

This letter is important and requires your immediate attention.

**If you are in any doubt about the contents of this letter,
you should seek independent professional advice.**

Hong Kong, 25 September 2017

Dear Investor,

Franklin Templeton Investment Funds (the “Company”)

This letter is intended for investors who hold shares of the Company via an account with (i) Franklin Templeton Investments (Asia) Limited (the “**Hong Kong Representative**”) or (ii) a duly authorized intermediary for the Hong Kong market (collectively, “**Investors**”).

The purpose of this letter is to inform Investors of:

- (1) an elaboration on the investment policy of the Franklin Euro Government Bond Fund to update the list of prohibited investments under the German law on the supervision of insurance undertakings;
- (2) an elaboration on the investment policy of the Franklin High Yield Fund to clarify that it normally invests in fixed income debt securities of any credit rating;
- (3) an elaboration on the investment policy of the Franklin Income Fund to clarify that its investment in equity securities includes equity-linked notes;
- (4) an elaboration on the investment policy of Franklin Strategic Income Fund to disclose the expected proportion of the Fund’s net assets that could be subject to total return swap transactions;
- (5) an elaboration on the investor’s profile of Franklin U.S. Government Fund to clarify that the Fund is suitable for investors seeking to invest for the medium to long term;
- (6) enhancements to the investment policies of the Templeton Asian Smaller Companies Fund, Templeton Emerging Markets Smaller Companies Fund and Templeton Global Smaller Companies Fund to remove the USD 2 billion market capitalisation limit for the additional purchases of securities;
- (7) an elaboration on the investment policy of the Templeton Euroland Fund to clarify that it may invest to a lesser extent in structured notes (such as equity-linked notes), equity options and equity index options dealt on regulated markets;
- (8) a revision to the investment policy of the Templeton Frontier Markets Fund to disclose a change in one of the reference indices that are used by the investment manager of the Fund;

- (9) an elaboration on the investment policy of the Templeton Global Total Return Fund to add (a) interest rate swaps as an example of its investment in swaps and (b) credit-linked securities as an example of its investment in structured products;
- (10) elaborations on the investment policies of certain Funds to disclose their participation in Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect;
- (11) elaborations on the investment policies of certain Funds to disclose that they may distribute dividends from capital, net realised and net unrealised capital gains;
- (12) elaborations on the investment policies of certain Funds to clarify that they may engage in securities lending transactions for up to 50% of their net assets and to disclose the expected proportion of their net assets that could be subject to securities lending transactions;
- (13) an elaboration on the definition of “EU Member States”;
- (14) elaborations on the investment restrictions of the Company for consistency and compliance with applicable regulatory requirements, and to reflect minor editorial revisions; and
- (15) clarification on the amount of maintenance charge that is payable in respect of the Class B (Mdis) USD share class of the Franklin U.S. Dollar Liquid Reserve Fund.

Unless otherwise specified herein, capitalized terms used in this letter shall have the meanings assigned to such terms in the Explanatory Memorandum dated September 2017, as amended, of the Company (the “**Explanatory Memorandum**”).

(1) Elaboration on the investment policy of the Franklin Euro Government Bond Fund to update the list of prohibited investments under the German law on the supervision of insurance undertakings

The current investment policy of the Franklin Euro Government Bond Fund contains a list of investments which are prohibited if and for so long as the Fund accepts investments by insurance undertakings subject to the provisions of the German law on the supervision of insurance undertakings (*Versicherungsaufsichtsgesetz*) (the “**German Investment Restrictions**”).

Pursuant to revised guidance issued by the Federal Financial Supervisory Authority of Germany (*Bundesanstalt für Finanzdienstleistungsaufsicht*) on restricted investments for German pension funds and insurers, the existing German Investment Restrictions as stated in the investment policy of the Fund will be deleted in their entirety and replaced by the following list:

- (i) debt securities that are rated B minus and below by Standard & Poor’s Corporation and/or Fitch Ratings Limited, or B3 and below by Moody’s Investors Service, Inc. If at any time the Fund’s assets are no longer compliant with this rating requirement due to downgrade, they shall be sold, in the best interests of the Fund’s Shareholders, within 6 months, however, should the downgraded securities represent less than 3% of the value of the Fund’s total assets, they may be tolerated by the Investment Manager provided that the interests of the Fund’s Shareholders are not impaired. If the relevant debt securities are unrated, they must be declared to be of comparable quality by the Investment Manager, and
- (ii) asset-backed securities rated below investment grade.

The elaboration on the Fund’s investment policy is meant to comply with the VAG. It will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(2) Elaboration on the investment policy of the Franklin High Yield Fund to clarify that it normally invests in fixed income debt securities of any credit rating

The current investment policy of Franklin High Yield Fund states that it normally invests in fixed-income debt securities with “investment grade or lower grade ratings”, if issued by US issuers, or, if issued by non-US issuers or unrated, their equivalent. This essentially permits the Fund to invest in fixed-income debt securities of any credit rating.

