

1. Please provide some details of the schemes being wound up

S No	Name of the Scheme	Scheme Characteristic (based on Macaulay duration or credit rating) as stated in the scheme information document	Macaulay Duration in Years as on 23 April 2020
1	Franklin India Ultra Short Bond Fund	Investing in instruments with Macaulay duration between 3 months and 6 months	0.38
2	Franklin India Short Term Income Fund	Investing in instruments with Macaulay duration between 1 year and 3 years	2.43
3	Franklin India Credit Risk Fund	A bond fund focusing on AA and below rated corporate bonds (excluding AA+ rated corporate bonds).	2.36
4	Franklin India Low Duration Fund	Investing in instruments with Macaulay duration between 6 months and 12 months	1.17
5	Franklin India Dynamic Accrual Fund	Investing across duration	1.97
6	Franklin India Income Opportunities Fund	Investing in instruments with Macaulay duration between 3 years and 4 years	3.92

2. Why are you winding up these schemes?

We are winding up these schemes in order to preserve value and secure an orderly and equitable exit for investors in these yield-oriented schemes. The credit climate was extremely challenging over the last quarter or so, and Covid-19 severely heightened the pressure resulting in a spike in yields and sharply reduced liquidity. The ongoing global pandemic has impacted business activity across a wide range of sectors and diminished portfolio companies' ability to access funds and service existing debt. Mutual funds are facing unprecedented liquidity challenges during the lockdown which was necessary to address the Covid-19 pandemic.

Factors like rising redemption pressures, mark to market losses following spike in yields and rising illiquidity in portfolios following lower trading volumes have together caused severe and worsening liquidity crunch for open-end mutual fund schemes. It appears that this impact will be long-lasting, and bond market conditions are unlikely to return to normalcy in the immediate future. We believe taking the decision to wind up the full suite of six yield-oriented schemes, while very difficult is the only viable option to preserve value for unitholders and to enable an orderly and equitable exit for investors in these unprecedented circumstances.



3. *What does winding-up of these schemes mean for investors?*

Key implications for investors:

- a) **Suspension of Purchase and Redemption:** The 6 wound up schemes are no longer available for subscription or redemption, post cut-off time on 23 April 2020. All Systematic Investment Plans (SIP), Systematic Transfer Plans (STP) and Systematic Withdrawal Plans (SWP) into and from the above-mentioned schemes stand cancelled post cut-off time on 23 April 2020.
- b) **Distribution of monies from Scheme Assets:** Following the decision to wind-up the schemes, we will now proceed to assist the Trustees with orderly realization and liquidation of the underlying assets with the objective of preserving value for unitholders, and with distribution of the proceeds thereof to the unitholders after discharging the liabilities of the schemes. It will be our endeavour to liquidate the portfolio holdings at the earliest opportunity, to enable an equitable exit for all investors in these unprecedented circumstances. We would also continue to explore opportunities to monetize assets through secondary transactions, once the market stabilizes. We will aim, subject to the limitations under Regulation 41, to make regular payments to investors from portfolio maturities, coupon and pre-payments, once the borrowings in the schemes have been paid back.
- c) **Tax Implications:** The amount received by investors are in the form of redemption of units and would, where such amount or part thereof represents a gain for the investor, be taxed as capital gain in the hands of investors depending on *inter alia* the period of their investment in the scheme. It is best to take advice from a tax expert as impact could vary depending on the investor status and income.

4. *Does winding up of the schemes means that my money is lost*

This is factually incorrect. I would like to clarify that the winding up of the schemes does not mean that the schemes have written off any value. Our aim is to liquidate the portfolio in the shortest possible time having regard to market conditions, and to return monies to investors. The schemes will continue to receive scheduled coupons and maturity payments, and we will look for all opportunities to seek pre-payments from issuers, or to sell portfolio holdings, without incurring a significant impact cost.

