



FIDUCIARY INVESTMENT MANAGEMENT INTERNATIONAL, INC.

1133 Connecticut Avenue, NW, Suite 410
Washington, DC 20036
(202) 822-2110
www.franklintempleton.com

INVESTMENT ADVISER REGISTRATION FORM ADV PART 2A: FIRM BROCHURE

This brochure provides information about the qualifications and business practices of Fiduciary Investment Management International, Inc. If you have any questions about the contents of this brochure, please contact Global Business Service Support ("GCSS") via email at GlobalClientServiceSupportAmericas@franklintempleton.com. This information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Fiduciary Investment Management International, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

ANY REFERENCE TO FIDUCIARY INVESTMENT MANAGEMENT INTERNATIONAL, INC. AS BEING A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

September 30, 2017

Item 2 Material Changes

Material changes made on or after the date of the last annual update of the Adviser's brochure on September 30, 2016 are summarized below:

Item 5: Fees and Compensation -- Added disclosure regarding investments in pooled investment vehicles, including affiliated funds.

Item 7: Types of Clients – Revised disclosure regarding institutional separate account clients.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss – Updated disclosure regarding investment strategies and risk factors.

Item 12: Brokerage Practices – Added additional disclosure regarding engaging counterparties, aggregation of trades, and the use of client commissions.

Item 16: Investment Discretion – Update disclosure regarding limitations on investment discretion.

Clients may request a copy of the current version of our brochure at no cost by contacting GCSS via email at GlobalClientServiceSupportAmericas@franklintempleton.com.

Item 3 Table of Contents

Item 4 Advisory Business	1
Item 5 Fees and Compensation	2
Item 6 Performance-Based Fees and Side-By-Side Management	4
Item 7 Types of Clients	6
Item 8 Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9 Disciplinary Information	11
Item 10 Other Financial Industry Activities and Affiliations	11
Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ...	12
Item 12 Brokerage Practices	17
Item 13 Review of Accounts	17
Item 14 Client Referrals and Other Compensation	23
Item 15 Custody.....	23
Item 16 Investment Discretion	23
Item 17 Voting Client Securities	26
Item 18 Financial Information	28

Item 4 Advisory Business

INTRODUCTION TO FIDUCIARY INVESTMENT MANAGEMENT INTERNATIONAL, INC.

Fiduciary Investment Management International, Inc. (the “Adviser”), is a Delaware corporation formed on March 2, 1998 and based in Washington, D.C. The Adviser is an indirectly-owned subsidiary of Franklin Resources, Inc. (“Franklin Resources”), a holding company that, together with its various subsidiaries, is referred to as Franklin Templeton Investments® (“FTI”), a global investment management organization offering investment services under the Franklin®, Templeton®, Franklin Mutual Series®, Franklin Bissett®, Fiduciary Trust™, Darby®, Balanced Equity Management®, K2® and LibertyShares® brand names. Franklin Templeton Investments, through current and predecessor subsidiaries, has been engaged in the investment management and related services business since 1947.

The common stock of Franklin Resources is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “BEN,” and is included in the Standard & Poor’s 500 Index.

ADVISORY SERVICES

The Adviser provides investment advisory and portfolio management services under investment management agreements with one or more institutional and high net-worth separate accounts (collectively, “Accounts”). The services provided by the Adviser will generally include investment research and portfolio management services, including the selection of securities to be purchased, held or sold and the selection of brokers through whom the portfolio transactions are executed.

The Adviser provides investment management services under agreements with each of the Accounts that it manages. Investment management services include services to managed accounts with full investment discretion, and may also include services to advisory accounts with no investment discretion. Typically, Accounts are managed on a fully discretionary basis.

With respect to Accounts for which the Adviser has been appointed to provide discretionary investment management services, the Adviser will either perform or obtain investment research and determine which securities the Accounts will purchase, hold or sell. In addition, the Adviser may take various steps to implement such decisions, including arranging for the selection of broker-dealers and the execution and settlement of trades in accordance with detailed criteria set forth in the management agreement for each Account, internal policies, commercial practice, and applicable law. With respect to Accounts for which the Adviser has been appointed to provide non-discretionary investment management services, the Adviser will perform or obtain investment research for its clients and make recommendations as to which securities the Accounts purchase, hold or sell. In such cases, the Adviser may or may not perform trading activities for the Accounts depending on the authority provided by the client.

The Adviser provides investment advice to separate account clients in accordance with investment objectives, guidelines and restrictions which form part of the mandate selected by the client or are otherwise developed in consultation with the client prior to delivery of advice. Certain separate accounts managed by the Adviser may invest in funds and accounts managed by affiliated or unaffiliated investment advisers.

The Adviser considers each prospective separate account client on an individual basis. Please see Item 16 (“Investment Discretion”) for details of the circumstances in which clients may place limitations on the Adviser’s discretionary authority.

Potential or actual conflicts of interest may arise in the allocation of investment opportunities among the Adviser’s Accounts. Conflicts of interest are discussed in greater detail in Item 11 (“Code of Ethics, Participation or Interest in Client Transactions and Personal Trading”).

SERVICES OF AFFILIATES

Franklin Templeton Investments operates its investment management business through the Adviser, as well as through multiple affiliates of the Adviser, some of which are registered with non-U.S. regulatory authorities and some of which are registered with multiple regulatory authorities. The Adviser uses the services of appropriate personnel of one or more of its affiliates for investment

advice, portfolio execution and trading, and client servicing in their local or regional markets or in their areas of special expertise, except to the extent restricted by the client under its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements, formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the Account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as disclosed in the investment management agreement. Please see Item 10 ("Other Financial Industry Activities and Affiliations") for more details.

ASSETS UNDER MANAGEMENT

The Adviser provides management services or continuous and regular supervisory services for the Accounts that it manages. As part of these overall services, the Adviser will typically provide one or more of the following: (i) management services as an adviser to an Account, (ii) management services as a sub-adviser to an affiliated adviser managing or supervising an Account, (iii) management services under delegated authority by an affiliated adviser, (iv) continuous and regular supervisory services for an Account where management services have been delegated by the Adviser to an affiliated adviser (v) management services as a co-manager to an Account for which an affiliated adviser also provides management services or (vi) non-discretionary management services. Assets under management described in this item may include all of these types of Accounts, and may include Accounts and assets that an affiliated adviser is also reporting on its Form ADV.

As of September 30, 2017, the Adviser managed the following amounts on a discretionary and non-discretionary basis:

	U.S. Dollar Amount
Discretionary	\$ 589,104,053
Non-Discretionary	\$ 0
Total*	\$ 589,104,053

*May differ from Regulatory Assets Under Management ("RAUM") disclosed in Item 5.F. of Adviser's Form ADV Part 1A due to specific calculation instructions for RAUM.

Item 5 Fees and Compensation

ADVISORY FEES

Investment management fees are generally calculated under contractual arrangements with the Adviser's Accounts as a percentage of the market value of assets under management. Annual rates vary by investment objective and type of services provided. Fee arrangements for separate accounts vary by client, and are based on a number of different factors, including investment mandate, services performed, and account/relationship size. To the extent permitted under the Investment Advisers Act of 1940 (the "Advisers Act") and other applicable law, the Adviser may negotiate and charge performance fees or special allocations, as well as asset-based fees in connection with Accounts. In addition, fees and allocations may be fixed, fixed plus performance or performance only. Please refer to Item 6 ("Performance-Based Fees and Side-by-Side Management") for additional discussion of performance based fees and allocations.

The Adviser is not generally required to provide notice to, or obtain the consent of, one client when waiving, reducing or varying fees or modifying other contractual terms with any other client. However, some separate account clients may from time to time seek to negotiate most favored nation ("MFN") clauses in their investment management agreements with the Adviser. These clauses typically require the Adviser to notify the a client with an MFN clause if the Adviser subsequently enters into an agreement with a comparable client that provides more favorable fee rate or certain other contractual terms than those in place with the client who has the MFN clause at that time. Individual investors in certain funds may seek to negotiate similar MFN provisions as a condition of their investment. Once notified, the client can elect to either adopt or reject the more favorable terms or, usually when the MFN clause relates only to fees, may require that any

more favorable fee terms be extended automatically to the client. The applicability of an MFN clause will typically depend on the degree of similarity between clients. The Adviser does not under normal circumstances apply an MFN clause negotiated with its own client to investment management agreements between the Adviser's affiliates and their clients. The Adviser will consider a number of factors when determining similarity between Accounts, including the type of client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy selected by each client. The Adviser has sole discretion over whether or not to grant any MFN clause in all circumstances.

FEE SCHEDULES

The Adviser's fee schedule is based on an annual percentage of the Account's assets under management. Unless otherwise stated, fees are calculated and payable quarterly in arrears based on the value of assets in the Account at the end of each calendar quarter. Generally, the Adviser's fee schedules for separate accounts fall within the ranges stated below (normally calculated as a percentage of the value of assets under management, and typically calculated quarterly, or as agreed with each client). In some cases, fees may be negotiated.

1.25% on the first \$5,000,000

0.75% on the next \$5,000,000

0.60% on the balance

The minimum annual fee is \$62,500

TIMING AND PAYMENT OF ADVISORY FEES

The timing of fee payments will be negotiated with each client. Asset-based fees generally are paid monthly or quarterly and are calculated on a percentage of the value of the Account's net assets under management. Any performance fees or other performance based compensation charged by the Adviser will be generally based on exceeding specified yield or total return benchmarks or hurdles and generally are payable: (i) on a quarterly or annual basis, (ii) in the case of certain separate accounts managed by the Adviser, at the time of withdrawal or redemption with respect to the amount withdrawn, and/or (iii) as redeemed or as investments are realized and/or capital is distributed. The timing and amount of performance fees are described in the Adviser's investment management agreements with clients.

The Adviser's investment management agreements with clients generally do not have termination dates. Rather, investment management agreements often include automatic renewal provisions, but the agreement may also include a provision stating that the Adviser or client may terminate. In some situations, clients may arrange to pay fees in advance. In the event of the termination of a relationship, unearned fees, if any, paid in advance will be refunded to the client. To the extent fees have been earned but not yet billed, such fees will be pro-rated and paid by the client upon termination.

Except as separately negotiated or as otherwise disclosed, fees are calculated in most cases as a percentage of assets under management and are payable monthly or quarterly in arrears (i.e. after the services are rendered) based on the month or quarter-end market value or on the average value for the fee period. Where the Adviser has agreed with a separate account client to calculate fees based on the value of assets at the end of a particular fee period, the Adviser will typically unless otherwise instructed prorate its fees to take into account capital contributions or withdrawals made by the client (with the exception of contributions or withdrawals below a threshold amount determined by the Adviser) during the relevant month or quarter. Although most separate account clients elect to pay fees by authorizing their custodian to pay the Adviser out of their account assets pursuant to a pre-agreed fee schedule, some clients request the Adviser to bill them directly for fees incurred. Separate accounts generally are subject to a minimum fee, determined by applying the client's fee schedule to the applicable minimum portfolio size. If the Adviser manages multiple accounts for a client (or group of related clients), the assets of these Accounts may be aggregated for purposes of taking advantage of available breakpoints.

