

SEMIANNUAL REPORT

TEMPLETON INSTITUTIONAL FUNDS

June 30, 2021



FRANKLIN
TEMPLETON

Foreign Smaller Companies Series

International Equity Series

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Semiannual Report

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SEMIANNUAL REPORT

Economic and Market Overview

Global developed and emerging market equities, as measured by the MSCI All Country World Index-NR (net of tax withholding when dividends are paid), posted a +12.30% total return for the six months ended June 30, 2021.¹

Global equities benefited from monetary and fiscal stimulus measures, rebounding economic activity and easing novel coronavirus (COVID-19) pandemic restrictions in many regions. The implementation of vaccination programs and additional fiscal stimulus measures led many equity markets to reach new all-time price highs.

In the U.S., the economy continued to recover and equities rallied amid an accommodative monetary policy, additional fiscal stimulus measures and ongoing vaccination programs. The lifting of many COVID-19 restrictions and strong consumer spending also supported the economy. Gross domestic product (GDP) growth accelerated in 2021's first quarter, with total economic output nearly reaching pre-pandemic levels. The rebound in corporate earnings and progress toward a bipartisan infrastructure plan further bolstered investor sentiment. The U.S. Federal Reserve kept the federal funds target rate at a record-low range of 0.00%–0.25% and continued its program of open-ended bond purchases to help keep markets functioning.

The economic recovery in the eurozone was relatively weak, as quarter-over-quarter GDP growth contracted during 2021's first quarter. GDP growth rates were mostly negative among the region's largest economies amid renewed lockdowns, delays in COVID-19 vaccine distribution and weak consumer spending. Nevertheless, optimism that successful vaccine programs would lift global growth helped European developed market equities, as measured by the MSCI Europe Index-NR, to post a +11.80% total return for the six months under review.¹

Asian developed and emerging market equities, as measured by the MSCI All Country Asia Index-NR, posted a +4.54% total return for the six-month period.¹ The region's economic recovery was pressured by weak domestic demand, most notably in China, despite improvement in manufacturing and exports. Asian equity markets experienced volatility near period-end due to inflation concerns, rising COVID-19 infection rates in many countries, especially India, and renewed lockdowns.

Global emerging market stocks, as measured by the MSCI Emerging Markets Index-NR, posted a +7.45% total return

for the six months under review.¹ The recovery in oil and industrial metals prices supported global emerging market equities. Late in the period, higher COVID-19 cases in some countries, limited vaccine rollouts and concerns about rising interest rates and inflation amid higher commodity prices dampened investor enthusiasm in global emerging market equities.

The foregoing information reflects our analysis and opinions as of June 30, 2021. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

1. Source: Morningstar.

See www.franklintempletondatasources.com for additional data provider information.

Foreign Smaller Companies Series

This semiannual report for Foreign Smaller Companies Series (Fund) covers the period ended June 30, 2021.

Your Fund's Goal and Main Investments

The Fund seeks long-term capital growth. Under normal market conditions, the Fund invests at least 80% of its net assets in investments of smaller companies located outside the U.S., including emerging markets. For purposes of this 80% policy, the Fund defines smaller companies as those with market capitalizations that do not exceed \$4 billion. However, under normal conditions, when making an initial purchase of securities of a company, we will only invest in securities of companies with a market capitalization of not more than \$2 billion. Once a security qualifies for initial purchase, it continues to qualify for additional purchases as long as it is held by the Fund, provided that the issuer's market capitalization does not exceed \$4 billion.

Performance Overview

The Fund posted a +12.77% cumulative total return for the six months under review. In comparison, the Fund's new benchmark, the MSCI All Country World Index (ACWI) ex USA Small Cap Index-NR, which measures performance of global developed and emerging market small-cap equities, excluding the U.S., posted a +12.24% cumulative total return.¹ Also in comparison, the Fund's former benchmark, the MSCI ACWI ex USA Small Cap Index, posted a +12.47% cumulative total return. The MSCI ACWI ex USA Small Cap Index-NR (net of dividend tax withholding) replaced the MSCI ex USA Small Cap Index (gross of taxes on dividends) as a primary benchmark because the investment manager believes that the actual withholding rates for the Fund are closer to the assumptions of the MSCI ACWI ex USA Small Cap Index-NR. Please note, index performance information is provided for reference and we do not attempt to track the index but rather undertake investments on the basis of fundamental research. You can find the Fund's long-term performance data in the Performance Summary beginning on page 6.

1. Source: Morningstar.

The index is unmanaged and includes reinvestment of any income or distributions. It does not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

See www.franklintempletondatasources.com for additional data provider information.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 17.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ftinstitutional.com or call a Franklin Templeton Institutional Services representative at (800) 321-8563.

Investment Strategy

When choosing equity investments for the Fund, we apply a bottom-up, value-oriented, long-term approach, focusing on the market price of a company's securities relative to our evaluation of the company's long-term earnings, asset value and cash flow potential. This evaluation includes an assessment of the potential impacts of material environmental, social and governance (ESG) factors on the long-term risk and return profile of a company. We also consider a company's price/earnings ratio, profit margins and liquidation value.

Geographic Composition

6/30/21

	% of Total Net Assets
Europe	45.4%
Asia	41.4%
North America	5.0%
Latin America & Caribbean	3.5%
Other	0.8%
Short-Term Investments & Other Net Assets	3.9%

Manager's Discussion

During the six months under review, notable contributors to the Fund's performance relative to the MSCI ACWI ex USA Small Cap Index-NR included stock selection and an overweighting in the consumer discretionary sector, stock selection and an underweighting in the health care sector and stock selection in the financials sector. In contrast, key detractors from the Fund's relative performance included stock selection in the industrials and materials sectors and stock selection and an overweighting in the consumer staples sector. Regionally, key contributors to the Fund's relative performance included stock selection in Europe, notably in the U.K., Sweden and the Netherlands, as well as stock selection in Asia, especially in China, Thailand

and Hong Kong. In contrast, key detractors included stock selection in the Latin America and Caribbean region, particularly in Brazil. Looking ahead, we continue to prioritize resilience, diversification and price-consciousness in our investment selection and portfolio construction.

Portfolio Composition

6/30/21

	% of Total Net Assets
Machinery	12.0%
Leisure Products	9.8%
Electronic Equipment, Instruments & Components	7.1%
Textiles, Apparel & Luxury Goods	6.2%
Professional Services	5.4%
Capital Markets	5.3%
Food Products	4.3%
Banks	4.0%
Specialty Retail	3.1%
Food & Staples Retailing	3.1%
Life Sciences Tools & Services	3.0%
Technology Hardware, Storage & Peripherals	2.7%
Auto Components	2.2%
Entertainment	2.1%
Other*	25.8%
Short-Term Investments & Other Net Assets	3.9%

*Categories within the Other category are listed in full in the Fund's Statement of Investments (SOI), which can be found later in this report.

Notable individual contributors to the Fund's relative performance included our investment in Xtep International Holdings, a leading China-based sportswear brand and wholesaler, which helped drive consumer discretionary returns. Its shares rallied after the firm reported a substantial rebound in year-on-year sales growth, suggesting that recent investments in brand image and product innovation are bearing fruit domestically. The company's competitive advantage is its ability to provide a high-quality product at a steep discount relative to peers such as Nike (not a Fund holding) and Japan-based sportswear exporter Asics (also a Fund holding).

Watches of Switzerland Group (not part of the index), a leading U.K.-based luxury watch and jewelry retailer with a growing presence in the U.S., also helped drive consumer discretionary returns. The company's success is built on a more than 100-year relationship with the Rolex brand and over 50 years with the Patek Philippe brand. The company continued to generate cash during the novel coronavirus (COVID-19) pandemic lockdown and its fiscal-year 2020 results exceeded guidance, driven by its strong online

performance. Company management has increased digital customer engagement activity and plans to extend it going forward.

Netherlands-based electronic exchange operator Flow Traders' share price rose amid higher trading volumes during the period. We believe the stock continues to offer unique characteristics for the Fund's portfolio, including a negative beta (the stock is less volatile than the overall market) and healthy dividend yield. Furthermore, in our assessment, the firm is poised to benefit from numerous long-term growth opportunities and potential acquisition synergies.

In contrast, key individual detractors from the Fund's relative performance included our position in China-based Xiabuxiabu Catering Management China Holdings, which operates two lines of hot pot restaurants throughout China. During the period, its shares were impacted by the COVID-19 pandemic. In our longer-term view, although the company operates in a competitive space, its centralized kitchen enables it to create barriers to entry and benefit from economies of scale. Historically, the company experienced strong growth as it expanded throughout China, more than doubling its store base over the past five years.

Japan-based Fuji Oil Holdings, a confectionery and baking ingredient manufacturer and a global player in the oligopolistic cocoa butter alternative industry, was a significant detractor in the consumer staples sector. Despite the short-term underperformance of its stock, we expect the company to see high demand for its new products and generate strong revenue growth in international sales. As the firm invests to expand capacity and product lines unfold, we believe profit margins will improve as well.

The shares of Nichiha, a market-leading manufacturer of fiber-cement siding for residential, commercial and public facilities in Japan, were impacted by lower demand due to the pandemic. Looking at the longer term, Nichiha has captured nearly half of the Japanese market through its innovative product offerings and expertise, and it has a growing market share in the U.S. and the rest of the world, including China.

Top 10 Holdings

6/30/21

Company Industry, Country	% of Total Net Assets
Xtep International Holdings Ltd. <i>Textiles, Apparel & Luxury Goods, China</i>	2.1%
Interpump Group SpA <i>Machinery, Italy</i>	2.0%
Siegfried Holding AG <i>Life Sciences Tools & Services, Switzerland</i>	1.9%
Dometic Group AB <i>Auto Components, Sweden</i>	1.8%
Bucher Industries AG <i>Machinery, Switzerland</i>	1.8%
Technogym SpA <i>Leisure Products, Italy</i>	1.8%
Asics Corp. <i>Textiles, Apparel & Luxury Goods, Japan</i>	1.8%
Man Group plc <i>Capital Markets, United Kingdom</i>	1.6%
Hana Microelectronics PCL <i>Electronic Equipment, Instruments & Components, Thailand</i>	1.6%
Tsumura & Co. <i>Pharmaceuticals, Japan</i>	1.5%

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the six months ended June 30, 2021, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

Thank you for your continued participation in Foreign Smaller Companies Series. We look forward to serving your future investment needs.

Harlan B. Hodes, CPA
Lead Portfolio Manager

David A. Tuttle, CFA
Heather Waddell, CFA

Portfolio Management Team

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2021, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

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Performance Summary as of June 30, 2021

The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses. Capital gain distributions are net profits realized from the sale of portfolio securities.

Performance as of 6/30/21

	Cumulative Total Return ¹	Average Annual Total Return ²
6-Month	+12.77%	+12.77%
1-Year	+45.75%	+45.75%
5-Year	+71.94%	+11.45%
10-Year	+100.63%	+7.21%

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ftinstitutional.com or call a Franklin Templeton Institutional Services representative at (800) 321-8563.

See page 7 for Performance Summary footnotes.

Total Annual Operating Expenses³

1.03%

All investments involve risks, including possible loss of principal. Smaller, mid-sized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. Historically, these securities have exhibited greater price volatility than large-company stocks, particularly over the short term. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in emerging markets involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size and lesser liquidity. From time to time, the trading market for a particular security or type of security may become less liquid or even illiquid. Reduced liquidity will have an adverse impact on the security's value and on the Fund's ability to sell such securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event. Because the Fund may invest its assets in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities held by the Fund. Current uncertainty concerning the economic consequences of the departure of the U.K. from the European Union may increase market volatility. Events such as the spread of deadly diseases, disasters, and financial, political or social disruptions, may heighten risks and adversely affect performance. The Fund's prospectus also includes a description of the main investment risks.

