NEW JERSEY'S
529 COLLEGE SAVINGS PLAN

TURN A DREAM INTO A DEGREE®

INVESTOR HANDBOOK
December 31, 2018

NJBEST 529 COLLEGE SAVINGS PLAN–NEW JERSEY

For Account Owners who are, or whose Beneficiaries are, Residents of New Jersey Investing in the New Jersey Better Educational Savings Trust (NJBEST) Program Without a Financial Advisor, and for Certain other Account Owners Described Herein who are Investing Without a Financial Advisor

AS OF THE DATE OF THIS INVESTOR HANDBOOK, THIS INVESTOR HANDBOOK SUPERSEDES ALL PRIOR VERSIONS OF THIS INVESTOR HANDBOOK PREVIOUSLY PROVIDED TO ACCOUNT OWNERS INVESTING IN THE INVESTMENT OPTIONS DESCRIBED IN THIS HANDBOOK, UNDER THE NJBEST 529 COLLEGE SAVINGS PLAN (THE "PLAN"). THIS INVESTOR HANDBOOK, INCLUDING ANY APPENDICES AND ANY SUPPLEMENTS, CONTAINS IMPORTANT INFORMATION TO BE CONSIDERED IN MAKING A DECISION TO CONTRIBUTE TO THE PLAN. IT SHOULD BE READ THOROUGHLY IN ITS ENTIRETY AND RETAINED FOR FUTURE REFERENCE.

NO ONE IS AUTHORIZED BY THE NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY ("HESAA") TO PROVIDE INFORMATION OTHER THAN AS CONTAINED IN THIS INVESTOR HANDBOOK AND, IF PROVIDED, SUCH OTHER INFORMATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY HESAA.

INFORMATION CONTAINED IN THIS INVESTOR HANDBOOK IS BELIEVED TO BE ACCURATE AS OF ITS DATE, BUT IS SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THE INVESTOR HANDBOOK NOR ACCEPTANCE OF ANY CONTRIBUTION SHALL, IN ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE PLAN OR IN OTHER MATTERS ADDRESSED IN THIS INVESTOR HANDBOOK SINCE ITS DATE.

PLAN ACCOUNTS ARE NOT BANK DEPOSITS AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION ("FDIC") OR ANY OTHER STATE OR FEDERAL AGENCY. THE VALUE OF ANY PLAN ACCOUNT AT ANY TIME MAY BE MORE OR LESS THAN THE AMOUNT INVESTED IN THE ACCOUNT.

NONE OF: 1) THE STATE OF NEW JERSEY; 2) HESAA; 3) FRANKLIN TEMPLETON INVESTMENTS OR ANY ENTITY AFFILIATED THEREWITH; 4) ANY CONSULTANT OR ADVISER RETAINED BY ANY SUCH PARTY; OR 5) ANY OTHER PERSON GUARANTEE OR INSURE ANY ACCOUNTS ESTABLISHED UNDER THE PLAN, THE PRINCIPAL DEPOSITED OR THE INVESTMENT RETURN. OWNERS OF ACCOUNTS IN THE PLAN ASSUME ALL INVESTMENT RISK, INCLUDING THE POTENTIAL LOSS OF PRINCIPAL, AND LIABILITY FOR INCOME TAXES AND/OR ADDITIONAL INCOME TAXES SUCH AS THOSE LEVIED FOR NON-QUALIFIED WITHDRAWALS.

PARTICIPATION IN THE PLAN DOES NOT GUARANTEE THAT CONTRIBUTIONS AND THE INVESTMENT RETURN ON CONTRIBUTIONS, IF ANY, WILL BE ADEQUATE TO COVER FUTURE TUITION AND OTHER HIGHER-EDUCATION EXPENSES OR THAT A BENEFICIARY WILL BE ADMITTED TO OR PERMITTED TO CONTINUE TO ATTEND AN INSTITUTION OF HIGHER EDUCATION.

