



FRANKLIN TEMPLETON

ORDERLY WINDING-UP OF 6 FIXED INCOME SCHEMES

E-Voting & Unitholders E-Meet to seek Consent of unitholders

under sub-clause (c) of clause 15 of Regulation 18

Pre-submitted Questions (FAQ)

1. If the majority of investors vote for winding up the fund, what is the proposed timeline for completing all the payments to the unit holders?

In case we receive a positive consent vote under regulation 18(15)(c), followed by an authorization vote from unitholders under regulation 41(1), the Trustee or any other authorized person, Deloitte in this case, will be able to actively monetize assets. In the case of Franklin India Ultra Short Bond Fund (FIUBF), Franklin India Credit Risk Fund (FICRF), Franklin India Low Duration Fund (FILDF) and Franklin India Dynamic Accrual Fund (FIDA), all investment proceeds realized so far, net of liabilities, from prepayments, maturities and coupon payments can be distributed in proportion to the units held by the unitholders post successful completion of the two votes, subject to the directions of the Hon'ble Supreme Court. For Franklin India Short Term Income Plan (FISTIP) and Franklin India Income Opportunities Fund (FIIOF), distribution can start after repaying the outstanding loans.

We have monetized Rs.11,970 crore of assets in less than 8 months till 15 December that too without any secondary market sale. We now have another Rs.18,000 crore of portfolio assets to be monetized and the period ahead (post successful completion of the two voting exercises) appears more conducive to generate cash flows and preserve value. With a positive consent vote, we will not only be able to actively work on prepayments but also seek a secondary market exit for the securities at the right valuation.

Further, with fixed income markets gradually returning to normalcy, the schemes are seeing increased interest for many of the securities in the portfolio which were previously illiquid and have also received large prepayments from issuers lately.

The schemes can therefore endeavour to pursue the twin objectives of accelerated monetization combined with value preservation going forward, subject to the directions of the Hon'ble Supreme Court.

Thus, the authorized person will be able to take the most appropriate decision with regard to each security in the portfolio. While the maturity profile provides the outer timeline, going by the cash already generated, that too in a scenario where the schemes have not been able to actively monetize assets, investors should feel comfortable that there will not be a lengthy wait to receive proceeds. However, it may not be possible to provide any forward-looking statements on exact timelines for complete repayment and it may not be in the interest of monetization to place any such deadlines. However, an orderly liquidation following a majority "Yes" vote is likely to provide better outcomes for a majority of Unitholders.

The total monetization so far till 15 December, Cash available for distribution (subject to fund running expenses) and balance securities in the portfolio pending monetization is as follows:

From April 24, 2020 to December 15, 2020	FIUBF	FILDF	FISTIP	FIIOF	FICRF	FIDA	Total
Total cash inflows (INR crores)	5,695	1,565	1,886	403	1,359	998	11,907
Cash available for distribution (INR crores) ##	4,803	1,240	-	-	583	863	7,488
Balance securities in the portfolio pending monetization	5,270	1,278	5,396	1,906	2,968	1,647	18,465

subject to fund running expenses

The schemes continue to receive cash flows since this date and the month end portfolio disclosure will show further improvements in the cash position for the 4 cash positive schemes.

FISTIP has also been able to repay all borrowings and has turned cash positive, and the borrowing in FIIOF has reduced meaningfully.

2. I have received money from these funds in July 2020, but I have not received any money after that. Please explain

Please note that the amount distributed to unitholders in July 2020 pertains to the segregated portfolio of Vodafone Idea Ltd. or VIL for which we had received full and final payment of INR 1253 crores. The latter is independent of the amount to be distributed in case of winding up of the 6 schemes.

3. In case of Segregated portfolio - 2 for securities of Vodafone Idea Limited in some of the funds under winding up created on 24 January 2020, when will it be totally extinguished, and its value repaid?

With regard to your query on Segregated Portfolio 2 in some of the funds under winding up, we received the annual interest payment from the underlying security 10.90% Vodafone Idea Ltd 02Sep2023 (P/C 03Sep2021) in September 2020. You can also refer to [this link](#) on our website for more details. However, we would not be able to provide any forward-looking views on future realisations. We continue to remain engaged with Vodafone Idea Ltd (VIL), and closely track developments in this matter. As per SEBI regulations on segregated portfolios, the monies once received need to be immediately paid to unitholders. We will keep you updated on all developments in this regard.

4. How will you ensure that liquidation of the above schemes do not impact their underlying NAV and lead to any value erosion?

Please note that a “Yes” vote will help unitholders to preserve value as there would be no pressure to fund redemptions. Therefore, liquidation would be orderly and there would be no need for distress sales or any undue haste in monetization which can negatively impact the NAV. With fixed income markets gradually returning to normalcy, the schemes are seeing increased interest for many of the securities in the portfolio which were previously illiquid and have also

received large prepayments from issuers lately. Thus, we will be able to take the most appropriate decision with regard to each security in the portfolio.

Investors may take comfort from the fact that the schemes have received cash of close to INR 12,000 crores from portfolio securities all of which has been without any discount to the face value.