1. Cumulative total return represents the change in value of an investment over the periods indicated.
2. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
3. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown. See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs: (1) transaction costs, including sales charges (loads) on Fund purchases and redemptions, if applicable; and (2) ongoing Fund costs, including management fees, distribution and service (12b-1) fees, if applicable, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses. The table below shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The table below provides information about actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of Fund expenses, is used to calculate the "Ending Account Value." You can estimate the expenses you paid during the period by following these steps (*of course, your account value and expenses will differ from those in this illustration*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then $\$8,600 \div \$1,000 = 8.6$*). Then multiply the result by the number in the row under the headings "Actual" and "Expenses Paid During Period" (*if Actual Expenses Paid During Period were \$7.50, then $8.6 \times \$7.50 = \64.50*). In this illustration, the actual expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Under the heading "Hypothetical" in the table, information is provided about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transactional costs. Therefore, information under the heading "Hypothetical" is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transactional costs were included, your total costs would have been higher.

Beginning Account Value 1/1/21	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
	Ending Account Value 6/30/21	Expenses Paid During Period 1/1/21–6/30/21 ^{1,2}	Ending Account Value 6/30/21	Expenses Paid During Period 1/1/21–6/30/21 ^{1,2}	
\$1,000	\$1,127.66	\$5.38	\$1,019.74	\$5.10	1.02%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include acquired fund fees and expenses.

International Equity Series

This semiannual report for International Equity Series (Fund) covers the period ended June 30, 2021.

Your Fund's Goal and Main Investments

The Fund seeks long-term capital growth. Under normal market conditions, the Fund invests at least 80% of its net assets in foreign (non-U.S.) equity securities. The Fund invests predominantly in companies located outside the U.S. including companies located in developing market countries.

Performance Overview

The Fund's Primary shares posted a +8.74% cumulative total return for the six months under review. For comparison, the Fund's new primary benchmark, the MSCI All Country World Index (ACWI) ex USA Index-NR, which measures stock market performance in global developed and emerging markets excluding the U.S., posted a +9.16% cumulative total return. The Fund's former primary benchmark, the MSCI ACWI ex USA Index, posted a +9.45% cumulative total return.¹ The MSCI ACWI ex USA Index-NR (net of dividend tax withholding) replaced the MSCI ACWI ex USA Index (gross of taxes on dividends) as the primary benchmark because the investment manager believes that the actual withholding rates for the Fund are closer to the assumptions of the MSCI ACWI-NR. Also in comparison, the Fund's secondary benchmark, the MSCI Europe, Australasia, Far East Index (EAFE)-NR, which measures stock market performance in global developed markets excluding the U.S. and Canada, posted a +8.83% cumulative total return.¹ Please note, index performance information is provided for reference and we do not attempt to track an index but rather undertake investments on the basis of fundamental research. You can find the Fund's long-term performance data in the Performance Summary beginning on page 13.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ftinstitutional.com or call a Franklin Templeton Institutional Services representative at (800) 321-8563.

1. Source: Morningstar.

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

See www.franklintempletondatasources.com for additional data provider information.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 24.

Geographic Composition

6/30/21

	% of Total Net Assets
Europe	54.0%
Asia	35.3%
Latin America & Caribbean	2.9%
North America	2.3%
Short-Term Investments & Other Net Assets	5.5%

Investment Strategy

When choosing equity investments for the Fund, we employ a bottom-up, value-oriented, long-term investment approach, focusing on the market price of a company's securities relative to our evaluation of the company's long-term earnings, asset value and cash flow potential. This evaluation includes an assessment of the potential impacts of material environmental, social and governance (ESG) factors on the long-term risk and return profile of a company. We also consider a company's price/earnings ratio, profit margins and liquidation value. We attempt to identify those companies that offer above-average opportunities for capital appreciation in various countries and industries where economic and political factors, including currency movements, are favorable to capital growth.

For purposes of pursuing the Fund's investment goal, we intend to enter into equity derivative instruments, including equity index futures contracts. We use these derivative instruments for investment purposes, including for cash management purposes and to generate income, to increase liquidity and/or to adjust the Fund's exposure to certain equity markets in a more efficient or less expensive way.

Manager's Discussion

Global stocks overall entered 2021 amid a wave of reflation and reopening. The reflationary tailwind was attributable to continued monetary stimulus measures and new fiscal initiatives intended to counteract the negative economic and financial impacts of the novel coronavirus (COVID-19) pandemic shutdowns. The reopening tailwind was attributable to successful COVID-19 vaccine trial results in late 2020 followed by early inoculation efforts in 2021. In this environment, interest rates rose, inflationary pressures built, commodity prices rallied and economically cyclical stocks performed strongly along with the value factor. This tailwind was especially evident when it came to so-called reopening stocks—shares of companies in industries such

as travel and hospitality that were directly impacted by the pandemic shutdowns. The pro-cyclical momentum began to fade, however, as the first half of 2021 progressed and the narrative of the so-called “peak everything” began to take shape. The combination of low base effects from the pandemic a year earlier and an unexpectedly hawkish message from the U.S. Federal Reserve (Fed) in June 2021 left many investors pondering if recently strong economic growth, corporate profit and inflation data might prove to be as good as it gets. Market technical indicators underscored the growing investor concern that the reopening trade had run its course. The swings between factor returns became increasingly extreme as 2021’s second quarter progressed, with growth stocks rebounding strongly in April before fading in May and then rallying once again in June. In fact, the rotation into growth following the Fed’s June 2021 meeting was the most extreme of any growth rotation in about seven decades.

In this environment, the Fund delivered solid absolute gains but modestly trailed its benchmark. We were encouraged to see the Fund benefit from stock selection during the period, while overall relative weakness was largely attributable to unfavorable allocations and the negative impact of cash holdings. The fund’s net cash balance remained in the three to four percent range during the period, reflecting our general concerns about elevated equity valuations following a strong market rally from 2020’s pandemic lows.

From a sector standpoint, stock selection and an underweighted allocation in financials detracted from the Fund’s relative performance. Nevertheless, the Fund’s financials holdings overall posted double-digit percentage absolute gains during the period and there were no financials stocks among the Fund’s 10 biggest relative detractors. Given structural challenges (low interest rates combined with increasing and varying degrees of government regulation across geographies), we remained underweighted to the sector. We also see an eventual credit cycle stemming from the COVID-19 recession (particularly in Europe) as a material future earnings risk, although banks are generally better capitalized than in previous recessions. Our focus is on what we consider undervalued and/or growth-oriented opportunities in attractive Asian markets. Although most commercial banks in the Western world (particularly in Europe) are failing to meet our criteria for long-term value creation, we have found select opportunities among high-quality franchises that we believe could benefit from some combination of a steeper yield curve, economic deflation and repaired consumer balance sheets following government transfer payments and a rising savings rate during lockdown.

Portfolio Composition

6/30/21

	% of Total Net Assets
Oil, Gas & Consumable Fuels	7.3%
Pharmaceuticals	5.9%
Banks	5.7%
Metals & Mining	5.1%
Multi-Utilities	5.1%
Industrial Conglomerates	4.8%
Automobiles	4.3%
Hotels, Restaurants & Leisure	4.2%
Semiconductors & Semiconductor Equipment	4.0%
Diversified Telecommunication Services	3.8%
Construction & Engineering	3.1%
Textiles, Apparel & Luxury Goods	3.1%
Internet & Direct Marketing Retail	3.1%
Technology Hardware, Storage & Peripherals	3.0%
Other*	32.0%
Short-Term Investments & Other Net Assets	5.5%

*Categories within the Other category are listed in full in the Fund’s Statement of Investments (SOI), which can be found later in this report.

The only other significant sector detractor from relative results was stock selection in information technology (IT), pressured by our position in South Korea-based electronics products and semiconductor manufacturer Samsung Electronics, whose share price declined slightly amid little news flow. In our view, Samsung remains a key beneficiary of a demand uptrend in memory chips. Other positive catalysts include long-term opportunities in the firm’s foundry business, optionality around capital deployment and a competitive advantage from being one of the three semiconductor manufacturers globally that can compete at the leading edge. Overall, we believe Samsung is a well-run global technology leader with a strong balance sheet.

Other key relative detractors included our positions in Japan-based beverages manufacturer Kirin Holdings (not held at period-end), China-based e-commerce company Alibaba Group Holding and Japan-based construction machinery firm Komatsu.

Turning to contributors, stock selection in the industrials sector bolstered relative results. Japanese industrial equipment firm Hitachi drove sector performance amid progress with its ongoing restructuring initiatives. Hitachi’s IT business also continued to perform well, and we believe it could benefit from increasing demand for digital transformation. In our view, Hitachi is an underappreciated Japanese restructuring story with vastly improved

governance, value accretive divestments and merger and acquisition activities, as well as improving profitability and business mix. Overall, Hitachi is continuing to evolve into a more simplified, higher-return company generating more stable cash flows. Based on our long-term fundamental expectations, we continue to believe the stock is significantly undervalued at recent levels.

Stock selection in the utilities, communication services, consumer discretionary and energy sectors also positively contributed to relative results during the period. From these sectors, Japanese light-truck manufacturer Isuzu Motors (consumer discretionary) was the top contributor. Its shares rallied strongly after company management reported better-than-expected earnings, raised the dividend payout ratio and projected sharply higher full-year profits. At period-end, the company's guidance for the fiscal year ending March 2022 implies a return to mid-cycle unit volumes, which leaves the stock trading at what we consider undemanding valuations. In our view, Isuzu is a high return-on-equity business and a market leader in niche smaller-sized vehicles whose strong technological partnerships with Toyota and Volvo should help it take advantage of the transition to a clean energy future. The company has good growth potential, in our analysis, across a diverse range of emerging markets and is improving shareholder returns through healthy dividends and stock buybacks. Elsewhere, French multi-utilities company Veolia Environnement finished as the top relative contributor in utilities, German mobile telecommunications incumbent Deutsche Telekom as the top relative contributor in communication services and U.K.-based oil and gas major BP as the top relative contributor in energy.

From a regional standpoint, notable contributors to the Fund's relative performance included stock selection and an underweighting in Asia, led by Japan and China, as well as stock selection and an overweighting in Europe, led by Norway and the U.K. In contrast, stock selection in North America detracted from relative results, due to weakness among the Fund's few Canadian holdings.

We believe the best long-term investment opportunities will not fall as neatly into the traditional factor labels (that is, growth, value, quality) that dominated the narrative during the six months under review. Our "compound value" approach combines price discipline with forward-looking fundamental analysis to find opportunities across a range of different types of value. We believe the key to investing today is to avoid the "double bubble" in over-indebted value stocks and hugely overpriced growth stocks. In our lifetimes, we have not seen a situation like today in which both the value and growth indexes are in a price bubble. Against this backdrop, we have built a framework for thinking

Top 10 Holdings

6/30/21

Company Industry, Country	% of Total Net Assets
Deutsche Telekom AG <i>Diversified Telecommunication Services, Germany</i>	3.8%
Hitachi Ltd. <i>Industrial Conglomerates, Japan</i>	3.5%
Samsung Electronics Co. Ltd. <i>Technology Hardware, Storage & Peripherals, South Korea</i>	3.0%
E.ON SE <i>Multi-Utilities, Germany</i>	2.7%
BP plc <i>Oil, Gas & Consumable Fuels, United Kingdom</i>	2.6%
Sumitomo Mitsui Financial Group, Inc. <i>Banks, Japan</i>	2.5%
AIA Group Ltd. <i>Insurance, Hong Kong</i>	2.4%
Veolia Environnement SA <i>Multi-Utilities, France</i>	2.4%
BAE Systems plc <i>Aerospace & Defense, United Kingdom</i>	2.3%
Sony Group Corp. <i>Household Durables, Japan</i>	2.3%

about stocks and building portfolios that leverages the benefits of Templeton's proven valuation discipline, while also considering other factors that can influence share prices. This is how we build dynamic portfolios with genuine diversification across different types of value.

