 2018, there were no entities holding beneficially or of record more than 5% of the Fund's outstanding shares, except as shown in the following table:

Name and Address of Beneficial Ownership	Amount and Nature of Beneficial Ownership	Percent of Outstanding Sha
7 Capital Partners, C..... S. 13th Street  te 400  hmond, VA 23219	1,326,156*	7.89%

\* The nature of beneficial ownership is sole voting and dispositive power as reported on Form 13F-HR filed with the SEC on November 14, 2018.

Relative Value Partners Group, LLC..... 1033 Skokie Blvd.  Suite 470  Northbrook, IL 60062	1,057,017**	6.29%
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\*\* The nature of beneficial ownership is sole voting and dispositive power as reported on Form 13F-HR filed with the SEC on November 13, 2018.

In addition, to the knowledge of the Fund's management, as of December 17, 2018, no nominee or Trustee of the Fund owned 1% or more of the outstanding shares of the Fund, and the Trustees and officers of the Fund owned, as a group, less than 1% of the outstanding shares of the Fund.

***Contacting the Board of Trustees.*** If a shareholder wishes to send a communication to the Board, such correspondence should be in writing and addressed to the Board of Trustees at the Fund's offices, 300 S.E. 2<sup>d</sup> Street, Fort Lauderdale, Florida 33301-1923, Attention: Secretary. The correspondence will be given to the Board for review and consideration.

## FURTHER INFORMATION ABOUT VOTING AND THE MEETING

**Solicitation of Proxies.** Your vote is being solicited by the Trustees. The cost of soliciting proxies, including the fees of a proxy soliciting agent, is borne by the Fund. The Fund reimburses brokerage firms and others for their reasonable expenses in forwarding proxy material to the beneficial owners and soliciting them to execute proxies. In addition, the Fund may retain a professional proxy solicitation firm to assist with any necessary solicitation of proxies. The Fund expects that the solicitation would be primarily by mail, but also may include telephone, facsimile, electronic or other means of communication. If the Fund does not receive your proxy by a certain time, you may receive a telephone call from a proxy soliciting agent asking you to vote. If professional proxy solicitors are retained, it is expected that soliciting fees would be approximately \$5,000, plus expenses. The Fund does not reimburse Trustees and officers of the Fund, or regular employees and agents of the Investment Manager involved in the solicitation of proxies. The Fund intends to pay all costs associated with the solicitation and the Meeting.

**Voting by Broker-Dealers.** The Fund expects that, before the Meeting, broker-dealer firms holding shares of the Fund in “street name” for their customers will request voting instructions from their customers and beneficial owners. If these instructions are not received by the date specified in the broker-dealer firms’ proxy solicitation materials, the Fund understands that current NYSE Rules permit the broker-dealers to vote on the Proposals on behalf of their customers and beneficial owners. Certain broker-dealers may exercise discretion over shares held in their name for which no instructions are received by voting these shares in the same proportion as they vote shares for which they received instructions.

**Quorum.** A majority of the Fund’s shares entitled to vote at the Meeting—present in person or represented by proxy—constitutes a quorum at the Meeting. The shares over which broker-dealers have discretionary voting power, the shares that represent “broker non-votes” (*i.e.*, shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter), and the shares whose proxies reflect an abstention on any item will all be counted as shares present and entitled to vote at the Meeting for purposes of determining whether the required quorum of shares exists.

**Method of Tabulation.** Provided a quorum is present or represented at the Meeting, Proposal 1, the election of Trustees, requires the affirmative vote of a plurality of the Fund’s shares present in person or represented by proxy and voting on the Proposal at the Meeting. Proposal 2, ratification of the selection of the independent auditors, requires the affirmative vote of (i) sixty-seven percent (67%) or more of the voting securities present in person or represented by proxy at the Meeting, if the holders of more than fifty percent (50%) of the outstanding voting securities of the Fund are present or represented by proxy; or (ii) more than fifty percent (50%) of the outstanding voting securities of the Fund, whichever is less. Abstentions and broker non-votes will be treated as votes present at the Meeting, but will not be treated as votes cast. Abstentions and broker non-votes, therefore, will have no effect on Proposal 1, but may have the effect of an “against” vote on Proposal 2. Broker non-votes are not expected since these are routine proposals.