5. Why do we need to pay for fund running expenses since the time redemptions have been stopped?

On the expenses front, we confirm that Franklin Templeton has not charged any Management Fees since the date of the winding up notice.

Further, costs related to appointment of the independent advisor (Kotak Mahindra Bank) are also being borne by us and are not being charged to the schemes. Legal expenses related to the various litigations filed have also not been charged to the schemes. The fund running expenses are in the nature of permissible expenses such as custody fee, audit fee, etc. and do not include any management fees or charges levied by us.

6. What stops Franklin Templeton from distributing the cash immediately to the unit holders?

As directed by the Hon'ble High Court of Karnataka, under the existing regulations, once winding-up process is initiated, it will be possible to distribute the surplus cash available in the schemes only in compliance with regulation 41.

Accordingly, Unitholders will have to pass two resolutions to ensure orderly distribution of the surplus cash available in the scheme to the unitholders. After a positive consent vote under regulation 18(15)(c), subject to directions from the Hon'ble Supreme Court, the Trustee would issue a notice under regulation 39(3). This would then be followed by a vote under regulation 41(1) to authorize the Trustee, or any other person (in this case, Deloitte), by simple majority of votes cast, to monetize scheme assets in an orderly manner and pay available cash to Unitholders.

In the event of a “No” vote, unitholders would be required to apply for redemptions in order to receive monies. The court order clarifies that there cannot be any distribution of cash unless the above steps are followed.

7. What is the action plan and timelines for paying back the non-monetized part of the portfolio to unitholders? How liquid are these holdings?

Unitholders will first provide their consent for winding up the 6 funds under regulation 18(15)(c) by simple majority of votes cast. After a positive consent vote, and subject to directions from the Hon’ble Supreme Court, the Trustee would issue a notice under regulation 39(3). This would then be followed by a vote under regulation 41(1) to authorize the Trustee, or any other person (in this case, Deloitte), by simple majority of votes cast, to monetize scheme assets in an orderly manner.

Post successful completion of the two voting exercises, the schemes can start returning cash to unitholders at the prevailing NAV, subject to fund running expenses and extant regulations.

The Authorized Person would be in a position to take the most appropriate action with regard to liquidation of each security in an orderly manner. Please note that in the case of a “Yes” vote, there would be no pressure to fund redemptions, therefore liquidation would be orderly and there would be no need for distress sales or any undue haste in monetization which can negatively impact the NAV. Unitholders will not be required to apply for redemptions and will receive regular pro-rata distributions of investment proceeds as assets are systematically liquidated by the Scheme. The AMC has also been working with the Trustee appointed independent advisor, M/s Kotak Mahindra Bank, to prepare for an efficient monetization of scheme assets once permitted.

With fixed income markets gradually returning to normalcy, the schemes are seeing increased interest for many of the securities in the portfolio which were previously illiquid and have also received large prepayments from issuers lately.

Investors may take confidence from the fact that the schemes have received over Rs.11,907 crores in the past eight months, without any discount to face value, in a difficult market environment, and without the ability to monetize assets. This amount is far in excess of the original maturity profile that was published in April 2020 for each fund.

The second point to note is that the securities held in the schemes continue to accrue interest. Therefore, under an orderly winding up, the schemes will continue to earn interest till the assets are monetized. The 6 schemes have received Rs.1,886 crore as interest payment since 24 April to 15 December 2020. Therefore, in addition to better value realization from an orderly winding up, unitholders will also benefit from the interest income accruing on the investments pending monetization of assets. It will be the endeavour of the schemes to pursue the twin objectives of accelerated monetization combined with value preservation going forward, subject to the directions of the Hon'ble Supreme Court.

8. What will be the periodicity of funds payouts, in the case of a majority “YES” vote?

In case of a YES vote under regulation 18(15)(c), the person authorized under regulation 41(1) (the Trustee or Deloitte, as the case may be) intends to make a pro-rata distribution of all the cash available in each scheme less fund running expenses, immediately after completion of the voting under regulation 41(1) subject to the directions of the Hon'ble Supreme Court and extant regulations. This cash will be distributed to all unitholders proportionate to the units held by them. Subsequent payments will be made periodically as the schemes receive cash flows from asset monetization, coupons, maturities, and pre-payments. While it is not possible to predict the exact frequency of cash payments, it will be the scheme's endeavor to make regular payments as cash flows are received.

9. What is the plan of the Trustee to safeguard the interest of senior citizens? Can they be given any preference?

We understand your concerns and regret the disappointment caused due to the lack of liquidity in the past 8 months especially for retirees & senior citizens.

We now have clear directions from the Hon'ble Supreme Court to seek consent of the unitholders for the winding up of the six schemes under Regulation 18(15)(c) of SEBI (Mutual Funds) Regulations, 1996. SEBI has appointed an observer to oversee the voting exercise and the results of this vote along with the report of the observer shall be submitted in a sealed cover to the Hon'ble Supreme Court. The voting has been scheduled on 26-28 December followed by the Unitholder meet on 29 December 2020.

While we appreciate your suggestion with regard to the needs of senior citizens, it is not possible to provide differential treatment to investors in the schemes under existing regulations.