It is important to recognize the effect of currency movements on the Fund's performance. In general, if the value of the U.S. dollar goes up compared with a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. This can have a negative effect on Fund performance. Conversely, when the U.S. dollar weakens in relation to a foreign currency, an investment traded in that foreign currency will increase in value, which can contribute to Fund performance. For the six months ended June 30, 2021, the U.S. dollar rose in value relative to most currencies. As a result, the Fund's performance was negatively affected by the portfolio's investment predominantly in securities with non-U.S. currency exposure.

Thank you for your continued participation in International Equity Series. We look forward to serving your future investment needs.

Antonio T. Docal, CFA
Lead Portfolio Manager

Peter A. Nori, CFA
Matthew R. Nagle, CFA

Portfolio Management Team

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2021, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of June 30, 2021

The performance table does not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses. Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities.

Performance as of 6/30/21^{1,2}

Share Class	Cumulative Total Return ³	Average Annual Total Return ⁴
Primary		
6-Month	+8.74%	+8.74%
1-Year	+34.80%	+34.80%
5-Year	+44.76%	+7.68%
10-Year	+46.20%	+3.87%
Service		
6-Month	+8.66%	+8.66%
1-Year	+34.54%	+34.54%
5-Year	+43.61%	+7.51%
10-Year	+43.96%	+3.71%

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to ftinstitutional.com or call a Franklin Templeton Institutional Services representative at (800) 321-8563.

See page 14 for Performance Summary footnotes.

Total Annual Operating Expenses⁵

Share Class	With Fee Waiver	Without Fee Waiver
Primary	0.83%	0.87%
Service	0.98%	1.02%

Each class of shares is available to certain eligible investors and has different annual fees and expenses, as described in the prospectus.

All investments involve risks, including possible loss of principal. Foreign investing involves special risks, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with these markets' small or midcap size and lesser liquidity. Because the Fund may invest in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities held by the Fund. Current uncertainty concerning the economic consequences of the departure of the U.K. from the European Union may increase market volatility. Value securities may not increase in price as anticipated or may decline further in value. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Events such as the spread of deadly diseases, disasters, and financial, political or social disruptions, may heighten risks and adversely affect performance. The Fund's prospectus also includes a description of the main investment risks.

1. The Fund has an expense reduction contractually guaranteed through 4/30/22. Fund investment results reflect the expense reduction; without this reduction, the results would have been lower.
 2. Total return was positively impacted by the recognition of tax reclaims for previously withheld taxes on dividends in certain countries across the European Union (see Note 1f in the Notes to Financial Statements section). Uncertainty exists with respect to future recognition of additional European Union tax reclaims. Total return would have been lower without recognition of such tax reclaims during the year ended 12/31/20.
 3. Cumulative total return represents the change in value of an investment over the periods indicated.
 4. Average annual total return represents the average annual change in value of an investment over the periods indicated. Return for less than one year, if any, has not been annualized.
 5. Figures are as stated in the Fund's current prospectus and may differ from the expense ratios disclosed in the Your Fund's Expenses and Financial Highlights sections in this report. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- See www.franklintempletondatasources.com for additional data provider information.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs: (1) transaction costs, including sales charges (loads) on Fund purchases and redemptions, if applicable; and (2) ongoing Fund costs, including management fees, distribution and service (12b-1) fees, if applicable, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses. The table below shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The table below provides information about actual account values and actual expenses in the columns under the heading "Actual." In these columns the Fund's actual return, which includes the effect of Fund expenses, is used to calculate the "Ending Account Value" for each class of shares. You can estimate the expenses you paid during the period by following these steps (*of course, your account value and expenses will differ from those in this illustration*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then $\$8,600 \div \$1,000 = 8.6$*). Then multiply the result by the number in the row for your class of shares under the headings "Actual" and "Expenses Paid During Period" (*if Actual Expenses Paid During Period were \$7.50, then $8.6 \times \$7.50 = \64.50*). In this illustration, the actual expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Under the heading "Hypothetical" in the table, information is provided about hypothetical account values and hypothetical expenses based on the Fund's actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund's actual return. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other funds. To do so, compare this 5% hypothetical example for the class of shares you hold with the 5% hypothetical examples that appear in the shareholder reports of other funds.

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transactional costs. Therefore, information under the heading "Hypothetical" is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transactional costs were included, your total costs would have been higher.

Share Class	Beginning Account Value 1/1/21	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 6/30/21	Expenses Paid During Period 1/1/21–6/30/21 ^{1,2}	Ending Account Value 6/30/21	Expenses Paid During Period 1/1/21–6/30/21 ^{1,2}	
Primary	\$1,000	\$1,087.39	\$4.66	\$1,020.33	\$4.51	0.90%
Service	\$1,000	\$1,086.56	\$5.19	\$1,019.82	\$5.03	1.00%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 181/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include acquired fund fees and expenses.

Financial Highlights

Foreign Smaller Companies Series

	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31,				
		2020	2019	2018	2017	2016
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$23.03	\$21.40	\$17.96	\$25.08	\$19.93	\$20.90
Income from investment operations ^a :						
Net investment income ^b	0.15	0.17	0.30	0.37	0.30	0.29
Net realized and unrealized gains (losses)	2.79	1.74	3.79	(4.97)	6.49	(0.48)
Total from investment operations	2.94	1.91	4.09	(4.60)	6.79	(0.19)
Less distributions from:						
Net investment income	—	(0.22)	(0.37)	(0.21)	(0.68)	(0.41)
Net realized gains	—	(0.06)	(0.28)	(2.31)	(0.96)	(0.37)
Total distributions	—	(0.28)	(0.65)	(2.52)	(1.64)	(0.78)
Net asset value, end of period	\$25.97	\$23.03	\$21.40	\$17.96	\$25.08	\$19.93
Total return ^c	12.77%	8.95%	22.86%	(18.48)%	34.18%	(0.85)%
Ratios to average net assets^d						
Expenses before waiver and payments by affiliates	1.02%	1.04%	1.02%	1.01%	0.99%	0.99%
Expenses net of waiver and payments by affiliates	1.02% ^e	1.03%	1.02% ^e	1.00% ^f	0.98% ^f	0.98% ^f
Net investment income	1.20%	0.87%	1.48%	1.54%	1.28%	1.44%
Supplemental data						
Net assets, end of period (000's)	\$746,593	\$725,098	\$782,971	\$739,576	\$1,040,180	\$931,879
Portfolio turnover rate	16.73%	34.89%	39.48%	34.10%	25.97%	21.36%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cTotal return is not annualized for periods less than one year.

^dRatios are annualized for periods less than one year.

^eBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^fBenefit of expense reduction rounds to less than 0.01%.

Statement of Investments (unaudited), June 30, 2021

Foreign Smaller Companies Series

	Industry	Shares	Value
Common Stocks 95.5%			
Bahamas 1.1%			
^a OneSpaWorld Holdings Ltd.	Diversified Consumer Services	868,505	\$8,415,814
Belgium 3.2%			
Barco NV	Electronic Equipment, Instruments & Components	318,619	8,724,279
Fagron	Health Care Providers & Services	402,709	8,999,732
^a Kinepolis Group NV	Entertainment	113,682	6,152,350
			23,876,361
Brazil 1.8%			
^a Camil Alimentos SA.	Food Products	3,279,000	6,286,381
^a M Dias Branco SA.	Food Products	1,038,600	6,808,370
			13,094,751
Canada 3.8%			
Canaccord Genuity Group, Inc.	Capital Markets	374,238	4,099,336
^a Canada Goose Holdings, Inc.	Textiles, Apparel & Luxury Goods	103,900	4,540,675
Canadian Western Bank	Banks	391,236	10,982,063
Computer Modelling Group Ltd.	Energy Equipment & Services	1,134,704	4,677,022
North West Co., Inc. (The).	Food & Staples Retailing	132,200	3,752,465
			28,051,561
China 5.3%			
Greatview Aseptic Packaging Co. Ltd.	Containers & Packaging	5,478,200	2,469,453
^b JNBY Design Ltd., Reg S	Textiles, Apparel & Luxury Goods	2,117,000	3,762,659
^b Shanghai Haohai Biological Technology Co. Ltd., H, 144A, Reg S	Biotechnology	564,000	6,920,791
^b Viva Biotech Holdings, 144A, Reg S	Life Sciences Tools & Services	6,484,500	8,302,307
^{a,b} Xiabuxiabu Catering Management China Holdings Co. Ltd., 144A, Reg S	Hotels, Restaurants & Leisure	2,795,500	2,929,327
^c Xtep International Holdings Ltd.	Textiles, Apparel & Luxury Goods	8,182,897	15,417,822
			39,802,359
Denmark 0.7%			
Matas A/S.	Specialty Retail	303,669	5,501,355
Finland 2.4%			
^a BasWare OYJ.	Software	80,809	3,805,896
Fiskars OYJ Abp	Household Durables	128,232	2,788,852
Huhtamaki OYJ.	Containers & Packaging	231,255	10,969,826
			17,564,574
France 1.3%			
^a Beneteau SA.	Leisure Products	341,444	5,398,272
Nexans SA	Electrical Equipment	44,479	4,059,115
^a Solutions 30 SE	IT Services	22,923	158,478
			9,615,865
Germany 4.7%			
^a Grand City Properties SA	Real Estate Management & Development	220,495	5,955,553
Jenoptik AG	Electronic Equipment, Instruments & Components	207,830	5,688,077
^c Rational AG	Machinery	10,089	9,141,173
Stabilus SA.	Machinery	135,810	11,063,637
^a VIA Optronics AG, ADR.	Electronic Equipment, Instruments & Components	280,400	3,146,088
			34,994,528