**Adjournment.** The Chairman of the Board or an authorized officer of the Fund for the Meeting, or the holders of a majority of the shares present (in person or by proxy) and entitled to vote at the Meeting, may adjourn the Meeting from time to time. Such authority to adjourn the Meeting may be used in the event that a quorum is not present at the Meeting or, in the event that a quorum is present but sufficient votes have not been received to approve the Proposals, or for any other reason consistent with Delaware law and the Fund’s By-Laws,





including to allow for the further solicitation of proxies. Unless otherwise instructed by a shareholder granting a proxy, the persons designated as proxies may use their discretionary authority to vote as instructed by management of the Fund on questions of adjournment and on any other proposals raised at the Meeting to the extent permitted by the SEC's proxy rules, including proposals for which management of the Fund did not have timely notice, as set forth in the SEC's proxy rules and the Fund's proxy statement for the 2018 annual meeting.

**Shareholder Proposals.** The Fund anticipates that its 2020 Annual Meeting of Shareholders will be held on or about March 2, 2020. A shareholder who wishes to submit a proposal for consideration for inclusion in the Fund's proxy statement for the 2020 Annual Meeting of Shareholders must send such written proposal to the Fund's offices at 300 S.E. 2nd Street, Fort Lauderdale, Florida 33301-1923, Attention: Secretary, so that it is received no later than September 4, 2019 in order to be included in the Fund's proxy statement and proxy card relating to that meeting and presented at the meeting.

A shareholder of the Fund who has not submitted a written proposal for inclusion in the Fund's proxy statement by September 4, 2019, as described above, may nonetheless present a proposal at the Fund's 2020 Annual Meeting of Shareholders if such shareholder notifies the Fund in writing at the Fund's offices, of such proposal not earlier than October 4, 2019 and not later than November 3, 2019. If a shareholder fails to give notice within these dates, then the matter shall not be eligible for consideration at the shareholders' meeting. If, notwithstanding the effect of the foregoing notice provisions, a shareholder proposal is acted upon at the 2020 Annual Meeting of Shareholders, the persons designated as proxies for the 2020 Annual Meeting of Shareholders may exercise discretionary voting power with respect to any shareholder proposal not received by the Fund at the Fund's offices by November 18, 2019. A shareholder proposal may be presented at the 2020 Annual Meeting of Shareholders only if such proposal concerns a matter that may be properly brought before the meeting under applicable federal proxy rules and state law. In addition to the requirements set forth above, a shareholder must comply with the following:

1. A shareholder intending to present a proposal must (i) be entitled to vote at the meeting; (ii) comply with the notice procedures set forth in this proxy statement and in the Fund's By-Laws; and (iii) have been a shareholder of record at the time the shareholder's notice was received by the Secretary of the Fund.
2. A notice regarding a nomination for the election of a Trustee shall set forth in writing (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice; (ii) the principal occupation or employment of each such nominee; (iii) the number of outstanding shares of the Fund which are beneficially owned by each such nominee; and (iv) all such other information regarding each such nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each such nominee been nominated by the Trustees of the Fund. In addition, the shareholder making such nomination shall promptly provide any other information reasonably requested by the Fund.
3. A notice regarding a business proposal shall set forth in writing as to each matter: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the Fund's books, of the shareholder proposing such business; (iii) the number of shares of the Fund which are beneficially owned by the shareholder; (iv) any material interest of the shareholder in such business; and (v) all such other information regarding each such matter that would have been required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had each such matter been proposed by the Trustees of the Fund.

Submission of a proposal by a shareholder does not guarantee that the proposal will be included in the Fund's proxy statement or presented at the meeting.

By Order of the Board of Trustees,

Lori A. Weber

*Vice President and Secretary*

January 2, 2019

**EXHIBIT A**

**NOMINATING COMMITTEE CHARTER**

**I. The Committee.**

The Nominating Committee (the “Committee”) is a committee of, and established by, the Board of Directors/Trustees of the Fund (the “Board”). The Committee consists of such number of members as set by the Board from time to time and its members shall be selected by the Board. The Committee shall be comprised entirely of “independent members.” For purposes of this Charter, independent members shall mean members who are not interested persons of the Fund (“Disinterested Board members”) as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the “1940 Act”).