To clarify that the Fund may invest in fixed-income debt securities of any credit rating, the reference to “investment grade or lower grade ratings” in the investment policy of the Fund will be replaced by a reference to “any credit rating”. This change is for clarification only and will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(3) Elaboration on the investment policy of the Franklin Income Fund to clarify that its investment in equity securities includes equity-linked notes

The current investment policy of Franklin Income Fund states that it invests in a diversified portfolio of transferable securities consisting of equity securities and long- and short-term debt securities. The examples of the Fund’s investment in equity securities include common stocks, preferred stocks and convertible securities.

The Fund may also invest in equity-linked notes, which are a type of equity security. To elaborate on the investment policy of the Fund, the examples of the Fund’s investment in equity securities will be expanded to include equity-linked notes. For details of the relevant risk considerations pertaining to the Fund’s investments in equity-linked notes, please refer to the risk disclosure on “Structured Notes risk” under the “RISK CONSIDERATIONS” section of the Explanatory Memorandum.

Other than as described above, the Investment Manager of the Fund believes that the change will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(4) Elaboration on the investment policy of Franklin Strategic Income Fund to disclose the expected proportion of the Fund’s net assets that could be subject to total return swap transactions

The Franklin Strategic Income Fund’s investment policy states that the Fund may use various financial derivative instruments in order to seek to achieve its investment objective. These financial derivative instruments may include fixed income related total return swaps.

Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (the “**EU Regulation on Transparency of Securities Financing Transactions**”) established new rules for information on (among other things) total return swaps to be disclosed to investors of the Company.

To comply with the EU Regulation on Transparency of Securities Financing Transactions, the investment policy of the Fund will be elaborated upon to disclose the expected proportion of the Fund’s net assets that could be subject to total return swap transactions. The expected level of exposure that could be subject to total return swaps (unfunded) amounts to 9% of the Fund’s net assets, subject to a maximum of 15%.

The elaboration on the Fund’s investment policy will not result in any additional risks or impact the investment strategy of the Fund. There is no impact on the Fund’s current expected level of leverage

or expected maximum level of leverage as disclosed in the Explanatory Memorandum. There is no change to the operation and/or the manner in which the Fund is being managed.

(5) Elaboration on the investor’s profile of Franklin U.S. Government Fund to clarify that the Fund is suitable for investors seeking to invest for the medium to long term

The current investor’s profile of the Franklin U.S. Government Fund states that the Fund is suitable for investors:

- seeking a degree of safety of initial investments as well as income; and
- seeking investment primarily in debt securities of the US government and its agencies.

The Fund is suitable for investors seeking to invest for the medium to long term. To inform investors of the investment time horizon for this Fund, the investor’s profile of the Fund will be elaborated on to state that it is suitable for investors seeking to invest for the medium to long term.

The Investment Manager of the Fund believes that the elaboration on its investors’ profile will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(6) Enhancements to the investment policies of the Templeton Asian Smaller Companies Fund, Templeton Emerging Markets Smaller Companies Fund and Templeton Global Smaller Companies Fund to remove the USD 2 billion market capitalisation limit for the additional purchases of securities

The current investment policies of the Templeton Asian Smaller Companies Fund, Templeton Emerging Markets Smaller Companies Fund and Templeton Global Smaller Companies Fund state that securities of small-cap companies that qualify for initial purchase may continue to qualify for additional purchases as long as they are held by the Funds. This is subject to the qualification that if the maximum market capitalisation of companies allowed by the applicable index falls below USD 2 billion, such securities will only qualify for additional purchases if their market capitalisations do not exceed USD 2 billion (the “**USD 2 billion market capitalisation limit**”).

The Investment Managers of the Funds named above believe that it is in their Shareholders’ interest for the Investment Managers to be able to exercise professional judgment on whether to continue to purchase the securities of small-cap companies that are held by the Funds after the maximum market capitalisation of companies allowed by the applicable index falls below USD 2 billion. Accordingly, the investment policies of the Funds named above will be enhanced by removing the USD 2 billion market capitalisation limit for the additional purchases of securities.

The Investment Managers of the Funds named above believe that the enhancements to their investment policies will not result in any additional risks or impact the investment strategy of the Funds. There is no change to the operation and/or the manner in which the Funds are being managed.

(7) Elaboration on the investment policy of the Templeton Euroland Fund to clarify that it may invest to a lesser extent in structured notes (such as equity-linked notes), equity options and equity index options dealt on regulated markets

To elaborate on the ancillary investment strategy of the Templeton Euroland Fund, the investment policy of the Fund will be enhanced to clarify that it may invest to a lesser extent (*i.e.*, up to 10% of its net assets) in each of the following types of investments:

- (a) structured notes, such as equity-linked notes; and
- (b) equity options and equity index options dealt on regulated markets.