OTHER FEES AND EXPENSES

In addition to the fees described above, clients of the Adviser typically bear other costs associated with investments or Separate Accounts including but not limited to: (i) custodial charges, brokerage fees, commissions and related costs, (ii) interest expenses, (iii) taxes, duties and other governmental charges, (iv) transfer and registration fees or similar expenses, (v) costs associated with foreign exchange transactions, (vi) other portfolio expenses, and (vii) costs, expenses and fees (including investment advisory and other fees charged by the investment advisers of funds in which the client invests) associated with products or services that may be necessary or incidental to such investments. With respect to such services (which may include, but are not limited to, custodial, securities lending, brokerage, futures, banking, consulting or third-party advisory services) each client will be required to establish business relationships with relevant service providers or other counterparties based on the client's own credit standing. The Adviser will not have any obligation to allow its credit to be used in connection with the establishment of such relationships, nor is it expected that such service providers or counterparties will consider or rely on the Adviser's credit in evaluating the client's creditworthiness. Clients will generally incur brokerage and other transaction costs. See Item 12 ("Brokerage Practices") for discussion on brokerage.

The Adviser may, on behalf of certain clients, invest in pooled investment vehicles, including mutual funds and exchange traded funds. Subject to applicable law and regulation and the terms of their agreements, clients will generally bear the costs and expenses charged by these investment vehicles to their investors, such as management and administrative fees, in addition to the Adviser's management fees. In some cases it may be appropriate for the Adviser to invest a portion of a client's assets in funds for which the Adviser or its affiliate serves as investment adviser or sub-adviser ("Affiliated Funds"). This may be appropriate where, for example, the Affiliated Fund provides a more efficient and cost-effective way to diversify an account. Such arrangement may create a conflict of interest for the Adviser to the extent that it recommends investments in one of the Affiliated Funds rather than in unaffiliated mutual funds or other securities. The Adviser or its affiliates may receive investment advisory and other fees from the Affiliated Funds but not from unaffiliated mutual funds or other securities (although any investments in such securities would generally be subject to the advisory fees applicable to the securities). The Adviser seeks to mitigate any potential conflict by excluding any assets invested in Affiliated Funds from the management fee charged by the Adviser to the rest of the Account, unless otherwise agreed with a client (for example, where a client requests additional allocation services at the Account level) or disclosed to a client, subject to applicable law. Those assets are instead subject to the Affiliated Fund's fees and charges applicable to all investors in such fund, as disclosed in the fund's current prospectus or other relevant document. As a result, the Adviser or its affiliates will indirectly receive advisory and other fees paid by those clients as investors of an Affiliated Fund. This and other conflicts are further discussed in Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading").

Item 6 Performance-Based Fees and Side-By-Side Management

The Adviser manages different types of Accounts with a variety of fee arrangements and charges performance-based fees or allocations with respect to certain clients in addition to management fees. These are described in more detail under Item 5 above. Some Accounts, for example, may pay management fees based on a fixed percentage of assets under management, whereas other Accounts may have more varied fee structures, including a combination of asset-and performance-based compensation.

Side-by-side management by the Adviser of Accounts creates potential conflicts of interest, including those associated with any differences in fee structures, as well as other economic interests the Adviser or its supervised persons may have in an Account managed by the Adviser.

When the Adviser receives performance-based fees or allocations, the search for strong investment returns can incentivize the Adviser to make investments that are riskier or more speculative than it would otherwise make. The prospect of achieving higher compensation from an Account with performance-based fees or allocations than from an asset based fee account may provide the Adviser with an incentive to favor the Account with performance-based fees or

allocations when, for example, placing securities transactions that the Adviser believes could more likely result in favorable performance. Similarly, a significant proprietary investment held by the Adviser or an affiliate in an Account may create an incentive for the Adviser to favor such Account to the detriment of other Accounts.

The Adviser seeks to conduct its business by treating all clients equally and by appropriately managing conflicts of interest that may arise when conducting transactions involving multiple clients. The Adviser does this by disclosing potential conflicts to its clients and by implementing policies and procedures reasonably designed to address those conflicts. The Adviser has implemented a number of policies and procedures designed to address side-by-side management and the potential conflicts of interest that may arise when a portfolio manager or different portfolio managers within a single investment adviser or investment group manage multiple funds and investment accounts for advisory clients. Specific examples of situations that may create the potential for conflicts of interest are discussed below.

A potential conflict of interest can arise if the Adviser sells short a security in one Account while simultaneously arranging for another Account to hold the same security long. The Adviser may have a legitimate reason for engaging in such inconsistent transactions. For example, the investment objectives of the two Accounts may differ. Nonetheless, the Adviser could be viewed as harming the performance of the Account with the long position for the benefit of the Account with the short position if the short sale caused the market value of the security to drop. To mitigate this potential conflict of interest, the Adviser has implemented a Short Sale Policy to deny a short sale request in certain circumstances.

Cross trades are another area that may present potential conflicts of interest in that they may be viewed as favoring one client over another. For example, an adviser making a cross trade that is expected to increase in value from a U.S. Registered Fund (with an asset based fee) to an investment account (with a performance fee) could be perceived as doing so merely to increase the performance-based compensation it receives from the investment account. The reverse is true with respect to securities expected to decrease in value. The Adviser has implemented inter-account transaction procedures to address these potential conflicts of interest by, among other things, requiring pre-clearance of all cross-trades.

Advisers may have a different valuation process for the accounts they or their affiliates advise. Consequently, a U.S. Registered Fund and an investment account that hold the same security may value that security differently. Different valuations of the same security could lead to questions about whether an adviser acted appropriately. For example, an adviser could be perceived as placing a higher valuation on a security held in an investment account merely to increase its performance-based compensation from that account. To address this conflict, the Adviser must document an explanation for any differences in the valuation of securities held by, for example, both a U.S. Registered Fund and an investment account managed by the Adviser and/or its affiliates. The explanation provided must be reviewed and approved by the Valuation Committee formed to provide oversight and administration of the fair valuation and liquidity policies and procedures adopted by the Adviser.

Aggregation and allocation of transactions may create conflicts of interest for the Adviser. The Adviser may aggregate orders of its clients to effect a larger transaction with the aim of reducing transaction costs. The Adviser must then allocate the securities among the participating Accounts. Although aggregation of transactions is permissible, potential conflicts of interest exist in the aggregation and allocation of client transactions. For example, an adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee to that adviser. Similarly, if a portfolio manager identifies a limited investment opportunity that may be suitable for several funds or Accounts, a single fund or Account may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other Accounts.

The Adviser has implemented trade aggregation and allocation procedures designed to address these potential conflicts of interest. These procedures require that an average price be used for multiple executions of a particular security through the same broker on the same terms on the same day and describe the allocation methodologies to be applied as well as permissible exceptions from standard allocation methods that must be pre-approved by a designated trading

desk compliance officer. Please see Item 12 ("Brokerage Practices") for further discussion of allocation of investment opportunities.

Item 7 Types of Clients

The Adviser currently provides investment advice and portfolio management services to one or more institutional and high net-worth separate accounts. Accounts may include portfolios managed for corporations, endowments, charitable foundations and pension funds, as well as high net-worth individuals and other institutions. The Adviser uses various investment techniques to focus on specific client objectives for these specialized portfolios.

The Adviser generally will not accept management of a new Account of less than \$5 million unless special circumstances are present. Special circumstances include the existence of a related account already managed by the Adviser or an affiliate.

INSTITUTIONAL SEPARATE ACCOUNTS

The Adviser generally provides investment management services to institutional separate account clients in accordance with the investment guidelines and restrictions agreed to between the client and Adviser in the investment management agreement, which may be amended from time to time when mutually agreed to in writing.

Each client's guidelines are tailored to reflect their particular investment needs. The Adviser provides a broad array of investment management services to institutional clients, which may include, from time to time, corporations, charitable foundations, endowment funds and government and corporate defined contribution and pension plans.

Use and Provision of Client Information and Confidentiality Clauses in Investment Management Agreements

The Adviser may include a separate account client's name in a representative or sample client list prepared by the Adviser with the client's consent.

The Adviser is not generally required to provide notice to, or obtain the consent of, any client for use or disclosure of Account information to third parties, provided such use does not disclose the client's name or other personal information. This may include information relating to the Adviser's investment experience with respect to an Account or an Account's performance, composite and representative account performance presentations, marketing materials, attribution and research analyses, statistical and data compilations, or similar materials.

In certain circumstances, the Adviser may disclose information to third parties that includes a client's name, account number or other account information (including non-public information) if this is required (i) in connection with the performance of its services under the respective investment management agreement (including, but not limited to, providing trading and other account information to brokers and third-party administrators, and the preparation and printing of client account statements and reports by third parties), or (ii) by law or regulatory authority, including but not limited to any subpoena, administrative, regulatory or judicial demand or court order, or (iii) by the bylaws or equivalent governing documents of any issuer in which the Account is invested. While the Adviser is not generally required to provide notice or obtain consent in these situations, certain clients may request advance notice of a regulatory request, to the extent permitted by applicable law or regulation.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

The Adviser's investment management group offers its clients customized portfolios represented by determining the appropriate asset allocation strategy to meet clients' long term objectives, and investing in individual securities, mutual funds, exchange traded funds and alternative investments. The Adviser's investment management services incorporate strategic and tactical asset allocation recommendations based on proprietary expected risk and return forecasts to optimize portfolios. Fundamental investment research and valuation analyses, including original economic, political, industry and company research, and analyses of suppliers, customers and competitors are used in the security selection process. Company research includes the utilization

of such sources as company public records and other publicly available information, management interviews, company prepared information, and company visits and inspections. In addition, research services provided by dedicated research or brokerage firms are used to support the Adviser's findings. In managing discretionary Accounts and providing recommendations to non-discretionary clients, the Adviser uses various investment strategies, methods of analysis, and risk strategies. These strategies are implemented by the Adviser's portfolio managers.

The Adviser offers both U.S. and non-U.S. fixed income and equity investment strategies to individuals and institutional clients using a variety of investment styles, including growth, core and enhanced cash management, and including market capitalization ranges, such as small-, mid-, small/mid-, large- and all-cap, as well as geographic and industry sectors which can be tailored to meet the specific needs of clients. The Adviser also offers alternative asset (including multi-asset) separate account strategies to individuals and institutional clients.