THE RELATIVE RISKS AND POTENTIAL REWARDS OF INVESTING UNDER ANY OF THE PLAN'S INVESTMENT OPTIONS VARY CONSIDERABLY. THIS INVESTOR HANDBOOK DOES NOT CONSTITUTE A RECOMMENDATION, AND NO PARTY DESCRIBED HEREIN, BY ITS PARTICIPATION IN THE PLAN OR OTHERWISE, RECOMMENDS OR INTENDS TO RECOMMEND ANY INVESTMENT BY ANY PARTICULAR ACCOUNT OWNER IN THE PLAN OR IN ANY INVESTMENT OPTION OR COMBINATION OF INVESTMENT OPTIONS. NEITHER THE PLAN NOR ANY OTHER PERSON DESCRIBED IN THIS INVESTOR HANDBOOK HAS DETERMINED OR ASSUMED ANY OBLIGATION TO DETERMINE, AS A RESULT OF THE DISTRIBUTION OF THIS INVESTOR HANDBOOK, WHETHER ANY INVESTMENT BY ANY ACCOUNT OWNER UNDER ANY PARTICULAR INVESTMENT OPTION OR COMBINATION OF THE INVESTMENT OPTIONS IS SUITABLE OR APPROPRIATE IN LIGHT OF THE NEEDS, FINANCIAL CIRCUMSTANCES AND INVESTMENT HORIZON OF THE PARTICULAR ACCOUNT OWNER OR BENEFICIARY. ANY ACCOUNT OWNER SEEKING PROFESSIONAL ASSISTANCE IN EVALUATING WHETHER ANY PARTICULAR INVESTMENT IN THE PLAN IS SUITABLE OR APPROPRIATE FOR SUCH ACCOUNT OWNER AND/OR A BENEFICIARY SHOULD CONSULT A FINANCIAL ADVISOR.

THE PLAN IS OFFERED TO RESIDENTS OF ALL STATES, ALTHOUGH IN THE CASE OF THE PLAN DESCRIBED IN THIS INVESTOR HANDBOOK EITHER THE ACCOUNT OWNER OR THE BENEFICIARY OF AN ACCOUNT MUST BE A NEW JERSEY RESIDENT. THIS PLAN IS ALSO AVAILABLE TO ACCOUNT OWNERS WHO ARE EMPLOYEES OF ANY FRANKLIN TEMPLETON INVESTMENTS COMPANY (OR THEIR IMMEDIATE FAMILY) WHO DO NOT RESIDE IN NEW JERSEY, IF CONTRIBUTIONS ARE MADE DIRECTLY TO THE APPLICABLE ACCOUNT WITHOUT THE ASSISTANCE OF A FINANCIAL ADVISOR. HOWEVER, YOU SHOULD NOTE THAT: (i) DEPENDING UPON THE LAWS OF THE HOME STATE OF THE ACCOUNT OWNER OF, THIRD-PARTY CONTRIBUTOR (IF APPLICABLE) TO OR BENEFICIARY OF THE ACCOUNT, FAVORABLE STATE TAX TREATMENT OR OTHER BENEFITS OFFERED BY THE APPLICABLE HOME STATE FOR INVESTING IN QUALIFIED TUITION PROGRAMS, SUCH AS FINANCIAL AID, SCHOLARSHIP FUNDS AND PROTECTION FROM CREDITORS, MAY BE AVAILABLE ONLY FOR INVESTMENTS IN SUCH HOME STATE'S QUALIFIED TUITION PROGRAM; (ii) ANY STATE-BASED BENEFIT OFFERED WITH RESPECT TO A PARTICULAR QUALIFIED TUITION PROGRAM SHOULD BE ONE OF MANY APPROPRIATELY WEIGHTED FACTORS TO BE CONSIDERED IN MAKING AN INVESTMENT DECISION; AND (iii) THE ACCOUNT OWNER OR (IF APPLICABLE) THIRD-PARTY CONTRIBUTOR SHOULD CONSULT WITH A FINANCIAL, TAX OR OTHER ADVISER TO LEARN MORE ABOUT HOW STATE-BASED BENEFITS (INCLUDING ANY LIMITATIONS) WOULD APPLY TO THE ACCOUNT OWNER'S, THIRD-PARTY CONTRIBUTOR'S (IF APPLICABLE) AND BENEFICIARY'S SPECIFIC CIRCUMSTANCES AND MAY ALSO WISH TO CONTACT THE HOME STATE OF THE ACCOUNT OWNER, THIRD-PARTY CONTRIBUTOR (IF APPLICABLE) AND/OR BENEFICIARY, OR ANY OTHER QUALIFIED TUITION PROGRAM, TO LEARN MORE ABOUT THE FEATURES, BENEFITS AND LIMITATIONS OF THE APPLICABLE STATE'S QUALIFIED TUITION PROGRAM.

