July 17, 2021

Dear Investor,

Greetings from Franklin Templeton. I hope you are staying safe and healthy. With the increased pace of vaccinations across the country, it is heartening to see an improvement in economic activity across sectors which augurs well for the future.

Update on schemes under winding up

I had written to you earlier about SEBI issuing an order against the AMC related to the forensic audit / inspection of six debt schemes under winding up. We had filed an appeal with the Hon'ble Securities Appellate Tribunal (SAT) against the order and I am pleased to share that the Hon'ble SAT has stayed the operation of the order passed by SEBI. Consequently, the restriction on launching any new debt schemes for a period of two years shall remain stayed during the pendency of the appeal. We have complied with the conditions prescribed in the SAT order and the matter is listed on August 30, 2021, for further hearing.

The Hon'ble Supreme Court (SC) of India pronounced a judgment on the interpretation of regulations around winding-up on July 14, 2021. The judgement confirms the decision of the Hon'ble High Court of Karnataka that the Trustee has the authority to take a decision to wind up a scheme under regulation 39 (2) (a), but must seek investor consent under regulation 18 (15) c after taking such a decision. The court further clarified that such a scheme shall remain closed for redemptions pending the outcome of the unitholder vote. As you are aware, after obtaining permission from the SC, the Trustee had sought permission of the unitholders to wind-up the schemes. We once again express our gratitude to unitholders for voting overwhelmingly in favor of the winding-up. We believe the judgement of the Hon'ble Supreme Court offers much needed clarity on the winding-up process.

Given below are some key highlights around the winding up:

- The schemes have disbursed INR 17,778 crores as of June 30, 2021. A further INR 3,303 crores is in the process of being disbursed this week which brings the total disbursal to INR 21,080 crores.
- The total amount disbursed equals 84% of the AUM as on April 23, 2020, and ranges from 62% to 99% across the six schemes.
- Post the disbursement this week,
    - Franklin India Ultra Short Bond Fund and Franklin India Low Duration Fund would have disbursed 95% and 99% of their AUM as on April 23, 2020, respectively.

    - Franklin India Credit Risk Fund and Franklin India Dynamic Accrual Fund would have disbursed 83% and 76% of their AUM as on April 23, 2020, respectively.
    - Franklin India Short Term Income Plan and Franklin India Income Opportunities Fund would have disbursed 67% and 62% of their AUM as on April 23, 2020, respectively.
- The average NAV at which the 5 tranches have been disbursed for each of the six schemes is higher than the NAV as on April 23, 2020. We believe this supports the decision made by the Trustee in consultation with the AMC and its investment management team to wind up the six schemes.

Please find below the links to the latest portfolio update of these schemes as of July 15, 2021.

- **Security Level Portfolio**
- **Maturity Profile**

We place great emphasis on compliance and believe that we have always acted in the best interest of unitholders and in accordance with regulations. Our commitment to India remains steadfast. For the schemes under winding-up, Franklin Templeton's immediate priority and focus remains on supporting the court appointed liquidator in liquidating the portfolio of the schemes under winding up and distributing monies to our unitholders at the earliest, while preserving value.

Update on Economy & Markets

The outbreak of the Covid-19 pandemic last year led to a global recession. Disruptions in supply chain, distribution and manufacturing arising from regional lockdowns as well as loss of income to weaker sections of the economy were expected to weigh on demand recovery as well as investor sentiment. However, a gradual resumption in economic activities post the relaxation in restrictions can now be seen as indicated for example by improving mobility indicators. Along with an overall conducive policy mix, continuation of an accommodative stance by the monetary policy committee and commitment to prioritize growth despite inflationary pressures in the economy, could aid cyclical growth recovery. Domestic businesses today are far more resilient to adapt to the evolving circumstances. Liquidity has remained abundant, interest rates remain comfortable and risk appetite has not disappeared. Companies have reduced their leverage and strengthened their balance sheets.

With this backdrop, we had always aimed to keep our equity portfolios well-diversified and positioned towards cyclical growth sectors which generally perform well during an economic upturn. We are also focusing on areas of technological disruption with business ideas that hold potential for sustainable growth. The performance of our key equity funds has improved significantly over the last few quarters. I enclose for your review, a link to a perspective on the economy, the markets, changing trends, and how Franklin Templeton equity funds are turning the corner. Please click this link to hear from Janakiraman Rengaraju – Portfolio Manager, Emerging Markets Equity.

Other Updates

As advised via our recent letter, we have decided to outsource our Transfer Agency Services to Computer Age Management Services (CAMS). Post the transition, CAMS will manage our back-office operations, record-keeping, and service support. Given the significant advances in technology and services by CAMS, we are confident this will be a positive change resulting in an enhanced, industry standard service offering for you. The transition is scheduled for July 19, 2021.

I would like to express my sincere gratitude to you for your continued support during these challenging times. My team and I remain available to answer any questions you may have.

Please continue to stay safe and healthy.

Sincerely,

Sanjay Sapre
President, Franklin Templeton Asset Management (India) Pvt. Ltd.