INVESTMENT STRATEGIES

Significant strategies used by the Adviser include:

ASSET ALLOCATION

The Adviser's CIO and Director of Asset Allocation lead the Asset Allocation Committee to conduct research on global economic and financial conditions, along with forecasts of expected return and risk on asset classes, to determine strategic and tactical asset allocation recommendations for clients. Portfolio managers will use the recommendations, along with their assessment of a client's required return, risk tolerance, and constraints to build strategies to meet the client's needs.

EQUITY MANAGEMENT

The Adviser's equity investment team is represented by its portfolio managers and investment associates. The Adviser employs a fundamentally-oriented process focused on identifying companies that it believes have the potential for long-term sustainable growth. A dedicated team will also, as appropriate, help to identify third-party managers for specific investment strategies or asset classes.

Buy and Sell Discipline

Buy Discipline

- Stocks are selected based on growth potential and valuation, with a primary focus on fundamentals:
 - Sustainability of the company's competitive advantage
 - Confidence in management
 - Expected impact of future growth drivers
 - Profitability and return profile of the business model
 - Valuation relative to other companies globally

Sell Discipline

- Stocks can be sold based on investment rationale or client specific considerations. Stocks will be sold if:
 - The Adviser believes they are fully valued
 - There are signs of potential deterioration in fundamentals
 - An expected stock decline is greater than tax incurred by sale

The Adviser's portfolio managers leverage the expertise of research analysts who provide individual security analysis and also function as industry specialists. The Adviser's investment team searches the market capitalization spectrum globally for companies that meet specific growth, quality, and valuation criteria.

While portfolio managers have ultimate decision-making authority, every investment decision reflects the input and feedback of the entire investment team. Throughout the research process, portfolio managers communicate their investment ideas formally and informally to their colleagues.

Regularly-scheduled meetings are designed to ensure that critical investment information is shared by the Adviser's investment teams:

Scheduled daily meetings are an important part of the dynamic interaction among the members of the investment team. These discussions encourage information sharing, robust analysis and discussion, and a mutual understanding of the rationales for strategic and security-specific decisions. Portfolio managers discuss the impact of important events and announcements on an individual sector or a stock.

Monthly presentations, add another level of interaction between portfolio managers. Typically, on a rotating schedule, dedicated teams of portfolio managers who follow different industry sectors present an overview of their sectors' fundamental developments and key trends, culminating in an explanation of their stock recommendations. The sector team leader may provide information on sector trends and major investment themes, and how well-positioned a specific sector is for growth.

Roundtable meetings, serve as a forum for portfolio managers and investment associates to present investment ideas. They prepare in-depth reports with detailed financial and qualitative analysis. At the regular roundtable meetings, portfolio managers, investment associates, and sector team leaders share opinions and have the opportunity to challenge each stock idea. Discussions between equity and fixed income portfolio managers support the team's ability to look at a stock from every perspective.

Informal daily interactions and discussions among portfolio managers and analysts across the broad organization are equally important to regularly-scheduled meetings. This dialogue encourages our investment team to openly share opinions, provide explanations, and more fully examine assumptions.

FIXED INCOME MANAGEMENT

The Adviser's fixed income portfolios benefit from the collective resources of three strategic committees:

The Fixed Income Policy Committee is represented by the Adviser's Chief Investment Officer and senior members of the fixed income team. It is responsible for establishing the overarching fixed income investment strategies used by our portfolio managers to construct and manage fixed income portfolios. The Fixed Income Policy Committee analyzes macroeconomic trends and attempts to forecast their impact on the world bond markets. It also seeks to establish duration and maturity targets, provide sector/issue recommendations, and recommend exit and entry points.

To develop its macroeconomic forecasting, the Adviser does not rely on a single economist. Instead, the committee utilizes and maintains an extensive economic database using information from a range of external data sources. In addition, this committee leverages independent in-house analysis produced by Franklin Templeton Investments' Equity and Fixed Income Research Groups.

The Adviser's macroeconomic forecasting forms the basis for its portfolios' structural characteristics.

In seeking to formulate maturity, duration, and entry/exit point strategies, the Fixed Income Policy Committee analyzes current U.S. fiscal and monetary policy, and detailed yield curve data. The Fixed Income Policy Committee also analyzes historical yield spreads and ratios for a range of sectors with the aim of determining which sectors or issues are over or under-valued.

The Strategy Committees consist of senior portfolio managers who specialize in assigned fixed income strategies. This team seeks to develop optimal and model portfolios represented by country, currency, duration, yield curve, and sector allocations.

The Sector Committees consist of all fixed income portfolio managers, investment associates and traders. Each sector committee specializes in assigned fixed income market sectors. The teams provide bottom-up analysis to the Adviser's Fixed Income Policy Committee.

ALTERNATIVE ASSET CLASSES

The Adviser's Strategic Advisory Services group ("SAS") supplements the Adviser's investment management services with asset allocation services and the ability to research and select third-party managers across the spectrum of asset classes, including alternative assets. Traditionally, the Adviser manages all or part of a client's assets, coordinating as required with the client's other advisors. For clients seeking greater diversification, SAS can assist with the selection and monitoring of third-party managers for specific segments of the portfolio. The Adviser's consultative approach focuses on providing tailored solutions, as opposed to proprietary products or a packaged "model portfolio." SAS draws on the expertise of a team of asset class specialists to identify investment managers in the particular asset classes needed in a client's portfolio. Searches are conducted on a case-by-case basis, using parameters driven by the client's specific needs. The asset class specialists are not tied to any predetermined list of Franklin Templeton Investments or external investment managers. To address potential conflict, the Adviser accepts no placement fees or revenue sharing between third-party SAS advisers. Once selected, the Adviser may on behalf of a client, or the client itself may, appoint the Adviser's affiliated investment adviser to serve as the investment manager of the Account. The Adviser does not commingle SAS clients' investments across managers.

INVESTMENT RISKS

Particular investment strategies or investments in different types of securities or other investments involve specific risks that clients should be prepared to bear. The risks involved for different client Accounts will vary based on each client's investment strategy and the type of securities or other investments held in the client's Account. The following are descriptions of a number of the material risks related to the significant investment strategies used by the Adviser. Not all possible risks are described below.

Market – The market value of securities or other investments managed by the Adviser will go up and down, sometimes rapidly or unpredictably. A security's or other investment's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise. The market value of securities may also go up or down due to factors that affect an individual issuer or particular sector. When markets perform well, there can be no assurance that securities or other investments will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the price of the various stocks held by a portfolio managed by the Adviser.

Equity Securities – Equity securities represent a proportionate share of the ownership of a company. Their value is based on the success of the company's business and the value of its assets, as well as general market conditions. The purchaser of an equity security typically receives an ownership interest in the company as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares.

Debt Securities - In general, a debt security represents a loan of money to the issuer by the purchaser of the security. A debt security typically has a fixed payment schedule that obligates the issuer to pay interest to the lender and to return the lender's money over a certain time period. Debt securities are all generally subject to interest rate, credit, income and prepayment risks and, like all investments, are subject to liquidity and market risks to varying degrees depending upon the specific terms and type of security. The Adviser attempts to reduce credit and market risk through diversification and ongoing credit analysis of each issuer, as well as by monitoring economic developments, but there can be no assurance that it will be successful at doing so.

Credit – An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's or a government's credit rating may affect a security's value. While some securities are backed by the full faith and credit of the U.S. government or other issuing government, guarantees of principal and interest do not apply to market values or yields. Substantial losses may be incurred on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the Adviser or the rating agencies than such securities actually do.

Prepayment – An issuer of debt securities may make unscheduled prepayments of principal, which means the holder of those debt securities loses anticipated interest. Prepayments generally increase when interest rates fall.

Interest Rate – When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. Interest rate changes on the whole are influenced by a number of factors including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. In general, securities with longer maturities are more sensitive to these interest rate changes.

Non-U.S. Securities – Investing in non-U.S. securities typically involves more risks than investing in U.S. securities, and includes risks associated with: (i) political and economic developments – the political, economic and social policies or structures of some countries may be less stable and more volatile than those in the United States, (ii) trading practices – government supervision and regulation of non-U.S. security and currency markets, trading systems and brokers may be less than in the United States, (iii) availability of information – non-U.S. issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers and information may be less timely and/or reliable than information provided by U.S. issuers, (iv) limited markets – the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile, and (v) currency exchange rate fluctuations and policies. Although not typically subject to currency exchange rate risk, depositary receipts may be subject to the same risks as non-U.S. securities generally. The risks of investments outside the United States may be greater in developing countries or emerging market countries.

Developing Market Countries – The Adviser may make investments in developing market countries. These investments are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

Asset Allocation – The Adviser's ability to achieve its investment goal may depend upon its skill in determining a portfolio's asset allocation mix and/or selecting sub-advisers. There is the possibility that the Adviser's evaluations and assumptions regarding asset classes and the selected sub-advisers will not be successful in view of actual market trends.

Smaller and Midsize Companies – Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

Non-Diversification – Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities issued by or representing a small number of issuers. As a result, the portfolio's performance may depend on the performance of a smaller number of issuers.

Short Sell – Short selling entails special risks. If a portfolio makes short sales in securities that increase in value, the portfolio will lose value. Any loss on short positions may or may not be offset by investing short sale proceeds in other investments.

Concentration – Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, industry or asset class. A portfolio concentrating in a single state or jurisdiction is subject to greater risk of adverse economic, political or social conditions and regulatory changes than a fund with broader geographical diversification.

Liquidity – Liquidity risk exists when the markets for particular securities or types of securities are or become relatively illiquid so that it is or becomes more difficult to sell the security at the price at which the security was valued. Illiquidity may result from political, economic or issuer-specific events; changes in a specific market's size or structure, including the number of participants; or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets. Market quotations for illiquid securities may be volatile and/or subject to large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event. To the extent that a significant portion of an issuer's outstanding securities is held, greater liquidity risk will exist than if the issuer's securities were more widely held.

Growth Style Investing – Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Prices of these companies' securities may be more volatile than other securities, particularly over the short term.

Management – The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

Item 9 Disciplinary Information

None.

Item 10 Other Financial Industry Activities and Affiliations

The Adviser is an indirectly-owned subsidiary of Franklin Resources, a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments.

The Adviser may have business arrangements with related persons/companies that are material to the Adviser's advisory business or to its clients. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between the Adviser and a client. Please see Item 4 ("Advisory Business") for additional information on services of affiliates.

Recognized conflicts of interest are discussed in Item 6 ("Performance-Based Fees and Side-By-Side Management") above, and Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading") and Item 12 ("Brokerage Practices") below.