Foreign Smaller Companies Series (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Greece 0.7%			
JUMBO SA	Specialty Retail	317,426	\$5,346,897
Hong Kong 3.4%			
Johnson Electric Holdings Ltd.	Auto Components	1,207,347	3,110,955
Techtronic Industries Co. Ltd.	Machinery	405,500	7,066,592
^d Value Partners Group Ltd.	Capital Markets	8,679,600	5,535,137
VTech Holdings Ltd.	Communications Equipment	888,000	9,344,845
			<u>25,057,529</u>
Indonesia 0.7%			
XL Axiata Tbk. PT	Wireless Telecommunication Services	27,382,900	5,050,215
Israel 0.7%			
Max Stock Ltd.	Multiline Retail	1,478,404	5,598,696
Italy 6.9%			
^a Brunello Cucinelli SpA.	Textiles, Apparel & Luxury Goods	82,941	4,858,874
Interpump Group SpA	Machinery	247,506	14,685,874
^a MARR SpA	Food & Staples Retailing	310,438	7,411,097
Sanlorenzo SpA	Leisure Products	393,004	10,827,868
^b Technogym SpA, 144A, Reg S	Leisure Products	1,047,903	13,390,583
			<u>51,174,296</u>
Japan 18.4%			
Anicom Holdings, Inc.	Insurance	754,100	6,045,834
Asics Corp.	Textiles, Apparel & Luxury Goods	527,300	13,371,231
Bunka Shutter Co. Ltd.	Building Products	429,500	4,288,304
Dowa Holdings Co. Ltd.	Metals & Mining	84,400	3,331,816
en Japan, Inc.	Professional Services	138,500	4,918,151
Fuji Oil Holdings, Inc.	Food Products	378,300	9,000,984
Glory Ltd.	Machinery	242,300	5,032,741
Hosokawa Micron Corp.	Machinery	79,900	4,279,625
Idec Corp.	Electrical Equipment	251,700	4,755,196
IDOM, Inc.	Specialty Retail	844,900	4,968,828
Meitec Corp.	Professional Services	193,400	10,471,930
Morinaga & Co. Ltd.	Food Products	82,800	2,648,320
Morita Holdings Corp.	Machinery	196,400	2,835,144
Nichiha Corp.	Building Products	340,200	8,662,373
Nihon Parkerizing Co. Ltd.	Chemicals	326,400	3,270,318
Nissei ASB Machine Co. Ltd.	Machinery	138,000	6,135,701
QoI Holdings Co. Ltd.	Food & Staples Retailing	559,200	7,823,519
Shima Seiki Manufacturing Ltd.	Machinery	368,500	6,316,208
Square Enix Holdings Co. Ltd.	Entertainment	77,100	3,807,917
TechnoPro Holdings, Inc.	Professional Services	345,300	8,165,636
Topcon Corp.	Electronic Equipment, Instruments & Components	237,700	3,536,643
Tsumura & Co.	Pharmaceuticals	365,000	11,474,215
Zojirushi Corp.	Household Durables	159,900	2,388,103
			<u>137,528,737</u>
Netherlands 4.3%			
Aalberts NV	Machinery	63,530	3,421,994
^a Accell Group NV	Leisure Products	68,405	3,674,649
Arcadis NV	Construction & Engineering	104,778	4,296,564
^b Flow Traders, 144A, Reg S	Capital Markets	252,236	10,851,858
^{a,b} Intertrust NV, 144A, Reg S	Professional Services	538,537	9,704,622
			<u>31,949,687</u>

Foreign Smaller Companies Series (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Norway 1.3%			
^b Sbanken ASA, 144A, Reg S	Banks	443,454	\$5,521,606
TGS ASA	Energy Equipment & Services	333,053	4,247,276
			9,768,882
Philippines 0.6%			
Century Pacific Food, Inc.	Food Products	9,584,300	4,590,107
South Korea 1.8%			
BNK Financial Group, Inc.	Banks	751,772	5,152,349
DGB Financial Group, Inc.	Banks	1,008,750	8,317,749
			13,470,098
Spain 0.7%			
Construcciones y Auxiliar de Ferrocarriles SA.	Machinery	121,020	5,110,476
Sweden 4.9%			
Cloetta AB, B	Food Products	711,836	2,125,283
^b Dometic Group AB, 144A	Auto Components	804,851	13,715,577
Granges AB	Metals & Mining	755,117	10,488,771
^b Thule Group AB, 144A, Reg S.	Leisure Products	237,350	10,522,012
			36,851,643
Switzerland 6.0%			
Bucher Industries AG	Machinery	25,902	13,563,503
^a Landis+Gyr Group AG.	Electronic Equipment, Instruments & Components	89,830	6,273,883
^c Logitech International SA	Technology Hardware, Storage & Peripherals	54,600	6,602,232
^a Siegfried Holding AG.	Life Sciences Tools & Services	15,346	14,401,478
^a Zur Rose Group AG	Food & Staples Retailing	11,064	4,236,815
			45,077,911
Taiwan 9.6%			
Chicony Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	2,845,037	8,193,861
Giant Manufacturing Co. Ltd.	Leisure Products	868,482	9,907,265
Johnson Health Tech Co. Ltd.	Leisure Products	1,891,000	5,712,400
King Yuan Electronics Co. Ltd.	Semiconductors & Semiconductor Equipment	6,322,000	10,162,406
Merida Industry Co. Ltd.	Leisure Products	956,000	10,713,428
Nan Pao Resins Chemical Co. Ltd.	Chemicals	755,000	4,206,997
Nien Made Enterprise Co. Ltd.	Household Durables	498,000	7,372,963
Primax Electronics Ltd.	Technology Hardware, Storage & Peripherals	2,615,000	5,337,944
Topkey Corp.	Leisure Products	614,000	3,452,028
Tripod Technology Corp.	Electronic Equipment, Instruments & Components	1,448,000	7,000,426
			72,059,718
Thailand 1.6%			
Hana Microelectronics PCL.	Electronic Equipment, Instruments & Components	5,268,800	11,724,806
United Kingdom 8.3%			
^a Greggs plc	Hotels, Restaurants & Leisure	220,253	7,928,557
^b Ibstock plc, 144A, Reg S.	Construction Materials	1,871,206	5,527,852
Man Group plc	Capital Markets	4,799,198	11,938,713
Oxford Instruments plc	Electronic Equipment, Instruments & Components	204,140	6,530,787
^a Pagegroup plc	Professional Services	876,710	6,779,779
Rathbone Brothers plc	Capital Markets	289,410	7,257,868
Stock Spirits Group plc	Beverages	2,347,184	8,491,152

Foreign Smaller Companies Series (continued)

	Industry	Shares	Value
Common Stocks (continued)			
United Kingdom (continued)			
^{a,b} Watches of Switzerland Group plc, 144A	Specialty Retail	672,022	\$7,772,085
			62,226,793
United States 1.3%			
Axis Capital Holdings Ltd.	Insurance	70,630	3,461,576
^a IMAX Corp.	Entertainment	279,700	6,013,550
			9,475,126
Total Common Stocks (Cost \$459,478,148)			712,978,785
Preferred Stocks 0.5%			
Brazil 0.5%			
^e Alpargatas SA, 0.11%	Textiles, Apparel & Luxury Goods	381,600	3,848,899
Total Preferred Stocks (Cost \$976,197)			3,848,899
	Warrants		
Warrants 0.1%			
Bahamas 0.1%			
^a OneSpaWorld Holdings Ltd., 3/19/24	Diversified Consumer Services	262,784	814,630
Total Warrants (Cost \$221,371)			814,630
Total Long Term Investments (Cost \$460,675,716)			717,642,314
Short Term Investments 1.5%			
		Shares	Value
Investments from Cash Collateral Received for Loaned Securities 1.5%			
Money Market Funds 1.5%			
^{g,h} Institutional Fiduciary Trust - Money Market Portfolio, 0.01%		11,384,190	11,384,190
Total Investments from Cash Collateral Received for Loaned Securities (Cost \$11,384,190)			11,384,190
Total Short Term Investments (Cost \$11,384,190)			11,384,190
Total Investments (Cost \$472,059,906) 97.6%			\$729,026,504
Other Assets, less Liabilities 2.4%			17,566,708
Net Assets 100.0%			\$746,593,212

See Abbreviations on page 43.

^a Non-income producing.

^b Security was purchased pursuant to Rule 144A or Regulation S under the Securities Act of 1933. 144A securities may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. Regulation S securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. At June 30, 2021, the aggregate value of these securities was \$98,921,279, representing 13.2% of net assets.

^c A portion or all of the security is on loan at June 30, 2021. See Note 1(e).

^d A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

^e Variable rate security. The rate shown represents the yield at period end.

Foreign Smaller Companies Series (continued)

^fSee Note 1(e) regarding securities on loan.

^gSee Note 3(d) regarding investments in affiliated management investment companies.

^hThe rate shown is the annualized seven-day effective yield at period end.

Financial Highlights

International Equity Series

	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31,				
		2020	2019	2018	2017	2016
Primary Shares						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$15.22	\$15.54	\$14.87	\$21.99	\$18.65	\$19.05
Income from investment operations ^a :						
Net investment income ^b	0.20	1.03 ^c	0.64	0.42	0.45	0.45
Net realized and unrealized gains (losses)	1.13	(0.32)	1.06	(3.66)	3.81	(0.20)
Total from investment operations	1.33	0.71	1.70	(3.24)	4.26	0.25
Less distributions from:						
Net investment income	—	(0.67)	(1.02)	(0.42)	(0.64)	(0.46)
Net realized gains	—	(0.36)	(0.01)	(3.46)	(0.28)	(0.19)
Total distributions	—	(1.03)	(1.03)	(3.88)	(0.92)	(0.65)
Net asset value, end of period	\$16.55	\$15.22	\$15.54	\$14.87	\$21.99	\$18.65
Total return ^d	8.74%	5.30%	11.57%	(14.87)%	22.92%	1.30%
Ratios to average net assets^e						
Expenses before waiver and payments by affiliates	0.94%	0.87%	0.82%	0.80%	0.78%	0.78%
Expenses net of waiver and payments by affiliates	0.90%	0.84%	0.82% ^f	0.80% ^g	0.78% ^f	0.78% ^f
Net investment income	2.44%	7.51% ^c	4.13%	1.98%	2.13%	2.44%
Supplemental data						
Net assets, end of period (000's)	\$467,488	\$447,139	\$1,695,980	\$2,785,308	\$4,412,494	\$4,539,205
Portfolio turnover rate	21.34%	89.34%	36.83% ^h	25.60% ^h	16.39% ^h	14.88%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.77 per share related to an adjustment for EU reclaims in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 1.86% and total return would have been (0.03)%.

^dTotal return is not annualized for periods less than one year.

^eRatios are annualized for periods less than one year.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^gBenefit of expense reduction rounds to less than 0.01%.

^hExcludes the value of portfolio activity as a result of in-kind transactions.

International Equity Series (continued)

	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31,				
		2020	2019	2018	2017	2016
Service Shares						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	\$15.48	\$15.79	\$14.97	\$22.07	\$18.72	\$19.11
Income from investment operations ^a :						
Net investment income ^b	0.20	1.17 ^c	0.98	0.38	0.39	0.42
Net realized and unrealized gains (losses)	1.14	(0.47)	0.70	(3.66)	3.85	(0.20)
Total from investment operations	1.34	0.70	1.68	(3.28)	4.24	0.22
Less distributions from:						
Net investment income	—	(0.65)	(0.85)	(0.36)	(0.61)	(0.42)
Net realized gains	—	(0.36)	(0.01)	(3.46)	(0.28)	(0.19)
Total distributions	—	(1.01)	(0.86)	(3.82)	(0.89)	(0.61)
Net asset value, end of period	\$16.82	\$15.48	\$15.79	\$14.97	\$22.07	\$18.72
Total return ^d	8.66%	5.16%	11.34%	(15.01)%	22.73%	1.15%
Ratios to average net assets^e						
Expenses before waiver and payments by affiliates	1.04%	1.01%	0.97%	0.95%	0.93%	0.93%
Expenses net of waiver and payments by affiliates	1.00%	0.98%	0.97% ^f	0.95% ^{f,g}	0.93% ^f	0.93% ^f
Net investment income	2.46%	8.42% ^c	3.98%	1.83%	1.98%	2.29%
Supplemental data						
Net assets, end of period (000's)	\$682	\$448	\$700	\$5,375	\$14,164	\$8,624
Portfolio turnover rate	21.34%	89.34%	36.83% ^h	25.60% ^h	16.39% ^h	14.88%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.78 per share related to an adjustment for EU reclaims in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 2.77% and total return would have been (0.14)%.

