



FRANKLIN TEMPLETON  
INVESTMENTS

**This letter is important and requires your immediate attention.**

**If you are in doubt, please consult your legal, financial or professional advisers.**

14 June 2013

Dear Shareholder,

**Franklin Templeton Investment Funds (the “Company”)**

The purpose of this letter is to inform you of the revisions to the Explanatory Memorandum dated December 2010, as amended, of the Company (“HKEM”) in respect of:-

**1) The limits and restrictions on the Company’s use of financial derivative instruments**

To bring the Company’s ability to use financial derivative instruments in line with the relevant UCITS law, certain sub-funds currently using the commitment approach to calculate their global exposure which include all the sub-funds of the Company (the “Sub-Funds”) *except for* the Templeton Asian Bond Fund, Templeton Emerging Markets Bond Fund, Templeton Global Bond Fund, Templeton Global High Yield Fund, Templeton Global Income Fund and Templeton Global Total Return Fund (the “6 FDI Sub-Funds”) will, with effect from 1 August 2013 (“Effective Date”), no longer be subject to the limits and restrictions as set out in items a) to g) (with the exception of item c) under the section “INVESTMENT RESTRICTIONS – 3. Financial derivative instruments” on pages 58 to 63 of the HKEM when financial derivative instruments are used. The revisions shall take effect from the Effective Date. For the avoidance of doubt, the 6 FDI Sub-Funds will not be affected by the below revisions.

As a result, the paragraphs beginning with “*When using the financial derivative instruments described in the preceding paragraphs within this section,.....*” on page 58 of the HKEM and ending with “*..... The global exposure arising for any Fund from the above transactions may not, at any time, exceed this Fund’s net assets.*” on page 63 of the HKEM will be deleted. For your ease of reference, we set out below the relevant provisions on pages 58 to 63 of the HKEM that will be deleted with effect from the Effective Date:-

*“When using the financial derivative instruments described in the preceding paragraphs within this section, those Funds using the commitment approach must comply with the limits and restrictions in items a) to g) below. Certain Funds may, to the extent described in their respective investment policies, make use of derivatives for investment purposes beyond the limits set forth below.*

*a) Options on Securities*

*The Company may deal in options on securities provided the following limitations are observed:*

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- (i) *Purchases and sales of options on securities shall be limited so that, upon exercise thereof, none of the other limit percentages would be infringed.*
- (ii) *Put options on securities may be sold provided adequate liquid assets are set aside by the Fund concerned until the expiry of the said put options to cover the aggregate exercise price of the securities to be acquired by the Fund pursuant thereto.*
- (iii) *Call options on securities will only be sold if such sale does not result in a short position; in such event the relevant Fund will maintain in its portfolio the underlying securities or other adequate instruments to cover the position until the expiry date of the relevant call options granted on behalf of such Fund, except that the Company may dispose of the said securities or instruments in declining markets under the following circumstances:*
  - the markets must be sufficiently liquid to enable the Company to cover the short position of that Fund at any time; and*
  - the aggregate of the exercise prices payable under such uncovered options shall not exceed 25% of the net asset value of such Fund.*
- (iv) *No option on securities will be purchased or sold unless it is quoted on an exchange or dealt in on a Regulated Market and provided, immediately after its acquisition, the aggregate of the acquisition prices (in terms of premiums paid) of such options and of all other options acquired for purposes other than hedging held by the relevant Fund does not exceed 15% of its net asset value.*

*b) Stock Index Options*

*In order to hedge against the risk of fluctuations in the value of a securities portfolio, the Company may sell call options on stock indices or acquire put options on stock indices provided:*

- the commitments deriving therefrom do not exceed the value of the relevant assets to be hedged; and*
- the total amount of such transactions does not exceed the level necessary to cover the risk of the fluctuation of the value of the assets concerned.*

*For the purpose of efficient portfolio management, the Company may acquire call options on stock indices mainly in order to facilitate changes in the allocation of a Fund's assets between markets or in anticipation of a significant market sector advance, provided the value of the underlying securities included in the relevant stock index options is covered by cash, short-term debt securities and instruments owned by such Fund or securities to be disposed of by such Fund at predetermined prices;*

*provided however that:*

- All such options must either be listed on an exchange or dealt in on a Regulated Market; and*
- The aggregate acquisition cost (in terms of premium paid) chargeable to a Fund in respect of options on securities and of all options acquired for purposes other than hedging shall not exceed 15% of the net asset value of such Fund.*

.....

