

Item 1 Cover Page



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FRANKLIN MUTUAL ADVISERS, LLC

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INVESTMENT ADVISER REGISTRATION FORM ADV PART 2A: FIRM BROCHURE

This brochure provides information about the qualifications and business practices of Franklin Mutual Advisers, LLC. If you have any questions about the contents of this brochure, please contact Global Client Service Support (GCSS) at (650) 312-4000 or via email at GCSSBusinessSupportAmericas@frk.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Franklin Mutual Advisers, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

ANY REFERENCE TO FRANKLIN MUTUAL ADVISERS, LLC AS BEING A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

September 30, 2011

Item 2 Material Changes

On July 28, 2010, the United States Securities and Exchange Commission ("SEC") published "Amendments to Form ADV" which amends the disclosure document that is provided to clients as required by SEC rules. This brochure is a new document and has been prepared according to the SEC's new requirements and rules. As such, this document is materially different in structure than previous versions of the brochure and includes certain new required information.

In the future, this Item will discuss only specific material changes that are made to the brochure and provide clients with a summary of such changes. The Adviser will also reference the date of the last annual update of the brochure.

In the past, the Adviser has offered or delivered a brochure, with information about its qualifications and business practices, to clients on at least an annual basis. Pursuant to new SEC rules, the Adviser will provide a summary of any material changes to its brochure within 120 days of the close of its fiscal year. The Adviser may also provide information about material changes to clients at other times during the year, if necessary.

Clients may request a copy of the current version of our brochure at no cost by contacting GCSS at (650) 312-4000 or via email at GCSSBusinessSupportAmericas@frk.com.

Additional information about the Adviser is also available via the SEC's web site www.adviserinfo.sec.gov.

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Item 4 Advisory Business

INTRODUCTION TO FRANKLIN MUTUAL ADVISERS, LLC

Franklin Mutual Advisers, LLC (the “Adviser” or “we”), is a New Jersey corporation formed on March 31, 1999 and based in Short Hills, New Jersey. 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,[®] a global investment management organization offering investment choices under the Franklin,[®] Templeton,[®] Mutual Series,[®] Bissett,[®] Fiduciary[™] and Darby[®] brand names. Franklin Templeton Investments, through current and predecessor subsidiaries, has been engaged in the investment management and related services business since 1947.

Franklin Resources is regulated as a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), and has elected to be a financial holding company under the Gramm-Leach-Bliley Act (the “GLB Act”). 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 management agreements with one or more U.S.-registered open end funds (collectively, “our Sponsored Investment Products”) and a number of sub-advised investment products.

In the U.S., the Adviser provides advice to investment companies registered with the U.S. Securities and Exchange Commission (“SEC”) pursuant to the Investment Company Act of 1940 (the “1940 Act”) (the “U.S. Registered Funds”). The Adviser manages certain sub-advised investment products (“sub-advised accounts”) which may be sold to the public under one of Franklin Templeton Investments brand names or that are brands of other unaffiliated companies. Please see Item 7 (“Types of Clients”) for greater detail.

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 services offered by the Adviser are described more fully below. The terms on which the Adviser provides investment advisory services to separate account clients are set forth in the relevant investment management agreement, investment guidelines and objectives, or other written instructions.

The Adviser provides investment management services pursuant to agreements in effect with each of the Sponsored Investment Products that it manages.

With respect to Sponsored Investment Products and sub-advised 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 Sponsored Investment Products will purchase, hold or sell, if applicable, under the supervision and oversight of the funds’ boards of directors or trustees. In addition, the Adviser may take various steps to implement such decisions, including arranging for the selection of brokers and dealers and the execution and settlement of trades in accordance with detailed criteria set forth in the management agreement for each account, internal policies, and applicable law and practice. With respect to Sponsored Investment Products 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 on securities for the clients to purchase, hold or sell. In such cases, the Adviser may or may not perform trading activities for the products.

Typically, accounts are managed on a fully discretionary 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. Some of these are discussed in more 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 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 in 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 set forth in the investment management agreement. Please see Item 10 ("Other Financial Industry Activities and Affiliations") for more details.

ASSETS UNDER MANAGEMENT

The Adviser may provide management services or continuous and regular supervisory services for the accounts that it manages. The Adviser may provide (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 for which it has delegated management services to an affiliated adviser, or (v) management services as a co-manager to an account for which an affiliated adviser also provides 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, 2011, the Adviser managed the following amounts on a discretionary and non-discretionary basis:

	U.S. Dollar Amount
Discretionary	\$ 54,597,315,230.38
Non-Discretionary	\$ 0.00
Total	\$ 54,597,315,230.38

Item 5 Fees and Compensation

ADVISORY FEES

Investment management fees are generally calculated under contractual arrangements with our Sponsored Investment Products 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, as amended (the "Advisers Act"), the Adviser may negotiate and charge performance fees, as well as asset based fees in connection with Sponsored Investment Products. In addition, fees 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.

FEE SCHEDULES

U.S. REGISTERED FUNDS

With respect to the Adviser's management of U.S. Registered Funds, investors should consult the U.S. Registered Funds' offering documents for specific fee information on those products. The compensation paid by each U.S. Registered Fund is described in its prospectus and statement of additional information. Under the majority of investment management agreements, the funds pay the Adviser a monthly fee in arrears based upon a fund's average daily net assets. Annual fee rates under the various global investment management agreements generally range from 0.15% to a maximum of 2.50% and are often reduced as net assets exceed various threshold levels. Annual rates vary by investment objective and type of services provided. The Adviser's investment management agreements generally permit the Adviser to provide investment management services to more than one fund and to other clients as long as its ability to render services to each of the funds is not impaired, and so long as purchases and sales of portfolio securities for various advised funds are made on an equitable basis.

TIMING AND PAYMENT OF ADVISORY FEES

The timing of fee payments is set forth in the relevant U.S. Registered Fund's offering documents.

For the most part, the investment management agreements between the Adviser and U.S. Registered Funds must be renewed each year (after an initial two-year term), and must be specifically approved at least annually by a vote of each fund's board of directors or trustees as a whole and separately by the directors/trustees that are not interested persons of such fund under the 1940 Act, or by a vote of the holders of a majority of such fund's outstanding voting securities.