**II. Board Nominations and Functions.**

1. The Committee shall make recommendations for nominations for Disinterested Board members on the Board to the incumbent Disinterested Board members and to the full Board. The Committee shall evaluate candidates’ qualifications for Board membership and the independence of such candidates from the Fund’s investment manager and other principal service providers. Persons selected must be independent in terms of both the letter and the spirit of the 1940 Act. The Committee shall also consider the effect of any relationships beyond those delineated in the 1940 Act that might impair independence, e.g., business, financial or family relationships with investment managers or service providers.

2. The Committee also shall evaluate candidates’ qualifications and make recommendations for “interested” members on the Board to the full Board.

3. The Committee may adopt from time to time specific, minimum qualifications that the Committee believes a candidate must meet before being considered as a candidate for Board membership and shall comply with any rules adopted from time to time by the U.S. Securities and Exchange Commission regarding investment company nominating committees and the nomination of persons to be considered as candidates for Board membership.

4. The Committee shall review shareholder recommendations for nominations to fill vacancies on the Board if such recommendations are submitted in writing and addressed to the Committee at the Fund’s offices. The Committee shall adopt, by resolution, a policy regarding its procedures for considering candidates for the Board, including any recommended by shareholders.

**III. Committee Nominations and Functions.**

The Committee shall make recommendations to the full Board for nomination for membership on all committees of the Board.

**IV. Other Powers and Responsibilities.**

1. The Committee shall meet at least once each year or more frequently in open or executive sessions. The Committee may invite members of management, counsel, advisers and others to attend its meetings as it deems appropriate. The Committee shall have separate sessions with management and others, as and when it deems appropriate.



2. The Committee shall have the resources and authority appropriate to discharge its responsibilities, including authority to retain special counsel and other experts or consultants at the expense of the Fund.
3. The Committee shall report its activities to the Board and make such recommendations as the Committee may deem necessary or appropriate.
4. A majority of the members of the Committee shall constitute a quorum for the transaction of business at any meeting of the Committee. The action of a majority of the members of the Committee present at a meeting at which a quorum is present shall be the action of the Committee. The Committee may meet in person or by telephone, and the Committee may act by written consent, to the extent permitted by law and by the Fund's by-laws. In the event of any inconsistency between this Charter and the Fund's organizational documents, the provisions of the Fund's organizational documents shall be given precedence.
5. The Committee shall review this Charter at least annually and recommend any changes to the full Board.

**ADDITIONAL STATEMENT FOR CLOSED-END FUNDS ONLY**

The Committee shall comply with any rules of any stock exchange, if any, applicable to nominating committees of closed-end funds whose shares are registered thereon.

**EXHIBIT B**

**FRANKLIN TEMPLETON INVESTMENTS**

**AUDIT COMMITTEE CHARTER**

**I. The Committee.**

The Audit Committee (“Committee”) is a committee of, and established by, the Board of Directors/Trustees of the Fund (the “Board”).<sup>1</sup> The Committee shall consist of such number of members as set by the Board from time to time, but in no event fewer than three (*NYSE-listed Funds only*), and its members shall be selected by the Board. The Committee shall be comprised entirely of members who satisfy the requirements for independence set out in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (the “1934 Act”) (“Disinterested Board members”).<sup>2</sup> Each member of the Committee must be financially literate, as such qualification is interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the Committee. At least one member of the Committee must be an “audit committee financial expert,” as determined by the Board and as defined in Item 3(b) of U.S. Securities and Exchange Commission (“SEC”) Form N-CSR. The Committee will make recommendations to the Board for its approval with respect to such audit committee financial expert determinations at least annually.

If a Committee member of an NYSE-listed Fund simultaneously serves on the audit committee of more than three public companies, the Board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the Fund’s Committee. When a member serves on multiple boards in the same fund complex, such service will be counted as one board for these purposes (*NYSE-listed Funds only*).

**II. Purposes of the Committee.**

The function of the Committee is to assist Board oversight of the Fund’s financial statements and accounting and auditing processes, which shall include being directly responsible for the appointment, compensation, retention and oversight of the work of the Fund’s independent registered public accounting firm (“auditors”) engaged (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund. It is management’s responsibility to prepare the Fund’s financial statements in accordance with generally accepted accounting principles (“GAAP”) and to maintain appropriate systems for accounting and internal controls. It is the auditors’ responsibility to express an opinion on the Fund’s financial statements, to plan and carry out an audit in accordance with the standards of the SEC and the Public Company Accounting Oversight Board (“PCAOB”) and to report directly to the Committee. It is not the duty of the Committee to plan or conduct audits or to determine that the Fund’s financial statements are complete and in accordance with GAAP.