For details of the relevant risk considerations pertaining to the Fund's investments in structured notes (such as equity-linked notes), equity options and equity index options, please refer to the risk disclosures on "Derivative Instruments risk" and "Structured Notes risk" under the "RISK CONSIDERATIONS" section of the Explanatory Memorandum.

Other than as described above, the Investment Manager of the Fund believes that the elaboration on the Fund's investment policy will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(8) Revision to the investment policy of the Templeton Frontier Markets Fund to disclose a change in one of the reference indices that are used by the Investment Manager of the Fund

The current investment policy of the Templeton Frontier Markets Fund states that the Fund invests principally in companies which are incorporated in and/or have their principal business activities in frontier market countries. The countries which are regarded as frontier market countries include those countries that are included in frontier markets related indices, such as the MSCI Frontier Markets Index (among others).

Investors should note that the Investment Manager of the Fund will no longer use the MSCI Frontier Markets Index in determining whether a country should be regarded as a frontier market country. Instead, the Fund will refer to the MSCI Frontier Emerging Markets Select Countries Capped Index as one of its reference indices.

The Investment Manager of the Fund believes that the new index will:

- (i) provide a better representation of the depth and diversity of the Fund's investable universe with less imbalances and concentration in specific sectors and countries; and
- (ii) improve the stability and longevity of the Fund's investment universe, by giving the Investment Manager the option of retaining frontier market countries that have graduated to emerging market status in the Fund's investment universe if such countries continue to exhibit low levels of economic and capital market development.

The Investment Manager of the Fund believes that the change will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(9) Elaboration on the investment policy of the Templeton Global Total Return Fund to add (a) interest rate swaps as an example of its investment in swaps and (b) credit-linked securities as an example of its investment in structured products

The investment policy of the Templeton Global Total Return Fund states that the Fund may utilise financial derivative instruments for hedging, efficient portfolio management and/or investment purposes. These financial derivative instruments may include swaps (among others). The Fund may also, in accordance with the investment restrictions, invest in structured products.

To elaborate on the Templeton Global Total Return Fund's investments in swaps and structured products, the investment policy of the Fund will be enhanced to include the following examples of such investments:

- (a) interest rate swaps as an example of the Fund's investment in swaps; and
- (b) credit-linked securities as an example of the Fund's investment in structured products.

For details of the relevant risk considerations pertaining to the Fund's investments in swaps (including interest rate swaps) and structured products (including credit-linked securities), please refer to the risk disclosures on "Credit-linked Securities risk", "Derivative Instruments risk", "Structured Notes risk" and "Swap Agreements risk" under the "RISK CONSIDERATIONS" section of the Explanatory Memorandum.

Other than as described above, the Investment Manager of the Fund believes that the elaboration on its investment policy will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

(10) Elaborations on the investment policies of certain Funds to disclose their participation in Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect

The investment policies of the Templeton Asian Smaller Companies Fund and the Templeton Asian Growth Fund will be elaborated on to disclose that they may invest up to 10% of their net assets in aggregate in China A-Shares (through Shanghai-Hong Kong Stock Connect and/or Shenzhen-Hong Kong Stock Connect) and in China B-Shares.

For details of the relevant risk considerations pertaining to the Funds' investments in the Chinese market and investments made through the Shanghai-Hong Kong Stock Connect program, please refer to the risk disclosures on "Chinese Market risk", "Chinese Short Swing Profit Rule risk", "Foreign Currency risk" and "Shanghai-Hong Kong Stock Connect risk" under the "RISK CONSIDERATIONS" section of the Explanatory Memorandum.

It is the current investment policy of the following Funds that they may invest up to 10% of their net assets in aggregate in China A-Shares (through Shanghai-Hong Kong Stock Connect) and in China B-Shares:

- Franklin World Perspectives Fund
- Templeton Asian Dividend Fund
- Templeton BRIC Fund
- Templeton China Fund
- Templeton Emerging Markets Fund
- Templeton Emerging Markets Balanced Fund
- Templeton Emerging Markets Smaller Companies Fund

The launch of the Shenzhen-Hong Kong Stock Connect program on 5 December 2016 has enabled the Funds listed above to invest in eligible China A-Shares listed on the Shenzhen Stock Exchange ("SZSE"). Accordingly, their investment policies will be elaborated on to disclose that they may also invest directly in China A-Shares via the Shenzhen-Hong Kong Stock Connect. For the avoidance of doubt, each of these Funds' maximum aggregate direct exposure to China A-Shares and China B-Shares will remain unchanged.