^dTotal return is not annualized for periods less than one year.

^eRatios are annualized for periods less than one year.

^fBenefit of waiver and payments by affiliates rounds to less than 0.01%.

^gBenefit of expense reduction rounds to less than 0.01%.

^hExcludes the value of portfolio activity as a result of in-kind transactions.

Statement of Investments (unaudited), June 30, 2021

International Equity Series

	Industry	Shares	Value
Common Stocks 94.5%			
Belgium 1.5%			
Anheuser-Busch InBev SA/NV	Beverages	95,275	\$6,868,841
Brazil 2.9%			
Wheaton Precious Metals Corp.	Metals & Mining	211,381	9,316,280
Yara International ASA	Chemicals	82,663	4,356,201
			13,672,481
Canada 2.3%			
Barrick Gold Corp.	Metals & Mining	256,300	5,300,284
Restaurant Brands International, Inc.	Hotels, Restaurants & Leisure	82,700	5,327,888
			10,628,172
China 4.7%			
^a Alibaba Group Holding Ltd.	Internet & Direct Marketing Retail	290,600	8,239,573
NXP Semiconductors NV	Semiconductors & Semiconductor Equipment	23,796	4,895,313
Yum China Holdings, Inc.	Hotels, Restaurants & Leisure	21,300	1,411,125
Yum China Holdings, Inc.	Hotels, Restaurants & Leisure	112,150	7,311,827
			21,857,838
France 7.6%			
Danone SA	Food Products	102,237	7,193,486
Eiffage SA	Construction & Engineering	65,717	6,694,279
TotalEnergies SE	Oil, Gas & Consumable Fuels	233,040	10,558,022
Veolia Environnement SA	Multi-Utilities	367,138	11,099,839
			35,545,626
Germany 15.8%			
adidas AG.	Textiles, Apparel & Luxury Goods	23,063	8,606,866
Continental AG	Auto Components	35,214	5,181,161
^b Covestro AG, 144A, Reg S	Chemicals	79,094	5,114,531
Deutsche Boerse AG.	Capital Markets	28,489	4,973,068
Deutsche Telekom AG.	Diversified Telecommunication Services	833,879	17,638,034
E.ON SE.	Multi-Utilities	1,090,124	12,613,446
Fresenius Medical Care AG & Co. KGaA	Health Care Providers & Services	122,009	10,139,346
Infineon Technologies AG	Semiconductors & Semiconductor Equipment	86,679	3,486,805
^{a,b} Just Eat Takeaway.com NV, 144A, Reg S	Internet & Direct Marketing Retail	66,172	6,120,343
			73,873,600
Hong Kong 2.4%			
AIA Group Ltd.	Insurance	924,200	11,465,162
Hungary 0.5%			
Richter Gedeon Nyrt.	Pharmaceuticals	82,751	2,203,556
Ireland 2.6%			
CRH plc	Construction Materials	150,067	7,589,726
^{a,c} ICON plc.	Life Sciences Tools & Services	22,500	4,650,975
			12,240,701
Japan 20.9%			
Hitachi Ltd.	Industrial Conglomerates	285,000	16,334,016
Honda Motor Co. Ltd.	Automobiles	297,400	9,566,210
Isuzu Motors Ltd.	Automobiles	802,100	10,644,551
Komatsu Ltd.	Machinery	283,000	7,011,549
Kyocera Corp.	Electronic Equipment, Instruments & Components	164,800	10,182,325
Mitsubishi Electric Corp.	Electrical Equipment	569,300	8,265,408

International Equity Series (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Japan (continued)			
Sony Group Corp.	Household Durables	112,400	\$10,900,102
Sumitomo Metal Mining Co. Ltd.	Metals & Mining	148,500	5,775,798
Sumitomo Mitsui Financial Group, Inc..	Banks	333,900	11,511,229
Taisei Corp.	Construction & Engineering	239,500	7,861,194
			98,052,382
Luxembourg 0.8%			
ArcelorMittal SA	Metals & Mining	117,408	3,614,952
Netherlands 1.2%			
Royal Dutch Shell plc, B	Oil, Gas & Consumable Fuels	302,524	5,873,261
Norway 1.2%			
Equinor ASA	Oil, Gas & Consumable Fuels	267,480	5,662,582
South Korea 4.9%			
KB Financial Group, Inc.	Banks	84,943	4,201,715
Samsung Electronics Co. Ltd.	Technology Hardware, Storage & Peripherals	199,583	14,239,899
Shinhan Financial Group Co. Ltd.	Banks	131,340	4,726,204
			23,167,818
Spain 1.4%			
Red Electrica Corp. SA	Electric Utilities	347,968	6,460,984
Switzerland 2.6%			
Adecco Group AG	Professional Services	62,113	4,226,280
Roche Holding AG	Pharmaceuticals	21,128	7,961,836
			12,188,116
Taiwan 2.3%			
Taiwan Semiconductor Manufacturing Co. Ltd.	Semiconductors & Semiconductor Equipment	494,492	10,630,164
United Kingdom 18.9%			
AstraZeneca plc	Pharmaceuticals	73,378	8,816,580
BAE Systems plc	Aerospace & Defense	1,515,233	10,949,897
BP plc.	Oil, Gas & Consumable Fuels	2,783,549	12,207,845
^a Burberry Group plc	Textiles, Apparel & Luxury Goods	206,311	5,900,756
CK Hutchison Holdings Ltd..	Industrial Conglomerates	777,794	6,054,939
^a Compass Group plc	Hotels, Restaurants & Leisure	247,320	5,210,893
DS Smith plc.	Containers & Packaging	1,194,414	6,915,732
GlaxoSmithKline plc	Pharmaceuticals	424,118	8,338,380
^a Informa plc	Media	334,286	2,323,375
^a International Consolidated Airlines Group SA.	Airlines	2,031,825	4,906,334
Smith & Nephew plc	Health Care Equipment & Supplies	227,140	4,926,396
Standard Chartered plc	Banks	1,026,683	6,552,563
Unilever plc.	Personal Products	40,094	2,343,006
^a WH Smith plc	Specialty Retail	134,022	2,986,462
			88,433,158
Total Common Stocks (Cost \$333,071,918)			442,439,394

International Equity Series (continued)

	Shares	Value
Escrows and Litigation Trusts 0.0%		
^{a,d} Hemisphere Properties India Ltd., Escrow Account	2,094,964	\$—
Total Escrows and Litigation Trusts (Cost \$—)		—
Total Long Term Investments (Cost \$333,071,918)		442,439,394
Short Term Investments 3.0%		
Money Market Funds 2.5%		
United States 2.5%		
^{e,f} Institutional Fiduciary Trust - Money Market Portfolio, 0.01%	11,792,272	11,792,272
Total Money Market Funds (Cost \$11,792,272)		11,792,272
^gInvestments from Cash Collateral Received for Loaned Securities 0.5%		
Money Market Funds 0.5%		
^{e,f} Institutional Fiduciary Trust - Money Market Portfolio, 0.01%	2,418,256	2,418,256
Total Investments from Cash Collateral Received for Loaned Securities (Cost \$2,418,256)		2,418,256
Total Short Term Investments (Cost \$14,210,528)		14,210,528
Total Investments (Cost \$347,282,446) 97.5%		\$456,649,922
Other Assets, less Liabilities 2.5%		11,519,847
Net Assets 100.0%		\$468,169,769

^a Non-income producing.

^b Security was purchased pursuant to Rule 144A or Regulation S under the Securities Act of 1933. 144A securities may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. Regulation S securities cannot be sold in the United States without either an effective registration statement filed pursuant to the Securities Act of 1933, or pursuant to an exemption from registration. At June 30, 2021, the aggregate value of these securities was \$11,234,874, representing 2.4% of net assets.

^c A portion or all of the security is on loan at June 30, 2021. See Note 1(e).

^d Fair valued using significant unobservable inputs. See Note 10 regarding fair value measurements.

^e See Note 3(d) regarding investments in affiliated management investment companies.

^f The rate shown is the annualized seven-day effective yield at period end.

^g See Note 1(e) regarding securities on loan.

International Equity Series (continued)

At June 30, 2021, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Amount*	Expiration Date	Value/ Unrealized Appreciation (Depreciation)
Equity contracts					
MSCI EAFE Index	Long	75	\$8,640,375	9/17/21	\$(219,905)
Total Futures Contracts					\$(219,905)

*As of period end.

See Note 6 regarding other derivative information.

Statements of Assets and Liabilities

June 30, 2021 (unaudited)

	Foreign Smaller Companies Series	International Equity Series
Assets:		
Investments in securities:		
Cost - Unaffiliated issuers	\$460,675,716	\$333,071,918
Cost - Non-controlled affiliates (Note 3d)	11,384,190	14,210,528
Value - Unaffiliated issuers (Includes securities loaned of \$16,097,715 and \$4,418,426, respectively)	\$717,642,314	\$442,439,394
Value - Non-controlled affiliates (Note 3d)	11,384,190	14,210,528
Cash	33,738,292	—
Foreign currency, at value (cost \$— and \$26,559, respectively)	—	26,556
Receivables:		
Investment securities sold	1,381,786	—
Capital shares sold	320,727	333,438
Dividend and interest	1,408,358	8,074,821
European Union tax reclaims (Note 1f)	1,044,414	8,027,057
Deposits with brokers for:		
Futures contracts	—	588,060
Due from custodian	—	2,250,400
Total assets	766,920,081	475,950,254
Liabilities:		
Payables:		
Investment securities purchased	575,507	—
Capital shares redeemed	7,703,036	191,337
Management fees	597,310	290,180
Transfer agent fees	8,364	18,878
Trustees' fees and expenses	13,290	45,713
IRS closing agreement fees for European Union tax reclaims (Note 1f)	—	2,234,462
Variation margin on futures contracts	—	66,750
Payable upon return of securities loaned (Note 1e)	11,384,190	4,668,656
Accrued expenses and other liabilities	45,172	264,509
Total liabilities	20,326,869	7,780,485
Net assets, at value	\$746,593,212	\$468,169,769
Net assets consist of:		
Paid-in capital	\$427,860,799	\$262,922,504
Total distributable earnings (losses)	318,732,413	205,247,265
Net assets, at value	\$746,593,212	\$468,169,769
Shares outstanding	28,744,536	
Net asset value per share	\$25.97	

International Equity Series

Primary Shares:

Net assets, at value	\$467,488,223
Shares outstanding	28,253,483
Net asset value per share	\$16.55

Service Shares:

Net assets, at value	\$681,546
Shares outstanding	40,522
Net asset value per share	\$16.82

Statements of Operations

for the six months ended June 30, 2021 (unaudited)