The Adviser's U.S. investment management agreements automatically terminate in the event of their "assignment", as defined in the 1940 Act. In addition, either party may terminate such an agreement without penalty after prior written notice.

OTHER FEES AND EXPENSES

In addition to the fees described above, clients of the Adviser may bear other costs associated with investments or 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's account invest) associated with products or services that may be necessary or incidental to such investments or accounts. 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) any separate account client advised by the Adviser 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.

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

The Adviser may provide advice to one or more separate account clients that are charged performance-based fees. Some portfolio managers manage both accounts that are charged a performance fee and accounts that are charged another type of fee, such as institutional

accounts that are charged an asset based fee and other pooled vehicles with a performance fee in which employees or associates of the Adviser or an affiliate may participate as investors.

Side-by-side management by the Adviser or its supervised persons who provide investment supervisory services to one or more Sponsored Investment Products may raise potential conflicts of interest, including those associated with any differences in fee structures, as well as other pecuniary and investment interests the Adviser or its supervised persons may have in an account managed by the Adviser. U.S. Registered Funds, for example, generally pay management fees based on a fixed percentage of assets under management, whereas institutional accounts and other pooled vehicles may often have more varied fee structures, including a combination of asset- and performance-based compensation. The prospect of achieving higher compensation from an institutional account than from a U.S. Registered Fund may provide the Adviser incentive to favor the institutional account over the U.S. Registered Fund 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 a fund or account, may create an incentive for the Adviser to favor such a fund or account to the detriment of other funds or accounts.

The management of multiple accounts may also give rise to potential conflicts of interest if the funds and accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The Adviser seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. Separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest.

However, securities selected for one fund or account may outperform the securities selected for another fund or account. Moreover, 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 seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts. Please refer to Item 12 ("Brokerage Practices") for more details.

The structure of a portfolio manager's compensation may give rise to potential conflicts of interest. A portfolio manager's base salary and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be an indirect relationship between a portfolio manager's marketing or sales efforts and his or her compensation.

The Adviser has implemented "Policies and Procedures for Side-By-Side Management of U.S. Registered Investment Companies and Investment Accounts" designed to address potential conflicts of interest that may arise when a portfolio manager or different portfolio managers within a single investment adviser or within a single investment group manage both U.S. Registered Funds and other investment accounts or pooled vehicles for other advisory clients.

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, if the Adviser receives performance-based compensation, it could be perceived as effecting cross trades that it anticipates may increase in value from a U.S. Registered Fund, with an asset based fee, to an investment account, with a performance fee, 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. In that case, the Adviser may be perceived to cross-trade such securities from an investment account to a U.S. Registered Fund to minimize the effect of those securities on the performance-based compensation. 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.

The Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. The Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest may exist with respect to the aggregation and allocation of client transactions. For example, with respect to the allocations of aggregated trades, 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.

The Adviser has implemented trade aggregation and allocation procedures (the "Allocation Procedures") designed to address these potential conflicts of interest. The Allocation Procedures provide that block trading should be utilized whenever possible (subject to certain enumerated exceptions), and 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. The Allocation Procedures describe the allocation methodologies to be applied, and 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.

The Allocation Procedures provide that all associated costs of an aggregated transaction will be shared on a proportionate basis by participating accounts. Previous allocations are reviewed periodically to consider whether any account was systematically disadvantaged due to bunched transactions and whether the order was appropriate for each of the participating accounts. Examination of the aggregation of orders and the allocation of securities is undertaken periodically to determine whether the Adviser considered the best interests of each client during the process.

Advisers to investment accounts may have a different valuation process for those accounts than the U.S. Registered Funds 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 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 and Liquidity Oversight Committee ("VLOC"), which was formed to provide oversight and administration of the policies and procedures governing the fair valuation and liquidity determination of securities held in Franklin Templeton Investments portfolios. Key participants of the VLOC include individuals across Franklin Templeton Investments from legal, compliance, trading, investment operations, fund accounting, global risk management and global portfolio services.

Item 7 Types of Clients

The Adviser currently provides investment advice to one or more U.S. Registered Funds (collectively, our "Sponsored Investment Products") and sub-advised accounts.

Sponsored Investment Products advised by the Adviser are offered globally to retail, institutional, high net-worth and separate account clients, which include individual investors, qualified groups, trustees, tax-deferred (such as IRAs in the United States) or money purchase plans, employee benefit and profit sharing plans, trust companies, bank trust departments and institutional investors. Sponsored Investment Products include portfolios managed for corporations, endowments, charitable foundations and pension funds, as well as wealthy individuals and other institutions. The Adviser uses various investment techniques to focus on specific client objectives for these specialized portfolios.

U.S. REGISTERED FUNDS

Franklin Templeton Investments' proprietary open-end and closed-end investment companies are registered under the 1940 Act, and are grouped into three main fund families, Franklin, Templeton and Mutual Series.

The Franklin, Templeton and Mutual Series funds consists of various open-end investment companies, including variable insurance funds, serving the institutional and retail market. The Franklin and Templeton management groups offer in addition a smaller number of publicly traded closed-end investment companies and the Franklin management group offers a number of money market funds.

Funds managed by separate management groups may have a common board of directors/board of trustees.

The Adviser also serves as an adviser or sub-adviser for a variety of U.S. Registered Funds advised by unaffiliated advisers ("Sub-Advised Funds").

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

The Adviser offers a range of investment options, each of which utilizes a research driven, fundamental, value-oriented strategy for selecting investments.

Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. Often the companies purchased by portfolio managers are out of favor with investors, or overlooked by the investment community. The management team also looks for catalysts such as a complicated corporate restructurings, the sale of non-core assets, spin-offs, share buybacks, or new management teams (among other factors) which they believe will help unlock value for investors.

Certain strategies are focused more on opportunities within the U.S. while others are more global, or international, in scope. To varying degrees, each of the strategies may also invest in merger arbitrage and distressed companies.

INVESTMENT STRATEGIES

Significant strategies used by the Adviser include:

Mutual Shares/Mutual Beacon

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the Adviser's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the companies in which it may invest. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives. The Adviser expects to invest a significant portion of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

Mutual Global Discovery

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the Adviser's own analysis of the security's intrinsic

value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the companies in which it may invest; however, the Adviser currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies. The Adviser expects to invest substantially and may invest up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Adviser presently does not intend to invest more than a portion of its assets in securities of issuers located in emerging market countries. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives.

