

Franklin Templeton Fixed Tenure Funds (FTFTF) Series XII – B

FTFTF Series XII – B was launched in November, 2009. It is a three year closed-end hybrid scheme which predominantly invests in debt and money market instruments with up to 20% allocation to equity. Its benchmark is a composite index of 20% weight of S&P CNX 500, 70% weight of CRISIL Composite Bond Fund Index and 10% of CRISIL Liquid Fund Index.

Performance

Since inception (November 16, 2009) to June 30, 2011, the scheme has delivered a return of 4.57% compounded annualized while the benchmark returns were 5.37%. For a period of one year ending June 30, 2011, the scheme has returned 3.22% compared to its benchmark returns of 4.63%. (Past Performance may or may not be sustained in future. Inception returns are compounded annualized based on Growth Plan NAV of Rs 10.7825. Load is not taken into consideration. Dividend assumed to be reinvested and bonus is adjusted). Given below is a broad analysis of the performance.

During launch of the scheme, the yields on the 3 year AAA and equivalent rated papers were around 7.4%. Given the inflationary pressures in the economy, the RBI has adopted a tight monetary regime and since then the yields have gone up by about 2.1% (9.57% as of June 30, 2011). This has caused mark to market (MTM) losses on the debt portfolio of the scheme to that extent.

On an average, the equity allocation in the scheme has been around 12.7% (currently around 19%). During the period under contention, the equity component has contributed around 1.64% to the scheme, the proportionate S&P CNX 500 return being 0.96%.

On the debt side, the reflected losses are only notional and would recover towards the maturity of the scheme. Hence, we believe that interim evaluation of performance of such funds would not be appropriate. The performance of the mature funds in the previous series provides an insight into the overall performance track record over the life of the fund.

It is to be noted that the benchmark returns do not reflect the fund expenses, which impacts the fund returns. The expense ratio of the scheme has been around 2.08%

Outlook

Going forward, we believe that we are nearing the peak of the interest rate cycle, which would eventually contain any further mark to market losses and the returns on the debt portfolio are likely to be in line with the prevalent YTM of the scheme (9.56% as of June 30, 2011). On the equity side, markets continue to remain under pressure amidst concerns about the ongoing monetary tightening and the likely moderation in economic as well as earnings growth. Given the cyclical and structural issues, GDP growth momentum is expected to moderate in the coming quarters, but economic growth trends remain well ahead of most of the EM countries. This should help Corporate India sustain the lead on the RoE front relative to its peers. We will continue to actively look for opportunities in the equity markets and the returns are expected to be in line with the market return.

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Scheme Classification and Objective: Franklin Templeton Fixed Tenure Fund - Series XII - Plan B (3 Year Plan) (FTFTF - Series XII - B) is a closed-end income fund which seeks to generate returns and reduce interest rate volatility, through a portfolio of fixed income securities that are maturing on or before the maturity of the Scheme along with capital appreciation through equity exposure. **Load Structure:** Entry Load: Nil; CDSC/Exit Load : Not Applicable. **Listing & Liquidity:** The Units of the Scheme will be listed recognised stock exchange(s). Investors have choice to hold the units in electronic (demat) form or in physical (Unit Certificates) form. Trading over the stock exchange will be permitted in electronic (dematerialised) form only. The AMC / Mutual Fund shall not repurchase the Units before the maturity of the Scheme/Plan. Investors wishing to exit may do so through stock exchange mode. **NSE Disclaimer:** It is to be distinctly understood that the permission given by NSE should not in any way be deemed or construed that the Scheme Information Document has been cleared or approved by NSE nor does it certify the correctness or completeness of any of the contents of the Scheme Information Document. The investors are advised to refer to the Scheme Information Document for the full text of the 'Disclaimer Clause of NSE'. **Risk Factor: All investments in mutual funds and securities are subject to market risks and the NAV of the scheme may go up or down depending upon the factors and forces affecting the securities market including the fluctuations in the interest rates. There can be no assurance that the scheme's investment objectives will be achieved.** The past performance of the mutual funds managed by the Franklin Templeton Group and its affiliates is not necessarily indicative of future performance of the schemes. **The above is only the name of the scheme and does not in any manner indicate the quality of the scheme, its future prospects or returns.** The Mutual Fund is not guaranteeing or assuring any dividend under the scheme and the same is subject to availability and adequacy of distributable surplus. The investments made by the scheme are subject to external risks. **Please read the Scheme Information Document carefully before investing. Statutory Details:** Franklin Templeton Mutual Fund in India has been set up as a trust by Templeton International Inc. (liability restricted to the seed corpus of Rs. 1 lac) with Franklin Templeton Trustee Services Pvt. Ltd. as the Trustee (Trustee under the Indian Trust Act, 1882) and with Franklin Templeton Asset Management (India) Pvt. Ltd. as the Investment Manager. The Fund offers NAVs on all business days except during the period when there is a book closure