	Foreign Smaller Companies Series	International Equity Series
Investment income:		
Dividends: (net of foreign taxes of \$173,787 and \$1,572,601, respectively)		
Unaffiliated issuers	\$7,422,425	\$6,773,451
Non-controlled affiliates (Note 3d)	—	414
Interest:		
Unaffiliated issuers	—	1,566
Income from securities loaned:		
Unaffiliated entities (net of fees and rebates)	150,876	2,376
Non-controlled affiliates (Note 3d)	578	23
Other income (Note 1f)	709,241	978,864
Total investment income	<u>8,283,120</u>	<u>7,756,694</u>
Expenses:		
Management fees (Note 3a)	3,540,440	1,799,198
Transfer agent fees: (Note 3c)		
Primary Shares	—	82,741
Service Shares	—	59
Transfer agent fees (Note 3c)	90,945	—
Sub-transfer agent fees: (Note 3c)		
Service Shares	—	355
Custodian fees	40,002	43,488
Reports to shareholders	15,159	18,220
Registration and filing fees	16,503	32,223
Professional fees	42,269	83,241
Trustees' fees and expenses	42,573	72,328
Other	16,959	45,484
Total expenses	<u>3,804,850</u>	<u>2,177,337</u>
Expenses waived/paid by affiliates (Note 3d and 3e)	(4,590)	(85,607)
Net expenses	<u>3,800,260</u>	<u>2,091,730</u>
Net investment income	<u>4,482,860</u>	<u>5,664,964</u>
Realized and unrealized gains (losses):		
Net realized gain (loss) from:		
Investments:		
Unaffiliated issuers	64,332,356	19,948,879
Foreign currency transactions	(114,838)	242,323
Futures contracts	—	3,275,768
Net realized gain (loss)	<u>64,217,518</u>	<u>23,466,970</u>
Net change in unrealized appreciation (depreciation) on:		
Investments:		
Unaffiliated issuers	21,444,319	12,113,630
Translation of other assets and liabilities denominated in foreign currencies	(31,932)	(1,646,390)
Futures contracts	—	(751,053)
Net change in unrealized appreciation (depreciation)	<u>21,412,387</u>	<u>9,716,187</u>
Net realized and unrealized gain (loss)	<u>85,629,905</u>	<u>33,183,157</u>
Net increase (decrease) in net assets resulting from operations	<u>\$90,112,765</u>	<u>\$38,848,121</u>

Statements of Changes in Net Assets

	Foreign Smaller Companies Series		International Equity Series	
	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31, 2020	Six Months Ended June 30, 2021 (unaudited)	Year Ended December 31, 2020
Increase (decrease) in net assets:				
Operations:				
Net investment income	\$4,482,860	\$5,471,863	\$5,664,964	\$67,218,880
Net realized gain (loss)	64,217,518	13,792,014	23,466,970	84,230,905
Net change in unrealized appreciation (depreciation)	21,412,387	30,251,773	9,716,187	(245,295,604)
Net increase (decrease) in net assets resulting from operations.	90,112,765	49,515,650	38,848,121	(93,845,819)
Distributions to shareholders:				
Primary Shares	—	—	—	(53,111,315)
Service Shares	—	—	—	(29,760)
Distributions to shareholders	—	(8,851,726)	—	—
Total distributions to shareholders	—	(8,851,726)	—	(53,141,075)
Capital share transactions: (Note 2)				
Primary Shares	—	—	(18,454,844)	(1,101,888,702)
Service Shares	—	—	189,897	(218,302)
Capital share transactions (Note 2)	(68,617,241)	(98,536,876)	—	—
Total capital share transactions	(68,617,241)	(98,536,876)	(18,264,947)	(1,102,107,004)
Net increase (decrease) in net assets	21,495,524	(57,872,952)	20,583,174	(1,249,093,898)
Net assets:				
Beginning of period	725,097,688	782,970,640	447,586,595	1,696,680,493
End of period	\$746,593,212	\$725,097,688	\$468,169,769	\$447,586,595

Notes to Financial Statements (unaudited)

1. Organization and Significant Accounting Policies

Templeton Institutional Funds (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of two separate funds (Funds) and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). International Equity Series offers Primary Shares and Service Shares. Each class of shares may differ by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Funds' significant accounting policies.

a. Financial Instrument Valuation

The Funds' investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Funds calculate the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Funds' administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Funds may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most

representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Funds' pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

Investments in open-end mutual funds are valued at the closing NAV.

The Funds have procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Funds primarily employ a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Funds' business day. Events can occur between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Funds. As a result, differences may arise between the value of the Funds' portfolio securities as determined at the foreign market close and the latest indications of value

1. Organization and Significant Accounting Policies

(continued)

a. Financial Instrument Valuation (continued)

at 4 p.m. Eastern time. In order to minimize the potential for these differences, an independent pricing service may be used to adjust the value of the Funds' portfolio securities to the latest indications of fair value at 4 p.m. Eastern time. At June 30, 2021, certain securities may have been fair valued using these procedures, in which case the securities were categorized as Level 2 inputs within the fair value hierarchy (referred to as "market level fair value"). See the Fair Value Measurements note for more information.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Funds' NAV is not calculated, which could result in differences between the value of the Funds' portfolio securities on the last business day and the last calendar day of the reporting period. Any security valuation changes due to an open foreign market are adjusted and reflected by the Funds for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Funds may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Funds do not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statements of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Securities Purchased on a Delayed Delivery Basis

Certain or all Funds purchase securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Funds will generally purchase these securities with the intention of holding the securities, they may sell the securities before the settlement date.

d. Derivative Financial Instruments

Certain or all Funds invested in derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Funds to gains or losses in excess of the amounts shown in the Statements of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statements of Operations.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities.

1. Organization and Significant Accounting Policies

(continued)

d. Derivative Financial Instruments (continued)

Certain or all Funds entered into exchange traded futures contracts primarily to manage and/or gain exposure to equity price risk. A futures contract is an agreement between the Funds and a counterparty to buy or sell an asset at a specified price on a future date. Required initial margins are pledged by the Funds, and the daily change in fair value is accounted for as a variation margin payable or receivable.

See Note 6 regarding other derivative information.

e. Securities Lending

Certain or all Funds participate in an agency based securities lending program to earn additional income. The Funds receive collateral in the form of cash and/or U.S. Government and Agency securities against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. Any cash collateral received is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Funds, and/or uninvested cash as included in due from custodian in the Statements of Assets and Liabilities. Additionally, the Foreign Smaller Companies Series held \$5,720,278, in U.S. Government and Agency securities as collateral. These securities are held as collateral in segregated accounts with the Fund's custodian. The Fund cannot repledge or resell these securities held as collateral. As such, the non-cash collateral is excluded from the Statements of Assets and Liabilities. The Funds may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statements of Operations. The Funds bear the market risk with respect to any cash collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Funds. If the borrower defaults on its obligation to return the securities loaned, the Funds have the right to repurchase the securities in the open

market using the collateral received. The securities lending agent has agreed to indemnify the Funds in the event of default by a third party borrower.

f. Income and Deferred Taxes

It is each Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. Each Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Funds may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which the Funds invest. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Funds invest. When a capital gain tax is determined to apply, certain or all Funds record an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

As a result of several court cases, in certain countries across the European Union, certain or all Funds filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). Income recognized, if any, for EU reclaims is reflected as other income in the Statements of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statements of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, EU reclaims received by the Funds, if any, reduce the amount of foreign taxes Fund shareholders can use as tax deductions or credits on their income tax returns. In the event that EU reclaims received by the Funds during a fiscal year exceed foreign withholding taxes paid by the Funds, and the Funds previously passed through to its shareholders foreign taxes incurred by the Funds to be used as a credit or deduction on a shareholder's income tax return, the Funds will enter into a closing agreement with the Internal Revenue Service (IRS) in order to pay the associated tax liability on behalf of the Funds' shareholders.

1. Organization and Significant Accounting Policies

(continued)

f. Income and Deferred Taxes (continued)

Each Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of June 30, 2021, each Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Funds invest.

g. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Funds. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust or based on the ratio of number of shareholders of each Fund to the combined number of shareholders of the Trust. Fund specific expenses are charged directly to the Fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, excluding class specific expenses, are allocated daily to each class of shares based upon the

relative proportion of net assets of each class. Differences in per share distributions by class are generally due to differences in class specific expenses.

h. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

i. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Funds, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. Shares of Beneficial Interest

At June 30, 2021, there were an unlimited number of shares authorized (without par value). Transactions in the Funds' shares were as follows:

	Foreign Smaller Companies Series	
	Shares	Amount
Six Months ended June 30, 2021		
Shares sold	1,377,017	\$33,941,073
Shares redeemed	(4,123,290)	(102,558,314)
Net increase (decrease)	(2,746,273)	\$(68,617,241)
Year ended December 31, 2020		
Shares sold	9,412,891	\$166,630,256
Shares issued in reinvestment of distributions	341,853	7,788,220
Shares redeemed	(14,851,654)	(272,955,352)
Net increase (decrease)	(5,096,910)	\$(98,536,876)
	International Equity Series	
	Shares	Amount
Primary Shares:		
Six Months ended June 30, 2021		
Shares sold	3,906,465	\$63,068,842
Shares redeemed	(5,027,140)	(81,523,686)
Net increase (decrease)	(1,120,675)	\$(18,454,844)
Year ended December 31, 2020		
Shares sold	14,329,539	\$202,147,807
Shares issued in reinvestment of distributions	3,342,528	46,688,253
Shares redeemed	(97,427,178)	(1,350,724,762)
Net increase (decrease)	(79,755,111)	\$(1,101,888,702)
Service Shares:		
Six Months ended June 30, 2021		
Shares sold	11,767	\$192,444
Shares redeemed	(151)	(2,547)
Net increase (decrease)	11,616	\$189,897
Year ended December 31, 2020		
Shares sold	2,179	\$29,850
Shares issued in reinvestment of distributions	2,098	29,760
Shares redeemed	(19,698)	(277,912)
Net increase (decrease)	(15,421)	\$(218,302)

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Templeton Investment Counsel, LLC (TIC)	Investment manager
Franklin Templeton Investments Corp. (FTIC)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Distributors, LLC (Distributors) (Formerly Franklin Templeton Distributors, Inc.)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

Foreign Smaller Companies Series pays an investment management fee to TIC based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.950%	Up to and including \$1 billion
0.930%	Over \$1 billion, up to and including \$5 billion
0.910%	Over \$5 billion, up to and including \$10 billion
0.890%	Over \$10 billion, up to and including \$15 billion
0.870%	Over \$15 billion, up to and including \$20 billion
0.850%	In excess of \$20 billion

International Equity Series pays an investment management fee to TIC based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.775%	Up to and including \$1 billion
0.755%	Over \$1 billion, up to and including \$5 billion
0.735%	Over \$5 billion, up to and including \$10 billion
0.715%	Over \$10 billion, up to and including \$15 billion
0.695%	Over \$15 billion, up to and including \$20 billion
0.675%	In excess of \$20 billion

For the period ended June 30, 2021, each Fund's annualized gross effective investment management fee rate based on average daily net assets was as follows:

	Foreign Smaller Companies Series	International Equity Series
Gross effective investment management fee rate.	0.950%	0.775%

Effective January 1, 2021, under a subadvisory agreement, FTIC, an affiliate of TIC, provides subadvisory services to Foreign Smaller Companies Series. The subadvisory fee is paid by TIC based on the Fund's average daily net assets, and is not an additional expense of the Fund.

3. Transactions with Affiliates (continued)

b. Administrative Fees

Under an agreement with TIC, FT Services provides administrative services to the Funds. The fee is paid by TIC based on each of the Funds' average daily net assets, and is not an additional expense of the Funds.

c. Transfer Agent Fees

Each class of shares pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations. The fees are based on an annualized asset based fee of 0.02% plus a transaction based fee. In addition, each class reimburses Investor Services for out of pocket expenses incurred and reimburses shareholder servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets.