Mutual Quest

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the Adviser's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the companies in which it may invest; however, the Adviser currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives. The Adviser expects to invest a significant portion of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt.

Mutual European

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the Adviser's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the companies in which it may invest; however, the Adviser currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies. Under normal market conditions, the Adviser invests at least 80% of its net assets in securities of European companies. The Adviser normally invests in securities from at least five different countries, although, from time to time, it may invest in securities of U.S. issuers, and securities of issuers from the Levant, the Middle East and the remaining regions of the world. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives.

Mutual International

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the

companies in which it may invest; however, the Adviser currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies. Under normal market conditions, the Adviser invests at least 80% of its net assets in securities of non-U.S. issuers. The Adviser invests primarily in securities of Asian and European companies that the investment manager believes are undervalued. The Adviser normally invests in securities from at least five different countries, although, from time to time, it may invest all of its assets in a single country. The Adviser may also invest in securities of U.S. issuers, and securities of issuers from the Levant, the Middle East and the remaining regions of the world. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives.

Mutual Financial Services

The investment team employs a research driven, fundamental value strategy for this strategy. Investments are generally selected based on the investment manager's own analysis of the security's intrinsic value, including for equity securities, an analysis of book value, cash flow potential, long-term earnings and multiples of earnings. The team examines each investment separately and there are no set criteria as to specific value parameters, asset size, earnings or industry type. To a lesser extent, the Adviser also invests in merger arbitrage and distressed companies. This strategy has no pre-set maximums or minimums governing the size of the companies in which it may invest; however, the Adviser currently invests the equity portion of its portfolio primarily to predominantly in mid- and large-cap companies, with the remaining portion of its equity portfolio in smaller companies. The Adviser may invest in foreign securities without limit. Under normal market conditions, the Adviser invests at least 80% of its net assets in securities of financial services companies. The Adviser may attempt to hedge, or protect, against currency risks, largely using forward foreign currency exchange contracts and currency futures contracts. The Adviser may also attempt to hedge against market risk using a variety of derivatives.

Franklin Mutual Recovery

This strategy seeks to achieve superior risk-adjusted returns with a moderate correlation to the U.S. equity markets by investing in equity and debt instruments. Such investments can be either long or, to a lesser degree short, and can utilize a limited amount of leverage. Under normal market conditions the Adviser will invest in Distressed Companies, Merger Arbitrage Securities, Special Situations, and Undervalued Equities. This strategy shares a similar value-oriented approach as the other Mutual Series strategies. The availability of investments at attractive price in each of these categories varies with economic and market cycles. Therefore, the percentage of the assets invested in each of these areas may fluctuate as the investment team attempts to exploit opportunities afforded by cyclical changes. This strategy has no pre-set limits as to the percentage of its portfolio that may be invested in equity or debt securities. The Adviser may invest a substantial portion of its assets in foreign securities and may also enter into currency-related transactions involving derivative instruments.

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 managed by the Adviser will go up and down, sometimes rapidly or unpredictably. A security'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.

Generally, stocks have historically outperformed other types of investments over the long term. Individual stock prices, however, tend to go up and down more dramatically. 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.

Merger Arbitrage Securities and Distressed Companies – A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time a portfolio invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, resulting in losses to the fund or account. Debt obligations of distressed companies typically are unrated, lower-rated, in default or close to default and are generally more likely to become worthless than the securities of more financially stable companies.

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 or in a security's credit rating may affect a security's value.

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. 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 structures of some countries may be less stable and more volatile than those in the U.S., (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 U.S. (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, (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 U.S. typically are greater in less developed 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.

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 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.

Derivative Instruments – The performance of derivative instruments depends largely on the performance of an underlying currency, security or index and such derivative instruments often have risks similar to their underlying instrument, in addition to other risks. Derivative instruments involve costs, may be volatile and illiquid, may give rise to leverage and may involve a smaller initial investment relative to the risk assumed. There may also be imperfect correlation between the value of the derivative and the underlying instrument. If the Adviser is not successful in using such derivative instruments, the performance of a portfolio may be worse than if the Adviser did not use such derivative instruments at all. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. With over-the-counter derivatives, there is the risk that the other party to the transaction will fail to perform.

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 is subject to greater risk of adverse economic conditions and regulatory changes than a fund with broader geographical diversification.

Liquidity – Liquidity risk exists when particular investments are difficult to purchase or sell. Liquidity risk may also apply to collateral held on certain investments. This can reduce a portfolio's returns because the portfolio may be unable to transact at advantageous times or prices

Value Style Investing – A value stock may not increase in price as anticipated by the Adviser if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the Adviser believes will increase the price of the security do not occur.

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.

Bank Holding Company Act Concerns – Franklin Resources is regulated by the U.S. Federal Reserve as a bank holding company and a financial holding company under the BHC Act. Franklin Resources, its non-bank subsidiaries, and their managed funds, including the Adviser, are, therefore, subject to certain limits on their activities and investments. Certain provisions of the BHC Act may from time to time restrict the operations of certain funds advised by the Adviser and/or their ability to capitalize on certain investment opportunities. If the Adviser expects that application of the BHC Act to these funds will materially affect their investment strategy, this will be disclosed in the relevant fund's offering documents.

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 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading") 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

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 SEC as a broker-dealer and is a member of Financial Industry Regulatory Authority (“FINRA”). FTDI’s primary business is underwriter and distributor for the U.S. Registered 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 (“529 Plans”). In addition, FTDI acts as program manager, servicing agent or distributor for the two 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, which may be then either partially or fully reimbursed by the funds.

FTFSC is registered with the SEC as a broker-dealer and is a member of FINRA. FTFSC, in conjunction with other Franklin Templeton Investments (“FTI”) investment advisory and banking affiliates, provides the broker-dealer platform to pooled investment vehicles that are exempt from registration under the 1940 Act (the “Private Funds”). As such, FTFSC personnel are also associated with FTI investment advisers and banks so that they may utilize the FTFSC broker-dealer platform when offering investment advisory and banking services along with 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.

