



FRANKLIN TEMPLETON

Letter from our President

December 3, 2020

Dear Unitholder,

I had shared an update with you about our decision to file a special leave petition before the Hon'ble Supreme Court to ensure appropriate implementation of the law in the best interest of unitholders. The Hon'ble Supreme Court heard the matter today and I am pleased to share an update on the way forward:

An update on the Supreme Court Hearing on December 3, 2020

The Hon'ble Supreme Court issued an interim order allowing the Trustee of Franklin Templeton to seek consent of the unitholders for the winding up of the six schemes under Regulation 18(15)(c) of SEBI (Mutual Fund) Regulation 1996. Redemptions will continue to be suspended till further notice. We believe that the Supreme Court order will be helpful in ensuring orderly monetization and distribution of scheme assets. We will issue the notice for seeking consent of unitholders shortly.

What this means for you as an Investor

We will now be proceeding with next steps to seek unitholder consent for the winding up of the six schemes under regulation 18(15)(c) of SEBI (Mutual Fund) Regulation 1996. In order to ensure maximum participation, the process of seeking unitholder consent will be through an "Electronic Vote" followed by a meeting through video conference. As stated above, the details and modalities of the same will be shared with you soon. The objective of the voting exercise is to seek consent, by "simple majority", 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. Consent will be sought from the unitholders for each scheme separately.

As a unitholder, you have two choices:

- **Vote "Yes" in favour of the orderly winding up** – A "Yes" vote will allow us to proceed with the next step which is seeking unitholder authorization under Regulation 41. Post this, the Trustee or any other authorized person can proceed with monetization of assets and distribution of monies to Unitholders. This will also mean that the schemes will not be required to make a distress sale of portfolio securities to fund redemptions.
- **Vote "No" against the orderly winding up** – A "No" vote will mean the funds will be required to re-open for purchases and redemptions. The schemes may suffer significant losses due to the need to sell securities at distress prices to fund heightened redemption volumes.

Why we believe you should vote "Yes" in favour of the Trustee's decision to orderly wind up the six schemes

We seek your consent for the orderly winding up and believe this will result in the best possible outcomes for unitholders under the current circumstances. In normal market conditions, the opportunity to liquidate assets at fair value will increase with time. Let me share some data to support this.

1. From April 24 to November 27, 2020, the schemes under winding up have received over INR 11,576 crores from maturities, pre-payments, and coupons. Out of the INR 11,576 crores, the schemes have received INR 2,836 crores in the month of November 2020.
2. You are aware that four out of the six schemes are already cash positive. Even though the schemes could not actively monetize the portfolio, the cash available for disbursement as on November 27, 2020 stands at INR 7,226 crores for these four schemes, subject to fund running expenses. This shows that subject to unforeseen credit events, if any, the securities held in the funds can be liquidated at fair value, if the schemes are allowed to undertake an orderly process of liquidation. This is preferable to a distress sale of securities (at steep discounts) that would occur if a rush of redemptions forces an emergency liquidation of the securities at prices far below their realizable value under normal market conditions.

3. Individually, Franklin India Low Duration Fund, Franklin India Ultra Short Bond Fund, Franklin India Dynamic Accrual Fund and Franklin India Credit Risk Fund have approx. 48%, 46%, 33% and 14% of their respective AUM in cash as on November 27, 2020.
4. We also continue to make good progress in reducing borrowings in the other two funds. The outstanding borrowing (net of cash available for repayment of borrowings) in Franklin India Short Term Income Plan stands at approx. INR 62 crores (1% of AUM) and in Franklin India Income Opportunities Fund, at approx. INR 305 crores (18% of AUM) as on November 27, 2020.
5. All this money has been received without undertaking any secondary market sales (active monetization) of the securities in these six schemes. Voting **“Yes” for orderly winding up**, gives the person authorised under regulation 41, the time needed to monetize scheme assets without resorting to distress sales and thus gives an opportunity to the scheme to return maximum value to unitholders.

I would also like to assure you, that voting for an orderly winding up does not mean a lengthy wait for return of monies. **Once we receive a majority “Yes” vote in favour of the orderly winding up of the schemes**, we will immediately proceed with a second vote to seek approval of the unitholders as required under regulation 41 of SEBI (Mutual Fund) Regulation 1996 to authorize the Trustee, or any other person, to proceed with the winding up of the schemes. The person authorised under regulation 41 would then be able to distribute the cash already available in the schemes and make further payments at regular intervals as the schemes monetize assets and receive cash-flows.

Over the next few days, we will update you on the next steps related to the process of seeking consent. In the meanwhile, my team and I are here to answer any questions or concerns you may have.

We deeply appreciate the support of our investors and partners till date and hope to commence distribution of investment proceeds at the earliest.

Please stay safe and healthy.

Sincerely,

Sanjay Sapre

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

Disclaimer

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