<sup>1</sup> This document serves as the Charter for the Committee of each U.S. registered investment company (a “Fund”) within Franklin Templeton Investments, and each series thereof as applicable, including certain Exchange-listed Funds included on [Appendix A](#) hereto.

<sup>2</sup> Each member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board, or any other Board committee: (A) accept directly or indirectly any consulting, advisory, or other compensatory fee from the Fund or any subsidiary thereof, provided that, unless the rules of the applicable national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt

of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Fund (provided that such compensation is not contingent in any way on continued service); or (B) be an “interested person” of the Fund as defined in section 2(a)(19) of the Investment Company Act of 1940.

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Consistent with such allocation of functions, the purposes of the Committee are:

- (a) To oversee the Fund's accounting and financial reporting policies and practices and its internal controls, and to obtain, where it deems appropriate, reports on internal controls of service providers to the Fund;
- (b) To oversee or, as appropriate, assist Board oversight of the quality, objectivity and integrity of the Fund's financial statements and the independent audit thereof;
- (c) To oversee or, as appropriate, assist Board oversight of the Fund's compliance with legal and regulatory requirements (primarily as they relate to the Fund's accounting and financial reporting, internal control over financial reporting and independent audits);
- (d) To approve prior to appointment the engagement of the Fund's auditors and, in connection therewith, to review and evaluate the auditors' qualifications, independence and performance, taking into account the opinions of management;
- (e) To act as a liaison between the Fund's auditors and the Board;
- (f) to prepare, or authorize the preparation of, the disclosure required by Item 407(d)(3)(i) of Regulation S-K (the "Audit Committee Report") for inclusion in the Fund's annual proxy statement (NYSE- and NYSE American-listed Funds only); and
- (g) To consider such other matters as it deems appropriate in carrying out its purpose and any other matters that may be assigned to it by the Board.

In addition, the Committee shall serve as the Fund's Qualified Legal Compliance Committee ("QLCC") pursuant to Section 205 of the SEC's Standards of Professional Conduct for Attorneys Appearing and Practicing before the Commission in the Representation of an Issuer (the "Standards"). In this capacity, the Committee is required to adopt and maintain written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation. "Evidence of a material violation" means credible evidence, based upon which it would be unreasonable, under the circumstances, for a prudent and competent attorney not to conclude that it is reasonably likely that a material violation of an applicable U.S. federal or state securities law, a material breach of fiduciary (or similar) duty to the Fund arising under U.S. federal or state law, or a similar material violation of any U.S. federal or state law has occurred, is ongoing, or is about to occur.

### **III. Powers and Duties.**

The Committee shall have the following powers and duties to carry out its purposes:

- (a) To select the auditors, subject to approval both by the Board and by a separate vote of the Disinterested Board members, and, in connection therewith, to evaluate the independence and qualifications of the auditors in accordance with applicable federal securities laws and regulations and the rules and standards of the PCAOB.
- (b) To be directly responsible for approving the services to be provided by, and the compensation of, the auditors, including:
  - (i) pre-approval of all audit and audit related services;

- (ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;

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(iii) pre-approval of all non-audit related services to be provided by the auditors to the Fund's investment adviser or to any entity that controls, is controlled by or is under common control with the Fund's investment adviser and that provides ongoing services to the Fund where the non-audit services relate directly to the operations or financial reporting of the Fund; and

(iv) if deemed necessary or appropriate, as an alternative to Committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above:

(A) establishment by the Committee of policies and procedures to pre-approve such services, provided the policies and procedures are detailed as to the particular service and the Committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the 1934 Act), to management; or

(B) delegation by the Committee to one or more designated members of the Committee who are Disinterested Board members of authority to pre-approve such services, provided the Committee is informed of the decisions of any member pursuant to such delegated authority no later than its next scheduled meeting;

subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

(c) To meet with the auditors, including private meetings, as necessary to (i) review the arrangements for and scope of the annual audit and any special audits; (ii) discuss any matters or concerns relating to the Fund's financial statements, including any recorded and/or unrecorded adjustments to such statements recommended by the auditors, or other results of audits; (iii) consider the auditors' comments with respect to the Fund's financial, accounting and reporting policies, procedures and internal controls and management's responses thereto; and (iv) to review the form of opinion the auditors propose to render.