A "YES" vote will enable us to proceed with the authorization vote under regulation 41(1), subject to any directions from the Hon'ble Supreme Court. The authorized person (the Trustee, or Deloitte, as the case may be), will then be in a position to immediately distribute the surplus cash in the scheme to all Unitholders on a pro-rata basis.

10. In case of a majority No vote, why can't the securities be sold in the proportion in which they are held in the scheme so that the unitholders who want to continue holding the portfolio will not be affected?

The objective of the voting exercise under regulation 18(15)(c) is to seek, by "simple majority" of votes cast, a consent to implement the decision taken by the Trustee to wind up the six fixed income schemes and thereby enable an orderly liquidation of assets and distribution of investment proceeds.

In the event of a majority "No" vote, and subject to any directions from the Hon'ble Supreme Court, the schemes will be required to re-open for purchases and redemptions. It is not possible to predict redemption volumes in the event of a "No" vote and it would therefore not be possible to adopt the suggestion made by you. Redemptions will be processed at applicable NAVs which will be computed after considering the sale consideration, and fair value of the remaining securities.

The disorderly redemption may result in disorderly distribution and that is one of the main reasons for the Trustees recommending the unitholders to vote “Yes” for orderly winding-up.

11. In case of a majority ‘NO’ vote, will you mark down the NAV in order to reflect the unsold portion of portfolio assets from Day-1 itself, or will you allow redemptions at the prevailing NAV with no markdowns for the first 2 to 3 days at least?

12. In case of a majority No vote, how will you safeguard the interest of unit holders and ensure that each of them has access to the cash component? Will there be any limit on redemptions?

Combined response to 11 & 12

In case of a majority “No” vote which means opting for the schemes to be re-opened, it would be very difficult to predict the quantum of redemptions on Day 1. However, it is important for unitholders to understand the downside risk if this situation arises wherein schemes are likely to receive a rush of redemptions requiring them to undertake an emergency liquidation of portfolio securities.

A distress sale of securities held in the portfolios could result in a rapid and steep decline in the NAV leading to substantial losses for unitholders irrespective of the market conditions. While the endeavor would be to minimize losses, there is no assurance that the scheme will be successful in doing so. An adjustment in valuation and consequential reduction in the NAV may be required on day 1 itself on account of the above factors in accordance with the applicable regulations.

Unitholders will need to apply for redemptions if they wish to receive monies. This may result in disproportionate distribution of any cash generated to unitholders depending on the time of redemption.

Even for funds which have cash to the extent of about 50%, it is not possible to predict the volume of redemptions and the funds will be required to sell securities from day 1 itself in order to generate liquidity. This will result in NAV declines if these sales take place at distress prices, which is likely. Hence, even schemes with a cash surplus may see a fall in NAV.

Unitholders may recall, that the NAV takes into account both the cash available, and the securities held in the fund, therefore any mark to market movements or losses from distress selling will reflect as a loss in the NAV of the fund.

13.Can you segregate bonds to avoid a fire sale in case of a majority NO vote?

Segregation of a security can only take place as a result of a rating downgrade to below investment grade or to default. Hence, securities cannot be segregated purely because of a “No” vote.

14.What did Franklin Templeton do differently that only FT was impacted?

The Trustee of Franklin Templeton decided to wind up the 6 debt schemes in April 2020 because the markets had become illiquid due to the severe impact of the coronavirus lockdown. Immediate, continued redemptions by unitholders would have meant selling the securities held in the funds at significant discounts, resulting in sharp falls in the NAVs. The Trustee thus took the difficult decision of winding up these six funds to avert losses to our unitholders from panic redemptions. The liquidity issues we refer to above are mainly in the below AAA bonds segment. Franklin Templeton, being a significant player in the space of yield oriented fixed income investing in India, a large portion of our assets were invested in higher yielding bonds (below AAA). This segment was also the most impacted by the deteriorating credit environment and the market dislocation caused by the Covid-19 pandemic. However, you may also note that FT has a suite of fixed income funds investing in AAA bonds and these have not been impacted much like the rest of the industry.

After 8 months of this decision, the 6 schemes have received Rs.11,907 crore till December 15, 2020. The schemes continue to receive cash post December 15, 2020 and you would see an improved cash position in the four cash positive schemes in the upcoming month end portfolio disclosure. You will also see that FISTIP has repaid all its borrowings and turned cash positive, and that borrowing in FIIOF has reduced to below 10% of AUM.

51% of this money has been received from securities rated “A” and 46% from securities rated “AA”. Many of these securities were unlisted, and in many instances, Franklin Templeton schemes were the majority investors. This is why we always retained conviction that these are fundamentally sound businesses but there was little to no secondary market liquidity for many of these issuers in March and April 2020, when the markets became significantly risk averse due to the uncertainty around the Covid-19 related impact on the economy. We therefore wish to reiterate that being a significant player in the sub-AAA segment, the market dislocation during the pandemic impacted us more than other players which in turn led us to take the difficult decision to wind up the 6 fixed income funds to preserve value in the interest of our unitholders. The portfolio of these funds as seen above continues to retain value and can be liquidated at fair value under normal market conditions, given appropriate time.