We have communicated the reasons and market circumstances that led us to take this extremely difficult decision which was taken purely to protect value for our investors. As the schemes liquidate portfolio holdings subject to market conditions, receive coupon payments and scheduled maturities, the Trustees will start to return monies to investors at the earliest instance in compliance with regulation 41(2)(b) of SEBI (Mutual Fund) Regulations 1996.

5. *What steps did you take to meet redemptions till 23 April 2020?*

We have taken the following steps to ensure redemptions are duly paid:

Borrowing: The regulation allows Mutual Fund schemes to borrow funds up to 20% of the AUM to meet redemption requirements. As a precautionary measure the AMC approached SEBI for an increase in borrowing limits for certain schemes and SEBI allowed borrowing limits up to 30% for a couple of schemes and 40% of the AUM in one scheme. However, the sustained redemption pressure did not abate. This coupled with the inability to liquidate securities in the portfolio in the current market environment, led us to believe that it is not prudent for the Schemes to borrow increasing amounts of money for meeting redemption obligations.



Sale of assets: Over the last 6 months, we were able to manage redemption demands without any distress sale. We funded this through sale of assets, pre-payments, scheduled maturities and coupons. The schemes could generate significant cash, a majority of which was generated from sale of AA or below rated papers. However, the extended lockdown and resultant systemic illiquidity resulted in an unprecedented situation. Further, we did not believe that distress sale of portfolio holdings is in the best interest of investors as it causes value destruction.

6. *Since you were borrowing to meet redemptions, why didn't you continue to borrow?*

The schemes have been meeting their redemption payment obligations since inception across all market conditions and were even able to do so during the initial phase of the Covid-19 pandemic related lockdown despite heightened redemption pressures and increased market illiquidity. However, the unprecedented situation arising out of the Covid-19 pandemic heightened redemption volumes and reduced inflows. It has also disrupted the normal functioning of the debt markets, particularly the credit markets, severely hampering the ability of the Investment Manager to liquidate securities held in the portfolio. The current risk averse environment has further led to a sharp drop in interest in papers below the AAA rating band or papers not issued by select issuers.

The schemes had to resort to continuous borrowing to fund redemptions during this time and were unable to repay the borrowings through sale of portfolio securities due to the prevailing market environment. High levels of borrowing can magnify the effects of any negative credit events in the portfolio, and while permitted for a period of up to six months, is generally not recommended to manage long term asset liability mismatches. With increasing uncertainty about the length, severity and impact of the Covid-19 pandemic related lock-down, the Investment Manager did not believe it was prudent to continue funding redemptions through potentially increasing levels of borrowings.

7. *Why do you anticipate the liquidity stress to continue further?*

As the Covid-19 pandemic related lockdown prolongs, it continues to impact businesses and livelihoods across the country. As a result, we anticipate continued liquidity stress for a period of time for the following reasons:

- Continued negative news flow around NBFCs / HFCs / Corporate Borrowers, and a continued flight to safety
- A percentage of investee companies may seek to reschedule their capital market obligations.

8. *Is the liquidity problem in the schemes because of redemptions, or because of portfolio quality?*

These schemes have followed a consistent investment strategy over a long period of time of investing in credits across the rating spectrum including active investments in below AAA rated securities. Such a strategy, was able to deliver meaningful outcomes for investors. However, such securities rated below AAA have been disproportionately impacted by the market dislocation. Over their long history, these schemes have been able to weather a number of market cycles and continue to provide daily liquidity.

The current situation has resulted on account of the dramatic and sustained fall in liquidity in certain segments of the corporate bond market caused by the Covid-19 pandemic and the resultant lockdown, coupled with heightened and sustained redemptions. We believe that the underlying security portfolios remain sound. These schemes amongst others, faced significantly heightened redemptions and managed to generate significant cash flows from the portfolio even during the initial phase of the Covid-19 lockdown.