(d) To meet to review and discuss the Fund's annual audited financial statements with management and the auditors, including reviewing the Fund's disclosures under "Management's Discussion of Fund Performance" ("MDFP") in its annual shareholder report (*All Funds*). To meet to review and discuss the Fund's semi-annual financial statements with management, including reviewing the Fund's MDFP disclosures in its semi-annual shareholder report, as applicable (*NYSE-listed Funds and New Jersey/Alternative Strategies Funds only*). Such meetings may be telephonic.

(e) To consider the effect upon the Fund of any changes in accounting principles or practices proposed by management or the auditors.

(f) To receive and consider reports from the auditors:

(i) as required by generally accepted accounting standards, including Auditing Standard ("AS") No. 1301 (Communications with Audit Committees);

(ii) annually and by update as required by SEC Regulation S-X, regarding:

(A) all critical accounting policies and practices of the Fund to be used;

(B) all alternative treatments within GAAP for policies and practices related to material items that have been discussed with management of the Fund, including ramifications of the use of such alternative disclosures and

treatments, and the treatment preferred by the auditors;

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- (C) other material written communications between the auditors and management of the Fund, such as any management letter or schedule of unadjusted differences; and
- (D) all non-audit services provided to any entity in an investment company complex, as defined in SEC Regulation S-X, that were not pre-approved by the Committee pursuant to SEC Regulation S-X;
- (iii) at least annually regarding the auditors' internal quality-control procedures; and
- (iv) at least annually regarding any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues.
- (g) To review (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Fund's selection or application of accounting principles, and major issues as to the adequacy of the Fund's internal controls and any special audit steps adopted in light of material control deficiencies; and (ii) analyses prepared by management and/or the auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
- (h) In considering the independence of the auditors:
- (i) at least annually to receive from the auditors a formal written statement, and other reports as necessary, describing all relationships between the auditors and the Fund, the Fund's investment adviser and service providers, and other entities advised or serviced by, including any entities controlling, controlled by or under common control with, the investment adviser or any other service providers to the Fund that, in the auditors' judgment, could be thought to bear upon the auditors' independence;
- (ii) to receive and consider, if applicable, periodic reports from the auditors regarding whether the provision of non-audit services (including tax services) is compatible with maintaining the auditors' independence;
- (iii) to request from the auditors a written affirmation that they are independent auditors under the federal securities laws and standards adopted by the PCAOB; and
- (iv) to discuss with the auditors any disclosed relationships or services that may impact the objectivity, impartial judgment, and independence of the auditors and for taking, or recommending that the Board take, appropriate action to oversee the independence of the auditors.
- (i) To require that the auditors regularly provide timely information to the Committee with respect to new rules and pronouncements by applicable regulatory and accounting standards agencies, along with an explanation of how such developments may affect the Fund's financial statements and accounting principles and practices.
- (j) To review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Fund.



(k) To consider any reports of audit problems or difficulties that may have arisen during the course of the audit, including any limitations of the scope of the audit, and management's response thereto.

(l) To review communications from the Fund's Chief Executive Officer – Finance and Administration, and Chief Financial Officer and Chief Accounting Officer concerning (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Fund's ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Fund's internal controls over financial reporting, and to review requested communications from management for any other purposes the Committee deems appropriate.

(m) In connection with the preparation of the Audit Committee Report (*NYSE and NYSE American-listed Funds only*):

(i) to review and discuss the audited financial statements of the Fund with management;

(ii) to discuss with the auditors the matters required to be discussed by the statement on AS No. 1301, as amended;

(iii) to receive the written disclosures and the letter(s) from the auditors required by applicable requirements of the PCAOB regarding the auditor's communications with the Committee concerning independence (referred to in paragraph (h) above), and discuss with the auditors the auditor's independence; and

(iv) based on the review and discussions referred to in paragraphs (i) through (iii) above, to recommend to the Board that the audited financial statements be included in the Fund's annual report on Form N-CSR for the last fiscal year for filing with the SEC.

(n) To review and discuss, as appropriate, the Fund's earnings press releases (including the type and presentation of information to be included therein, paying particular attention to any use of "pro forma," or "adjusted" non-GAAP, information), as well as any financial information and earnings guidance provided to analysts and rating agencies. (*NYSE-listed Funds only*)

(o) To review and discuss the Fund's processes with respect to risk assessment and risk management.

