

Impact on Fund of Funds due to Wind Up of Specific Franklin Templeton Fixed Income Schemes

Through a notice dated April 23, 2020, the Trustees of Franklin Templeton Mutual Fund in India announced their decision to wind up six schemes –

1. Franklin India Low Duration Fund (FILDF),
2. Franklin India Ultra Short Bond Fund (FIUBF),
3. Franklin India Short Term Income Plan (FISTIP),
4. Franklin India Credit Risk Fund (FICRF),
5. Franklin India Dynamic Accrual Fund (FIDA) and
6. Franklin India Income Opportunities Fund (FIIOF).

The above-mentioned schemes will no longer be available for purchase and redemption.

Pursuant to the decision to wind up FISTIP and FIDA, the Valuation Committee considered the impact of the same on the following fund of fund (FoFs) schemes holding the above funds as underlying investments. Since voluntary redemptions have been suspended in the underlying fixed income funds post cut off time from April 23, 2020, the Valuation Committee decided to provide an illiquidity discount and fair value these fixed income schemes at 50% of their daily NAV as a result of the prevailing illiquidity in these underlying schemes held in the FoFs. This illiquidity discount, does not reflect any current or anticipated write-off in the underlying fund investments, only that this investment in the funds that have been wound up, cannot be currently liquidated at the prevailing NAV. This is effective April 24, 2020, until further notice. The NAVs for following fund of funds were impacted:

- Franklin India Dynamic Asset Allocation Fund of Funds (FIDAAF)
- Franklin India Multi-Asset Solutions Fund (FIMAS)
- All the plans under Franklin India Lifestage Fund of Funds (FILSF)
 - Franklin India Lifestage Fund of Funds – 20s plan
 - Franklin India Lifestage Fund of Funds – 30s plan
 - Franklin India Lifestage Fund of Funds – 40s plan
 - Franklin India Lifestage Fund of Funds – 50s plus plan
 - Franklin India Lifestage Fund of Funds – 50s Plus Floating Rate plan

Key Points - Franklin India Dynamic Asset Allocation Fund of Funds (FIDAAF)

FIDAAF (launched in October 2003) is a Fund of Funds that dynamically allocates to equity and income funds. FIDAAF allocated its fixed income portion in FISTIP¹. As of April 23, 2020, FISTIP is being wound

¹ FIDAAF has a provision to invest in FILDF (the secondary fixed income underlying) only after investments in FISTIP (the primary fixed income underlying) exceed 20% of assets of FISTIP. Currently, FIDAAF has no investments in FILDF.



up and voluntary redemptions have been suspended. Considering this development, it is being proposed in the interest of unitholders, that the management of the product will be revised as follows:

- The existing holdings of FIDAAF in FISTIP are fair valued by providing an illiquidity discount of 50% of FISTIP NAV to account for the illiquidity caused due to winding up of FISTIP. The FOF will receive proceeds from the orderly wind up of its underlying investment in FISTIP. This helps preserve value for investors who remain invested, while at the same time, providing investors liquidity at the fair valued NAV. A similar approach will apply to other FoFs (FIMAS and FILSF) as well.
- All incremental fixed income allocation in FIDAAF will be invested in CBLOs and cash equivalents as temporary defensive investments to begin with. The total fixed income allocation of FIDAAF will be the sum of (a) FISTIP investments and (b) CBLO/Cash Equivalent component. Similarly, all redemptions in FIDAAF will be funded through a combination of Franklin India Equity Fund (FIEF) and CBLO without disturbing overall asset allocation.
- The equity component of FIDAAF will continue to be allocated to Franklin India Equity Fund (FIEF).
- There is no restriction on purchases and redemptions in FIDAAF. Investors can continue to transact in the scheme at the declared NAV. There will be no impact on SIPs, STPs and SWPs into and out of this scheme.
- FIDAAF will continue to dynamically allocate between equity and fixed income as specified in the Scheme Information Document. This has been described in Annexure 1 for easy reference.
- There is no change in the expenses charged by FIDAAF (at the FoF level). However, the underlying fund viz. FISTIP has stopped charging Investment Management Fees from April 24, 2020.
- The underlying fixed income funds in FIDAAF is proposed to be changed through a Fundamental Attribute Change to replace FISTIP and FILDF in the asset allocation, subject to approval of Board of Directors of AMC & Trustee and SEBI. The existing unitholders will be provided a 30 days load free exit window to affect such changes, as required under regulations.
- Subject to SEBI approval and post the 30-day exit load free exit window, the fund will continue to hold the units of FISTIP at the fair valued NAV including units in the segregated portfolio(s) of FISTIP. Any recovery of money from FISTIP or its segregated portfolio will be appropriately reflected in the NAV of the fund.
- After the fundamental attribute change (subject to SEBI approval), the new underlying fund will be a part of the total fixed income allocation. The allocation to fixed income will then be sum of exposures to FISTIP and the new proposed underlying.
- The portfolio allocations for FIDAAF as on April 23 and April 24, 2020 are as follows:

Scheme Units	% to NAV (April 23)	% to NAV (April 24)
Franklin India Equity Fund (FIEF)	70.34%	82.47%
Franklin India Short Term Income Plan (FISTIP)	29.75%	17.82%
CBLO/Cash Equivalent	(0.09%)	(0.29%)



- The decision to fair value underlying units of FISTIP was taken promptly after the announcement of the wind-up to account for the illiquidity in the fund post the decision to wind up.



Annexure 1: Detailed Asset Allocation in Franklin India Dynamic Asset Allocation Fund (FIDAAF)

FIDAAF shall primarily allocate its equity component in Franklin India Equity Fund (FIEF). In case the allocation of FIDAAF reaches 20% of the corpus of FIEF, then FIDAAF shall allocate its equity component in Franklin India Bluechip Fund (FIBCF). Currently, the total equity allocation is in FIEF.

Up to April 23, 2020, FIDAAF primarily allocated its debt component in Franklin India Short Term Income Plan (FISTIP) only. After the wind up of FISTIP, incremental allocations to fixed income will be through CBLO/Cash Equivalents. The value of FISTIP is marked down to 50% of its prevailing NAV to factor in the illiquidity of FISTIP units. The total fixed income allocation is therefore represented as the sum of FISTIP and CBLO/Cash Equivalents.

The equity allocation (i.e. the allocation to underlying equity funds) will be determined based on the month-end weighted average P/E ratio and P/B ratio of the Nifty 500 Index, in a 50:50 weightage ratio. As per the ratio bands, the corresponding equity allocation will be identified for both P/E and P/B. These allocations will be accorded 50% weightage each and added to arrive at the final equity allocation for the month. The portfolio will be rebalanced in the first week of the following month.

On account of current market conditions, temporary defensive investment range would be as follows:

Instruments	Risk Profile	As % of Net Assets (Min. – Max.)
Units of Franklin India Equity Fund (FIEF), Franklin India Bluechip Fund (FIBCF)	High	20% - 85%
Existing Units of FISTIP, and CBLO/ Cash Equivalents representing Fixed Income allocation cumulatively.	Low to Medium	15 – 80%

The various P/E ratio and P/B ratio bands and the respective equity and debt allocation proposed under normal circumstances are given below:

Price to Equity band-based allocation:

If weighted average PE ratio of Nifty 500 Index falls in this band...	...the equity component will be...(%)	...and the debt component will be ...(%)
Upto 12	80-85	15-20
12 – 16	67.5-80	20-32.5
16 – 20	55-67.5	32.5-45
20 – 24	42.5-55	45-57.5
24 – 28	30-42.5	57.5-70



Above 28	20-30	70-80
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Price to Book Value band-based allocation:

If weighted average PB ratio of the Nifty 500 Index falls in this band...	...the equity component will be...(%)	...and the debt component will be ...(%)
Upto 2	80-85	15-20
2 – 3	63-80	20-37
3 – 4	47-63	37-53
4 – 5	30-47	53-70
Above 5	20-30	70-80

The Trustees reserve the right to change the P/E ratio and P/B ratio bands or use any other criteria for determining the equity/debt allocation if the Nifty 500 Index is either suspended or becomes irrelevant.