*d) Interest Rate Transactions*

*In order to hedge against interest rate fluctuations, the Company may sell interest rate futures or write call options or purchase put options on interest rates or enter into interest rate swaps provided:*

- (i) The commitments deriving therefrom do not exceed the value of the relevant assets to be hedged; and*
- (ii) The total amount of such transactions does not exceed the level necessary to cover the risk of the fluctuation of the value of the assets concerned.*

*Such contracts or options must be denominated in the currencies in which the assets of such Fund are denominated, or in currencies which are likely to fluctuate in a similar manner and must be either listed on an exchange or dealt in on a Regulated Market.*

*For the purpose of efficient portfolio management, the Company may also enter into interest rate futures purchase contracts or acquire call and put options on interest rate futures, mainly in order to facilitate changes in the allocation of the assets of a Portfolio between shorter or longer term markets, in anticipation of a significant market sector advance, or to give a longer term exposure to short term investments, provided always that sufficient cash, short dated debt securities or instruments or securities to be disposed of at a predetermined value exist to match the underlying exposure of both such futures positions and the value of the underlying securities included in call options on interest rate futures acquired for the same purpose and for the same Fund;*

*provided however that:*

- (i) All such futures and options on interest rate futures must be either listed on an exchange or dealt in on a Regulated Market, whereas interest rate swap transactions may be entered into privately by agreement with a highly rated financial institution specialised in this type of transaction; and*
- (ii) The aggregate acquisition cost (in terms of premium paid) chargeable to a Fund in respect of options on securities and of all options acquired for purposes other than hedging, shall not exceed 15% of the net asset value of such Fund.*

*e) Dealing in Financial and Index Futures*

*In order to hedge against the risk of fluctuations in the value of the portfolio securities of a Fund, the Company may have outstanding commitments in respect of financial and index futures sales contracts not exceeding the value of the corresponding assets to be hedged.*

*For the purpose of efficient portfolio management, the Company may also enter into financial and index futures purchase contracts, mainly in order to facilitate changes in the allocation of a Fund's assets between markets or in anticipation of a significant market sector advance provided that:*

- (i) *Sufficient cash, short term debt securities or instruments owned by the Fund concerned or securities to be disposed of by such Fund at a predetermined value exist to match the underlying exposure of both such futures positions and the value of the underlying securities included in call stock index options acquired for the same purpose; and*
- (ii) *All such index futures must be listed on an exchange or dealt in on a Regulated Market.*

*f) Transactions made for a Purpose other than Hedging*

*The Company may, for a purpose other than hedging, purchase and sell futures contracts, options on any kind of financial instruments and equity swaps provided that:*

- (i) *The aggregate commitments in connection with the purchase and sale of futures contracts, options on any kind of financial instruments and equity swaps together with the amount of the commitments relating to the writing of call and put options on transferable securities do not exceed at any time the value of the net assets of the relevant Fund;*
- (ii) *The total premiums paid for the acquisition of outstanding call and put options on transferable securities may not together with the total of the premiums paid for the purchase of call and put options outstanding made for a purpose other than hedging exceed 15% of the net assets of the relevant Fund; and*
- (iii) *The Company will only enter into equity swap transactions with highly rated financial institutions specialised in this type of transactions.*

*For the purpose of efficient portfolio management, the Company may also enter into forward contracts including currency forwards, cross currency forwards (which may result in net short currency exposures) or financial and index futures purchase contracts, provided that the Company has sufficient cash, short-term debt securities and instruments (other than liquid assets held by the Company against put options it has written under paragraph (a) above) and securities to be disposed of to meet payments required by such contracts.*

*g) Transactions in OTC Options*

*By derogation to the restrictions set out in paragraphs 3. a), b), c) and d) above, but always within the other limits set forth therein, the Company may purchase or sell over-the-counter (“OTC”) options if such transactions are more advantageous to a Fund or if quoted options having the required features are not available, provided such transactions are made with highly rated counterparties specialising in these types of transactions.*

*The global exposure arising for any Fund from the above transactions may not, at any time, exceed this Fund’s net assets.”*

In addition, the following statements providing a description of commitment approach will be added to the end of the paragraph beginning with “Funds that do not employ the VaR approach...” on page 58 of the HKEM:-

*“Commitment approach is an approach for measuring risk or global exposure that factors in the market risk of the investments held in a UCITS sub-fund, including risk associated with any financial derivatives instruments held by converting the financial derivatives into equivalent positions in the underlying assets of those derivatives (sometimes referred to as “notional exposure”), after netting and hedging arrangements where the market value of underlying security positions may be offset by other commitments related to the same underlying positions. Global exposure using the commitment approach is expressed as an absolute percentage of total net assets.”*

Please note that there will not be any change in the different types of investment instruments in which the Sub-Funds invest as well as the extent of the use of financial derivative instruments by the Sub-Funds as a result of the abovementioned changes to the HKEM. Please also note that all the Sub-Funds (except for the 6 FDI Sub-Funds) do not currently intend to invest extensively in FDIs for investment purposes.