(p) To set clear policies relating to the hiring by entities within Franklin Templeton Investments of employees or former employees of the auditors.

(q) To evaluate, as either part of the full Board or as a Committee, its performance at least annually.

(r) To review potential conflict of interest situations where appropriate in connection with the Fund's ongoing review of all related party transactions.

(s) To inform the chief legal officer ("CLO") and chief executive officer ("CEO") of the Fund (or the equivalents thereof) of any report of evidence of a material violation by the Fund, its officers, directors/trustees, employees (if any), or agents (collectively, "affiliates"). In connection therewith, the Committee shall:

(i) determine whether an investigation is necessary regarding any report of evidence of a material violation by the Fund or its affiliates;

(ii) if the Committee determines such an investigation is necessary or appropriate, (A) notify the Board; (B) initiate an investigation, which may be conducted by either the CLO or by outside attorneys; and (C) retain such additional expert personnel as the Committee deems necessary to assist in the investigation;

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(iii) at the conclusion of any such investigation, (A) recommend by a majority vote, that the Fund implement an appropriate response (as defined in Section 205.2(b) of the Standards) to evidence of a material violation, and (B) inform the CLO and the CEO and the Board of the results of such investigation and the appropriate remedial measures to be adopted;

(iv) acting by majority vote, take all other appropriate action, including the authority to notify the SEC in the event the Fund fails in any material respect to implement an appropriate response that the Committee has recommended the Fund to take; and

(v) otherwise respond to evidence of a material violation.

#### **IV. Other Functions and Procedures of the Committee.**

(a) The Committee shall meet at least twice each year or more frequently, in open or executive sessions, as may be necessary to fulfill its responsibilities. The Committee shall meet as frequently as circumstances require with (i) the auditors as provided in III(c), above; and (ii) management's internal audit department to review and discuss internal audit functions and reports. The Committee may invite members of management, the auditors, counsel, advisers and others to attend its meetings as it deems appropriate. The Committee shall meet separately, periodically, with management and with the auditors.

(b) The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Fund or the Fund's adviser regarding accounting, internal accounting controls, or accounting matters relating to the Fund; and (ii) the confidential, anonymous submission by employees of the Fund or Franklin Resources, Inc. and its subsidiaries of concerns regarding questionable accounting or auditing matters.

(c) The Committee shall have the authority to engage special or independent counsel, experts and other advisers as and when it determines necessary to carry out its duties.

(d) The Fund must provide for appropriate funding, as determined by the Committee in its capacity as a Committee of the Board, for payment of (i) compensation to any auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund; (ii) compensation to any advisers employed by the Committee (under paragraph (c) above); and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

(e) The Committee shall have unrestricted access to the Fund's management and management of the Fund's adviser, including, but not limited to, their chief executive officer(s), chief financial officer(s), internal auditors and any other executives and financial officers.

(f) The Committee shall report its activities to the Board, including any issues that arise with respect to the quality or integrity of the Fund's financial statements, the Fund's compliance with legal or regulatory requirements, or the qualifications, performance and independence of the Fund's auditors, and make such recommendations as the Committee may deem necessary or appropriate.

(g) The Committee shall review and assess the adequacy of this Charter annually, or more frequently if it chooses, and recommend any changes to the Board. The Board shall adopt and approve this Charter and may amend it on its own motion.

(h) The Committee shall meet jointly with the Audit Committees of the other Funds within the Franklin Templeton Investments Fund complex as may be appropriate, including to attend presentations and review proposals and other matters of common concern to all such Audit Committees.

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(i) Pursuant to delegated authority from the Board, and at the request of the applicable investment manager of the Fund (the “Investment Manager”), the Committee, or an appointed delegate of the Committee as applicable, shall provide proxy voting instructions as a representative of the Fund to the Investment Manager in certain situations where the Investment Manager has identified a material conflict of interest between the Investment Manager or one of its affiliates and an issuer (*i.e.*, the Committee or its appointed delegate will approve or disapprove the Investment Manager’s voting recommendation).

(j) To the extent applicable to the Fund, the Committee shall comply with such other rules of the applicable national securities exchanges and the SEC applicable to exchange-listed funds, as such may be adopted and amended from time to time. (*Exchange-listed Funds only*)

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**Appendix A**

*Amended as of October 11, 2018*

**EXCHANGE-LISTED FUNDS**

Funds listed on New York Stock Exchange LLC (“NYSE-listed Funds”)

Franklin Universal Trust

Templeton Dragon Fund, Inc.