SERVICES TO U.S. REGISTERED FUNDS

The Adviser serves as investment adviser to one or more U.S. Registered Funds.

For the most part, the investment management agreements between the Adviser and the U.S. Registered Funds it advises must be renewed each year (after an initial two-year term), and must be specifically approved at least annually by a vote of each fund’s board of directors or trustees as a whole and separately by the directors/trustees that are not interested persons of such fund under the 1940 Act, or by a vote of the holders of a majority of such fund’s outstanding voting securities.

BANK HOLDING COMPANY AFFILIATE

Franklin Resources is regulated as a bank holding company under the BHC Act, and has elected to be a financial holding company under the GLB Act. Franklin Templeton Investments® are, therefore, subject to certain limits on their activities and investments. Certain provisions of the BHC Act may from time to time restrict the operations of certain funds advised by the Adviser and/or their ability to capitalize on certain investment opportunities. If the Adviser expects that application of the BHC Act to these funds will materially affect their investment strategy, this will be disclosed in the relevant fund’s offering documents.

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

CODE OF ETHICS SUMMARY

The Adviser has adopted (a) a code of ethics pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 of the 1940 Act (the "Code of Ethics") and (b) a policy statement on insider trading (the "Insider Trading Policy"). A brief description of the main provisions of the Code of Ethics and the Insider Trading Policy follows.

A. The Code of Ethics

The Code of Ethics states that the interests of the Adviser's clients are paramount and come before any of its Supervised Persons (as defined below). All Supervised Persons are required to conduct themselves in a lawful, honest and ethical manner, consistent with their fiduciary obligations and in compliance with the Federal Securities Laws (as such term is defined in the Code of Ethics).

Supervised Persons are a U.S. registered investment 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 Supervised Persons must be conducted in a manner that avoids actual or potential conflicts of interest with the clients of the Adviser. Supervised Persons 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 applicable Federal Securities Laws and their fiduciary duties to use such opportunities and information for the benefit of the Adviser's clients. In addition, the Code of Ethics states that the information concerning the identity of security holdings and financial circumstances of the Adviser's clients is confidential and Supervised Persons are required to vigilantly safeguard this sensitive information.

A subset of Supervised Persons known as Access Persons are required to provide certain periodic reports on their personal securities transactions and holdings. Access Persons are those persons who: (i) have access to nonpublic information regarding clients' securities transactions, (ii) are involved in making securities recommendations to clients, (iii) have access to recommendations that are nonpublic, or (iv) have access to nonpublic information regarding the portfolio holdings of funds for which a Franklin Templeton Investments' U.S. registered investment adviser ("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. Unless expressly excepted by the Code of Ethics, Adviser's Access Persons are prohibited from buying or selling any security without first obtaining permission from a member of the Code of Ethics Administration Department. The Code of Ethics also prohibits Access Persons from investing in initial public offerings except for investments in Franklin Templeton closed-end funds, which requires pre-approval from the Code of Ethics Administration Department.

To avoid actual or potential conflicts of interest with Adviser's clients certain transactions and practices are expressly prohibited by the Code of Ethics and the Insider Trading Policy. These include: front-running, scalping, 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 Code of Ethics requires prompt internal reporting of suspected and actual violations of the Code of Ethics and the Insider Trading Policy. In addition, violations of the Code of Ethics and the Insider Trading Policy are referred to the Director of Global Compliance and/or the Chief Compliance Officer as well as the relevant management personnel.

B. The Insider Trading Policy

Pursuant to the Insider Trading and Securities Fraud Enforcement Act of 1988 (the "Act"), the Adviser's Insider Trading Policy prohibits any Supervised Person or Access Person from trading, either personally or on behalf of clients, on material, non-public information or communicating material non-public information to others in violation of the Federal Securities Laws.

The term "insider" includes (i) Supervised and Access Persons and (ii) temporary insiders who enter into a confidential relationship with the Adviser, such as the Adviser's outside counsel, accountants, consultants, bankers and the employees of such organizations.

The term "material information" includes information (i) for which there is a substantial likelihood that a reasonable investor would consider it important in making investment decisions and (ii) that may have a substantial effect in the price of the Adviser's securities held in client accounts.

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

Copies of the Code of Ethics and the Insider Trading 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 client 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 it 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.

There may arise potential or actual conflicts of interest 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 total 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 fund or 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 funds it manages.

Some portfolio managers may manage several different types of accounts: for example, individual accounts, portfolio accounts on a sub advisory basis, institutional accounts, incentive fee accounts and investment partnership accounts in which employees or associates of the Adviser or its affiliate may participate as limited partners.

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 made in accordance with the 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 must also be 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 should generally be included in a block trade with the Adviser-advised mutual fund or other non-mutual fund client accounts.

Similarly, the policies and procedures relating to trade allocation for fixed income securities (the “Fixed Income Allocation of Investment Opportunities Policy and Procedures”) have been adopted by Franklin Templeton Investments to ensure that buy and sell investment opportunities are allocated fairly and equitably among clients. Because of the different fee structures and investment involvement, the Adviser or its affiliates may be viewed as having a reason to favor the performance of one account over another. In order to prevent any potential or actual conflicts of interests in the course of making allocations of fixed income investment opportunities, the portfolio managers of the Adviser may consider several factors listed in the Fixed Income Allocation of Investment Opportunities Policy and Procedures or allocate investment opportunities pursuant to alternative methodologies, provided such investment opportunities result in an equitable treatment of all clients over time, are consistently applied and the reason for using the allocation method is documented.

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 Code of Ethics 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 Code of Ethics 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 each and every situation where a 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 U.S. Registered Funds or other pooled investment vehicles for which the Adviser or its affiliate serves as investment adviser or sub-adviser collectively (“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 a client 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 Private Fund, 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 the fees it will receive from the Adviser's client for managing the client's separate account. Similarly, the Adviser's clients who invest through a separate account managed by another related adviser are subject to advisory fees charged in connection therewith. The Adviser's clients should notify the Adviser if they do not want their separate account assets to be invested in Affiliated Funds, and the Adviser's clients may invest directly in certain Affiliated Funds or other U.S. Registered Funds outside of their separate accounts 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 (including management fees or fees paid pursuant to Rule 12b-1 under the 1940 Act) will be reduced by the account's pro rata share of such compensation, to the extent required by law. In addition, the Adviser, at its sole discretion, and in order to avoid duplication of advisory fees, may (but, except as necessary in accordance with applicable law, is not required to) elect to waive all or a portion of its separate account investment management fee 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.