15. Why are Franklin India Ultra Short Bond Fund payments spanning a period of 4 years or more as per your maturity profile document?

We regret the loss of liquidity faced by investors. The decision to wind up the schemes was an extremely difficult decision for us but was taken only to protect value in the funds for investors, even at the cost of severely impacting our 25-year franchise in India.

With regard to your query on the payment for Franklin India Ultra Short Bond (FIUBF) in a period of 4 years, the facts are a bit different. Please note that FIUBF has 48% of its AUM available in cash as of 15 December 2020 which was collected in the last 8 months on the back of maturities, pre-payments, and coupons.

All this money has been received without any secondary market sale or active monetization of the securities. This amount is also in excess of the amount we had shown as a part of the original maturity profile published in April 2020.

In case of a positive consent vote, the authorized person will not only be able to actively work on prepayments but also seek a secondary market exit for the securities at the right valuation. In comparison to the cash flows received in the previous 8 months, the period ahead (post successful completion of the two voting exercises and subject to any directions from the Hon'ble Supreme Court) appears more conducive to generate cash flows while preserving value as fixed income markets are gradually improving. Thus, active monetization, once allowed, should help to accelerate monetization earlier than dates mentioned in the maturity profile document. The maturity profile simply shows the maximum time it may take to liquidate the portfolio if all bonds are held to their logical maturity and does not take into account the ability to execute secondary market sales. It will be the endeavour of the scheme to accelerate the monetization process post conclusion of the two voting exercises, subject to the directions of the Hon'ble Supreme Court.

Investors may also note that it is common practice to create a portfolio with staggered maturities, some shorter and some longer than the portfolio duration.

16.How could FT not anticipate and avert this crisis?

Investment Management is inherently about dealing with uncertainties and an unknown future. The accumulated knowledge and experience from past business cycles acts as a good guideline, but never a perfect manual for the future. The investment team has developed investment processes that help in identifying, assuming and mitigating risks of various nature. The central idea is not to avoid risk, but to manage it effectively to offer a distinct risk-return proposition to investors, in accordance with the disclosures made.

Anticipating and preparing for various economic scenarios is an inherent aspect of risk management.

However, an outlier event like Covid-19 and the resultant economic shutdown could not have been anticipated. Even the 2008 global financial crisis was largely restricted to the financial services sector, while the Covid 19 pandemic and related lockdown in 2020, has had a much wider and deeper impact on businesses and the economy, and on debt markets, in particular those investing in below AAA rated securities, owing to months of global lockdowns never seen before. Hence there will certainly be new learnings from a pandemic whose intensity has been extremely far reaching.

17. Franklin India Ultra Short Bond Fund was to invest in securities with a maturity between 3 to 6 months. As per your maturity profile document, 100% of the amount is not expected to be received before April 2025, why? What was the Macaulay Duration of the scheme prior to winding up?

Macaulay Duration (MD) measures the interest rate sensitivity of the portfolio. The Portfolio MD is derived from the MD of individual securities which in turn is calculated for the industry at large by two independent valuation agencies as appointed by AMFI- CRISIL and ICRA. Fund Managers can use floating rate bonds and/ or interest rate reset papers or put/call options to reduce the interest rate sensitivity of the portfolio. So, while the maturity of some of the securities held in the scheme may be longer, the Macaulay duration may be lower. For example, if the portfolio has instruments having interest rate resets, the nearest interest rate reset date would be taken as the deemed maturity date and the Macaulay duration of the fund is computed accordingly. This can reduce the 'effective maturity' after factoring this reset date into the calculation of the Macaulay Duration. This is a standard practice adopted in portfolio construction, and the calculation of MD is also a standardized process. It is also common to create a portfolio with staggered maturities, some shorter and some longer than the Macaulay Duration of the portfolio.

Ultra-short duration funds are defined as those where the "Macaulay Duration" (MD) of the portfolio is between 3 - 6 months. The MD of Franklin India Ultra Short Bond Fund (FIUBF) was 4.53 months on 23 April 2020 and 5.09 months on 30 April 2020, well within the SEBI definition.

However, while disclosing the maturity profiles of these schemes (including Franklin India Ultra Short Bond Fund) we have used final maturity dates for some securities while calculating projected cash flows. Hence the maturities and linked repayments look elongated to some extent. You may note that around 35% of Franklin India Ultra Short Bond Fund's AUM was invested in interest rate reset papers as on April 23, 2020. The market value of each security and maturity date are mentioned in the fortnightly security level portfolio report (please check for security level portfolio in [this link](#)).

Please note that FIUBF has 48% of its AUM available in cash as of 15 December 2020 which was collected in the last 8 months on the back of maturities, pre-payments, and coupons. All this money has been received without any secondary market sale or active monetization of the securities. In case of a positive consent vote, the authorized person will not only be able to actively work on prepayments but can also seek secondary market exits for the securities at the right valuation. In comparison to the cash flows received in the previous 8 months, the period ahead (post successful completion of the two voting exercises) appears more conducive to generate cash flows while preserving value. With fixed income markets gradually returning to normalcy, the schemes are seeing increased interest for many of the securities in the portfolio which were previously illiquid and have also received large prepayments from issuers lately. The schemes will therefore endeavour to pursue the twin objectives of accelerated monetization combined with value preservation going forward, subject to the directions of the Hon'ble Supreme Court.