For the period ended June 30, 2021, the Funds paid transfer agent fees as noted in the Statements of Operations of which the following amounts were retained by Investor Services:

	Foreign Smaller Companies Series	International Equity Series
Transfer agent fees	\$90,945	\$72,783

International Equity Series' Service shares may pay up to 0.15% of average daily net assets for sub-transfer agency fees as noted in the Statements of Operations.

d. Investments in Affiliated Management Investment Companies

Certain or all Funds invest in one or more affiliated management investment companies. As defined in the 1940 Act, an investment is deemed to be a "Controlled Affiliate" of a fund when a fund owns, either directly or indirectly, 25% or more of the affiliated fund's outstanding shares or has the power to exercise control over management or policies of such fund. The Funds do not invest for purposes of exercising a controlling influence over the management or policies. Management fees paid by the Funds are waived on assets invested in the affiliated management investment companies, as noted in the Statements of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the period ended June 30, 2021, the Funds held investments in affiliated management investment companies were as follows:

	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares Held at End of Period	Investment Income
Foreign Smaller Companies Series								
Non-Controlled Affiliates								
Institutional Fiduciary Trust - Money Market Portfolio, 0.01%	\$31,885,434	\$41,262,168	\$(61,763,412)	\$—	\$—	\$11,384,190	11,384,190	\$578
Total Affiliated Securities	\$31,885,434	\$41,262,168	\$(61,763,412)	\$—	\$—	\$11,384,190		\$578

3. Transactions with Affiliates (continued)

d. Investments in Affiliated Management Investment Companies (continued)

	Value at Beginning of Period	Purchases	Sales	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)	Value at End of Period	Number of Shares Held at End of Period	Investment Income
International Equity Series								
Non-Controlled Affiliates								
								Dividends
Institutional Fiduciary Trust - Money Market Portfolio, 0.01%	\$5,645,058	\$87,991,710	\$(81,844,496)	\$—	\$—	\$11,792,272	11,792,272	\$414
Non-Controlled Affiliates								
								Income from securities loaned
Institutional Fiduciary Trust - Money Market Portfolio, 0.01%	\$5,609,390	\$18,478,665	\$(21,669,799)	\$—	\$—	\$2,418,256	2,418,256	\$23
Total Affiliated Securities	\$11,254,448	\$106,470,375	\$(103,514,295)	\$—	\$—	\$14,210,528		\$437

e. Waiver and Expense Reimbursements

TIC has contractually agreed in advance to limit the investment management fees for International Equity Series to 0.74% of the average daily net assets of the Fund until April 30, 2022. Total expenses waived or paid are not subject to recapture subsequent to the Fund's fiscal year end.

4. Income Taxes

At June 30, 2021, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

	Foreign Smaller Companies Series	International Equity Series
Cost of investments	\$481,548,043	\$358,774,456
Unrealized appreciation	\$271,530,061	\$112,170,509
Unrealized depreciation	(24,051,600)	(14,514,948)
Net unrealized appreciation (depreciation)	\$247,478,461	\$97,655,561

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of EU reclaims, passive foreign investment company shares, foreign capital gains tax, foreign currency transactions, corporate actions, wash sales and financial futures transactions.

5. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2021, were as follows:

	Foreign Smaller Companies Series	International Equity Series
Purchases	\$118,684,053	\$103,963,840
Sales	\$182,543,035	\$89,235,770

At June 30, 2021, in connection with securities lending transactions, certain or all Funds loaned investments and received cash collateral as follows:

	Foreign Smaller Companies Series	International Equity Series
Securities lending transactions^a:		
Equity investments ^b	\$11,384,190	\$4,668,656

^aThe agreements can be terminated at any time.

^bThe gross amount of recognized liability for such transactions is included in payable upon return of securities loaned in the Statements of Assets and Liabilities.

6. Other Derivative Information

At June 30, 2021, Funds' investments in derivative contracts are reflected in the Statements of Assets and Liabilities as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Asset Derivatives		Liability Derivatives	
	Statements of Assets and Liabilities Location	Fair Value	Statements of Assets and Liabilities Location	Fair Value
International Equity Series				
Equity contracts	Variation margin on futures contracts	\$—	Variation margin on futures contracts	\$219,905 ^a
Total		\$—		\$219,905

^aThis amount reflects the cumulative appreciation (depreciation) of futures contracts as reported in the Statement of Investments. Only the variation margin receivable/payable at year end is separately reported within the Statement of Assets and Liabilities. Prior variation margin movements were recorded to cash upon receipt or payment.

6. Other Derivative Information (continued)

For the period ended June 30, 2021, the effect of derivative contracts in the Statements of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statements of Operations Location	Net Realized Gain (Loss) for the Period	Statements of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
International Equity Series				
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Equity Contracts	Futures contracts	\$3,275,768	Futures contracts	\$(751,053)
Total		<u>\$3,275,768</u>		<u>\$(751,053)</u>

For the period ended June 30, 2021, the average month end notional amount of futures contracts was \$23,265,528.

See Note 1(d) regarding derivative financial instruments.

7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local, regional and global economic, political and social conditions, which may result in greater market volatility. Political and financial uncertainty in many foreign regions may increase market volatility and the economic risk of investing in foreign securities. In addition, certain foreign securities may not be as liquid as U.S. securities.

8. Novel Coronavirus Pandemic

The global outbreak of the novel coronavirus disease, known as COVID-19, has caused adverse effects on many companies, sectors, nations, regions and the markets in general, and may continue for an unpredictable duration. The effects of this pandemic may materially impact the value and performance of the Funds, their ability to buy and sell fund investments at appropriate valuations and their ability to achieve their investment objectives.

9. Credit Facility

The Funds, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2.675 billion (Global Credit Facility) which matures on February 4, 2022. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Funds shall, in addition to interest charged on any borrowings made by the Funds and other costs incurred by the Funds, pay their share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon their relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statements of Operations. During the period ended June 30, 2021, the Funds did not use the Global Credit Facility.

10. Fair Value Measurements

The Funds follow a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Funds' own market assumptions (unobservable inputs). These inputs are used in determining the value of the Funds' financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Funds' own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

A summary of inputs used as of June 30, 2021, in valuing the Funds' assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Foreign Smaller Companies Series				
Assets:				
Investments in Securities:				
Common Stocks:				
Bahamas	\$8,415,814	\$—	\$—	\$8,415,814
Belgium	—	23,876,361	—	23,876,361
Brazil	13,094,751	—	—	13,094,751
Canada	28,051,561	—	—	28,051,561
China	6,232,112	33,570,247	—	39,802,359
Denmark	5,501,355	—	—	5,501,355
Finland	2,788,852	14,775,722	—	17,564,574
France	158,478	9,457,387	—	9,615,865
Germany	3,146,088	31,848,440	—	34,994,528
Greece	—	5,346,897	—	5,346,897
Hong Kong	—	25,057,529	—	25,057,529
Indonesia	—	5,050,215	—	5,050,215
Israel	—	5,598,696	—	5,598,696
Italy	—	51,174,296	—	51,174,296
Japan	—	137,528,737	—	137,528,737
Netherlands	14,526,507	17,423,180	—	31,949,687
Norway	5,521,606	4,247,276	—	9,768,882
Philippines	4,590,107	—	—	4,590,107
South Korea	—	13,470,098	—	13,470,098
Spain	—	5,110,476	—	5,110,476
Sweden	—	36,851,643	—	36,851,643
Switzerland	6,602,232	38,475,679	—	45,077,911
Taiwan	—	72,059,718	—	72,059,718
Thailand	—	11,724,806	—	11,724,806
United Kingdom	23,043,016	39,183,777	—	62,226,793
United States	9,475,126	—	—	9,475,126
Preferred Stocks	3,848,899	—	—	3,848,899
Warrants	814,630	—	—	814,630
Short Term Investments	11,384,190	—	—	11,384,190
Total Investments in Securities	\$147,195,324	\$581,831,180 ^a	\$—	\$729,026,504

International Equity Series

Assets:

Investments in Securities:

Common Stocks:

Belgium	—	6,868,841	—	6,868,841
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10. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
International Equity Series (continued)				
Assets:				
Investments in Securities:				
Common Stocks:				
Brazil	\$9,316,280	\$4,356,201	\$—	\$13,672,481
Canada	10,628,172	—	—	10,628,172
China	6,306,438	15,551,400	—	21,857,838
France	—	35,545,626	—	35,545,626
Germany	—	73,873,600	—	73,873,600
Hong Kong	—	11,465,162	—	11,465,162
Hungary	—	2,203,556	—	2,203,556
Ireland	4,650,975	7,589,726	—	12,240,701
Japan	—	98,052,382	—	98,052,382
Luxembourg	—	3,614,952	—	3,614,952
Netherlands	—	5,873,261	—	5,873,261
Norway	—	5,662,582	—	5,662,582
South Korea	—	23,167,818	—	23,167,818
Spain	—	6,460,984	—	6,460,984
Switzerland	—	12,188,116	—	12,188,116
Taiwan	—	10,630,164	—	10,630,164
United Kingdom	—	88,433,158	—	88,433,158
Escrows and Litigation Trusts	—	—	— ^b	—
Short Term Investments	14,210,528	—	—	14,210,528
Total Investments in Securities	\$45,112,393	\$411,537,529 ^c	\$—	\$456,649,922
Liabilities:				
Other Financial Instruments:				
Futures contracts	219,905	—	—	219,905

^aIncludes foreign securities valued at \$581,831,180, which were categorized as Level 2 as a result of the application of market level fair value procedures. See the Financial Instrument Valuation note for more information.

^bIncludes securities determined to have no value at June 30, 2021.

^cIncludes foreign securities valued at \$411,537,529, which were categorized as Level 2 as a result of the application of market level fair value procedures. See the Financial Instrument Valuation note for more information.

A reconciliation in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 assets and/or liabilities at the beginning and/or end of the period.

11. New Accounting Pronouncements

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2020-04, Reference Rate Reform (Topic 848) – Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021, the FASB issued ASU No. 2021-01, with further amendments to Topic 848. The amendments in the ASUs provide optional temporary accounting recognition and financial reporting relief from the effect of certain types of contract modifications due to the planned discontinuation of the London Interbank Offered Rate (LIBOR) and other interbank-offered based reference rates as of the end of 2021 and 2023. The ASUs are effective for certain reference rate-related contract modifications that occur during the period March 12, 2020 through December 31, 2022. Management has reviewed the requirements and believes the adoption of these ASUs will not have a material impact on the financial statements.

12. Subsequent Events

The Funds have evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

Abbreviations

Selected Portfolio

ADR American Depositary Receipt

Shareholder Information

Board Approval of Investment Management Agreements

TEMPLETON INSTITUTIONAL FUNDS

Foreign Smaller Companies Series

International Equity Series

(each a Fund)

At a meeting held on February 23, 2021 (Meeting), the Board of Trustees (Board) of Templeton Institutional Funds (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved the continuance of the investment management agreement between Templeton Investment Counsel, LLC (TICL) and the Trust, on behalf of each Fund, and an investment sub-advisory agreement between TICL and Franklin Templeton Investments Corp. (Sub-Adviser), an affiliate of TICL, on behalf of the Foreign Smaller Companies Series, for an additional one-year period (each a Management Agreement). The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of each Management Agreement. Although the Management Agreements for the Funds were considered at the same Board meeting, the Board considered the information provided to it about the Funds together and with respect to each Fund separately as the Board deemed appropriate. TICL and the Sub-Adviser are each referred to herein as a Manager.

In considering the continuation of each Management Agreement, the Board reviewed and considered information provided by each Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to the TICL by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a telephonic contract renewal meeting at which the Independent Trustees conferred amongst themselves and Independent Trustee counsel about contract renewal matters and, in some cases, requested additional information from the Managers relating to the contract. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of each Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services provided by each Manager; (ii) the investment performance of each Fund; (iii) the costs of the services provided and

profits realized by each Manager and its affiliates from the relationship with each Fund; (iv) the extent to which economies of scale are realized as each Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of each Management Agreement, the Board, including a majority of the Independent Trustees, determined that the terms of the Management Agreement are fair and reasonable and that the continuance of such Management Agreement is in the best interests of the applicable Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board’s determination.