The Adviser may serve as investment sub-adviser to various investment companies, some of which have an investment goal and strategy similar to that of investment companies for which the Adviser or its affiliates serve as investment adviser. Even when there is similarity in investment goal and strategy, investment performance and portfolio holdings may vary between investment companies, potentially significantly, as a result of, among other things, differences in: inception dates, cash flows, asset allocation, security selection, liquidity, income distribution or income retention, fees, fair value pricing procedures, diversification methodology, use of different foreign exchange rates, use of different pricing vendors, ability to access certain markets due to country registration requirements, legal restrictions or custodial issues, legacy holdings in the fund, availability of applicable trading agreements such as ISDAs, futures agreements or other trading documentation, restrictions placed on the account (including country, industry or environmental and social governance restrictions) and other operational issues that impact the ability of a fund to trade in certain instruments or markets.

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 assure that the price paid or proceeds received by clients 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. Clients, therefore, should consider the possible costs or 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 would be accomplished in compliance with Rule 17a-7 of the 1940 Act.

Potential restrictions on Investment Adviser Activity

From time to time, the Adviser may be restricted from purchasing or selling securities on behalf of its clients because of regulatory and legal requirements applicable to the Adviser and/or its internal policies 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 Insider Trading Policy" above such restrictions or limitations will apply.

In certain 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 of investment by the Adviser that may not be exceeded without the grant of a license or other regulatory or corporate consent. 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, deem it appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds.

In those circumstances where ownership thresholds or limitations must be observed, the Adviser seeks to equitably allocate limited investment opportunities among its clients, 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 client account or fund. 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. 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, 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 it manages. In general, the Adviser has discretion to determine whether a particular security is an appropriate investment for each account under management, 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 initial public offerings ("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 basis. Please see Item 6 for details of the trade aggregation and allocation policy adapted by the Adviser.

Political Contributions

It is the policy of the Adviser to not make, and to prohibit its employees from making on behalf of the Adviser, any political contributions for the purpose of influencing an 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

SELECTION CRITERIA FOR BROKERS AND DEALERS

In effecting portfolio transactions, the Adviser will attempt to obtain the best combination of low commission rates relative to the quality of brokerage and research services received with the view towards maximizing value for the Adviser's clients.

The single most significant consideration is the quality of the execution of the transaction. In assessing execution quality, the following factors, among others, may be considered:

- Technology
- Transparency of order routing
- Effectiveness of algorithms for order routing
- Market impact cost/willingness of a broker to work an order
- Order size/liquidity considerations
- Willingness to commit capital
- Ability to get best price
- Knowledge of and access to natural contra side
- Commission rate
- Timeliness and quality of looks and reports on markets
- Ability to handle certain trading styles or strategies
- Knowledge of and access to potential market participants
- Block trading and arbitrage capabilities
- Specialized expertise
- Consistency
- Promptness of execution
- Responsiveness
- Back office capabilities/quality of confirmations and account statements
- Sophistication of trading facilities
- Ability and willingness to correct errors
- Confidentiality
- Trustworthiness/reputation
- Experience/past execution history
- Financial condition of broker

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions is based to a large degree on the professional opinions and judgments of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type.

When appropriate under its discretionary authority, consistent with its duty to obtain “best execution”, and in conformance with the Adviser’s client commission policy described below, the Adviser may consider the receipt of research and brokerage products and services from broker-dealers when directing brokerage transactions for client accounts.

For most transactions in equity securities, the amount of commissions paid is negotiated between the Adviser’s trading department and the broker executing the transaction. The Adviser may also place orders to buy and sell equity securities where the broker is acting on a principal rather than agency basis if the Adviser’s traders believe that trading on a principal basis will provide best execution.

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 services in the following forms: (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 attributable to the client commission research services cannot be identified at an individual account level.

The CCA broker-dealers include:

Bank of America/Merrill Lynch
Barclays Capital Inc.
BMO Capital Markets
CIBC World Markets
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Goldman Sachs & Co.
Instinet LLC
Investment Technology Group (ITG)
Jefferies and Company Inc.
JP Morgan Securities Inc.
Knight Equity Markets LP
Liquidnet
Morgan Stanley & Co. Inc.
Nomura Securities International Inc.
RBC
Scotia Capital
TD Securities
UBS Securities LLC
Weeden & Co. LP

When buying or selling fixed income securities in dealer markets, the Adviser will generally deal directly with market makers in the securities. On these transactions, the Adviser typically will effect trades on a “net” basis, and will not pay the market maker any commission, commission equivalent or markup/markdown other than the “spread.” Usually, the market maker profits from the “spread,” that is, the difference between the price paid (or received) by the Adviser and the price received (or paid) by the market maker in trades with other broker-dealers or other customers. In some instances, a broker-dealer who also serves as custodian for an account may assess a “ticket charge” for executing the transaction or a “trade away” charge for settling a transaction executed by a different broker.

The Adviser may also effect transactions that are placed pursuant to a negotiated agreement with a counterparty, including but not limited to swaps, futures, forwards, options and repurchase agreements. Due to the fact that certain instruments are traded pursuant to a private agreement with a counterparty (which must be in place prior to effecting a transaction), such as swaps, futures, options, forwards and certain other instruments and the fact that the Adviser will have a limited universe of counterparties from which to choose, the standard for best execution may vary

with the type of security or instrument involved in a particular transaction.

POLICY ON USE OF CLIENT COMMISSIONS (“CLIENT COMMISSION POLICY”)

When appropriate under its discretionary authority and consistent with its duty to seek best execution, Adviser or a related person (hereinafter in this section, “Adviser”) may direct brokerage transactions for client accounts to broker-dealers who provide 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 known as “soft dollars.”

Broker-dealers typically provide a bundle of services including research and execution of transactions. 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, 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 Adviser by allowing Adviser to supplement its own research and analysis and also gain access to specialists with expertise on certain companies, industries, areas of the economy, and market factors. Adviser believes that such research benefits clients.