The Adviser has arrangements with one or more of the following types of related persons that may be considered material to its advisory business or to its clients.

RELATED BROKER-DEALERS

One or more of the Adviser's management persons are registered with Financial Industry Regulatory Authority ("FINRA") as a registered representative of an affiliated broker-dealer of the Adviser.

The Adviser is under common control with Franklin/Templeton Distributors, Inc. ("FTDI"), Franklin Templeton Financial Services Corp. ("FTFSC") and Templeton/Franklin Investment Services, Inc. ("TFIS"), all of which are registered broker-dealers.

FTDI is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker-dealer and is a member of FINRA. FTDI's primary business is underwriter and distributor for FTI investment companies registered with the SEC pursuant to the Investment Company Act of 1940 (the "1940 Act") ("U.S. Registered Funds"), including the Franklin Templeton exchange traded funds. Most of its distribution activities occur through independent third-party broker-dealers, who have the primary day-to-day direct contact with shareholders. FTDI is also the underwriter of the

Franklin Templeton 529 College Savings Plan and the NJBEST 529 College Savings Plan (collectively, "529 Plans"). In addition, FTDI acts as program manager and distributor for the 529 Plans, which are municipal fund securities. As a result, FTDI is registered as a municipal securities dealer, subject to regulation by the Municipal Securities Rulemaking Board. In certain instances, shareholders bypass a third-party broker-dealer and establish unsolicited accounts directly with FTDI, who becomes the broker-dealer of record by default. FTDI does not make recommendations to purchase or sell fund shares to retail investors.

Underwriting and distribution fees are earned primarily by distributing our funds pursuant to distribution agreements between FTDI and the funds. Under each distribution agreement, the fund's shares are offered and sold on a continuous basis and certain costs associated with underwriting and distributing the fund's shares may be incurred, including the costs of developing and producing sales literature, shareholder reports and prospectuses.

FTFSC is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker-dealer and is a member of FINRA. In addition, FTFSC is registered with the Commodity Futures Trading Commission ("CFTC") as an introducing broker and is a member of the National Futures Association ("NFA"). FTFSC, in conjunction with other investment advisory affiliates, provides the broker-dealer platform to private funds. As such, FTFSC personnel are also associated with FTI investment advisers ("FTI Advisers") so that they may utilize the FTFSC broker-dealer platform when offering private placement and mutual fund securities products to their clients.

TFIS is registered with the SEC as a broker-dealer and is a member of FINRA. TFIS offers private placement and mutual fund products. Many of TFIS' registered associated persons are also dually registered with FTDI to support joint program initiatives, such as marketing U.S. mutual fund products. TFIS also has some dually registered associated persons with FTFSC.

RELATED INVESTMENT ADVISERS

The Adviser may enter into a sub advisory arrangement with, or may refer a client to, an investment adviser affiliate capable of meeting the client's specific investment needs. One or more of these affiliated investment advisers may be serving as a commodity trading advisor ("CTA") registered or exempt from registration with the CFTC. The Adviser is affiliated with other registered investment advisers which are under common control with the Adviser, and the Adviser may share certain portfolio management personnel and investment research with such affiliated investment advisers.

The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the Account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as disclosed in the investment management agreement.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS SUMMARY

Franklin Resources has adopted a code of ethics and business conduct (the "Code of Ethics"), which is applicable to all officers, directors, and employees of Franklin Resources and its U.S. and non-U.S. subsidiaries and affiliates, including the Adviser. The Adviser is also subject to a personal investments and insider trading policy (the "Personal Investments Policy"), which serves a code of ethics adopted by FTI pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 of the 1940 Act. A brief description of the main provisions of the Personal Investments Policy follows.

The Personal Investments Policy states that the interests of the Adviser's clients are paramount and come before any employee. All Covered Employees (as defined below) are required to conduct themselves in a lawful, honest and ethical manner in their business practices and to maintain an environment that fosters fairness, respect and integrity.

Covered Employees include the Adviser's partners, officers, directors (or other persons occupying a similar status or performing similar functions), and employees, as well as any other person who provides advice on behalf of the Adviser and are subject to the supervision and control of the Adviser. The personal investing activities of Covered Employees must be conducted in a manner that avoids actual or potential conflicts of interest with the clients of the Adviser. Covered Employees are required to use their positions with the Adviser and any investment opportunities they learn of because of their positions with the Adviser in a manner consistent with their fiduciary duties to use such opportunities and information for the benefit of the Adviser's clients and applicable laws, rules and regulations. In addition, the Personal Investments Policy states that information concerning the security holdings and financial circumstances of the Adviser's clients is confidential and Covered Employees are required to safeguard this information.

Additionally, Access Persons, a subset of Covered Employees, are required to provide certain periodic reports on their personal securities transactions and holdings. "Access Persons" are those persons who have access to non-public information regarding the securities transactions of the Adviser's funds or clients; are involved in making securities recommendations to clients; have access to recommendations that are non-public; or have access to non-public information regarding the portfolio holdings of funds for which a FTI Adviser serves as an investment adviser or a sub-adviser or any fund whose investment adviser or principal underwriter controls an FTI Adviser, is controlled by an FTI Adviser or is under common control with an FTI Adviser. The Adviser's Access Persons must obtain pre-clearance from the Compliance Department before buying or selling any security (other than those not requiring pre-clearance under the Personal Investments Policy). The Personal Investments Policy also requires pre-clearance before investing in a private investment or purchasing securities in a limited offering. The Personal Investments Policy prohibits Access Persons from investing in initial public offerings ("IPOs").

To avoid actual or potential conflicts of interest with the Adviser's clients, certain transactions and practices are prohibited by the Personal Investments Policy. These include: front-running, trading parallel to a client, trading against a client, using proprietary information for personal transactions, market timing, and short selling Franklin Resources stock and the securities of Franklin Templeton closed-end funds.

The Personal Investments Policy requires prompt internal reporting of suspected and actual violations of the Personal Investments Policy. In addition, violations of the Personal Investments Policy are referred to the Director of Global Compliance and/or the Chief Compliance Officer as well as the relevant management personnel. No Covered Employee or Access Person may trade while in possession of material, non-public information or communicate material non-public information to others.

Information is considered material if there is a substantial likelihood that a reasonable investor would consider the information to be important in making his or her investment decision, or if it is reasonably certain to have a substantial effect on the price of the company's securities. Information is non-public until it has been effectively communicated to the marketplace. If the information has been obtained from someone who is betraying an obligation not to share the information (e.g., a company insider), that information is very likely to be non-public.

The Adviser has implemented a substantial set of trading procedures designed to avoid violation of the Personal Investments Policy.

Copies of the Personal Investments Policy are available to any client or prospective client upon request.

POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

Participation or Interest in Client Transactions

The Adviser or its affiliates may from time to time recommend to clients or buy or sell for Accounts, securities in which the Adviser or its affiliates have a material financial interest. Such financial interests may include the contribution by the Adviser or an affiliate of seed capital to a fund it manages, or an actual investment by the Adviser or an affiliate in the fund or in third-party vehicles in which the Adviser or a related person has a financial interest. The Adviser or its

related persons may also purchase or sell for themselves securities or other investments which one or more advisory clients own, previously owned, or may own in the future.

The Adviser is not itself a general partner of any limited partnership, but one or more of its affiliates may serve as a manager, general partner or trustee or in a similar capacity, of a partnership, trust or other collective investment vehicle in which clients are solicited to invest. These entities generally invest in stocks and/or fixed income securities of domestic and/or foreign companies or in other funds that invest in such securities or in other partnerships, trusts or other investment vehicles that generally are engaged in the business of investing in, purchasing, selling, developing or re-developing commercial and residential real estate properties and interests.

Potential or actual conflicts of interest may arise in (i) the allocation of investment opportunities among the Adviser's clients, (ii) the investment by clients in entities in which the Adviser or its related persons have a financial interest, and (iii) investments by the Adviser or its employees for their personal accounts.

The Adviser and its affiliates manage numerous funds and accounts. The Adviser may give advice and take action with respect to one fund or Account it manages, or for its own account, that may differ from action taken by the Adviser on behalf of any of the other funds or Accounts it manages. This gives rise to certain potential conflicts of interest, as discussed below.

The Adviser's management of its clients may benefit members of the Adviser and its affiliates. For example, the Adviser's clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which a member of the Adviser, or the Adviser's other clients, or the Adviser's affiliate, for itself or its clients, has an equity, debt, or other interest.

The advisory contracts entered into by the Adviser with each client do not entitle clients to obtain the benefit of any particular investment opportunities developed by the Adviser or its officers or employees in which the Adviser, acting in good faith, does not cause such client to invest. The Adviser has discretion to allocate investment opportunities among its clients subject only to each Account's respective investment guidelines and the Adviser's duty to act in good faith.

Similarly, with respect to a particular Account, the Adviser is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that the Adviser and "access persons," as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. The Adviser is not obligated to refrain from investing in securities held by any Accounts it manages.

Allocations to any account in which the interests of the Adviser, its officers, directors, employees or affiliates collectively exceed 5% of the account's economic value shall be governed by procedures and policies adopted by Franklin Templeton Investments designed to ensure that buy and sell opportunities are allocated fairly among clients (the "Equity Trade Allocation Policy and Procedures").

These accounts may be deemed affiliated persons of the Adviser by reason of the collective 5% or greater ownership interest of the Adviser's insiders and the Adviser's registered mutual fund clients, if any. Transactions for and allocations to these accounts are given special scrutiny because of the inherent conflict of interest involved. All exceptions to standard allocation/rotation procedures involving such affiliated accounts are monitored and recorded.

If securities traded for affiliated accounts are also the subject of trading activity (i) by an Adviser's advised mutual fund, or (ii) by other non-mutual fund client accounts, the securities traded for the affiliated accounts are generally aggregated for trading with the Adviser's advised mutual fund or other non-mutual fund client accounts.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the Adviser have adopted the Personal Investments Policy, which they believe contains provisions reasonably necessary to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the Personal Investments Policy addresses all individual conduct that could result in conflicts of interest. The Adviser has adopted certain additional compliance procedures that are designed to address these and other types of conflicts.

However, there is no guarantee that such procedures will detect all situations where an actual or potential conflict arises.

OTHER POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

The Adviser, where appropriate and in accordance with applicable laws, may purchase on behalf of the Adviser's clients, or recommend to the Adviser's clients that they purchase, shares of Affiliated Funds, or invest their assets in other portfolios managed by the Adviser or an affiliate ("Affiliated Accounts").

The Adviser faces potential conflicts when allocating the assets of its clients to one or more Affiliated Funds or Affiliated Accounts. For example, in hindsight and despite intent or innocent purpose, circumstances could be construed that such allocation conferred a benefit upon the Affiliated Fund, Affiliated Account or an adviser to the detriment of the Adviser's client, or vice versa.