Nature, Extent and Quality of Services

The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by each Manager and its affiliates to the Funds and their shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of each Manager, as well as information on succession planning where appropriate; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for each Fund; reports on expenses and shareholder services; legal and compliance matters; risk controls; pricing and other services provided by each Manager and its affiliates; and management fees charged by each Manager and its affiliates to US funds and other accounts, including management’s explanation of differences among accounts where relevant. The Board also reviewed and considered an annual report on payments made by Franklin Templeton (FT) or the Funds to financial intermediaries, as well as a memorandum relating to third-party servicing arrangements, which included discussion of the changing distribution landscape for the Funds. The Board noted management’s continuing efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity in the current work-from-home environment and liquidity risk management.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the FT family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the

Managers' parent, and its commitment to the mutual fund business as evidenced by its reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Funds by the FT organization. The Board specifically noted FT's commitment to enhancing services and controlling costs, as reflected in its outsourcing of certain administrative functions, and growth opportunities, as evidenced by its recent acquisition of the Legg Mason companies. The Board also noted FT's attention focused on expanding the distribution opportunities for all funds in the FT family of funds.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by each Manager and its affiliates to the Funds and their shareholders.

Fund Performance

The Board reviewed and considered the performance results of each Fund over various time periods ended November 30, 2020. The Board considered the performance returns for each Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in a Performance Universe. The Board also considered the performance returns for the Foreign Smaller Companies Series in comparison to the performance returns of a customized peer group (Performance Customized Peer Group) selected by TICL. The Board also reviewed and considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of each Fund's performance results is below.

Foreign Smaller Companies Series - The Performance Universe for the Fund included the Fund and all retail and institutional international small-/mid-cap growth funds. The Performance Customized Peer Group for the Fund included funds that are value style and have 80% of the portfolio market value invested in securities with a market capitalization of less than \$4 billion. The Board noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was below the median of its Performance Universe, however, was above the median of its Performance Customized Peer Group for the same periods. The Board further noted the small size of the Fund's Performance Customized Peer Group for the 10-year period and that therefore no quintile information was provided for the Fund for that period. The Board

discussed the performance of the Fund with management and management explained that the Performance Universe for the Fund was not directly comparable to the Fund as the Performance Universe is not comprised solely of small-capitalization funds, and includes mid-capitalization funds. Management further explained that Broadridge has categorized the Fund in Broadridge's growth category, whereas management's investment process focuses on longer-term valuations. Management also explained that the foregoing are the reasons management asked Broadridge to include the Performance Customized Peer Group, which is comprised of value style funds that have 80% of their portfolios invested in securities with market capitalizations less than \$4 billion, which is consistent with the Fund's investment strategies. The Board noted the Fund's first (best) and second quintile performance compared to that of its Performance Customized Peer Group for the one-, three- and five-year periods and that, while below the median of its Performance Universe, the Fund's annualized total return for each period was positive. The Board concluded that the Fund's Management Agreement should be continued for an additional one-year period.

International Equity Series - The Performance Universe for the Fund included the Fund and all retail and institutional international large-cap value funds. The Board noted that the Fund's annualized total return for the three- and five-year periods was below the median of its Performance Universe, but for the one- and 10-year periods was above the median of its Performance Universe. The Board discussed the performance of the Fund with management and management explained that the Performance Universe for the Fund, which has a value discipline, was not directly comparable to the Fund as the Performance Universe includes funds that have benefited from having more of a blend style (owning some growth stocks), which negatively impacted relative Fund rankings during a period of sustained outperformance of growth over value. Management further explained that, on average, the Fund has had a larger allocation to energy stocks as compared to peers, but that during the past year the Fund significantly reduced its allocation becoming underweight versus peers at a time when energy stocks underperformed the broad market by 33% for the one-year period. The Board noted the continued efforts from the Adviser's Global Equity Group to address the Fund's performance, in particular, enhancements to the Fund's investment process and additions to the Fund's portfolio management team, and the positive, first quintile (best) performance results experienced by the Fund for the one-year period. The Board concluded that the Fund's performance was satisfactory.

Comparative Fees and Expenses

The Board reviewed and considered information regarding each Fund's actual total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board also noted the quarterly and annual reports it receives on all marketing support payments made by FT to financial intermediaries. The Board considered the actual total expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) of each Fund in comparison to the median expense ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure to the Fund selected by Broadridge (Expense Group). Broadridge fee and expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges, and the actual total expense ratio, for comparative consistency, was shown for: (i) Primary shares for the International Equity Series and for Institutional Class, Class I and Class Y for certain other funds in the Expense Group, and (ii) Advisor Class, Institutional Class, Class I, Class IS, Class Y and Class Z shares for certain funds in the Foreign Smaller Companies Series Expense Group. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

Foreign Smaller Companies Series - The Expense Group for the Fund included the Fund and 14 other international small-/mid-cap growth funds. The Board noted that the Management Rate and actual total expense ratio for the Fund were below the medians of its Expense Group. The Board further noted that the Sub-Adviser's fees are paid by TICL from the management fee TICL receives from the Fund. The Board concluded that the Management Rate charged to the Fund is reasonable.

International Equity Series - The Expense Group for the Fund included the Fund, three other international large-cap value funds and seven international large-cap core funds. The Board noted that the Management Rate for the Fund was a half of a basis point above the median of its Expense

Group. The Board also noted that the actual total expense ratio for the Fund was below the median of its Expense Group. The Board concluded that the Management Rate charged to the Fund is reasonable.

Profitability

The Board reviewed and considered information regarding the profits realized by TICL and its affiliates in connection with the operation of each Fund. In this respect, the Board considered the Fund profitability analysis provided that addresses the overall profitability of FT's US fund business, as well as its profits in providing investment management and other services to each of the individual funds during the 12-month period ended September 30, 2020, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product-related changes, the overall methodology has remained consistent with that used in the Funds' profitability report presentations from prior years. The Board further noted management's representation that the profitability analysis excluded the impact of the recent acquisition of the Legg Mason companies and that management expects to incorporate the legacy Legg Mason companies into the profitability analysis beginning next year. The Board also noted that PricewaterhouseCoopers LLP, auditor to FRI and certain FT funds, has been engaged to periodically review and assess the allocation methodologies to be used solely by the Funds' Board with respect to the profitability analysis.

The Board noted management's belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by each Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. As part of this evaluation, the Board considered management's outsourcing of certain operations, which effort has required considerable upfront expenditures by each Manager but, over the long run is expected to result in greater efficiencies. The Board also noted management's expenditures in improving shareholder services provided to the Funds, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent US Securities and Exchange Commission and other regulatory requirements.

The Board also considered the extent to which each Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services, potential benefits resulting from personnel

and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded that the level of profits realized by each Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, extent, and quality of services provided to each Fund.

Economies of Scale

The Board reviewed and considered the extent to which each Manager may realize economies of scale, if any, as each Fund grows larger and whether each Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints, which operate generally to share any economies of scale with a Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered the Managers' views that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments the Managers incur across the FT family of funds as a whole. The Board noted that the Foreign Smaller Companies Series and International Equity Series had experienced a decrease in assets and would not be expected to demonstrate additional economies of scale in the near term, but concluded that to the extent economies of scale may be realized by each Manager and its affiliates, each Fund's management fee structure provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

Conclusion

Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved the continuation of each Management Agreement for an additional one-year period.

Liquidity Risk Management Program- Funds no HLIM

Each Fund has adopted and implemented a written Liquidity Risk Management Program (the "LRMP") as required by Rule 22e-4 under the Investment Company Act of 1940 (the "Liquidity Rule"). The LRMP is designed to assess and manage each Fund's liquidity risk, which is defined as the risk that the Fund could not meet requests to redeem shares issued by the Fund without significant dilution of remaining investors' interests in the Fund. In accordance with the Liquidity Rule, the LRMP includes policies and procedures that provide for: (1) assessment, management, and review

(no less frequently than annually) of each Fund's liquidity risk; (2) classification of each Fund's portfolio holdings into one of four liquidity categories (Highly Liquid, Moderately Liquid, Less Liquid, and Illiquid); (3) for Funds that do not primarily hold assets that are Highly Liquid, establishing and maintaining a minimum percentage of the Fund's net assets in Highly Liquid investments (called a "Highly Liquid Investment Minimum" or "HLIM"); and (4) prohibiting the Fund's acquisition of Illiquid investments that would result in the Fund holding more than 15% of its net assets in Illiquid assets. The LRMP also requires reporting to the Securities and Exchange Commission ("SEC") (on a non-public basis) and to the Board if the Fund's holdings of Illiquid assets exceed 15% of the Fund's net assets. Funds with HLIMs must have procedures for addressing HLIM shortfalls, including reporting to the Board and, with respect to HLIM shortfalls lasting more than seven consecutive calendar days, reporting to the SEC (on a non-public basis).

The Director of Liquidity Risk within the Investment Risk Management Group (the "IRMG") is the appointed Administrator of the LRMP. The IRMG maintains the Investment Liquidity Committee (the "ILC") to provide oversight and administration of policies and procedures governing liquidity risk management for FT products and portfolios. The ILC includes representatives from Franklin Templeton's Risk, Trading, Global Compliance, Investment Compliance, Investment Operations, Valuation Committee, Product Management and Global Product Strategy.

In assessing and managing each Fund's liquidity risk, the ILC considers, as relevant, a variety of factors, including the Fund's investment strategy and the liquidity of its portfolio investments during both normal and reasonably foreseeable stressed conditions; its short and long-term cash flow projections; and its cash holdings and access to other funding sources including the Funds' interfund lending facility and line of credit. Classification of the Fund's portfolio holdings in the four liquidity categories is based on the number of days it is reasonably expected to take to convert the investment to cash (for Highly Liquid and Moderately Liquid holdings) or sell or dispose of the investment (for Less Liquid and Illiquid investments), in current market conditions without significantly changing the investment's market value.

Each Fund primarily holds liquid assets that are defined under the Liquidity Rule as "Highly Liquid Investments," and therefore is not required to establish an HLIM. Highly Liquid Investments are defined as cash and any investment reasonably expected to be convertible to cash in current market conditions in three business days or less without the conversion to cash significantly changing the market value of the investment.

At meetings of the Funds' Board of Trustees held in May 2021, the Program Administrator provided a written report to the Board addressing the adequacy and effectiveness of the program for the year ended December 31, 2020. The Program Administrator report concluded that (i.) the LRMP, as adopted and implemented, remains reasonably designed to assess and manage each Fund's liquidity risk; (ii.) the LRMP, including the Highly Liquid Investment Minimum ("HLIM") where applicable, was implemented and operated effectively to achieve the goal of assessing and managing each Fund's liquidity risk; and (iii.) each Fund was able to meet requests for redemption without significant dilution of remaining investors' interests in the Fund.

(to the extent received by mail) and summary prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents househanded, please call us at (800) 632-2301. At any time you may view current prospectuses/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year as an exhibit to its report on Form N-PORT. Shareholders may view the filed Form N-PORT by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

Householding of Reports and Prospectuses

You will receive, or receive notice of the availability of, each Fund's financial reports every six months. In addition, you will receive an annual updated summary prospectus (detail prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.



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