Templeton Emerging Markets Fund

Templeton Emerging Markets Income Fund

Templeton Global Income Fund

Fund listed on NYSE American LLC (“NYSE American-listed Fund”)

Franklin Limited Duration Income Trust

Funds listed on NYSE Arca, Inc.

Franklin ETF Trust

Franklin Liberty Short Duration U.S. Government ETF

Franklin Templeton ETF Trust

Franklin FTSE Asia ex Japan ETF

Franklin FTSE Australia ETF

Franklin FTSE Brazil ETF

Franklin FTSE Canada ETF

Franklin FTSE China ETF

Franklin FTSE Europe ETF

Franklin FTSE Europe Hedged ETF

Franklin FTSE France ETF

Franklin FTSE Germany ETF

Franklin FTSE Hong Kong ETF

Franklin FTSE India ETF

Franklin FTSE Italy ETF

Franklin FTSE Japan ETF

Franklin FTSE Japan Hedged ETF

Franklin FTSE Latin America ETF

Franklin FTSE Mexico ETF

Franklin FTSE Russia ETF

Franklin FTSE Saudi Arabia ETF

Franklin FTSE South Africa ETF

Franklin FTSE South Korea ETF

Franklin FTSE Switzerland ETF

Franklin FTSE Taiwan ETF

Franklin FTSE United Kingdom ETF

Franklin Liberty Intermediate Municipal Opportunities ETF

Franklin Liberty International Opportunities ETF

Franklin Liberty Investment Grade Corporate ETF

Franklin Liberty Municipal Bond ETF

Franklin Liberty U.S. Low Volatility ETF

Franklin LibertyQ Emerging Markets ETF

Franklin LibertyQ Global Dividend ETF

Franklin LibertyQ Global Equity ETF

Franklin LibertyQ International Equity Hedged ETF

Funds listed on Cboe BZX Exchange, Inc.

Franklin Templeton ETF Trust

Franklin Liberty High Yield Corporate ETF

Franklin Liberty International Aggregate Bond ETF

Franklin Liberty Senior Loan ETF

Franklin LibertyQ U.S. Equity ETF

Franklin LibertyQ U.S. Mid Cap Equity ETF

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## PROXY CARD

**SIGN, DATE AND VOTE ON THE REVERSE SIDE**

**YOUR VOTE IS IMPORTANT  
NO**

**MATTER HOW MANY  
SHARES YOU OWN. PLEASE  
CAST YOUR**

**PROXY VOTE TODAY!**

## PROXY VOTING OPTIONS

1. **MAIL** your signed and voted proxy back in the postage paid envelope provided
2. By **PHONE** with a live operator when you call (800) 269-6427 (toll-free) Monday through Friday 9 a.m. to 10 p.m. Eastern time 3. By **Interactive Voice Response** when you call (888) 227-9349 (toll-free) to reach an automated touchtone voting line

## TEMPLETON EMERGING MARKETS FUND

**PROXY FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MARCH 4, 2019**

The undersigned hereby revokes all previous proxies for his/her shares of Templeton Emerging Markets Fund (the "Fund") and appoints CHRISTINE A. DEPREE, KIMBERLY H. NOVOTNY and LORI A. WEBER, and each of them, proxies of the undersigned with full power of substitution to vote all shares of the Fund that the undersigned is entitled to vote at the Fund's Annual Meeting of Shareholders (the "Meeting") to be held at 300 S.E. 2nd Street, Fort Lauderdale, Florida 33301-1923 at 12 Noon, Eastern time, on March 4, 2019, including any postponements or adjournments thereof, upon the matters set forth below and instructs them to vote upon any other matters that may properly be acted upon at the Meeting, including any matters presented for which the Fund was not given timely notice.

**This proxy is solicited by the Board of Trustees on behalf of the Fund.**

**Do you have questions?** If you have any questions about how to vote your proxy or about the meeting in general, please call toll-free **(800) 269-6427**. Representatives are available to assist you Monday through Friday 9 a.m. to 10 p.m. Eastern time.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF**



**SHAREHOLDERS TO BE HELD ON MARCH 4, 2019:**

The proxy statement for this Meeting is available on the Internet at:

<https://www.proxyonline.com/docs/emf2019.pdf>.

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