As a shareholder in a pooled investment vehicle, a client of the Adviser will pay a proportionate share of the vehicle's fees and expenses. Investment by a client in an Affiliated Fund means that the Adviser may, directly or indirectly, receive, subject to applicable laws, advisory (or other) fees from the Affiliated Fund in addition to any other fees it receives from the Adviser's client for managing the client's Account. Similarly, the Adviser's clients who invest through a separate account managed by another related adviser are subject to advisory fees charged by that Adviser. The Adviser's clients should notify the Adviser if they do not want their separate account assets to be invested in Affiliated Funds. The Adviser's clients may invest directly in certain Affiliated Funds or other U.S. Registered Funds independently without paying additional separate account management fees to the Adviser.

The separate account management fees paid by certain retirement accounts (including those subject to the Employee Retirement Income Security Act of 1974 ("ERISA")) that invest in U.S. Registered Funds from which the Adviser or its affiliate receives compensation ("Affiliated Registered Funds") will, in order to avoid duplication of fees, exclude account assets invested in such Affiliated Registered Funds to the extent required by law when calculating the Adviser's separate account management fees. Accordingly, the assets of such accounts invested in Affiliated Registered Funds will pay their pro rata share of such applicable Affiliated Registered Fund fees, to the extent not prohibited by law. Alternatively, the Adviser may elect to provide a credit representing the respective account's pro rata share of fees paid with respect to any assets of a client invested in shares of any such U.S. Registered Funds or other pooled investment vehicles, or separately managed accounts of another related adviser.

In certain circumstances, the Adviser may conclude that it is appropriate to sell securities held in one client Account to another client Account. Consistent with its fiduciary duty to each client (including the duty to seek best execution), the Adviser may (but is not required to) effect purchases and sales between clients or clients of affiliates ("cross trades") if the Adviser believes such transactions are appropriate based on each client's investment objectives, subject to applicable law and regulation. The Adviser will not receive compensation (other than its normal advisory fee for managing the Account), directly or indirectly, for effecting a cross trade between advisory clients, and accordingly will not be deemed to have acted as a broker with respect to such transactions. The Adviser seeks to ensure that the price paid or amount received by a client in a cross trade is fair and appropriate, which may be based on independent dealer quotes or information obtained from recognized pricing services. Since, in such cross trades, the Adviser will represent both the selling client and the buying client, the Adviser may have a perceived conflict of interest. There are possible costs or other disadvantages of this potential conflict versus the potential benefit of obtaining reduced transaction or execution costs that may be obtained from such cross trades. Any cross trades effected with respect to U.S. Registered Fund clients are subject to Rule 17a-7 under the 1940 Act.

Potential Restrictions on Investment Adviser Activity

From time to time, the Adviser may be restricted from purchasing or selling securities or other instruments on behalf of its clients because of regulatory or legal requirements applicable to the Adviser, its affiliates or its clients (as determined by the Adviser in its sole discretion) and/or its internal policies including those designed to comply with, limit the applicability of, or otherwise relate to such requirements.

There may be periods when the Adviser may not initiate or recommend certain types of transactions, or may otherwise restrict or limit their advice with respect to securities or instruments issued by or related to companies for which the Adviser is performing advisory or other services. For example, if the Adviser is provided with material non-public information with respect to a potential portfolio company as described under the heading “The Personal Investments Policy” above, such restrictions or limitations will apply.

In other circumstances where the Adviser invests in securities issued by companies that operate in certain regulated industries or in certain emerging or international markets, or are subject to corporate or regulatory ownership restrictions, there may be limits on the aggregate amount that the Adviser can invest. For instance, the Adviser may be prohibited from investing an amount that would require the grant of a license or other regulatory or corporate consent, or if doing so would violate the Adviser’s internal policies. As a result, the Adviser on behalf of its clients may limit purchases, sell existing investments, or otherwise restrict or limit the exercise of rights (including voting rights) when the Adviser, in its sole discretion, deems it appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds or investment restrictions.

In those circumstances where ownership thresholds or limitations must be observed, the Adviser seeks to equitably allocate limited investment opportunities among its Accounts, taking into consideration benchmark weight and investment strategy. When the Adviser’s ownership in certain securities nears an applicable threshold, the Adviser may limit purchases in such securities to the issuer’s weighting in the applicable benchmark used by the Adviser to manage the Adviser’s Account. If the Adviser’s clients’ holdings of an issuer exceed an applicable threshold and the Adviser is unable to obtain relief to enable the continued holding of such investments, it may be necessary to sell down these positions to meet the applicable limitations, possibly during deteriorating market conditions and/or at a loss to the client. Please see further discussion of allocation of investment opportunities under Item 12 (“Brokerage Practices”).

In addition to the foregoing, other ownership thresholds may trigger reporting requirements to governmental and regulatory authorities, and such reports may entail the disclosure of the identity of the Adviser’s client or its intended strategy with respect to such security or asset.

The Adviser’s services are not exclusive to any of its clients, and the Adviser is free to render, and does render, similar or other services to other persons and entities. The Adviser and its related persons may give advice or take action with respect to a client Account, or for its or their own account(s), that may differ from the advice given or action taken by the Adviser for another Account.

The Adviser has no obligation to provide the same investment advice or purchase or sell the same securities for each Account. In general, the Adviser has discretion to determine whether a particular security or instrument is an appropriate investment for each Account, based on the Account’s investment objectives, investment restrictions and trading strategies. Accounts with investment restrictions that preclude investing in new, unseasoned or small capitalization issuers will generally not participate in IPOs or private equity transactions, including those that are expected to trade at a premium in the secondary market. Even an Account that is permitted to make such investments may not participate if doing so would be inconsistent with its investment practices. In addition, Accounts with a specific mandate may receive first priority for securities falling within that mandate. As a result, certain Accounts managed by the Adviser or its affiliates may have greater opportunities to invest in private equity transactions or IPOs. In the event that an IPO or private equity transaction is oversubscribed, securities will be allocated among eligible Accounts according to procedures designed to provide equitable treatment to all such Accounts. Subject to the above, allocation is done for each Account on a pro rata or other basis. Please see Item 6 (“Performance-Based Fees and Side-By-Side Management”) for details of the trade aggregation and allocation policy adopted by the Adviser.

Political Contributions

It is the Adviser’s policy to not make, and to prohibit its employees from making on behalf of the Adviser, any political contributions for the purpose of influencing its existing or potential client, a public official or his or her agency. However, employees may make personal political contributions in accordance with the requirements and restrictions of applicable law and the

Adviser's policies. To help ensure compliance with SEC rules, and many state and local pay-to-play rules, the Adviser's employees subject to those rules must pre-clear and obtain prior approval from the legal and compliance departments before they make any contributions (*i.e.*, any monetary contribution or contribution of goods or services) to a political candidate, government official, political party or political action committee.

Item 12 Brokerage Practices

BEST EXECUTION

The Adviser has adopted policies and procedures that address best execution with respect to equity and fixed income investments and provide guidance on brokerage allocation. The policies and procedures are designed to ensure (i) that execution services meet the quality standards established by the Adviser's trading team and are consistent with established policies, (ii) the broadest flexibility in selecting which broker-dealers may provide best execution, (iii) evaluation of the execution capabilities of, and the quality of execution services received from, broker-dealers effecting portfolio transactions for the Adviser's clients, and (iv) the identification and resolution of potential conflicts of interest.

The policies and procedures for equity transactions outline the criteria that the trading team at each global location use to determine which broker-dealer(s) have provided the highest quality execution services over a particular time period. These include a periodic review of brokerage allocations, the rationale for selecting certain broker-dealers, and a review of historical broker-dealer transactions to test application of the Adviser's best execution procedures.

While the Adviser generally seeks competitive commission rates for equity transactions, it does not necessarily pay the lowest commission or commission equivalent; nor will it select broker-dealers solely on the basis of purported or posted commission rates, or seek competitive bidding for the most favorable commission rate in advance. In an effort to maximize value for its clients, the Adviser will seek to obtain the best combination of low commission rates relative to the quality of execution received. Transactions involving specialized services or expertise on the part of the broker-dealer may result in higher commissions or their equivalents.

The policies and procedures for fixed income transactions reflect the same general fiduciary principles that are covered in the equity transaction policies and procedures, but also address the special considerations for executing transactions in fixed income securities. Since trading fixed income securities is fundamentally different from trading in equity securities, in that the Adviser will generally deal directly with market makers, the Adviser considers different factors when assessing best execution. In these transactions, the Adviser typically effects trades on a net basis, and does not pay the market maker any commission, commission equivalent or markup/markdown other than the spread.

The Adviser's traders for both fixed income and equity investments are responsible for determining which qualified broker-dealers will provide best execution, taking into account the best combination of price and intermediary value given the client's strategies and objectives.

The Adviser may also engage in derivative transactions that are entered into under a negotiated agreement with a counterparty or futures commission merchant, including but not limited to swaps, futures, forwards, and options. The agreements to trade these instruments must be in place prior to effecting a transaction. If the Adviser is unable to negotiate acceptable terms with a counterparty or is restricted from engaging certain counterparties for an Account, for example based on the Adviser's assessment of a counterparty's creditworthiness and financial stability at any given time, the universe of counterparties that the Adviser can choose from will be limited and the standard for best execution may vary with the type of security or instrument involved in a particular transaction. The policies and procedures for equity and fixed income transactions also address the aggregation and allocation principles established by the Adviser for derivatives trading.

BROKERAGE FOR CLIENT REFERRALS

If consistent with its duty to seek best execution, the Adviser may use broker-dealers that refer private account clients to the Adviser or an affiliate. To the extent that these referrals result in an increase in assets under management, the Adviser or its affiliates may benefit. Therefore, a

potential conflict exists that the Adviser could have an incentive to select or recommend a broker-dealer based on its interest in receiving client referrals rather than obtaining best execution on behalf of its clients.

In order to manage this potential conflict of interest, the Adviser does not enter into agreements with, or make commitments to, any broker-dealer that would bind the Adviser to compensate that broker-dealer through increased brokerage transactions for client referrals or sales efforts; nor will the Adviser use step-out transactions or similar arrangements to compensate selling brokers for their sales efforts. In addition, the FTI U.S. Registered Funds have adopted procedures pursuant to Rule 12b-1(h) under the 1940 Act ("Prohibition on the Use of Brokerage Commissions to Finance Distribution"), which provide that neither such funds nor the Adviser may direct brokerage in recognition of the sale of fund shares. Consistent with those procedures, the Adviser does not consider the sale of mutual fund shares in selecting broker-dealers to execute portfolio transactions. However, whether or not a particular broker or dealer sells shares of the Adviser's mutual funds neither qualifies nor disqualifies such broker or dealer to execute transactions for those mutual funds.