However, in the extended lockdown, severe and sustained market illiquidity, heightened yields, low trading volumes in the market, and significant monies being pulled out of certain categories of debt schemes continue to persist. Further, we have seen portfolio companies, banks and other market participants become even more conservative in terms of cash management. There have been instances of companies invoking 'force majeure' clauses to defer or delay payments, and we anticipate this could also impact a portion of our scheduled maturities.

We believe that this decision to wind up these schemes, while very difficult, was the only viable option to preserve value for unitholders and to enable an orderly and equitable exit for investors in these unprecedented circumstances.

9. *What are the various options considered besides winding up the schemes?*

The following options were considered besides winding up the schemes:

- a) Restricting redemptions / Suspension:** We explored the possibility of suspending redemptions until market conditions stabilize without winding up the schemes. However, conditions for such a suspension under the current regulatory framework, such as a maximum suspension period of 10 working days (in 90 days) and the requirement to honour redemptions up to INR 2 lakh per day per investor, rendered this approach unviable to meet the severe and sustained impact of the current crisis.
- b) Elongate the redemption payment:** We have been making redemption pay-outs on T+1 basis from the date of receipt of redemption application, although regulations allow for a maximum of 10 working days for this purpose. We explored the option of elongating the redemption pay-out cycle by taking the benefit of the maximum period permitted under regulations. However, while this option may be suitable to tide over short-term liquidity issues, it is not adequate to address the severe and sustained impact of the current crisis.
- c) Distress sale:** We also explored the option of selling the securities at a discount to meet redemption requests. After careful consideration, this option was ruled out as it would have resulted in significant value erosion and placed a disproportionate burden on investors who were continuing to hold their positions in the schemes.

10. *What is the process you will follow as per regulations to wind up these schemes?*

Regulation 39(2)(a) provides that a scheme of a mutual fund may be wound up on the happening of any event which, in the opinion of the Trustees, requires the scheme to be wound up. The Trustees are required to give a public notice disclosing the circumstances leading to the winding up of the scheme. As per regulation 40, on and from the date of the publication of notice as aforesaid, the trustee or the asset management company as the case may be, shall —

- (a) cease to carry on any business activities in respect of the scheme so wound up;
- (b) cease to create or cancel units in the scheme;
- (c) cease to issue or redeem units in the scheme.

As a part of implementation of the winding-up, authorization from unitholders is needed for the Trustees or any other person to liquidate the assets of the scheme and pay the proceeds to unitholders after meeting the liabilities of the scheme. The approval of the unitholders for the same will be sought shortly via e-voting.

11. Will you wait for maturities or will you attempt secondary market sale for the portfolio?

It will be our endeavour to liquidate the portfolio holdings at the earliest opportunity, to enable an orderly and equitable exit for all investors in these unprecedented circumstances. We would also continue to explore opportunities to monetize assets through secondary market transactions, once the market stabilises. We will aim, subject to the limitations under Regulation 41, to make regular payments to investors from portfolio maturities, coupon and pre-payments, once the borrowings in the schemes have been paid back.

12. Do you have a time frame in mind to return the money to the investors?

It is our endeavor to assist the Trustees to wind up these schemes and return unitholder money at the earliest possible time, having regard to the maturity dates of the underlying securities in the portfolio, and prevailing market liquidity. Schemes with shorter portfolio Macaulay durations should be able to return money sooner than those with a longer Macaulay Duration. Please refer to schedule of maturities available to investors in the 'Updates' section of our [website](#) on the home page.

13. Will the first instalment of the recovery flow to banks against the borrowings?

In accordance with Regulation 41(2) of the SEBI Mutual Fund Regulations, the scheme must discharge its liabilities, including outstanding borrowings, before returning monies to unitholders.