While the latest maturity profile (as of 15 December 2020) shows that 56% of the AUM will be monetized by April 2021, this simply shows the maximum time it may take to liquidate the portfolio and does not take into account the ability to actively monetize the portfolio.

18. Why don't you withdraw the winding up decision, now that 4 of the schemes are cash positive and Covid situation has considerably eased out?

If the schemes are re-opened, they may need an emergency liquidation of securities if a high volume of redemption is received. This may entail distress sales of securities in order to meet the redemption volumes. The six schemes cumulatively have a non-monetized portfolio of over Rs.18,000 crore and the market is unlikely to have the liquidity to absorb such large quantities of securities over a short period of time. Hence it may not be possible to get bids at reasonable prices for all securities in such circumstances.

A distress sale of securities held in the portfolio could result in a rapid and steep decline in the NAV leading to substantial losses for Unitholders irrespective of market conditions.

It is not possible at this time to estimate the value erosion that may occur as this will depend in part on the securities held in each scheme, the volume and timing of redemption requests received, and the prevailing market environment.

Even for funds which have cash to the extent of about 50%, it is not possible to predict the volume of redemptions and the funds will be required to sell securities in order to generate liquidity. Unitholders may recall, that the NAV takes into account both the cash available, and the securities held in the fund, therefore any mark to market movements or losses from distress selling will reflect as a loss in the NAV of the fund. This may result in disproportionate distribution of any cash generated to unitholders depending on the day of redemption. While the endeavor would be to minimize losses, there is no assurance that the schemes will be successful in doing so. Hence, an orderly liquidation is likely to provide better outcomes for a majority of Unitholders.

19. The best solution is to let investors decide how much money they want, by when, based on the distress selling risks they would like to take instead of asking a simple Yes or No question.

Thank you for your feedback and your suggestions. We regret that it is not possible to provide the options that you have proposed under extant regulations.

At the outset, we would like to reclarify, that the decision to wind up the schemes was made only in order to preserve value for investors.

Please note that the Hon'ble Supreme Court permitted the Trustee of Franklin Templeton Mutual Fund to seek consent of the unitholders for the winding up of the six schemes under Regulation 18(15)(c) of SEBI (Mutual Funds) Regulations, 1996. The e-voting for the same will be held from 26-28 December followed by a unitholder meet on 29 December 2020. A SEBI appointed observer would oversee the voting exercise under regulation 18(15)(c).

The results of this vote along with the report of the observer shall be submitted in a sealed cover to the Hon'ble Supreme Court. The next hearing scheduled in the third week of January 2021.

As stated above, we are seeking consent of Unitholders under regulation 18(15)(c) as directed by the Hon'ble Supreme Court. A Yes vote will permit the funds to be wound up in an orderly manner, without the need to resort to any distress sales, thereby preserving value, and allowing for a proportionate distribution of cash to all Unitholders.

20. Why not pay-out the cash surplus from the cash positive schemes, soon after the hearing of the Hon'ble Supreme Court in the 3rd week of January 2021 irrespective of the voting result whether Yes or No. In case of a majority NO vote, redemptions will greatly reduce. Schemes can also be re-opened with limits of Rs.50,000 per month per investor?

We have received a number of questions from Unitholders providing suggestions on proportionate distribution of cash with a limit, re-opening of schemes, gating redemptions, etc.

as a way to manage the downside risks of a No Vote. Since the matter is pending before the Hon'ble Supreme Court, we will take appropriate steps as per the directions of the hon'ble court.

Please note that the Hon'ble Supreme Court permitted the Trustee of Franklin Templeton Mutual Fund to seek consent of the unitholders for the winding up of the six schemes under Regulation 18(15)(c) of SEBI (Mutual Funds) Regulations, 1996. As stated above, we are seeking consent of Unitholders under regulation 18(15)(c) as directed by the Hon'ble Supreme Court.

A Yes vote will permit the funds to be wound up in an orderly manner, without the need to resort to any distress sales, thereby preserving value, and allowing for a proportionate distribution of cash to all Unitholders. While it is not possible to provide the options that you have proposed under extant regulations, the outcomes of a YES vote would be in line with some of your suggestions.

21.What is your best estimate of the "hair-cut" that investors in the schemes may expect to take by the end of the first year after winding up?

In case of a Yes vote, the securities in the scheme can be liquidated in an orderly manner without the need to proceed with distress sale (as redemptions are not allowed) therefore enabling an orderly liquidation of the portfolio assets at fair value. The proceeds realized by the Schemes will be distributed to the Unitholders in proportion to the units held by them, at regular intervals. The Authorized Person (in this case, the Trustee, or Deloitte) would be in a position to take the most appropriate action with regard to liquidation of each security as there will be no undue haste or selling pressure.

The NAV would not be negatively impacted by any forced selling to fund redemptions, as liquidation would be orderly and there would be no need for distress sales unlike in the case of a "No" vote. Unitholders will not be required to apply for redemptions and will receive regular pro-rata distributions of investment proceeds as assets are systematically liquidated by the Scheme. The AMC has also been working with the Trustee appointed independent advisor, M/s Kotak Mahindra Bank, to prepare for an efficient monetization of scheme assets as soon as permitted.