POLICY ON USE OF CLIENT COMMISSIONS

When appropriate under its discretionary authority and consistent with its duty to seek best execution, the Adviser or its related persons may direct brokerage transactions for Accounts to broker-dealers that provide the Adviser with research and/or brokerage products and services. The brokerage commissions from client transactions that are used to pay for research or brokerage services in addition to basic execution services are referred to here as client commissions.

In the United States, broker-dealers typically bundle research with their trade execution services. The research provided can be either proprietary (created and provided by the executing broker-dealer, including tangible research products as well as access to analysts and traders) or third-party (created by a third-party but provided by the executing broker-dealer). To the extent permitted by applicable law, the Adviser may use client commissions to obtain both proprietary and third-party research as well as certain brokerage products and services. The receipt of research in exchange for client commissions benefits the Adviser by allowing the Adviser to supplement its own research and analysis and also gain access to specialists from a variety of securities firms with expertise on certain companies, industries, areas of the economy, and market factors. The Adviser believes that this research provides an overall benefit to its clients.

The Adviser becomes eligible for client commission credits by sending trading and paying trade commissions to broker-dealers ("CCA broker-dealers") who both execute the trades and provide the Adviser with research and other brokerage products and services. These products and services come in a variety of forms including: (1) research reports generated by the broker-dealer, (2) conferences with representatives of issuers, and/or (3) client commission credits that can be used to obtain research reports or services from others. The portion of any trade commission on a particular trade attributable to the client commission research or other brokerage products and services cannot be identified at an individual account level.

The current list of CCA broker-dealers includes the following, and is subject to change periodically:

Bank of America/Merrill Lynch
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Goldman Sachs & Co.
Instinet LLC
Investment Technology Group (ITG)
JP Morgan Securities Inc.
Liquidnet
Morgan Stanley & Co. Inc.
UBS Securities LLC
Virtu Financial (pka KCG Capital Americas LLC)

Section 28(e) of the U.S. Securities Exchange Act of 1934, provides a safe harbor that allows an investment adviser to pay for research and brokerage services with the client commission dollars generated by Account transactions. The Adviser currently acquires only the types of products or services that qualify for the safe harbor. Research and brokerage services acquired with client commissions permitted under the safe harbor may include:

- reports, statistical data, publications and other information on the economy, industries, sectors, individual companies or issuers, which may include research provided by proxy voting services;
- software and communications services related to the execution, clearing and settlement of securities transactions;
- software that provides analyses of securities portfolios;
- statistical trade analysis;
- reports on legal developments affecting portfolio securities;
- registration fees for conferences and seminars;
- consultation with analysts, including research conference calls and access to financial models;
- investment risk analyses, including political and credit risk;
- investment risk measurement systems and software;
- analyses of corporate responsibility issues; and
- market data services, such as those which provide price quotes, last sale prices and trading volumes.

Examples of specific products and services received within the last year include those provided by Bloomberg, Thomson Reuters, FactSet, MSCI/Barra and Standard and Poor's. Services may also include access to information providers who are part of what may be referred to as an "expert network". Firms providing such a service often facilitate consultations among researchers, investment professionals, and individuals with expertise in a particular field or industry, such as doctors, academics and consultants. Access to expert networks is particularly helpful in understanding sectors of the market that are highly complex or technical in nature. The Adviser has developed controls in support of existing policies and procedures governing the use of any information acquired from expert networks.

If a product or service used by the Adviser provides both research and non-research benefits, the Adviser will generally consider it as a mixed use item and will pay for the non-research portion with cash from its own resources, rather than client commissions. The Adviser will then allocate the cost of the product between client commissions and cash according to its anticipated use. Although the allocation between client commissions and cash is not a precise calculation, the Adviser makes a good faith effort to reasonably allocate such services, and maintains records detailing the mixed use research, services and products received and the allocation between the research and non-research portions, including payments made by client commissions and cash. It is not ordinarily possible to place an exact dollar value on the special execution or on the research services the Adviser receives from dealers effecting transactions in portfolio securities.

The Adviser may select broker-dealers based on its assessment of their trade execution services and its belief that the research, information and other services they provide will benefit Accounts. As a result, broker-dealers selected by the Adviser may be paid a commission rate for effecting portfolio transactions for Accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if the Adviser determines that the commission is reasonable in relation to the value of the brokerage and/or research services provided, viewed either in terms of a particular transaction or the Adviser's overall duty to its discretionary Accounts.

While the Adviser may negotiate commission rates and prices with certain broker-dealers with the expectation that they will be providing brokerage or research services, the Adviser will not enter into any agreement or understanding with any broker-dealer that would obligate the Adviser to direct a specific amount of brokerage transactions or commissions in return for such services. Research services are one of the factors considered when determining the amount of commissions to be allocated to a specific broker-dealer. As a result, the Adviser may have an incentive to select or recommend a broker-dealer based on the Adviser's interest in receiving

research or other products or services, rather than on a client's interest in receiving the most favorable commission rate.

Certain broker-dealers may state in advance the amount of brokerage commissions they require for particular services. If the Adviser does not meet the threshold for a desired product, it may either direct accumulated research commissions as part of a client commission arrangement with an executing broker-dealer to pay the research provider or the Adviser may pay cash. The Adviser, to the extent consistent with best execution and applicable regulations, may direct trades to a broker-dealer with instructions to execute the transaction and have another broker-dealer or research provider provide client commission products and/or services to the Adviser. This type of commission sharing arrangement allows the Adviser to pay part of the commission to the broker-dealer providing the research or other services.

Some clients permit the Adviser to use CCA broker-dealers but prohibit the Adviser from using the commissions generated by their Accounts to acquire third party and proprietary research services. While these clients may not experience lower transaction costs than other clients, they are likely to benefit from the research acquired using other clients' commissions because most research services are available to all investment personnel, regardless of whether they work on Accounts that generate client commissions eligible for research acquisition. The Adviser does not seek to use research services obtained with client commissions solely for the specific Account that generated the client commissions and may share that research with the Adviser's affiliates. As a result, the Adviser's Accounts benefit from research services obtained with client commissions generated by client accounts of other advisers within Franklin Templeton Investments. The Adviser does not attempt to allocate the relative costs or benefits of research among Accounts because it believes that, in the aggregate, the research it receives assists the Adviser in fulfilling its overall duty to all clients.

Regulations outside of the United States that apply to some Accounts may subject the Adviser to additional requirements, restrictions or prohibitions on paying for research and brokerage with the client commission dollars generated by Account transactions. Effective January 3, 2018, Franklin Templeton Investments will use its own resources to pay for third-party investment research for Accounts covered by the European Union's revised Markets in Financial Instruments Directive ("MiFID II"). To the extent these Accounts' orders are aggregated with the orders of clients whose commissions pay for research, the non-research paying clients may realize the price and execution benefits of the aggregated order while benefiting from the research acquired by Franklin Templeton Investments.

Aggregation of Trades

Generally, all same day client trades in the same security for Accounts under the management of the Adviser's portfolio management team will be aggregated in a single order (sometimes called "block trading") unless aggregation is inefficient or is restricted by client direction, type of Account or other limitation. All Accounts that participate in a block transaction will participate on a pro rata, relative order size, percentage, or other objective basis. Potential conflicts of interest exist with respect to the aggregation and allocation of client transactions. For example, the Adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee.

There may be instances where purchase or sale orders, or both, are placed simultaneously on behalf of the Adviser's Accounts and by accounts advised by the Adviser's affiliates. In these instances, the Adviser may aggregate the order in a block trade for execution in accordance with established procedures. Generally, for each participating account, the block transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for the account. All accounts that are aggregated will participate on a pro rata, relative order size, percentage, or other objective basis. Orders may be aggregated to facilitate best execution, as well as to aid in negotiating more favorable brokerage commissions beneficial to all accounts. The Adviser may also aggregate orders for clients that permit client commission arrangements with clients that do not permit such arrangements. In these cases, the Adviser aggregates the orders to obtain best execution and does not seek a research credit for the portion of the trade that is executed for clients that do not permit such arrangements. As noted above, such circumstances may result in the non-research paying clients (including those

covered by MiFID II) realizing the price and execution benefits of the aggregated order while benefiting from the research acquired by Franklin Templeton Investments.

In making allocations of fixed income opportunities, the Adviser must address specific considerations in the fixed income market. For example, the Adviser may not be able to acquire the same security at the same time for more than one Account, may not be able to acquire the amount of the security to meet the desired allocation amounts for each Account, or alternatively, in order to meet the desired allocation amount for each Account, the Adviser may be required to pay a higher price or obtain a lower yield for the security. As a result, the Adviser may take into consideration one or more of the following factors in making such allocations as part of its standard methodology:

- Investment objectives
- Relative cash position of Accounts
- Client tax status
- Regulatory restrictions
- Emphasis or focus of particular Accounts
- Risk position of the Accounts
- Specific overriding client instructions
- Existing portfolio composition and applicable industry, sector, or capitalization weightings
- Client sensitivity to turnover

While pro rata allocation by order size is the most common form of allocation, to help ensure that the Adviser's clients have fair access to trading opportunities over time, both equity and fixed income trades may be placed by an alternative standard allocation or an objective methodology other than the standard methodology. Other objective methodologies are permissible provided they are employed with general consistency, operate fairly and are properly documented. In situations where orders cannot be aggregated, greater transaction costs may result and prices may vary among Accounts. See Client-Directed Brokerage Transactions below. In addition, certain non-U.S. markets may require trades to be executed on an account by account basis. As portfolio transactions in such markets cannot be block traded, prices may vary among accounts.

Client-Directed Brokerage Transactions

The Adviser does not routinely recommend, request or require that a client direct trading orders to any specific broker-dealer. The Adviser may, however, accommodate special requests from a client directing the Adviser to use a particular broker-dealer to execute portfolio transactions for its Account. This may include the use of expense reimbursement and commission recapture arrangements, where certain broker-dealers rebate a portion of an Account's brokerage commissions (or spreads on fixed income or principal trades) directly to the client's Account, or apply the amount against an Account's expenses. Clients may also ask the Adviser to seek reduced brokerage commissions with some or all broker-dealers used to execute their trades.

Specific client instructions on the use of a particular broker-dealer limit the Adviser's discretionary authority and the Adviser may not be in a position to freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution. In addition, transactions for a client that directs brokerage may not be combined or blocked with orders for the same securities for other Accounts managed by the Adviser. These trades will generally be placed at the end of block trading activity for a particular security and executed after discretionary trades. Accordingly, client directed transactions are vulnerable to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the block order. Under these circumstances, the client may be subject to higher commissions, greater spreads, or less favorable net prices than might be the case if the Adviser had the authority to negotiate commission rates or spreads, or to select broker-dealers based solely on best execution considerations. Therefore, where a client directs the Adviser to use a particular broker-dealer to execute trades, or imposes limits on the terms under which the Adviser may engage a particular broker-dealer, the Adviser may not be able to obtain best execution for such client-directed trades.