The corresponding equity allocation for the respective P/E ratio band and P/B ratio band will be combined in the weightage of 50:50 to arrive at the final equity allocation for the month. The asset allocation will be rebalanced during the first week of the following month.

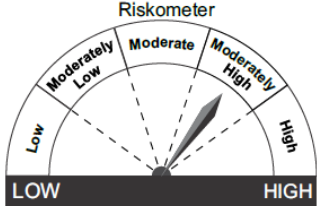
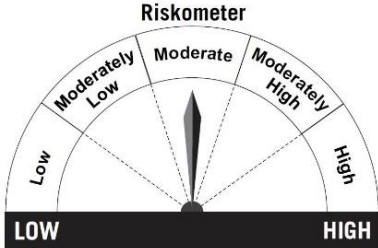
Illustration of Asset allocation using P/E and P/B bands:

If Nifty 500 Index weighted average P/E as on 30th April stands at 28x, the corresponding equity allocation as per the band will be, say, 30%. If Nifty 500 Index weighted average P/B as on 30th April stands at 2.7x, the corresponding equity allocation as per the band will be, say, 72%. 50% weight will be applied to 30% (P/E based allocation) and 50% weight to 72% (P/B based allocation) to arrive at a combined weight average equity allocation of 51%. Debt allocation will constitute the balance of 49%.

The asset allocation pattern described above may alter from time to time on a short-term basis on defensive considerations, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors and, in such cases, shall be rebalanced within 30 days from date of deviation.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Product Labels:

Fund Name	This product is suitable for investors who are seeking*	
Franklin India Life Stage Fund of Funds 20's Plan, 30's Plan, 40's Plan, 50's Plus Plan, 50's Plus Floating Rate Plan	<ul style="list-style-type: none"> Long term capital appreciation A fund of funds investing in equity and debt mutual funds. 	 <p>Investors understand that their principal will be at Moderately High risk</p>
Franklin India Dynamic Asset Allocation Fund of Funds (FIDAAF)	<ul style="list-style-type: none"> Long term capital appreciation A hybrid fund of funds investing in equity and debt mutual funds 	
Franklin India Multi Asset Solutions Fund of Funds (FIMAS)	<ul style="list-style-type: none"> Long term capital appreciation A fund of funds investing in diversified asset classes through a mix of strategic and tactical allocation. 	
Franklin India Short Term Income Plan (Number of Segregated Portfolios – 3) FISTIP	<ul style="list-style-type: none"> Regular income for medium term A fund that invests in short term corporate bonds including PTCs. 	 <p>Investors understand that their principal will be at Moderate risk</p>
Franklin India Credit Risk Fund (Number of Segregated Portfolios - 3) FICRF	<ul style="list-style-type: none"> Medium to long term capital appreciation with current income A bond fund focusing on AA and below rated corporate bonds (excluding AA+ rated corporate bonds). 	
Franklin India Dynamic Accrual Fund (Number of Segregated Portfolios - 3) FIDA	<ul style="list-style-type: none"> Medium term capital appreciation with current income A fund that focuses on fixed income securities with high accrual and potential for capital gains. 	
Franklin India Income Opportunities Fund (Number of Segregated Portfolios - 2) FIIOF	<ul style="list-style-type: none"> Medium term capital appreciation with current income A fund that focuses on high accrual securities 	
Franklin India Ultra Short Bond Fund (Number of Segregated Portfolio - 1) FIUBF	<ul style="list-style-type: none"> Regular income for short term A fund that invests in short term debt and money market instruments 	
Franklin India Low Duration Fund (Number of Segregated Portfolios - 2) FILDF	<ul style="list-style-type: none"> Regular income for short term A fund that focuses on low duration securities. 	

*Investors should consult their financial distributors if in doubt about whether these products are suitable for them.

Prepared on April 27, 2020



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