With fixed income markets gradually returning to normalcy, the schemes are seeing increased interest for many of the securities in the portfolio which were previously illiquid and have also received large prepayments from issuers lately.

The second point to note is that the securities held in the schemes continue to accrue interest and therefore under an orderly winding up, the schemes will continue to earn this interest till monetization of assets is completed.

The 6 schemes have received Rs.1,886 crore as interest payment since 24 April to 15 December. Therefore, in addition to better value realization from an orderly winding up, unitholders will also benefit from the interest income accruing on the investments pending monetization of assets. The endeavour of the schemes will be to pursue the twin objectives of accelerated monetization combined with value preservation going forward, subject to the directions of the Hon'ble Supreme Court. Lastly, while it is not possible to provide a forward looking view on value, investors may note that the NAV of 4 out of the 6 schemes is greater than the NAV as on 23rd April, and has been improving in the recent past for the other two schemes as well.

22. You are receiving money from various securities but as its not yet distributed to investors, you should add interest on this money to the NAV.

The cash received by the schemes is invested in cash and cash equivalents such as TREPS. The interest earned on this investment is added back to the schemes and is already reflected in the NAV of the schemes.

23. What is the process and criteria for selection of agency which will be authorized for taking steps for winding up of the schemes?

Unitholders will first provide their consent for winding up the 6 funds under regulation 18(15)(c) by simple majority of votes cast. In case of a positive consent vote, and subject to directions from the Hon'ble Supreme Court, the Trustee would issue a notice under regulation 39(3). This would then be followed by a vote under regulation 41(1) to authorize the Trustee, or any other person

(in this case, Deloitte), by simple majority of votes cast, to monetize scheme assets in an orderly manner.

We have partnered with two prominent firms to ensure investors feel comfortable that the monetization process will be transparent and in their best interest. Subject to the directions of the Hon'ble Supreme Court, the vote under 41(1) would have two options - Option 1 will authorize the Trustee to efficiently monetize the assets with the assistance of the AMC and Kotak Mahindra Bank as an independent advisor while Option 2 will authorize Deloitte Touche Tohmatsu India LLP to monetize the assets with the assistance of the AMC and Kotak Mahindra Bank as an independent advisor.

Kotak Mahindra Group is one of India's leading financial services conglomerates. The Debt Capital Markets team at Kotak has been active in the debt markets for over 25 years. They have comprehensive experience across the entire product suite of fixed income assets which includes credit bonds. Over the last 4 years, the team has been actively involved in various marquee transactions in the Debt Capital Market Space.

Deloitte is a preeminent professional services firm for liquidation, resolution, restructuring and debt advisory in India with a dedicated Restructuring and Corporate Finance team consisting of over 40 senior professionals who are specialists and experts in these fields. Deloitte in India has handled several assignments involving stressed debt with successful deal closures of over 30+ deals in the same period.

We hope investors will take comfort from having such reputed and independent firms involved in the process, looking at the portfolios, and in fact the entire liquidation process. With regard to supervision of the liquidation process, the same will proceed basis the directions from the Hon'ble Supreme Court. We will provide adequate disclosures to our unitholders in this regard.

24.How will you monetize securities of Future and Reliance group if we vote to windup the scheme?

In case of the Future Group - Rivaaz Trade Ventures Pvt Ltd, Nufuture Digital (India) Ltd and Future Ideas Co Ltd – had defaulted on their scheduled debt obligations and were valued at zero basis AMFI standard hair cut matrix. However, Reliance Retail has announced the acquisition of the retail and wholesale business and logistics & warehousing business of the Future group. We understand the NCDs held by the respective schemes are proposed to be repaid from proceeds of the said transaction. We are closely tracking developments around the same and will update you on further developments in this regard.

In case of ADAG, the schemes have recovered more than the full value of the holding reflected in the NAV from the sale of pledged shares. We are actively pursuing all legal remedies for recovery of the balance amount keeping in mind the best interests of our unitholders. Hence, no further negative impact on NAV is expected in respect of the above exposures.

25.As a foreign company you have committed fraud and violated trust of customers. It is your moral responsibility to restore faith and return our money as per NAV.

At the outset we strongly deny any allegations of fraud. We understand your disappointment at the loss of liquidity in these funds for the past 8 months which has also impacted your trust in FT. As rightly stated by you, this trust can only be restored once we start returning your money. Our current focus and endeavour is to move quickly in this direction by following the directions of the Hon'ble Supreme Court and seeking unitholder consent under regulation 18(15)(c) for the winding up of the 6 funds. The e-voting has accordingly been scheduled from 26-28 December followed by the unitholder meet on 29 December 2020. Further, a SEBI appointed observer would oversee the voting exercise under regulation 18(15)(c). The results of this vote along with the report of the observer shall be submitted in a sealed cover to the Hon'ble Supreme Court.