14. What is the impact of borrowing on AUM? Will it reduce the monies being paid to investors?

There is a misconception that the borrowing in the scheme reduces the scheme's AUM and repaying the borrowing will take value away from investors. Please note that the AUM shown is actually net of borrowing. Let us explain this with a simple example –

Say, AUM of the scheme = Rs.100

Borrowing of the scheme = Rs.20

The factsheet displays the portfolio as follows:

Value of all portfolio holdings (sum) = Rs. 120 (A)

Less

Call, Cash & Other Assets (includes borrowings) = -Rs.20 (B) (shown as a negative component)

AUM of the scheme = Rs.100 (A-B)

Suppose we repay Rs.5 from the borrowing, the factsheet will display the portfolio as follows:

New Value of all portfolio holdings (sum) = Rs. 115 (C)

Less

Call, Cash & Other Assets (includes borrowings) = -Rs.15 (D) (shown as a negative component)

AUM of the scheme = Rs.100 (C-D)

As seen above, there is no change in AUM (on which the NAV is calculated), despite making a repayment of Rs.5.



Suppose we repay the remaining Rs.15 from the borrowing, the factsheet will display the portfolio as follows:

New Value of all portfolio holdings (sum) = Rs. 100 (E)
 Less
 Call, Cash & Other Assets (includes borrowings) = NIL (F)
AUM of the scheme = Rs.100 (E-F)

As seen above, even when all borrowings are repaid, the amount to be paid to investors in the form of AUM remains the same. While this is only for illustration, the AUM can change due to various factors that impact the NAV of the scheme. The Call, Cash & Other Assets will essentially comprise of interest receivables, sales receivables, expenses payable and the borrowings payable, if any. For ease of understanding, it is assumed in the aforementioned illustration that the Call, Cash & Other Assets comprises of only the borrowings payable.

15. When and how can existing investors in these schemes expect to receive their money?

Pursuant to the 6 schemes being wound up, the schemes would cease to offer investor led redemptions. The following approach will be adopted in making repayments to investors of their share in each scheme:

- 1) All receipts from sale/maturity would be first allocated against outstanding borrowing and other liabilities of the scheme in accordance with Regulation 41(2) of the SEBI Mutual Fund Regulations.
- 2) Amounts received in excess of the scheme's borrowing would be distributed to investors in proportion to their share in the scheme's net assets after accounting for scheme liabilities and expenses.

Frequency: It will be our endeavor to liquidate the portfolio holdings at the earliest opportunity having regard to portfolio maturity and the current risk averse and illiquid market scenario. Once the market recovers from the current Covid-19 situation, early exits via sale/prepayment will be actively explored with a view to facilitate repayment prior to the maturity of the portfolio investments. We would share updates with investors on these schemes at regular intervals. Please refer to the schedule of maturities available to investors in the 'Updates' section of our [website](#) on the home page.

16. Once these schemes are suspended, will they continue to accrue gains till they mature?

These schemes will continue to accrue gains basis scheduled coupon payments and maturities as well as undergo mark to market movement till the schemes are completely wound up. Further, the portfolio in these schemes will continue to be valued as per SEBI guidelines and a NAV will be declared on all business days as per the normal process.

17. Please give details of expenses to be charged going forward.

We will not charge any management fees for the schemes that are being wound up. However, expenses as permitted under SEBI regulation 52 will continue to be charged to the schemes. Further there will be no exit loads charged during the winding up.

18. What happens to investors who have SIP/STPs/SWP's in/from these schemes?

No purchases/ redemptions will be allowed for SIP/STPs/SWP's in/from these schemes

19. What will happen to the securities held in the segregated portfolio in these schemes?

These securities would continue to be held in the segregated portfolio of the respective schemes. In accordance with SEBI regulations, money will be promptly returned to those unitholders holding units in the segregated portfolio whenever any realisation/ recovery of any amount is made. The amount recovered



would be paid to investors in proportion of their share in the segregated portfolio in accordance with regulations.

20. Will you prioritize amongst investors while returning the money?

All investors in each scheme will be treated equally in terms of payment of redemption proceeds.

21. Will you prioritize amongst schemes while returning the money?

Each scheme has its own cash flows, coupon payments, and maturities. Hence investors in each scheme will receive payments in accordance with the cash flows generated from the scheme they are invested in.