The federal securities laws provide a “safe harbor” which allows an investment adviser to pay for research and brokerage services with the commission dollars generated by client account transactions. Adviser currently acquires only the types of products or services that qualify for the safe harbor in Section 28(e) of the Securities Exchange Act of 1934. In determining whether a service or product qualifies as research or brokerage, Adviser evaluates whether the service or product provides lawful and appropriate assistance to Adviser in carrying out its investment decision-making responsibilities.

Research and brokerage services acquired with client commissions 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;
- quantitative analytical software;
- software that provides analyses of securities portfolios;
- Statistical Trade Analysis;
- accounting and tax law interpretations;
- 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 include those provided by Bloomberg, Thomson Reuters, FactSet, Omgeo, MSCI/Barra and Standard and Poor’s Indexes.

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 may facilitate consultations between

researchers, including a variety of investment professionals, and people with knowledge or expertise in a particular field or industry, such as doctors, academics and consultants. Such services supplement the Adviser's own analyses and may be particularly helpful in understanding sectors of the market that may be highly complex or very technical in nature.

If a product or service obtained by Adviser provides both research and non-research benefits, Adviser will generally treat the product or service as a "mixed use" item and will pay for the non-research portion with hard dollars (i.e., cash from its own resources) rather than client commissions. When acquiring a mixed use item, Adviser will allocate the cost of the product between client commissions and hard dollars according to its anticipated use of the product, i.e., how the product or service will be used and by whom. Although the allocation between client commissions and hard dollars will not always be a precise calculation, Adviser will make a good faith effort to reasonably allocate such services. To the extent that any such "mixed use" services/products are obtained, records will be prepared detailing the research, services and products obtained and the allocation between the research and non-research portions, including payments made by client commissions and hard dollars.

The determination and evaluation of the reasonableness of the brokerage commission rate paid in connection with portfolio transactions are based to a large degree on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commission rates being paid by other investors of comparable size and type. Adviser may select broker-dealers based on its assessment of their ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer may benefit client accounts. Accordingly, broker-dealers selected by Adviser may be paid a commission rate for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if Adviser determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or Adviser's overall duty to its discretionary accounts.

It is not ordinarily possible to place an exact dollar value on the special execution or on the research services Adviser receives from dealers effecting transactions in portfolio securities. The allocation of commissions generated by client transactions in order to obtain additional research services permits Adviser to supplement its own research and analysis activities and to receive the views and information of individuals and research staffs from many securities firms. As long as it is lawful and appropriate to do so, Adviser and its affiliates may use this research and data in their investment advisory capacities with other clients.

While Adviser may negotiate commission rates and prices with certain broker-dealers with the expectation that such broker-dealers will be providing brokerage or research services, Adviser will not enter into any agreement or understanding with any broker-dealer that would obligate Adviser to direct a specific amount of brokerage transactions or commissions in return for such services. Such research services, however, may be considered as a factor in determining the amount of commissions to be allocated to a specific broker. As a result, Adviser may have an incentive to select or recommend a broker based on Adviser's interest in receiving research or other products or services, rather than on a client's interest in receiving most favorable execution. Also, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services. If Adviser does not meet the amount required to obtain a particular desired product, it may direct excess research commissions as part of a client commission arrangement with an executing broker to pay the research provider or Adviser may pay hard dollars to make up the difference.

In connection with the purchase of securities in certain fixed-price offerings, Adviser may designate that a portion of the selling concession be paid to a broker-dealer that provides research services to Adviser.

Research obtained with client commissions may not always be utilized by Adviser for the specific account that generated the client commissions. Adviser does not attempt to allocate the relative

costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives assists Adviser in fulfilling its overall duty to its clients. Research/services obtained with client commissions generated by Adviser's clients may be shared with Adviser's advisory affiliates. Similarly, Adviser's client accounts may benefit from research/services obtained with client commissions generated by client accounts of other advisers within Franklin Templeton Investments.

To the extent consistent with its duty to seek best execution, Adviser may direct trades to a broker-dealer with the instruction that the broker-dealer execute the transaction and that another broker-dealer or research provider provide client commission products/services, so long as this broker also performs one or more functions that constitute "effecting" a trade, in accordance with applicable regulations or SEC guidance. This type of "commission sharing" arrangement permits Adviser to use a broker that provides best execution to execute the trade while paying part of the commissions on the trade to another broker from which Adviser receives research or other services.

THE STATEMENT OF BEST EXECUTION PROCEDURES

The Adviser has adopted policies and procedures incorporating statements of best execution (the "Best Execution Statement") to provide guidance in situations where the Adviser may consider the receipt of research and statistical services from broker-dealers, or other client commission arrangements, when directing brokerage transactions for client accounts. The Best Execution Statement is designed to ensure (i) execution services meet the quality standards established by the Adviser's trading team and are consistent with established policies, (ii) provide the broadest flexibility in selecting which broker-dealers may provide best execution, (iii) continual evaluation of the execution capabilities of, and the quality of execution services received from, broker-dealers effecting portfolio transactions for Adviser's clients, and (iv) the identification and resolution of potential conflicts of interest.

Pursuant to the Best Execution Statement, the trading team at each global location will use multiple evaluation criteria to help determine which brokers have provided the highest quality execution services over the recent time period. An evaluation form comprised of various factors considered relevant to the trading process, as may be revised from time to time, is typically used for this purpose. An average of each team's evaluations or rankings will then be used to determine the broker's appropriate overall rank both within each global location and in the broker universe of the global trading department ("Global Trading"). On a quarterly basis, the Global Best Execution Committee ("GBEC"), comprised of senior members of Global Trading, conducts further detailed reviews of the trades executed by members of Global Trading. Minutes of the meetings of the GBEC are presented regularly to the Equity Global Trading Oversight Committee ("GTOC"), which is comprised of senior management personnel, including senior representatives from the portfolio management, trading, legal and global compliance departments.

As part of the oversight of the brokerage allocation process, the GTOC meets semi-annually to review brokerage allocations and the stated reasons for selecting certain broker-dealers. The GTOC reviews historical broker dealer transaction history to attempt to confirm that the principles of the Adviser's stated best execution procedures are being applied based on information obtained internally and externally. Internal information may include trade execution, trade volume and trade count data. External information may include independent data sources that rank brokers on trade execution and quality of service.