The schemes have complied with the investment objective and asset allocation mentioned in the scheme information documents and extant regulations. The AMC has exercised due diligence and care in all investment decisions and records are maintained in support of individual scrip wise

investment decisions. All disclosures as required by regulations are available on our website under the Downloads, Reports, and other sections.

Franklin Templeton has always maintained high standards of corporate governance in India, and globally. We remain committed to the India business for the long-term. Franklin Templeton has more than 25 years of history in India, and our commitment to the Indian market and our investors remains steadfast. Our intention was always to preserve value for our unitholders. We assure you that we will work in the direction of quickly returning your monies in order to regain your faith and trust.

Even in the event of a majority “No” vote, we recognize that our reputation will depend, in part, on the outcomes we provide investors. It will be the endeavour of the schemes to minimize losses even in the event of a “No” vote. However, there is no guarantee of success, and we believe that outcomes for unitholders in a “Yes” vote will be superior to those in a “No” vote for a majority of investors.

26. This situation clearly indicates gross mismanagement, have you taken any suitable action against such individuals?

The schemes have complied with the investment objective and asset allocation mentioned in the scheme information documents and extant regulations. The AMC has exercised due diligence and care in all investment decisions and records are maintained in support of individual scrip wise investment decisions. All disclosures as required by regulations are available on our website under the Downloads, Reports, and other sections.

Investment Management is inherently about dealing with uncertainties and an unknown future. The accumulated knowledge and experience from past business cycles acts as a good guideline, but never a perfect manual for the future. The investment team has developed investment processes that help in identifying, assuming and mitigating risks of various nature. The central idea is not to avoid risk, but to manage it effectively to offer a distinct risk-return proposition to investors, in accordance with the disclosures made.

Anticipating and preparing for various economic scenarios is an inherent aspect of risk management. However, an outlier event like Covid-19 and the resultant economic shutdown could not have been anticipated. Even the 2008 global financial crisis was largely restricted to the financial services sector, while the Covid 19 pandemic and related lockdown in 2020, has had a much wider and deeper impact on businesses and the economy, and on debt markets, in particular those investing in below AAA rated securities, owing to months of global lockdowns never seen before. Hence there will certainly be new learnings from a pandemic whose intensity has been extremely far reaching.

Our focus at this time remains on an orderly liquidation of the portfolios in the best interest of our investors at the earliest possible time. We recognize that investors have made many allegations and we understand that these are borne out of concern around when and how much money they will receive. However, this does not mean that these allegations are true. We respectfully but strongly deny these allegations of mismanagement.

27.What is the share of losses being borne by Franklin Templeton? You need to take responsibility and bear the financial costs due to this.

We understand your disappointment at the loss of liquidity for the past 8 months. However, we took this extremely difficult decision only to protect value for our investors

On the expenses front, we confirm that Franklin Templeton has not charged any Management Fees since the date of the winding up notice. Further, costs related to appointment of the independent advisor -Kotak Mahindra Bank and the cost of Deloitte, if appointed as liquidator, are also being borne by us and are not being charged to the schemes. Legal expenses related to the various litigations filed have also not been charged to the schemes. The fund running expenses that are being charged to the scheme are in the nature of permissible expenses such as custody fee, audit fee, etc. and do not include any management fees or charges levied by us.

Our aim in April 2020 as well as now continues to be preservation of value for our unitholders.

This event has also had a significant impact on our business and our reputation, and we recognize that returning monies to investors in the shortest possible time, which can best be achieved with a “Yes” vote, is an important first step towards regaining investor trust

It will be the endeavour of the Scheme to accelerate the monetization process post a positive consent vote under regulation 18(15)(c) and the vote under regulation 41(1) to appoint an authorized person for orderly liquidation of the portfolio assets.

28. Why have the minutes of Trustee meeting on winding down not been disclosed despite an order from Karnataka High Court? What action has been taken for insider trading etc.

The Hon’ble Supreme Court has admitted the special leave petition filed by Franklin Templeton challenging certain aspects of the order of the Hon’ble Karnataka High Court, including the requirement to publish the minutes of the Board Meeting of the Trustee of Franklin Templeton Mutual Fund. You may note that the Hon’ble High Court of Karnataka had perused the minutes and concluded that there was no need to interfere in the decision taken by the Trustee to wind-up the schemes. Since the matter is under the consideration of the Hon’ble Supreme Court, we request you to wait for an appropriate decision from the Court in this regard.

You have mentioned certain allegations and we respectfully but strongly deny the same. SEBI has conducted a forensic audit and the inspection report which carries our responses will be submitted by SEBI to the Hon’ble Supreme Court in a sealed cover as directed by the Court.

29. If the case is in the Hon’ble Supreme court, how can you open the fund if the vote is NO?

You are aware that the Hon’ble High Court of Karnataka upheld the authority of the Trustee to wind up the 6 fixed income funds in its judgment dated October 24, 2020. The Hon’ble Court also held that there was nothing wrong in the decision-making process and that no interference is called for in the decision taken by the Trustee on April 23, 2020 to wind up the Scheme.