22. What will be the tax implications for unitholders?

The amount received by investors are in the form of redemption of units and would, where such amount or part thereof represents a gain for the investor, be taxed as capital gain in the hands of investors depending on *inter alia* the period of their investment in the scheme. It is best to take advice from a tax expert as impact could vary depending on the investor status and income.

23. What will happen to investors with dividend option?

We will not be declaring any dividends in these schemes.

24. Should I redeem from all other Franklin Templeton schemes as these could also be wound up?

The decision to wind up our suite of six yield-oriented schemes was an extremely difficult one and taken only to protect investor interest. It was not a situation in which we hoped to find ourselves. We also recognize this has impacted liquidity for our investors but was necessary in order to preserve value for our unitholders.

Our other fixed income schemes which are open for subscription and redemption, primarily invest in highly liquid securities such as Government Securities, AAA rated bonds or other cash and cash equivalents. These portfolios have the necessary ability to generate liquidity in order to meet redemptions.

Our equity schemes remain unaffected and continue to be managed by our experienced and tenured team based in Chennai in line with their investment mandate and fund management philosophy.

25. Is Franklin Templeton winding up its business in India?

Franklin Templeton has been an early and patient investor in India. We have worked to build a long-term business in India over our 25+ year history here. This is also reinforced by the fact that over 33% of our global workforce is based in India. We continue to manage an additional 27 open ended schemes, 22 close ended and 7 fund of funds schemes with approximately INR 50,000 Crore of AUM in fixed income, equity, hybrid, overseas, feeder and multi-asset schemes which are not impacted by the winding up process. We continue to manage these schemes in line with their investment mandate with a view to delivering superior investment outcomes for our investors.

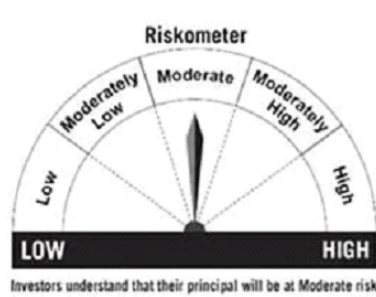


As affirmed by our global CEO, Jenny Johnson, Franklin Templeton's commitment to India remains steadfast. We are committed to doing all we can to return monies in the schemes that are wound up at the earliest to investors, and to regain your trust in our brand.

This extraordinarily difficult decision to close six of our schemes in a category that we helped create, was taken as it was the only viable option to preserve value for our investors in the current unprecedented environment.

Disclaimer: The information contained in this communication is not a complete representation of every material fact and is for informational purposes only. Statements/ opinions/recommendations in this communication which contain words or phrases such as “will”, “expect”, “could”, “believe” and similar expressions or variations of such expressions are “forward – looking statements”. Actual results may differ materially from those suggested by the forward-looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risk, general economic and political conditions in India and other countries globally, which have an impact on the service and / or investments. There may have been changes in matters which affect the security subsequent to the date of this communication. The AMC, Trustee, their associates, officers or employees or holding companies do not assure or guarantee any return of principle or assurance of income on investments in these schemes. Please read the Scheme Information Document carefully in its entirety prior to making an investment decision and visit our [website](#) for further details.

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

Fund Name		
Franklin India Low Duration Fund (Number of Segregated Portfolios - 2) FILDF	- Regular income for short term - A fund that focuses on low duration securities.	
Franklin India Short Term Income Plan (Number of Segregated Portfolios - 3) FISTIP	- Regular income for medium term - A fund that invests in short term corporate bonds including PTCs.	
Franklin India Credit Risk Fund (Number of Segregated Portfolios - 3) FICRF	- 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	- 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	- Medium term capital appreciation with current income - A fund that focuses on high accrual securities	
Franklin India Ultra Short Bond Fund (Number of Segregated Portfolios - 1)	- Regular income for short term - A fund that invests in short term debt and money market instruments	