FOREIGN EXCHANGE TRANSACTIONS

Some clients require transactions in currencies other than the base currency of their Account to permit the purchase or sale of foreign securities and to repatriate the proceeds of such trades (as well as related dividends, interest payments or tax reclaims) back to the base currency of the Account. Typically, these foreign exchange ("FX") transactions will be conducted either by the client's custodian bank as part of the FX transaction services offered to its custody clients, or by the client's investment adviser through a third-party broker. In some cases, a client may require that its custodian bank execute all FX transactions for its Account or particular markets may be restricted such that FX transactions in those currencies can only be executed by the client's custodian bank.

Generally, FX transactions related to portfolio trades in unrestricted markets are performed by the Adviser for its clients. FX transactions related to portfolio trades in restricted markets, and for income repatriation, are generally the responsibility of the respective client's custodian bank.

For certain Accounts, the Adviser may be responsible for the repatriation of income (including, for some of these Accounts, the decision whether to repatriate the income or leave it in local currency based on investment outlook) and for arranging FX transactions in one or more restricted markets. The Adviser will typically perform the income repatriation for these Accounts in unrestricted markets and the client's custodian bank will generally carry out FX transactions and repatriation (through a sub-custodian bank domiciled in the foreign country) in restricted markets. The Adviser does not have the ability to control any FX transactions performed by the client's custodian bank and assumes no responsibility for the execution or oversight of FX transactions conducted by the client's custodian bank.

Whether a market is considered to be restricted will depend on a number of factors, including country specific statutory requirements, structural risks, and operational issues. Whether a market is restricted or unrestricted may also change over time and varies depending on the type of transaction. The Adviser may consult with third parties, including broker-dealers and custodians to determine, in good faith, whether a market is considered restricted.

ALLOCATION IN IPOs AND SECONDARY OFFERINGS

From time to time, the Adviser may wish to participate in initial public offerings, secondary offerings, or acquire other stocks for an Account that are experiencing unusual trading activity and may only be available in limited quantities at the desired price. In determining which Accounts may participate in such special situations, the Adviser may take into account the investment emphasis or focus of individual Accounts on particular industries or geographic areas provided the approach used is consistently applied and results in a generally equitable treatment of all Accounts over time. The Adviser has implemented equity trade allocation procedures designed to provide that all clients over time receive a fair opportunity to participate in such special situations. Additional care and caution is exercised if one of the Accounts participating in a limited investment opportunity is an affiliated account, including specific compliance approval when affiliated accounts are participating in an IPO or secondary offer.

Item 13 Review of Accounts

Generally, the portfolios under the Adviser's management are reviewed by one or more portfolio managers who are responsible to their respective Chief Investment Officer, either directly or indirectly. Such review may be made with respect to the Adviser's clients' investment objectives and policies, limitations on the types of instruments in which each of its clients may invest and concentration of investments in particular industries or types of issues. There is no general rule regarding the number of Accounts assigned to a portfolio manager.

The frequency, depth, and nature of reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written investment management agreement or by the mandate selected by the client and the particular needs of each client.

Written reports of portfolio breakdown, transactions and performance are provided to clients no less frequently than quarterly. Additional trade reports may be available upon request.

Item 14 Client Referrals and Other Compensation

The Adviser or a related person may enter into referral fee arrangements to compensate affiliated and non-affiliated persons for referring or otherwise recommending its investment advisory services to potential clients. To the extent required, such arrangements would be governed by the policy on use of solicitors and client referrals adopted by the Adviser and entered into in accordance with Rule 206(4)-3 under the Advisers Act and other applicable law. The compensation paid may consist of a cash payment computed as a flat fee, a percentage of the Adviser's advisory fee, or some other method of computation agreed upon between the parties.

To the extent allowed under applicable law, the Adviser's Code of Ethics and the policies and procedures (including the Anti-Corruption Policy) of the Adviser, its affiliates, and/or a particular broker-dealer, the Adviser or a related person may (i) pay broker-dealer sponsors for training seminars, conferences and other educational events, (ii) pay travel and lodging expenses relating to financial advisers' attendance at the Adviser's due diligence meetings, (iii) give certain business-related gifts or gratuities, and/or pay reasonable expenses relating to meals and/or entertainment, for financial advisers, and (iv) make a contribution in connection with a charitable event or to a charitable organization sponsored, organized or supported by a broker-dealer or its representatives, on behalf of such broker-dealer or its representatives, or to which such broker-dealer or its affiliates provides professional services.

Item 15 Custody

The Adviser generally does not have the authority to hold, obtain possession or otherwise have custody of its clients' assets. However, because certain institutional clients may authorize the Adviser to receive its advisory fees out of the assets in such clients' Accounts by sending invoices to the respective custodians of those Accounts, the Adviser may be deemed by the SEC to have custody of the assets in those Accounts. When required these clients will receive account statements directly from their third-party custodians for the Accounts and should carefully review these statements. Such clients should contact the Adviser immediately if they do not receive account statements from their custodian on at least a quarterly basis. In addition to account statements delivered by their third-party custodians, the Adviser may provide clients with separate reports or account statements containing information about the Account. Clients should compare these carefully to the account statements received from the custodian and report any discrepancies to the Adviser and custodian immediately.

Funds or securities of a small number of clients of the Adviser are held by Fiduciary Trust Company International, ("FTCI") a bank affiliate of the Adviser which is a Qualified Custodian for the purposes of the Advisers Act. Because the Adviser provides investment advice to one or more clients whose funds or securities are held by a bank affiliate of the Adviser, the Adviser is deemed by the SEC to have custody of those assets under the Advisers Act. In order to demonstrate that it has taken proper steps to protect its clients' interests in this situation, the Adviser must take a number of additional steps detailed in the Advisers Act. The Adviser must ensure that FTCI continues to meet the eligibility criteria for a Qualified Custodian, it must provide the relevant clients with custodian contact information, it must ensure that the custodian is sending quarterly statements to these clients and the Adviser must undergo an annual surprise examination and verification of those assets by an independent accountant registered and subject to inspection by the Public accounting Oversight Board (PCAOB). The Adviser has engaged PricewaterhouseCoopers LLC ("PWC") for this purpose.

In addition, because the Adviser maintains custody of a small number of client assets with an affiliate, it is required to have FTCI obtain an internal control report from an independent PCAOB accountant, attesting to FTCI's controls as a qualified custodian related to safekeeping of client assets. PWC has prepared this report for the Adviser.

Item 16 Investment Discretion

Generally, the Adviser has discretionary authority to supervise and direct the investment of the assets under its management, without obtaining prior specific client consent for each transaction. However, this investment discretion is granted by written authority of the client in the investment management agreement between the client and the Adviser and is subject to such limitations as a client may impose by notice in writing. Under its discretionary authority, the Adviser may make

the following determinations in accordance with the investment management agreement, the Adviser's internal policies, commercial practice, and applicable law, without prior consultation or consent before a transaction is effected:

- Which securities or other instruments to buy or sell;
- The total amount of securities or other instruments to buy or sell;
- The broker or other dealer or counterparty used to buy or sell securities or other instruments; and/or
- The prices and commission rates at which transactions are effected.

When the Adviser believes engagement may be beneficial, it may, in its sole discretion unless otherwise agreed, submit a shareholder proposal to, or otherwise actively engage with, the issuer of securities held in one or more Accounts or delegate its discretionary authority to a sub-adviser.. The Adviser will consider a variety of factors including, but not limited to, costs when considering whether to engage in such activities.

LIMITATIONS ON DISCRETION

The Adviser may also provide non-discretionary services to Accounts, pursuant to which the Adviser may provide a client with research, model portfolios or advice with respect to purchasing, selling, or holding particular investments. Accounts for which the Adviser does not have investment discretion may or may not include the authority to trade for the Account and are subject to any additional limitations as are imposed by a client in writing. For certain Accounts where the Adviser does not have investment discretion or trading authority, a conflict of interest may exist for the Adviser to delay a recommendation to buy or sell if the Adviser believes that the execution of such recommendation could have a material impact on pending trades for Accounts for which the Adviser holds investment discretion.

The Adviser may, in its sole discretion, accept one or more categories of investment restrictions requested in writing by clients. In the case of investment restrictions based on social, environmental or other criteria, unless otherwise agreed to with a client, the Adviser's compliance with such restrictions will be based on good faith efforts and can be satisfied by using either a third-party service to screen issuers against such restrictions, or a combination of other market data services such as Bloomberg and Factset and internal research.

The Adviser may, in its sole discretion, accept the initial funding of Accounts with one or more securities-in-kind. Subject to the terms of the investment management agreement and applicable law, the Adviser will use good faith efforts to liquidate any securities-in-kind that the Adviser does not elect to keep as part of such Accounts, and shall not be liable for any investment losses or market risk associated with such liquidation.

The investment guidelines applicable to an Account are typically based on the Account being fully funded and, during funding or transition phases, the Adviser's inability to comply with restrictions related to holding limitations, sector allocations and investment diversification shall not, unless otherwise agreed with a client, be considered a breach of the investment management agreement between the Adviser and the client. Moreover, investment restrictions are looked to at the time of investment unless otherwise agreed with the client in writing, and variances to the investment guidelines such as market movements (including exchange rates), the exercise of subscription rights, late settlement as a result of custodial action or inaction, a material increase or reduction in assets due to contributions or withdrawals by the client or a change in the nature of an investment are generally not considered to be a breach of the investment management agreement between the Adviser and the client unless specifically agreed to in writing.

SWEEP VEHICLES

Unless the Adviser is specifically directed otherwise either in its investment management agreement with a client or by separate instruction, uninvested cash held by the Adviser's clients generally will be automatically moved or "swept" temporarily into one or more money market mutual funds or other short-term investment vehicles offered by the client's custodian. Generally, sweep arrangements are made between the client and the client's custodian, and the client is responsible for selecting the sweep vehicle. The Adviser's sole responsibility in this regard is to issue standing instructions to the custodian to sweep excess cash in the client's Account into the sweep vehicle. In circumstances where the client has not made arrangements with its custodian,

the Adviser may consult with the client regarding an appropriate sweep vehicle from those made available by the custodian; however, the client will ultimately select the desired sweep vehicle. In exceptional circumstances, the Adviser will select the appropriate sweep vehicle from those made available by the custodian. However, the Adviser does not actively manage the residual cash in Accounts and will not be responsible for monitoring the sweep vehicle into which such residual cash is swept.