## **2) Holding by a Sub-Fund of Shares issued by one or more Sub-Funds of the Company**

To enable a sub-fund to hold shares issued by other sub-funds of the Company, the section “INVESTMENT RESTRICTIONS – 1. Investment in transferable securities and liquid assets” shall be amended to add a new paragraph g) on page 56 of the HKEM, which shall read as follows, with effect from 1 August 2013:-

*“g) If and to the extent allowed by the Articles and applicable laws and regulations, a Fund may subscribe, acquire and/or hold shares to be issued or issued by one or more other Funds without the Fund being subject to the requirements of the law of 10 August 1915 on commercial companies (as amended) with respect to the subscription, acquisition and/or the holding by a company of its own shares, under the conditions however that:*

- (i) The target Fund does not, in turn, invest in the Fund invested in this target Fund; and*
- (ii) No more than 10% of the assets that the target Fund whose acquisition is contemplated may be invested in units of UCITS and/or other UCIs; and*
- (iii) Voting rights, if any, attaching to the shares of the target Fund are suspended for as long as they are held by the Fund concerned and without prejudice to the appropriate processing in the accounts and the periodic reports; and*
- (iv) In any event, for as long as these shares are held by the Fund, their value will not be taken into consideration for the calculation of the net assets of the Fund for the purposes of verifying the minimum threshold of the net assets imposed by the Law of 17 December 2012; and*
- (v) There is no duplication of management/entry or sale charges between those at the level of the Fund having invested in the target Fund, and this target Fund.”*

The following paragraphs are renumbered accordingly.

## **3) Change of investment objective of Templeton Global (Euro) Fund (the “Sub-Fund”)**

To reflect an amendment to the investment objective of the Sub-Fund, please note that the 1<sup>st</sup> paragraph of the investment objective and policy of the Sub-Fund on page 31 of the HKEM will be

revised and restated as below with effect from 1 August 2013. The relevant changes are marked up for your ease of comparison.

*“The Fund’s investment objective is capital appreciation, which it seeks to achieve through a policy of investing in equity ~~and debt obligations~~ securities of companies ~~and governments of any nation~~ throughout the world. The Fund invests primarily in common stocks.”*

For further details of the relevant risk considerations of the Sub-Fund, please refer to the “Risk Considerations” section in the HKEM.

#### **4) Change of investment policy of Templeton Global Equity Income Fund (the “Sub-Fund”)**

To ensure that the Sub-Fund retains sufficient flexibility to meet its investment objective in the future, the investment policy of the Sub-Fund shall be revised, with effect from 1 August 2013, by inserting the following paragraph between the 2<sup>nd</sup> and 3<sup>rd</sup> paragraphs of the investment objective and policy of the Sub-Fund on page 33 of the HKEM:-

*“The Fund may further utilize financial derivative instruments for hedging and/or efficient portfolio management\*. These financial derivative instruments may be dealt on either regulated markets or over-the-counter, and may include, inter alia, swaps (such as credit default swaps or total return swaps) forwards and cross forwards, futures contracts (including those on government securities), as well as options. Use of financial derivative instruments may result in negative returns in a specific yield curve/duration, currency or credit since, among other things, the price of financial derivatives instruments are dependent on the price of their underlying instruments and these prices may go up or down. The Fund may distribute income gross of expenses\*\*.”*

\* The Fund does not intend to invest extensively or primarily in financial derivative instruments for investment purposes.

\*\* Please refer to point 6 of the 2013 Second Addendum to the HKEM dated May 2013 in respect of the enhanced disclosure on the dividend distribution policy.

For further details of the relevant risk considerations of the Sub-Fund, please refer to the “Risk Considerations” section in the HKEM.

#### **5) Change of investment policy of Templeton Emerging Markets Balanced Fund (the “Sub-Fund”)**

To ensure that the Sub-Fund retains sufficient flexibility to meet its investment objectives in the future, the wording “purchase mortgage- and asset-backed securities and” shall be added immediately before the wording “invest in securities or structured products...” which appears in the 4<sup>th</sup> sentence of the 3<sup>rd</sup> paragraph of the investment objective and policy of the Sub-Fund as set out in the 2011 Second Addendum dated October 2011 to the HKEM with effect from 1 August 2013.

For further details of the relevant risk considerations regarding the Sub-Fund’s investment in mortgage- and asset-backed securities, please refer to the sub-section “Mortgage- and Asset-Backed Securities risk” of the section “Risk Considerations” on pages 45-46 of the HKEM.

