FRANKLIN TEMPLETON

Franklin Templeton Mutual Fund

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Addendum to the Scheme Information Document of Franklin India Low Duration Fund

Franklin Templeton Mutual Fund proposes to change certain scheme features of Franklin India Low Duration Fund (the Scheme) effective January 29, 2020.

Given below are the changes in the features of the Scheme:

<table>
<tr><th>Particulars</th><th>Current features</th><th>Proposed features</th></tr>
<tr>
<td>Asset Allocation</td>
<td>
Under normal market circumstances, the investment range would be as follows:
<table>
<tr><th>Instruments</th><th>Risk Profile</th><th>% of Net Assets #</th></tr>
<tr><td>Debt* including Corporate Debt, PSU Bonds, Gilts, Real Estate Investment Trusts (REIT)/ Infrastructure Investment Trust (InvIT) and Securitised Debt</td><td>Low to Medium</td><td>10% - 80%</td></tr>
<tr><td>Money Market Instruments</td><td>Low</td><td>20% - 90%</td></tr>
</table>
*Including Securitised Debt up to 50%
#The Scheme may have exposure in the following:
1. Foreign securities as may be permitted by SEBI/RBI upto 50% of net assets
2. Derivatives up to a maximum of 50% of net assets. Investment in derivatives including imperfect hedging using Interest Rate Futures shall be in line with the guidelines prescribed by SEBI from time to time. The exposure limit per scrip/instrument shall be to the extent permitted by the SEBI Regulation for the time being in force. These limits will be reviewed by the AMC from time to time.
3. Repos in corporate debt securities
4. Short Selling
5. Securities Lending - A maximum of 40% of net assets may be deployed in securities lending and the maximum single party exposure may be restricted to 10% of net assets outstanding at any point of time.
6. REITs and InvITs - A maximum of 10% of net assets may be deployed in REITs and InvITs and the maximum single issuer exposure may be restricted to 5% of net assets or upto the limits permitted by SEBI from time to time.
It must be clearly understood that the percentages stated above are only indicative and not absolute and that they can vary substantially depending upon the perception of the Investment Manager, the intention being at all times to seek to protect the interests of the Unit holders. The asset allocation pattern described above may alter from time to time on a short-term basis on defensive considerations, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors (i.e., for reasons other than downgrade in rating) and would, in such cases, shall be rebalanced within 30 days from date of deviation. However, if the asset allocation pattern is to be altered for other reasons, as this is a fundamental attribute, the procedure outlined in the paragraph on fundamental attributes below, shall be followed.
The Scheme will generally invest in instruments such that the Macaulay duration of the portfolio is between 6-12 months.
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<td>
Under normal market circumstances, the investment range would be as follows:
<table>
<tr><th>Instruments</th><th>Risk Profile</th><th>% of Net Assets #</th></tr>
<tr><td>Debt and Money Market instruments including Corporate Debt, PSU Bonds, Gilts, instruments having Structured Obligations/ Credit Enhancements and Securitised Debt*</td><td>Low to Medium</td><td>0-100%</td></tr>
<tr><td>Real Estate Investment Trusts (REIT)/ Infrastructure Investment Trust (InvIT)</td><td>Low to Medium</td><td>0-10%</td></tr>
</table>
*Securitised Debt up to 50%
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6. REITs and InvITs - A maximum of 10% of net assets may be deployed in REITs and InvITs and the maximum single issuer exposure may be restricted to 5% of net assets or upto the limits permitted by SEBI from time to time.
7. Restrictions on Investment in debt instruments having Structured Obligations / Credit Enhancements shall be in line with limits permitted by SEBI from time to time. Currently, limits prescribed as per SEBI Circular dated October 1, 2019 are as follows:
• Investment of the scheme in the following instruments shall not exceed 10% of the debt portfolio of the scheme and the Group exposure in such instruments shall not exceed 5% of the debt portfolio of the scheme:
a) Unsupported rating of debt instruments (i.e. without factoring-in credit enhancements) is below investment grade.; and
b) Supported rating of debt instruments (i.e. after factoring-in credit enhancement) is above investment grade.
For this purpose, a group means a Group as defined under regulation 2 (mm) of SEBI (Mutual Funds) Regulations, 1996 (Regulations) and shall include an entity, its subsidiaries, fellow subsidiaries, its holding company and its associates.
• These investment limits mentioned above shall not be applicable on investments in securitized debt instruments, as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations 2008.
• Investment in debt instruments, having credit enhancements backed by equity shares directly or indirectly, shall have a minimum cover of 4 times considering the market value of such shares.
AMC may ensure that the investment in debt instruments having credit enhancements are sufficiently covered to address the market volatility and reduce the inefficiencies of invoking of the pledge or cover, whenever required, without impacting the interest of the investors. In case of fall in the value of the cover below the specified limit, AMC shall initiate necessary steps to ensure protection of the interest of the investors.
• The existing investments by the scheme as on October 1, 2019 in debt instruments that are not in terms of the provisions prescribed herein may be grandfathered till maturity date of such debt instruments.
It must be clearly understood that the percentages stated above are only indicative and not absolute and that they can vary substantially depending upon the perception of the Investment Manager, the intention being at all times to seek to protect the interests of the Unit holders. The asset allocation pattern described above may alter from time to time on a short-term basis on defensive considerations, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors (i.e., for reasons other than downgrade in rating) and would, in such cases, shall be rebalanced within 30 days from date of deviation. However, if the asset allocation pattern is to be altered for other reasons, as this is a fundamental attribute, the procedure outlined in the paragraph on fundamental attributes below, shall be followed.
The Scheme will generally invest in instruments such that the Macaulay duration of the portfolio is between 6-12 months.
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Further, it is also proposed to include following section in the SID of the Scheme:

Investment in debt instruments having Structured Obligations / Credit Enhancements

Structured Obligation is referred as mechanisms and structures to enhance overall creditworthiness of certain obligation(s). A suffix in the form of '(SO)' indicates that the obligation being rated is a "structured obligation" that is different and distinct from the "general obligations" of the issuer. Some of the ways include:

(a) **Special Purpose Vehicles:** This is a mechanism to create a Special Purpose Vehicle (SPV) and commit issuer's existing assets or future receivables, which in turn creates special ownership rights called as Pass Through Certificates (PTCs) and sells them to prospective investors. This helps in enhancing the credit rating of the instrument. This enhancement, that supports the payment of interest and principal on the instrument, may be internal or external. The rating of such instruments can be better than that of the sponsor. This structure typically allows them to use the capital more efficiently. Structured Obligation (SO) ratings are ratings that are based on a 'credit enhancement' mechanism and/or a structured payment mechanism.

(b) **Credit Enhancement** can also be used to structure a debt obligation with an attempt to improve the structure's overall credit worthiness. The lender is provided with reassurance that the borrower will honour its repayment through an additional collateral, insurance, or a third-party guarantee. Credit enhancement reduces the credit risk associated with the debt, thereby increasing the overall credit rating while providing reasonable and required security to the lender and lowering interest rates. There are several ways to enhance credit worthiness some are internal like subordination, excess spread, or over collateralization and others are external like third-party provider in the form of a financial guarantee, the provision of a reserve fund account, external equity, or a combination of the above. The purpose of credit enhancement is to ensure timely payment to the investors, if the actual collection from the pool of receivables for a given period is short of the contractual pay out on securitisation.

Some of the risks associated with investment in debt instruments having Structured Obligations/Credit enhancements include:

- Credit risk: Credit risk is the risk of underlying borrowers not honoring their obligations. Typically, credit enhancement and other structural features cover some part of the credit risk, but it is possible that the actual credit losses are more than the credit enhancement and there may be credit loss to the debenture holder.
- Prepayment-related risk: Prepayment is the early repayment by a borrower, in part or in full, often as a result of optional refinancing to take advantage of lower interest rates. This could expose the investor to interest rate movements in the economy.
- Liquidity risk: Given the customized nature of Structured Obligations, they may be less liquid compared to plain vanilla debentures. In case of extreme liquidity events, the fund manager may not be able to sell them at acceptable prices.
- Enforcement Risk: Enforcement may be limited by bankruptcy, insolvency, liquidation, re-organisation and other laws of general application relating to or affecting the rights of creditors and shareholders (of issuer, credit enhancement provider, servicer, originator).
- Cash flow commingling risk: It may prove difficult to isolate the cashflow to an issued security in situations where the borrowers have multiple borrowings and obligations.
- Extraordinary price movements: Aside from relying on its underlying assets, structured obligations are also affected by external factors. This may also be called interconnection risk, especially if the obligation is collateralized by market traded securities.
- Complex pay-out structures: The mere fact that structured products are not standardized and have different conditions make them risky. This characteristic makes it hard to price them in various market conditions.
- Market risk: The underlying assets in structured products are greatly affected by a magnitude of factors that can directly affect the performance of structured obligations, and in turn, investor gains or losses.
- Income risk: Structured Obligations differ from one another and some may or may not guarantee recurring payouts. This could make them more volatile than regular income providing securities.

The aforesaid changes in scheme features constitute change in fundamental attributes of the Scheme. In terms of prevailing regulatory requirements, investors in the Scheme are given an option to exit at the prevailing Net Asset Value (NAV) without any exit load, in case they do not wish to continue in this Scheme in view of the change in the fundamental attributes. The period of this no load exit offer is from December 30, 2019 to January 28, 2020 (both days inclusive). The redemption request for this purpose may be submitted at any of Official Points of Acceptance of Transactions (OPAT) of Franklin Templeton Mutual Fund, and the NAV applicable will be based on the day and time the application is received at any of the designated OPAT. Unitholders who do not exercise the exit option on or before 3.00 pm on January 28, 2020 would be deemed to have consented to the proposed change.

However, the exit option without load will not be available to investments in the Scheme made on or after December 30, 2019. Unitholders who have pledged their units will need to procure a release of their pledge prior to submitting their redemption request.

The changes in scheme features have been approved by the Board of Directors of the Franklin Templeton Asset Management (India) Pvt. Ltd. (investment manager for schemes of Franklin Templeton Mutual Fund) and Franklin Templeton Trustee Services Pvt. Ltd. (the Trustee to the schemes of Franklin Templeton Mutual Fund).

All the other terms and conditions of the Scheme Information Document of the Scheme, read with the addenda issued from time to time, will remain unchanged.

This addendum forms an integral part of the Scheme Information Document and Key Information Memorandum issued for the Scheme, read with the Addenda.

This addendum is dated December 26, 2019.

For Franklin Templeton Asset Management (India) Pvt. Ltd.
(Investment Manager of Franklin Templeton Mutual Fund)

Sd/-

Sanjay Sapre
President

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