There are potentially many factors to be considered in making broker selections. It is the responsibility of the traders to make determination within Global Trading's brokerage universe to provide the best execution for any particular transactions based on their knowledge and experience, which generally override any predetermined notion for choice of brokers. In our view, "best execution" is a process of attempting to secure the best combination of price and intermediary value given the strategies and objectives of Adviser's client accounts from the inception to the completion of the order with the focus toward maximizing value for our clients. Moreover, there is not a single rule that is strictly applied to guide the traders in selecting a particular broker for each and every trade. For example, the commission rate is only one factor

that the traders need to consider in evaluating which broker can provide the best overall execution for a particular trade or trades and a higher commission may be outweighed by other considerations relevant to the quality of the execution received.

Transactions in fixed income securities typically do not generate commissions, and there are other practical limitations on the universe of appropriate dealers in fixed income securities. The opportunity to consider the receipt of research and statistical services from broker-dealers, or other client commission arrangements, when directing fixed income brokerage transactions for client accounts is therefore minimal. However, the Fixed Income GTOC meets regularly to ensure that fixed income transactions executed by the Adviser meet the standards of best execution identified in the Best Execution Statement.

To the extent consistent with its duty to seek best execution, the Adviser may effect transactions through broker-dealers that have, or are expected to, refer private account clients to the Adviser or an affiliate. To the extent that these practices result in an increase in assets under management, the Adviser or its affiliates will benefit. Therefore, the Adviser may have an incentive to select or recommend a broker-dealer based on its interest in receiving client referrals rather than in receiving most favorable execution for clients. In order to manage the potential conflicts of interest which might otherwise exist, 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, directly or indirectly, for client referrals or sales efforts through placement of brokerage transactions; nor will the Adviser use step-out transactions or similar arrangements to compensate selling brokers for their sales efforts. The Adviser's U.S. Registered Funds have adopted procedures pursuant to Rule 12b-1(h) under the 1940 Act (as set forth in the policy entitled, "Prohibition on the Use of Brokerage Commissions to Finance Distribution") which provide that neither the 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.

CLIENT-DIRECTED BROKERAGE TRANSACTIONS

The Adviser does not routinely recommend, request or require that a client directs brokerage to any specific broker-dealers. In selecting brokers through whom portfolio transactions will be executed, Adviser's first responsibility will be to comply with any client instructions specifying the use of a particular broker.

Clients may limit Adviser's discretionary authority and may occasionally direct Adviser to use a particular broker-dealer to execute portfolio transactions for its account. Such direction may include "expense reimbursement" and "commission recapture" arrangements, where Adviser is informed by a client that certain broker-dealers will rebate a certain portion of an account's brokerage commissions (or spreads on fixed income or principal trades) directly to the account, or apply the amount to an account's expenses.

When a client directs the use of a particular broker-dealer (including expense reimbursement and commission recapture arrangements), 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 batched for execution purposes with orders for the same securities for other accounts managed by Adviser and may be placed at the end of batched trading activity for a particular security. Accordingly, directed transactions may be subject 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 batched order. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if Adviser were empowered to negotiate commission rates or spreads freely, or to select brokers or dealers based solely on best execution considerations. Therefore, in instances where a client directs Adviser to use a particular broker to execute trades, Adviser may not be able to obtain best execution for such client-directed trades.

Conversion of currencies into and out of the base currency of an account in restricted markets and generally income repatriation transactions will be the responsibility of the each client's custodian. To the extent that the client's custodian performs such transactions, the Adviser shall not have the ability to control such transactions and will be limited in its ability to assess the quality of such transactions. In addition, whether a market is considered to be restricted will depend on a number of factors, including, but not limited to, country specific statutory documentation requirements, country specific structural risks and convertibility issues. Accordingly, the Adviser shall be entitled to consult with third parties, including, but not limited to, broker-dealers and custodians, and rely upon such information in making a good faith determination on whether a market is considered restricted.

BATCHED TRANSACTION POLICY

Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest exist with respect to the aggregation and allocation of client transactions. For example, with respect to the allocations of aggregated trades, 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 the adviser.

There may be instances where purchase or sale orders, or both, are placed simultaneously on behalf of the Adviser's advised accounts and by accounts advised by adviser affiliates. Orders for such securities may be aggregated or "batched" for execution in accordance with established procedures. Generally, for each account, such batched transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for such account. Generally, all accounts that are batched will participate on a pro-rata, relative order size, percentage, or other objective basis. Orders may be batched to facilitate best execution, as well as for the purpose of negotiating more favorable brokerage commissions beneficial to all accounts. Alternatively, trades may be placed according to an alternating sequence or rotation system. Trades placed through directed brokerage arrangements that cannot be batched may be executed after discretionary trades. Adviser may also batch orders for clients that permit client commission arrangements with clients that do not permit such arrangements. In such cases, Adviser batches such 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.

Where the client has directed Adviser to use a specific broker-dealer, Adviser may not be able to combine or batch client's orders for purposes of execution with orders of the same securities for other accounts managed by Adviser and, therefore, Adviser may not be able to obtain best execution for the client. In addition, certain foreign markets may require trades to be executed on an account by account basis. As portfolio transactions in such markets cannot be batched, prices may vary among accounts.

ALLOCATION IN IPOs AND SECONDARY OFFERINGS

From time to time, the Adviser may wish to participate in initial public offerings ("IPOs"), 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 limited investment opportunity is an affiliated account, including specific compliance approval when affiliated accounts are participating in an IPO or secondary offer.

Generally, requested indications of interest in IPOs are submitted to the underwriter by each adviser group to increase the opportunity of gaining additional shares. Allocation of the awarded shares is then done for each account per adviser on a pro-rata basis. For IPOs and offerings that are priced after the close of business on a given trading day, preliminary allocations are prepared and a final allocation is prepared on the following business day when the price and size of allocation are known. Any adjustments or reallocations made in this circumstance require special approval.

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 solicitors for recommending its investment advisory services to potential clients. To the extent required, such arrangements would be entered into in accordance with Rule 206(4)-3 under the Advisers Act.