#### **6) Amendment of the section “Dividends and Accounts – Dividends”**

Please note that the following sentence shall be added to the end of the 3<sup>rd</sup> paragraph ending with “.....the benefit of the relevant fund.” under the section “Dividends and Accounts – Dividends” on page 81 of the HKEM with effect from 1 August 2013:-

*“The Board of Directors may decide that any dividend below USD50 (or currency equivalent) will be reinvested in further Shares of the same share class instead of being paid directly to the investors.”*

#### **7) Appointment of new Co-Investment Managers for Franklin Templeton Global Growth and Value Fund (the “Sub-Fund”)**

To efficiently provide management services to the Sub-fund based on their respective field of expertise, Franklin Advisers, Inc. and Franklin Templeton Investment Management Limited will be appointed as the Co-Investment Managers of the Sub-Fund and will co-manage the Sub-Fund with the Investment Manager of the Sub-Fund, Franklin Templeton Institutional, LLC with effect from 1 August 2013.

Please note that the above arrangement will not affect the investment strategy of the Sub-Fund and the investment management fee remains unchanged.

#### **8) Appointment of new Co-Investment Manager for (i) Franklin Asian Flex Cap Fund and (ii) Franklin India Fund (collectively called the “Sub-Funds”)**

To efficiently provide management services to the Sub-funds based on their respective field of expertise, Templeton Asset Management Ltd will be appointed as the Co-Investment Manager of the Sub-Funds and will co-manage the Sub-Funds with the Investment Manager of the Sub-Funds, Franklin Advisers, Inc. with effect from 1 August 2013.

Please note that the above arrangement will not affect the investment strategy of the Sub-Funds and the investment management fee remains unchanged.

#### **9) Addition of suspension circumstances for calculation of net asset value of Shares**

With effect from 1 August 2013, the following provisions relating to the circumstances under which the determination of the net asset value of Shares of any fund may be suspended will be added to the 1<sup>st</sup> paragraph under the section “Additional Information – Suspension and Termination” on page 83 of the HKEM:-

*“(f) any period when the net asset value of Shares of any fund may not be determined accurately; or*

*(g) during any period when in the opinion of the Board of Directors there exists unusual circumstances where it would be impractical or unfair towards the investors to continue dealing in the Shares of any fund or circumstances where a failure to do so might result in the investors or a fund incurring any liability to taxation or suffering other pecuniary disadvantage or other detriment which the investors or a fund might not otherwise have suffered; or*

*(h) if the Company or a fund is being or may be wound-up, on or following the date on which such decision is taken by the Board of Directors or notice is given to Shareholders of a general meeting at which a resolution to wind-up the Company or a fund is to be proposed; or*

*(i) in the case of a merger, if the Board of Directors deems this to be justified for the protection of the Shareholders; or*

*(j) in the case of a suspension of the calculation of the net asset value of one or several underlying investment funds in which a fund has invested a substantial portion of assets.”*

## 10) Change of leverage calculation method

To reflect the relevant updated UCITS laws, the disclosures on the leverage calculation method adopted by the Company as provided in the last sentence of the 2<sup>nd</sup> paragraph under Part III(b)(iv) of the 2011-12 Addendum dated January 2013 to the HKEM shall be revised to read as follows:-

*“The leverage calculation method used is the sum of notionals\*.*

*\*The level of leverage is measured as the sum of notionals of all financial derivative contracts entered into by the relevant Sub-Fund expressed as a percentage of the Sub-Fund’s net asset value. This methodology does not:*

- make a distinction between financial derivative instruments that are used for investment or hedging purposes.*
- allow the netting of derivative positions.*
- take into account the derivative underlying assets’ volatility or make a distinction between short-dated & long-dated assets.*
- consider the delta for option contracts, so there is no adjustment for the likelihood that any option contract will be exercised.”*

As a result of the change of the leverage calculation method as explained above, the expected level of leverage as set out in the 1<sup>st</sup> paragraph under Part III(b)(iv) of the 2011-12 Addendum dated January 2013 to the HKEM shall be revised and replaced with the following:-

- “• 20% for Templeton Global High Yield Fund;*
- 30% for Templeton Global Income Fund;*
- 40% for Templeton Asian Bond Fund and Templeton Emerging Markets Bond Fund;*
- 80% for Templeton Global Total Return Fund; and*
- 90% for Templeton Global Bond Fund.”*


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The investment managers of the Company and the Directors of the Company 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.

If you require further information please do not hesitate to contact your investment consultant or call our Investor Hotline at +852 2805 0111.

Yours faithfully,

For and on behalf of  
Franklin Templeton Investments (Asia) Limited

  
David Chang  
Director