It further directed that the decision of winding up can be implemented only after obtaining the consent of unitholders under regulation 18(15)(c). The Trustee gave due consideration to the judgment and preferred an appeal to the Hon'ble Supreme Court of India on certain aspects of the judgement. However, with a view to proceed with orderly realization of value from scheme assets and distribution to Unitholders at the earliest, the Trustee sought permission of the Hon'ble Supreme Court to seek the approval of Unitholders for winding up the Schemes, which permission was granted by the Hon'ble Supreme Court on December 3, 2020 without prejudice to the rights and contentions of all parties.

The Apex Court also clarified that the permission granted to the Trustee to proceed with the vote under regulation 18(15)(c) was in the peculiar facts and circumstances of the case and the same should not be treated as a precedent.

The Hon'ble Supreme Court also directed SEBI to appoint an observer to oversee the voting exercise under regulation 18(15)(c) scheduled between 26-29 December.

The results of the above vote along with the report of the observer shall be submitted in a sealed cover to the Hon'ble Supreme Court. Lastly, any redemption in the six fixed income schemes continues to be stayed till the next date of hearing in the third week of January 2021.

Regarding your query on NO vote, the voting results would be submitted to the Hon'ble Supreme Court along with the report of the observer appointed by SEBI, in a sealed cover, as directed by the Court. Post the announcement of the results, we would proceed with the next steps as per the directions of the Apex Court both in case of the Yes or the No vote. In the absence of any specific directions from the Court, one or more schemes receiving a majority NO vote may be required to re-open for purchases and redemptions, leading to the negative consequences we have outlined in the Notice and in our communication.

30. How are you protecting the rights of retail investors when there may be claims from institutions / corporates with more significant holdings? What is the guarantee that you will not opportunistically favour the latter?

In case of a majority “Yes” vote for seeking unitholder consent under regulation 18(15)(c), the orderly winding up proceeds will be distributed to every unitholder in proportion of units they hold. There would be no preference for institutions or any other type of investor. The proportion of money distributed from the AUM of the fund will be intimated to each investor. We may point to the distribution made under the segregated portfolio where the full value recovered from M/s Vodafone Idea Ltd. (VIL) of INR 1245 crores was transparently and proportionately returned to investors without the need to place any redemptions, and without any preference, perceived or otherwise, to any investor.

The distribution from the funds in the case of a “Yes” vote, would be done in a similar manner. We may clarify here, that this is one of the distinguishing features between a “Yes” vote and “No” vote where in the case of a “No” vote, such an equitable treatment cannot be guaranteed and investors would receive monies basis redemption requests placed which can lead to significantly different outcomes for investors.

31. Why is the voting happening ahead of the unit holders meeting? Isn't it not logical to have the meeting followed by the voting?

As per the circular issued by MCA for general meetings of shareholders, remote e-voting shall be offered three days prior to the meeting.

Unitholders wishing to vote, but not attend the meeting, may do so from 26-28 December at any time of their convenience during these three days; Unitholders wishing to attend the meeting are enabled to do so, and are also enabled to vote during the meeting.

32. Will you be able to provide some sort of a distribution curve for the unitholders and their holdings?

We have about 3.2 lakh unitholders spread across the 6 funds. In terms of number of unitholders, all schemes predominantly have retail investors.

33. Please share the Audited / Unaudited Balance sheet as of Nov 30 along with details of portfolio holding with a further classification into secured and unsecured?

- The annual report of the funds are available on our website in the reports section ([link](#)) titled annual report and/ or abridged annual report. The last update is as of March 2020.
- The additional information on security classification (secured and unsecured) is available on the NSDL website (<https://www.indiabondinfo.nsdl.com/>) in their ISIN report.
- The current market value, details of unlisted securities and maturity date of each security is provided in the security level portfolio report (please check for security level portfolio in [this link](#) on our website). This information is updated every fortnight. Information requested that does not form a part of this disclosure is non-public information

34. I would request you to launch a Gilt FMP - fixed return close ended gilt fund, so that we can switch the debt corpus from those winding up schemes to Gilt FMP.

Thank you for your feedback and your support. We regret it would not be possible for us to launch a new scheme at this time. We will consider your suggestion with regard to your desire to remain invested and would revert in due course should we be able to offer such an option.

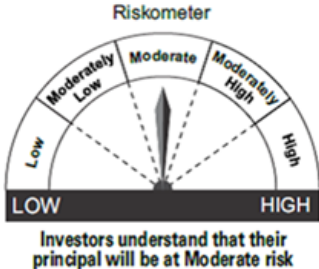
35. How will capital gains or loss be calculated if unwinding does not settle the full amount this financial year? Will payout proportionally redeem number of units as per current NAV for payment this year or will FT convert the remaining bonds as segregated portfolio with reduction of NAV as per percentage of cash available?

You may note that the amount received by unitholders are in the nature of redemption of units, by extinguishing proportionate units when payments are made. Where such amount or part thereof represents a gain for the unitholder, it will be taxed as capital gain in the hands of unitholders 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.

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 may appear as “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. Investors are requested to consult their advisers before taking voting decisions. None of such statement shall be considered as a promise or guarantee from our end unless so called out expressly.

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 Ultra Short Bond Fund (Number of Segregated Portfolios - 1) FIUBF	- 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	- 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 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 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.	

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.