Under the Shenzhen-Hong Kong Stock Connect, Hong Kong and overseas investors will be able to trade eligible China A-Shares listed on the SZSE. These include any constituent stock of the SZSE Component Index and SZSE Small/Mid Cap Innovation Index which has a market capitalisation of not less than RMB6 billion and all SZSE-listed China A-Shares which have corresponding H-Shares listed on the Stock Exchange of Hong Kong Limited, except for the following:

- SZSE-listed shares which are not traded in RMB; and
- SZSE-listed shares which are included in the "risk alert board".

Investors should note that investments through the Shenzhen-Hong Kong Stock Connect are subject to similar risks as those applicable to the Shanghai-Hong Kong Stock Connect, namely, quota limitations,

suspension risk, differences in trading day, restrictions on selling imposed by front-end monitoring, clearing, settlement and custody risks, operational risk, nominee arrangements in holding China A-Shares, investor compensation, trading costs, Mainland China tax consideration and regulatory risk. In addition, investments in China A-Shares and in China B-Shares are subject to risks associated with the Chinese market and the operation of the short swing profit rule in Mainland China. When investing in eligible China A-Shares through the Shenzhen-Hong Kong Stock Connect, the Funds named above will also be subject to risks associated with the Small and Medium Enterprise Board and/or ChiNext Board.

Please refer to the risk disclosures on “Chinese Market risk”, “Chinese Short Swing Profit Rule risk” and “Shanghai-Hong Kong Stock Connect risk” (to be renamed as “Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect risk”) under the “RISK CONSIDERATIONS” section of the Explanatory Memorandum for details of these risks.

Other than as disclosed above, the Investment Managers of the Funds named above believe there will not be any additional risks as a result of the elaborations to their investment policies. There is no change to the operation and/or the manner in which the Funds are being managed.

(11) Elaborations on the investment policies of certain Funds to clarify that they may distribute dividends from capital, net realised and net unrealised capital gains

The product key fact statements of the following Funds disclose that they may at their discretion pay dividends out of the capital or out of gross income of the Funds, while paying all or part of the Funds’ fees and expenses out of the capital of the Funds:

- Franklin Asia Credit Fund
- Franklin Euro Government Bond Fund
- Franklin Euro High Yield Fund
- Franklin Global High Income Bond Fund[†]
- Franklin Global Listed Infrastructure Fund
- Franklin Global Real Estate Fund
- Franklin High Yield Fund
- Franklin Income Fund
- Templeton Asian Bond Fund
- Templeton Emerging Markets Bond Fund
- Templeton Global Balanced Fund
- Templeton Global Bond Fund
- Templeton Global Equity Income Fund
- Templeton Global High Yield Fund
- Templeton Global Income Fund
- Templeton Global Total Return Fund

Currently, the investment policies of these Fund disclose that they may distribute income gross of expenses. To clarify that these Funds also have the flexibility (as stated in their product key fact statements) to distribute dividends from capital (including net realised and net unrealised capital gains), their investment policies will be elaborated upon to disclose that they may distribute dividends from capital, net realised and net unrealised capital gains as well as income gross of expenses.

Shareholders of the Funds named above should note that payment of dividends out of capital (including net realised and net unrealised capital gains) amounts to a return or withdrawal of part of an investor’s

[†] Investors should note that the Franklin Global High Income Bond Fund will be merged with, and absorbed by, the Franklin High Yield Fund on 20 October 2017. Please refer to the investor notice dated 20 July 2017 (Re: Proposed merger of FTIF - Franklin Global High Income Bond Fund with FTIF - Franklin High Yield Fund) for more information regarding the merger.

original investment or from any capital gains attributable to that original investment. Any distributions involving payment of dividends out of capital (including net realised and net unrealised capital gains) may result in an immediate reduction in the Net Asset Value per Share of the relevant Fund and may reduce any capital appreciation for the Shareholders of the relevant Fund.

For details of the relevant risk considerations pertaining to the Funds' dividend policies, please refer to the sub-section on "Dividend Policy risk" under the "RISK CONSIDERATIONS" section of the Explanatory Memorandum.

The Investment Managers of the Funds named above believe that the elaborations on their investment policies will not result in any additional risks or impact the investment strategy of the Funds. There is no change to the operation and/or the manner in which the Funds are being managed. If there is any material change to the distribution policy of the Funds, prior approval will be sought from the SFC, and the affected Shareholders will receive at least one month's prior written notification.

The composition of the dividends (*i.e.*, the relative amounts paid out of (i) net distributable income and (ii) capital) (if any) for the past 12 months is available from the Hong Kong Representative on request and is also made available on the Hong Kong Representative's website (www.franklintempleton.com.hk[‡]).

