FRANKLIN TEMPLETON

Letter from our President

23 June 2020

Subject: An Update on Winding up of 6 Fixed Income Schemes

Dear Investor,

I hope you are staying safe and healthy. I am writing to you today for two reasons – one, to thank you for your patience in matters related to winding up of the 6 yield-oriented fixed income schemes, and second, to update you on some of the recent developments.

An update on cases filed against Franklin Templeton:

As you may be aware, legal cases have been filed to contest the Trustees decision on the winding up of the six yield-oriented schemes.

As of June 19, 2020, the Hon'ble Supreme Court (SC) has considered the Special Leave Petition and the Transfer Petition filed by Franklin Templeton. All legal cases relating to the winding-up of these six schemes will be transferred to a Division Bench of the Hon'ble Karnataka High Court and the SC has directed that the matter be completed within 3 months. This may reduce the litigations and expedite the resolution.

On June 16, 2020, SEBI had filed a Letter Patent Appeal (LPA) in the Gujarat High Court against the decision of a single bench to stay the e-voting and unitholders meeting. With the decision of the Hon'ble Supreme Court that all cases related to the winding of the six yield-oriented schemes of Franklin Templeton should be heard by the Hon'ble Karnataka High Court, all pending litigations will be transferred to the division bench of Hon'ble Karnataka High Court. As you may be aware, two of the schemes undergoing winding-up have surplus cash and we will take appropriate steps in the interest of the unitholders to enable distribution of the same to the unitholders at the earliest. In this regard, we will file an appeal before the Hon'ble Karnataka High Court seeking vacation of the stay order issued by the Hon'ble Gujarat High Court.

How do the legal developments impact timelines for E-Voting, Unitholders meet and disbursement of monies back to investors?

The E-Voting and Unitholder's Meet for the six schemes under winding up cannot be conducted till the stay order issued by the Hon'ble Gujarat High Court is vacated. In the meanwhile, we have been working to analyze the portfolio of each scheme and develop a monetization strategy for each of the securities in the portfolio. The schemes continue to receive maturities, pre-payments and coupon payments. However, an efficient monetization of assets and distribution of investment proceeds will be possible only after obtaining consent of the unitholders under regulation 41 of SEBI (Mutual Fund) Regulation 1996.

I also want to assure you, that while there has been a delay due to the various legal cases, we have been making progress:

1. From April 24, 2020 to June 15, 2020, the schemes have received INR 1,964.21 cr. from maturities, pre-payments, and coupon payments.

2. Two of the six schemes (Franklin India Ultra Short Bond Fund & Franklin India Dynamic Accrual Fund) have repaid their bank borrowings and are cash positive. These schemes can start repayments to investors subject to a successful Unitholder Vote. We anticipate that Franklin India Ultra Short Bond Fund will have in excess of 7% of its AUM available to distribute to Unitholders by the end of June 2020, and Franklin India Dynamic Accrual Fund could have in excess of 6% of AUM by this same time.

3. In one more scheme, Franklin India Credit Risk Fund, the borrowing level has come down to 11.25% from its original level of 22.27% on April 24, 2020.

4. As a reminder, this cash has been generated only through pre-payments, scheduled maturities and coupon payments and we would be able to accelerate monetization post a successful Unitholder vote.

The latest developments regarding our investments in Essel Infraprojects Ltd. and Reliance Big Entertainment:

1. Two bonds issued by the Essel Infraprojects Ltd. were unable to honour their principal payment on May 22, 2020. We have appointed a legal counsel and have initiated necessary legal actions for recovery. The schemes will continuously monitor the developments and take appropriate steps in the best interest of its unitholders. Four of the six impacted schemes have investments in these bonds. These bonds are held in the portfolio at a marked down value and the equity share collateral is adequate to cover this value as of June 22, 2020.

2. Bonds issued by Reliance Big Entertainment were unable to meet their interest payment obligation due on June 14, 2020. The put option (exercise date of June 15, 2020) has not been exercised as the security is already rated "D" and the next put option date is on September 14, 2020. We are exploring options for invocation of pledged shares as well as the corporate guarantee and are taking appropriate legal advice on the same. Five of the six impacted schemes have investments in these bonds. These bonds are held in the portfolio at a marked down value and the share collateral is adequate to cover this value as of June 22, 2020.

I understand that the delay due to various legal cases have added to your disappointment and inconvenience. We are doing our best to have these resolved at the earliest so that the schemes can start to efficiently monetize assets and return money to you.

We will continue to share the progress made on all matters important to you. Thank you once again for your continued patience and co-operation.

In case of any further queries, please feel free to call our dedicated helpline at 1-800-258-4255 or 1-800-425-4255 from 8 a.m. to 9 p.m., Monday to Saturday. Alternatively, you can also e-mail us at service@franklintempleton.com. We would be happy to assist.

Yours sincerely,

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