Item 15 Custody

The Adviser generally does not have custody of its clients' assets. However, because certain institutional separate account clients 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. These clients will generally 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 providing information about the account. Clients should compare these carefully to the account statements received from the custodian. If clients discover any discrepancy between the account statement provided by the Adviser and the account statement provided by the custodian, they should contact the Adviser immediately.

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 client's investment objectives, internal policies and applicable law and practice, without prior consultation or consent before a transaction is effected:

- Which securities to buy or sell;
- The total amount of securities to buy or sell;
- The broker or dealer through whom securities are bought or sold; and/or
- The prices and commission rates at which securities transactions for client accounts are effected.

The Adviser may also provide services to advisory accounts with no investment discretion. Advisory 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 such limitations as a client may impose in writing. With respect to certain accounts for which the Adviser does not have investment discretion or trading authority, the Adviser may delay a recommendation to buy or sell for those accounts 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 social restrictions requested in writing by clients. Unless otherwise agreed to with a client, the Adviser's compliance with such restrictions will be based on good faith efforts and may be satisfied by utilizing a third party service to screen issuers against such restrictions, or, in its sole discretion, other market data services such as Bloomberg and Factset as well as internal research.

PARTICIPATION IN LEGAL PROCEEDINGS

Funds. With respect to the FTI U.S.-registered investment companies and certain other FTI pooled or collective investment vehicles that the Adviser manages, advises, or sub-advises (collectively, "Funds"), 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 Funds 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 Funds' portfolios, or related parties of such issuers, of which the Adviser learns and for which the Funds are eligible during each Fund's existence (the "Claim Service").

While the Claim Service is focused on such recovery opportunities in the U.S. and Canada (the jurisdictions in which class action lawsuits and regulatory recovery funds predominate), from time to time the Adviser may learn of recovery opportunities in jurisdictions outside of the U.S. and Canada 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 such Foreign Actions. In the event that the Adviser does learn of any Foreign Actions, the Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim for the Funds in such Foreign Actions.

In addition, from time to time, the Adviser 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). The Adviser 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. Similarly, the Adviser's affiliates may recommend that the Funds they manage participate in litigation, bankruptcy proceedings or committees of creditors or other stakeholders. Unless otherwise specifically agreed with a Separate Account Client (defined below) in relation to the Adviser's own recommendations for the Funds it manages, neither the Adviser nor the Adviser's affiliates will provide notice of, or the opportunity to participate in, any such legal proceedings to the Adviser's Separate Account Clients.

Separate Account Clients. With respect to the separate accounts and the registered investment companies and other pooled or collective investment vehicles that the Adviser manages, advises or sub-advises on behalf of certain clients (collectively, "Separate Account Clients"), unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but

may, provide the Claim Service and may, without undertaking any obligation to do so, file proofs of claim in Foreign Actions as described above. Foreign Actions do not include any other type of collective action outside of the U.S. and Canada, such as representative actions. Those 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, and to commit to participation in discovery and may require participants to be identified as plaintiffs in the action. The Adviser does not assume any obligation to take any action with respect to such offshore collective or representative actions for its Separate Account Clients unless otherwise specifically agreed.

In connection with the Claim Service, where provided, the Adviser may disclose information about a Separate Account Client's 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 Separate Account Client, the Adviser may waive the Separate Account Client's right to pursue separate litigation with respect to the subject matter of the class action lawsuit or regulatory recovery fund. Where the Adviser does provide the Claim Service, the Adviser may (subject to the governing investment advisory or management agreement), at any time, terminate the Claim Service by giving notice of such termination to the Separate Account Client (by any method the Adviser chooses, including electronic mail), and such service will, if not sooner terminated, automatically terminate upon the termination of the governing investment advisory or management agreement.

Further, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure, to participate in any bankruptcy proceedings involving issuers of securities presently or formerly held in Separate Account Client accounts, or related parties of such issuers. Without limiting the foregoing, the Adviser shall not be responsible for filing proofs of claim in bankruptcy proceedings, notifying Separate Account Clients of any applicable deadlines, or participating in any committees of creditors or other stakeholders on behalf of Separate Account Clients.

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., the parent company of the Adviser.

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 "Research Service"). Although Research Service analyses are thoroughly reviewed and considered in making a final voting decision, the Adviser does not consider recommendations from a Research Service or any other third party to be determinative of the Adviser's ultimate decision. The Adviser votes proxies solely in the interests of the client, the Adviser-managed fund shareholders or, where employee benefit plan assets are involved, in the interests of plan participants and beneficiaries (collectively "Advisory Clients") that have properly delegated such responsibility, or will inform Advisory Clients that have not delegated the voting responsibility but that have requested voting advice about the Adviser's views on such proxy votes. As a matter of policy, the officers, directors and Access Persons (as defined in the Code of Ethics Summary in Item 11) 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 defer to the voting recommendation of a Research 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, Research Service analyses, recommendations and any other information provided to the Proxy Group. Except in situations identified as presenting material conflicts of interest, 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, Research Service analyses, their knowledge of the company and any other information readily 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 deferring to 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, social and governance issues, and global corporate governance.

The Proxy Group is fully cognizant of its responsibility to process proxies and maintain proxy records pursuant to SEC rules and regulations, including those adopted pursuant to Rule 206(4)-6 under the Advisers Act. In addition, the Adviser understands its fiduciary duty to vote proxies and that proxy voting decisions may affect the value of shareholdings. Therefore, 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 will not vote a proxy, such as where: (i) 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 or other regulatory or market requirements, including but not limited to, effective powers of attorney, (v) the Adviser held shares on the record date but has sold them prior to the meeting date, (vi) proxy voting service is not offered by the custodian in the market, (vii) 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 (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person. The Adviser or its affiliates may, on behalf of one or more of the 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 (a) learn of a vote on a material event that may affect a security on loan, and (b) 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 position and records related to such votes. Such records may include, but are not limited to, a copy of all materials returned to the issuer and/or its agent, the documentation described above, listings of proxies voted by issuer and by client, and any other relevant information. The Proxy Group may use an outside service such as a Research Service to support this function. All records will be retained 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. mutual fund products, 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 Adviser are made available as required by law and is responsible for overseeing the filing of such policies and procedures with the SEC.

Item 18 Financial Information

Not Applicable