(12) Elaborations on the investment policies of certain Funds to clarify that they may engage in securities lending transactions for up to 50% of their net assets and to disclose the expected proportion of their net assets that could be subject to securities lending transactions

The investment policies of the following Funds will be enhanced to disclose that each Fund may engage in securities lending transactions for up to 50% of its net assets, in a manner that is consistent with its investment policy, for the purpose of generating additional capital or income or for reducing costs or risks:

- Franklin Biotechnology Discovery Fund
- Franklin Income Fund
- Franklin Natural Resources Fund
- Franklin Technology Fund
- Franklin U.S. Equity Fund
- Franklin U.S. Opportunities Fund
- Franklin U.S. Small-Mid Cap Growth Fund[§]

For the avoidance of doubt, any securities lending by the Funds named above will be an ancillary activity only.

For details of the relevant risk considerations pertaining to the Funds' securities lending transactions, please refer to the sub-section on "Securities Lending risk" under the "RISK CONSIDERATIONS" section of the Explanatory Memorandum.

To comply with the EU Regulation on Transparency of Securities Financing Transactions, which established new rules for information on (among other things) securities financing transactions to be disclosed to investors of the Company, the investment policies of the Funds which may engage in

[‡] The information in the website has not been reviewed by the Securities and Futures Commission.

[§] Investors should note that the Franklin U.S. Small-Mid Cap Growth Fund will be merged with, and absorbed by, the Franklin U.S. Opportunities Fund on 3 November 2017. Please refer to the investor notice dated 1 August 2017 (Re: Proposed merger of FTIF - Franklin U.S. Small-Mid Cap Growth Fund with FTIF - Franklin U.S. Opportunities Fund) for more information regarding the merger.

securities lending transactions (including the Funds listed above) will be elaborated upon to disclose the expected proportion of the Fund’s net assets that could be subject to securities lending transactions.

The relevant Funds’ expected level of exposure to securities lending transactions is set out in the table below:

Fund	Expected level of exposure to securities lending transactions as a percentage of the Fund’s net assets (subject to a maximum of 50%)
Franklin Biotechnology Discovery Fund	Below or equal to 10%
Franklin Income Fund	Below or equal to 5%
Franklin Mutual Beacon Fund	
Franklin Mutual European Fund	
Franklin Mutual Global Discovery Fund	
Franklin Natural Resources Fund	
Franklin Technology Fund	
Franklin U.S. Equity Fund	
Franklin U.S. Opportunities Fund	
Franklin U.S. Small-Mid Cap Growth Fund	
Templeton Euroland Fund	
Templeton European Fund	
Templeton Global (Euro) Fund	
Templeton Global Balanced Fund	
Templeton Global Equity Income Fund	
Templeton Global Fund	

The elaborations on the Funds’ investment policy will not result in any additional risks or impact the investment strategies of the Funds. There is no change to the operation and/or the manner in which the Funds are being managed.

(13) Elaboration on the definition of “EU Member States”

To clarify that the states that are contracting parties to The Agreement creating the European Economic Area which entered into force on 1 January 1994 (the “**EEA Agreement**”) (other than the member states of the European Union), within the limits set forth by the EEA Agreement and related acts, are considered as equivalent to member states of the European Union (“**EU**”), the definition of “EU Member States” in the Explanatory Memorandum will be elaborated upon as follows:

“EU Member States” the member states of the EU. The states that are contracting parties to The Agreement creating the European Economic Area which entered into force on 1 January 1994 (other than the member states of the European Union), within the limits set forth by the aforementioned agreement and related acts, are considered as equivalent to member states of the EU.

(14) Elaborations on the investment restrictions of the Company for consistency and compliance with applicable regulatory requirements, and to reflect minor editorial revisions

To reflect the amendment of the original Undertakings for Collective Investment in Transferable Securities (“**UCITS**”) directive 85/611/EEC by, and the adoption of, the UCITS Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 (also known as “**UCITS III**”), the reference to “directive 85/611/EEC” in paragraph (1)(a)(v) of the “**INVESTMENT RESTRICTIONS**”

section of the Explanatory Memorandum will be replaced by a reference to “Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009”.

To ensure consistency between the investment restrictions of the Company and the regulatory requirements under the Luxembourg Law of 17 December 2010 on undertakings for collective investment:

- the reference to “Article 48 of the Law relating to collective investment undertakings” in paragraph (1)(e) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum will be replaced by a reference to “Article 48 of the Law of 17 December 2010”;
- the reference to “the Law of 17 December 2012” in paragraph (1)(g)(iv) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum will be replaced by a reference to “the Law of 17 December 2010”;
- the reference to the Depositary in paragraph (1)(j) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum will be deleted; and
- the first sub-paragraph under paragraph (3) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum on “Financial derivative instruments” will be deleted in its entirety and replaced by the following sub-paragraph:

“The Company may use financial derivative instruments for investment, hedging and efficient portfolio management purposes, within the limits of the Law of 17 December 2010. Under no circumstances shall the use of these instruments and techniques cause a Fund to diverge from its investment policy.”