Whether sweep arrangements are made between the client and its custodian or in consultation with the Adviser, any client whose assets are swept into an unaffiliated money market mutual fund or other short-term investment vehicle will continue to pay the Adviser's regular advisory fee plus the client may pay a management fee to the manager of such fund or short-term investment vehicle on the portion of the Account's assets invested in the money market mutual fund or short-term investment vehicle.

PARTICIPATION IN LEGAL PROCEEDINGS

Unless otherwise specifically agreed with a client, the Adviser shall not be required, or be liable for any failure to, but may, provide a claim service in connection with certain legal proceedings. Where provided, the Adviser, through its delegates (which may include, without limitation, personnel of an affiliate, a law firm, or other claim filing service), uses good faith efforts to file proofs of claim on behalf of the client in class action lawsuit settlements or judgments and regulatory recovery funds pending in the U.S. and Canada, involving issuers of securities presently or formerly held in the client's Account, or related parties of such issuers, of which the Adviser learns and for which the client is eligible during the term of the governing investment advisory or management agreement with the client (the "Claim Service"). Infrequently, such U.S. and Canadian class action lawsuits may require investors affirmatively to "opt in" to the class and may subject investors to public identification and to participation in discovery ("Opt-In Actions"). Unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, without undertaking any obligation to do so file any required documentation in any Opt-In Actions.

While the Claim Service is focused on recovery opportunities in the U.S. and Canada (the jurisdictions in which class action lawsuits and regulatory recovery funds predominate), it is possible that, as class action laws in legal systems in jurisdictions outside of the U.S. and Canada continue to evolve, the Adviser may learn of recovery opportunities in those other jurisdictions that similarly require only the filing of a proof of claim or its equivalent to recover, referred to here as "Foreign Actions." The Adviser does not assume any obligation to identify, research, or file proofs of claim in, any Foreign Actions. In the event that the Adviser does learn of Foreign Actions, the Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim for the client in such Foreign Actions. Foreign Actions do not include any other type of collective action outside of the U.S. and Canada, such as representative actions. Those other actions require individual analysis as to whether participation is in an investor's best interest and often require participants to agree to funding agreements or to pay the costs of the litigation directly, to enter into agreements with representative organizations, to commit to participation in discovery, and may require participants to be identified publicly as plaintiffs in the action. The Adviser does not assume any obligation to identify or take any action with respect to such offshore collective or representative actions for its clients.

Further, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, participate in any bankruptcy proceedings involving issuers of securities presently or formerly held in Accounts or related parties of such issuers. Without limiting the foregoing, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, in its discretion (i) file proofs of claim in bankruptcy proceedings, (ii) notify clients of any applicable deadlines or other events relating to bankruptcy proceedings, or (iii) participate in any committees of creditors or other stakeholders on behalf of clients.

In connection with the Claim Service and Adviser's involvement in bankruptcy proceedings on behalf of its clients, where applicable, the Adviser may disclose information about a client or its Account, whether by including such information in any proofs of claim or otherwise disclosing such information in any related manner. By filing a proof of claim on behalf of a client, the Adviser may waive the client's right to pursue separate litigation with respect to the subject matter of the class action lawsuit or regulatory recovery fund, or the right to a jury trial in a bankruptcy

proceeding, as applicable. Where the Adviser does provide the Claim Service or agrees to participate in bankruptcy proceedings on behalf of its client, the Adviser may (subject to the governing investment advisory or management agreement), at any time, terminate the provision of such services by giving notice of such termination to the client (by any method the Adviser chooses, including electronic mail), and such services will, if not sooner terminated, automatically terminate upon the termination of the governing investment advisory or management agreement.

With respect to the FTI U.S. Registered Funds and certain other FTI pooled or collective investment vehicles managed by the Adviser's affiliates (collectively, "Funds"), the Adviser's affiliates, on behalf of and in the name of the Funds, use good faith efforts to provide the Claim Service, as described above, during each Fund's existence. In addition, from time to time the Adviser's affiliates may recommend that one or more of the Funds pursue litigation against an issuer or related parties (whether, for example, by opting out of an existing class action lawsuit, participating in a representative action in a foreign jurisdiction, or otherwise). Neither the Adviser nor its affiliates will provide the Adviser's clients with notice of, or the opportunity to participate in, any litigation against an issuer or related parties. The Adviser's affiliates or the Funds may also participate in bankruptcy proceedings involving issuers of securities presently or formerly held in the Funds' portfolios, or related parties of such issuers, and join official or ad hoc committees of creditors or other stakeholders.

Item 17 Voting Client Securities

PROXY VOTING POLICIES & PROCEDURE

The Adviser has delegated its administrative duties with respect to voting proxies for client equity securities to the proxy group within Franklin Templeton Companies, LLC (the "Proxy Group"), an affiliate and wholly owned subsidiary of Franklin Resources.

All proxies received by the Proxy Group will be voted based upon the Adviser's instructions and/or policies. To assist it in analyzing proxies, the Adviser subscribes to one or more unaffiliated third-party corporate governance research services that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services (each a "Proxy Service"). Although Proxy Service analyses are thoroughly reviewed and considered in making a final voting decision, the Adviser does not consider recommendations from a Proxy Service or any other third party to be determinative of the Adviser's ultimate decision. Rather, the Adviser exercises its independent judgment in making voting decisions. The Adviser votes proxies solely in the best interests of the client, any Adviser-managed fund investors or, where employee benefit plan assets subject to ERISA are involved ("ERISA accounts"), in the best interests of plan participants and beneficiaries (collectively, "Advisory Clients") unless (i) the power to vote has been specifically retained by the named fiduciary in the documents in which the named fiduciary appointed the investment manager or (ii) the documents otherwise expressly prohibit the investment manager from voting proxies. As a matter of policy, the officers, directors and Access Persons of the Adviser and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of Advisory Clients. In situations where a material conflict of interest is identified, the Proxy Group may vote consistently with the voting recommendation of a Proxy Service or send the proxy directly to the relevant Advisory Clients with the Adviser's recommendation regarding the vote for approval.

As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the management of the company in which the equity securities are held. Each issue, however, is considered on its own merits, and the Adviser will not support the position of the company's management in any situation where it deems that the ratification of management's position would adversely affect the investment merits of owning that company's shares.

The Proxy Group is part of the Franklin Templeton Companies, LLC Corporate Legal Department and is overseen by legal counsel. For each shareholder meeting, a member of the Proxy Group will consult with the research analyst(s) that follows the security and will provide the analyst(s) with the agenda, Proxy Service analyses, recommendations and any other information provided to the Proxy Group. The Adviser's research analyst(s) and relevant portfolio manager(s) are responsible for making the final voting decision based on their review of the agenda, Proxy Service analyses, proxy statements, their knowledge of the company and any other information publicly available. In the case of a material conflict of interest, the final voting decision will be

made in accordance with the conflict procedures, as described above. Except in cases where the Proxy Group is voting consistently with the voting recommendations of an independent third-party service provider, the Proxy Group must obtain voting instructions from the Adviser's research analyst(s), relevant portfolio manager(s), legal counsel and/or an Advisory Client prior to submitting the vote.

The Adviser has adopted general proxy voting guidelines that are reviewed periodically by various members of the Adviser's organization, including portfolio management, legal counsel and the Adviser's officers, and are subject to change. These guidelines cannot provide an exhaustive list of all the issues that may arise nor can the Adviser anticipate all future situations. The guidelines cover such agenda items as the election of directors, ratification of auditors, management and director compensation, anti-takeover mechanisms, changes to capital structure, mergers and corporate restructuring, environmental and social issues, governance matters, and global corporate governance.

The Adviser will attempt to process every proxy it receives for all U.S. and non-U.S. securities. However, there may be situations in which the Adviser may be unable to successfully vote a proxy, or may choose to not vote a proxy, such as where: (i) a proxy ballot was not received from the custodian bank, (ii) a meeting notice was received too late, (iii) there are fees imposed upon the exercise of a vote and the Adviser has determined that such fees outweigh the benefit of voting, (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the Adviser votes a proxy or where the Adviser is prohibited from voting by applicable law, economic or other sanctions or other regulatory or market requirements, including but not limited to, effective powers of attorney, (v) additional documentation or the disclosure of beneficial owner details is required, (vi) the Adviser held shares on the record date but has sold them prior to the meeting date, (vii) proxy voting service is not offered by the custodian in the market, (viii) due to either system error or human error, the Adviser's intended vote is not correctly submitted, (ix) the Adviser believes it is not in the best interests of the Advisory Client to vote the proxy for any other reason not enumerated herein, or (x) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

In some non-U.S. jurisdictions, even if the Adviser uses reasonable efforts to vote a proxy on behalf of its Advisory Clients, such vote or proxy may be rejected because of (i) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions, (ii) changes in the process or agenda for the meeting by the issuer for which the Adviser does not have sufficient notice, or (iii) the exercise by the issuer of its discretion to reject the vote of the Adviser. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the Adviser's votes are not received, or properly tabulated, by an issuer or the issuer's agent.

The Adviser or its affiliates may, on behalf of one or more of the U.S. and non-U.S. registered investment companies advised by the Adviser or its affiliates, determine to use its best efforts to recall any security on loan where the Adviser or its affiliates (i) learn of a vote on a material event that may affect a security on loan, and (ii) determine that it is in the best interests of such registered investment companies to recall the security for voting purposes. The Adviser will not generally make such efforts on behalf of other Advisory Clients, or notify such clients or their custodians that the Adviser or its affiliates has learned of such a vote.

The Proxy Group is responsible for maintaining the documentation that supports the Adviser's voting decision. Such documentation may include, but is not limited to, any information provided by Proxy Services and, with respect to any issuer that presents a potential conflict of interest, any board or audit committee memoranda describing the position it has taken. The Proxy Group may use an outside service such as a Proxy Service to support this recordkeeping function. All records will be retained in either hard copy or electronically for at least five years, the first two of which will be on-site at the offices of Franklin Templeton Companies, LLC. Advisory Clients may view the Adviser's complete proxy voting policies and procedures on-line at www.franklintempleton.com, request copies of their proxy voting records and the Adviser's complete proxy voting policies and procedures by calling the Proxy Group at 1-954-527-7678 or send a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. For U.S. Registered Funds, an annual proxy voting record for the period ending June 30

of each year will be posted to www.franklintempleton.com no later than August 31 of each year. In addition, the Proxy Group is responsible for ensuring that the proxy voting policies, procedures and records of the U.S. Registered Funds are made available as required by law and is responsible for overseeing the filing of such U.S. Registered Fund voting records with the SEC.

Item 18 Financial Information

No relevant information to disclose.