The EU Regulation on Transparency of Securities Financing Transactions established new rules for information on (among other things) securities financing transactions, total return swaps and the use of collateral to be disclosed to investors of the Company. To comply with the EU Regulation on Transparency of Securities Financing Transactions, the investment restrictions of the Company will be elaborated upon as follows:

- the first sentence of the sixth sub-paragraph under paragraph (3) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum on “Financial derivative instruments” will be deleted in its entirety and replaced by the following sentence:

“As the case may be, collateral received by each Fund in relation to OTC derivative transactions may offset net exposure by counterparty if it complies with the criteria set out in applicable laws, regulations and circulars issued by the CSSF from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability as further set out below.”;

- the following new sub-section on “Total return swap transactions” shall be inserted immediately following the end of the sub-section on “Currency Hedging” under paragraph (3) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum on “Financial derivative instruments”:

“Total return swap transactions

A Fund which is authorised as per its investment policy to invest in total return swaps may enter into total return swaps transactions provided that the maximum proportion of the net assets of that Fund that could be subject to such transactions does not exceed 30%. In such cases, the counterparty to the transaction will be a counterparty approved and monitored by the

Management Company or the relevant Investment Manager. At no time will a counterparty in a transaction have discretion over the composition or the management of a Fund's investment portfolio or over the underlying of the total return swap. While there are no predetermined legal status or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process.

The following types of assets can be subject to total return swaps: equity, currency and/or commodity indices (such as, but not limited to Morgan Stanley Balanced Ex Energy Index, Morgan Stanley Balanced Ex Grains Index, Morgan Stanley Balanced Ex Industrial Metals Index, Morgan Stanley Balanced Ex Precious Metals Index or Morgan Stanley Balanced Ex Softs Index), volatility variance swaps as well as fixed income, most notably high yield corporate and bank loan related exposures.

The risk of counterparty default and the effect on investors' returns are more fully described under the section "RISK CONSIDERATIONS".

Where a Fund enters into total return swap transactions, the expected proportion of such Fund's net assets that could be subject to total return swap transactions shall be calculated as the sum of notionals of the derivatives used and disclosed in the investment policy of the relevant Fund. If and when a Fund enters into total return swaps transactions, it is for the purpose of generating additional capital or income and/or for reducing costs or risks.

All revenues arising from total return swaps transactions will be returned to the relevant Fund, and the Management Company will not take any fees or costs out of those revenues additional to the investment management fee for the relevant Fund as set out under the section "CHARGES AND EXPENSES".”;

- the second paragraph of the sub-section on “Securities lending transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum shall be deleted in its entirety and replaced by the following paragraphs:

“While there are no predetermined legal status or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process.

When entering into securities lending transactions, a Fund must also comply with the following requirements:

(i) The borrower in a securities lending transaction must be subject to prudential supervision rules considered by the CSSF as equivalent to those prescribed by EU law;

(ii) A Fund may lend securities to a counterparty directly (A) itself or (B) as part of a standardised lending system organised by a recognised clearing house or by a first-class financial institution subject to prudential supervision rules considered by the CSSF as equivalent to those provided by EU law and specialised in this type of transaction. Goldman Sachs International Bank and JPMorgan Chase Bank, N.A., London Branch, shall act as lending agents for securities lending on behalf of a Fund;

(iii) A Fund may only enter into securities lending transactions provided that it is entitled at any time under the terms of the agreement to request the return of the securities lent or to terminate the agreement;

As of the date of this Explanatory Memorandum, equity securities is the only type of assets subject to securities lending transactions.

Where a Fund enters into securities lending transactions, the expected proportion of such Fund's net assets that could be subject to securities lending transactions shall be disclosed in this Explanatory Memorandum.

A Fund that does not have a current disclosure on securities lending transactions in this Explanatory Memorandum may enter into securities lending transactions provided that the maximum proportion of the net assets of the Fund that could be subject to such transactions does not exceed 50% and that the relevant disclosure in this Explanatory Memorandum relating to the Fund is updated accordingly at the next available opportunity.

The risks related to the use of securities lending transactions and the effect on investors returns are more fully described under section " RISK CONSIDERATIONS".”;

- the sub-heading “Repurchase agreement transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum shall be replaced by the sub-heading “Repurchase and reverse repurchase agreement transactions” and the following sentence will be inserted immediately following the end of the second sentence of that sub-section:

“While there are no predetermined legal status or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process.”;

- the following paragraphs will be inserted immediately following the end of the sub-section on “Repurchase agreement transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum:

“The following types of assets can be subject to repurchase agreement transactions: sovereign debt, corporate and government bonds, non-agency residential mortgage-backed securities and commercial mortgage-backed securities, possibly other asset-backed securities.

Where a Fund enters into repurchase agreement transactions, the expected proportion of such Fund's net assets that could be subject to repurchase agreement transactions shall be disclosed in this Explanatory Memorandum.

A Fund that does not have a current disclosure on repurchase agreement transactions in this Explanatory Memorandum may enter into repurchase agreement transactions provided that the maximum proportion of the net assets of the Fund that could be subject to such transactions does not exceed 50% and that the relevant disclosure in this Explanatory Memorandum relating to the Fund is updated accordingly at the next available opportunity.

The following types of assets can be subject to reverse repurchase agreement transactions: sovereign debt, corporate and government bonds, non-agency residential mortgage-backed securities and commercial mortgage-backed securities, possibly other asset-backed securities.

Where a Fund enters into reverse repurchase agreement transactions as of the date of this Prospectus, the expected proportion of such Fund's net assets that could be subject to reverse repurchase agreement transactions shall be disclosed in this Explanatory Memorandum.

A Fund that does not have a current disclosure on reverse repurchase agreement transactions in this Explanatory Memorandum may enter into reverse repurchase agreement transactions provided that the maximum proportion of the net assets of the Fund that could be subject to such transactions does not exceed 50% and that the relevant disclosure in this Explanatory Memorandum relating to the Fund is updated accordingly at the next available opportunity.”;

- all references to “repurchase agreement transactions” under the sub-section on “Costs and revenues of securities lending and/or repurchase agreement transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum shall be replaced by references to “repurchase and/or reverse repurchase agreement transactions”;
- the reference to “the Depository” under the sub-section on “Costs and revenues of securities lending and/or repurchase agreement transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum shall be replaced by a reference to “the Management Company and/or the Depository”;
- the following paragraphs will be inserted immediately following the end of the sub-section on “Costs and revenues of securities lending and/or repurchase agreement transactions” under paragraph (4)(a)(ii) on “Limits and conditions” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum:

“All revenues arising from repurchase and/or reverse repurchase agreement transactions will be returned to the relevant Fund, and the Management Company will not take any fees or costs out of those revenues additional to the investment management fee for the relevant Fund as set out under the section "CHARGES AND EXPENSES".

The securities lending agent receives a fee of up to 10% of the gross revenue generated as a result of the lent securities for its services, the remainder of the revenue being received and retained by the relevant lending Fund. Any incremental income generated from securities lending transactions will be accrued to the relevant Fund.”; and

- the following new paragraph will be inserted immediately following the end of paragraph (4)(a)(iii) on “Conflicts of Interest” of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum:

“(iv) Collateral

Collateral received by the relevant Fund may be used to reduce its counterparty risk exposure if it complies with the criteria set out in applicable laws, regulations and circulars issued by the CSSF from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

- (a) Any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;*
- (b) It should be valued on at least a daily basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place;*
- (c) It should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;*
- (d) It should be sufficiently diversified in terms of country, markets and issuers with a maximum exposure of 20% of the Fund’s net asset value to any single issuer on an aggregate basis, taking into account all collateral received. By way of derogation, a Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by a EU Member State, one or more of its local authorities, a third country, or a public international body to which one or more EU Member States belong. In such event,*

the relevant Fund should receive securities from at least six different issues, but securities from any single issue should not account for more than 30% of the Fund's net asset value;

- (e) It should be capable of being fully enforced by the relevant Fund at any time without reference to or approval from the counterparty;*
- (f) Where there is a title transfer, the collateral received will be held by the Depositary in accordance with the Depositary's safekeeping duties under the Depositary Agreement (as defined in this Explanatory Memorandum under the section "MANAGEMENT AND ADMINISTRATION – DEPOSITARY"). For other types of collateral arrangements, the collateral can be held by a third party custodian which is subject to prudential supervision, and which is unrelated to the provider of the collateral.*
- (g) Collateral received shall have a quality of credit of investment grade.*

Collateral will be valued on each Valuation Day, using the last available market prices as per ISDA guidelines and taking into account appropriate discounts determined for each asset class based on the applicable haircut policy. The collateral will be marked to market daily and depending on the current market exposure and collateral balance, the collateral may be subject to variation margin movement when and if certain predetermined thresholds are crossed

The following haircuts for collateral are applied by the Management Company, it being noted that the latter reserves the right to vary this policy at any time:

<i>Eligible Collateral</i>	<i>Haircut</i>
<i>Cash</i>	<i>100%</i>
<i>US Treasury - 1 year or less</i>	<i>97% to 100%</i>
<i>US Treasury -1 year to 5 years</i>	<i>95% to 100%</i>
<i>US Treasury - 5 years or greater</i>	<i>95% to 100%</i>
<i>US Treasury -5 year to 10 years</i>	<i>95% to 100%</i>
<i>US Treasury - 10 years to 30 years</i>	<i>90% to 100%</i>
<i>Detailed information on Sovereign Bonds</i>	<i>Haircut</i>
<i>Sovereign Bonds - less than 1 year</i>	<i>99% to 100%</i>
<i>Sovereign Bonds - 1 to 2 years</i>	<i>95% to 100%</i>
<i>Sovereign Bonds - 2 to 5 years</i>	<i>95% to 100%</i>
<i>Sovereign Bonds - 5 to 10 years</i>	<i>90% to 100%</i>
<i>Sovereign Bonds - 10 to 20 years</i>	<i>N/A</i>
<i>Sovereign Bonds- 20 to 30 years</i>	<i>85% to 100%</i>

Haircut levels are agreed on a counterparty by counterparty basis and reflected in the applicable CSA to ISDA guidelines. Haircut levels are monitored and reconciled on an ongoing basis (through collateral management systems) to identify any variation of the agreed applicable haircut policy. Application of different (non-agreed) haircut level impacting collateral valuation is escalated with the relevant counterparty. Haircut levels may additionally be amended due to a change in creditworthiness of a given counterparty."

The following editorial changes will be made to the investment restrictions of the Company:

- the references to "assets" in paragraphs (1)(d)(ii) and (1)(d)(v) of the "INVESTMENT RESTRICTIONS" section of the Explanatory Memorandum will be replaced by references to "net assets"; and

- the references to “the Company may acquire” in paragraphs (1)(e) and (1)(f)(v) of the “INVESTMENT RESTRICTIONS” section of the Explanatory Memorandum will be replaced by references to “a Fund may acquire”.

The foregoing elaborations on, and revisions to, the investment restrictions of the Company are meant to provide enhanced disclosure to investors and/or to ensure consistency or comply with the applicable regulations. They will not result in any additional risks or impact the investment strategies of the Funds. There is no change to the operation and/or the manner in which the Funds are being managed.

(15) Clarification on the amount of maintenance charge that is payable in respect of the Class B (Mdis) USD share class of the Franklin U.S. Dollar Liquid Reserve Fund

In addition to various other ongoing fees and charges, Class B Shares of the Company are subject to a maintenance charge as disclosed in the section headed “CHARGES AND EXPENSES” of the Explanatory Memorandum. This charge is paid to the Principal Distributor of the Company, Franklin Templeton International Services S.à r.l., as compensation for its expenses in connection with shareholder liaison and administration of the Shares.

The annual maintenance charge for the Class B (Mdis) USD share class of the Franklin U.S. Dollar Liquid Reserve Fund is currently charged at 0.10%, which is lower than the rate of 0.50% indicated in the Explanatory Memorandum. For clarification, the table appearing under the heading “CHARGES AND EXPENSES – CLASS B SHARES – Annual Management Fee” of the Current Explanatory Memorandum shall be amended to clarify that the annual maintenance charge for Class B Shares of the Franklin U.S. Dollar Liquid Reserve Fund is 0.10%.

This change is for clarification only and there is no change to the operation and/or the manner in which the Fund is being managed. If there is any material change to the fee structure of the Fund, prior approval will be sought from the SFC, and the affected Shareholders will receive at least one month’s prior written notification.

* * * * *

The Management Company and the Board accept full responsibility for the accuracy of the information contained in this letter as at the date of its publication and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.

The changes set out in this letter do not amount to a material change to the Company or its Funds. There will not be a material change or increase in the overall risk profile of the Company or its Funds following the changes above. The changes set out in this letter are not expected to materially prejudice the rights or interests or give rise to any additional costs and expenses for the Shareholders of the Company. Any additional costs and expenses arising from the changes (other than the cost of publishing this notice) will be borne by the Management Company.

The Explanatory Memorandum and the product key facts statements of the relevant Funds (which are available for download from the Hong Kong Representative's website at www.franklintempleton.com.hk**) will be updated for the changes described above. An updated version of the Hong Kong offering documents of the Company will also be made available at the office of the Hong Kong Representative in due course.

If you require further information, please do not hesitate to contact your investment consultant, call our Investor Hotline at +852 2805 0111 or contact the Hong Kong Representative at 17/F, Chater House, 8 Connaught Road Central, Hong Kong. If you are not a duly authorized intermediary for the Hong Kong market, please be advised that you are not required to forward this letter to your end clients.

Yours faithfully,

Franklin Templeton Investments (Asia) Limited

富蘭克林鄧普頓投資(亞洲)有限公司

As Hong Kong Representative of the Company



David Chang
Director

** The information in the website has not been reviewed by the Securities and Futures Commission.