QUALIFIED TUITION PROGRAMS, INCLUDING THE PLAN, ARE INTENDED TO BE USED ONLY TO SAVE FOR QUALIFIED HIGHER-EDUCATION EXPENSES, WHICH INCLUDE CERTAIN TUITION EXPENSES AT ELEMENTARY OR SECONDARY SCHOOLS AS DESCRIBED IN THIS INVESTOR HANDBOOK. SUCH PROGRAMS ARE NOT INTENDED TO BE USED, NOR SHOULD THEY BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF EVADING FEDERAL OR STATE TAXES OR TAX PENALTIES. TAXPAYERS MAY WISH TO SEEK TAX ADVICE FROM AN INDEPENDENT TAX ADVISOR BASED ON THEIR OWN PARTICULAR CIRCUMSTANCES.

INTERESTS IN THE PLAN HAVE NOT BEEN REGISTERED WITH, AND THIS INVESTOR HANDBOOK HAS NOT BEEN REVIEWED BY, THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION.

THE SCHOLARSHIP PROVIDED BY THE NEW JERSEY HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY IS ONLY FOR CERTAIN BENEFICIARIES WHO ATTEND AN ELIGIBLE NEW JERSEY HIGHER EDUCATION INSTITUTION AND IS NOT FOR ELEMENTARY OR SECONDARY SCHOOL ATTENDANCE. AMONG OTHER REQUIREMENTS, THE ACCOUNT OWNER MUST SUBMIT A CERTIFICATION TO HESAA DEMONSTRATING THE BENEFICIARY'S ATTENDANCE AT AN ELIGIBLE NEW JERSEY HIGHER EDUCATIONAL INSTITUTION. ADDITIONAL INFORMATION ABOUT THE SCHOLARSHIP AND REQUIREMENTS IS UNDER THE HEADING "NJBEST SCHOLARSHIP" BELOW.

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Glossary of Terms

2001 Tax Act – Economic Growth and Tax Relief Reconciliation Act of 2001.

2017 Tax Act – the "Act to provide for reconciliation pursuant to Title II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018", Pub. L. 115-97, enacted December 22, 2017.

Account – an account within the Plan.

Account Owner – the current owner of an account within the Plan, who may be either the person who established the Account or a successor Account Owner.

Act – N.J.S.A. 18A:71B-35 through 46, as amended.

Beneficiary – the current individual whom the Account Owner has designated as the beneficiary of the Account. A Provisional Beneficiary is not a Beneficiary as defined in this Investor Handbook.

Code – Internal Revenue Code of 1986, as amended.

Coverdell ESA – Coverdell Education Savings Account established under Section 530 of the Code.

Direct Transfer – means a direct transfer of funds from an account in one Qualified Tuition Program to an account in another Qualified Tuition Program.

Division of Investment – New Jersey Department of the Treasury, Division of Investment.

Division Investment Options – investment options for which the New Jersey Department of the Treasury, Division of Investment serves as investment manager.

Eligible Educational Institution – defined generally as an accredited post-secondary educational institution located in the United States offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized post-secondary credential; however, certain proprietary institutions and post-secondary vocational institutions and certain institutions located in foreign countries may be Eligible Educational Institutions. To be an Eligible Educational Institution for purposes of Section 529, the institution must be eligible to participate in U.S. Department of Education student financial aid and student loan programs under Title IV of the Higher Education Act of 1965, as amended.

Eligible New Jersey Higher Educational Institution – defined generally as accredited post-secondary educational institution located in New Jersey offering credit toward a bachelor's degree, or an associate's degree. With respect to proprietary institutions, undergraduate attendance or enrollment must be in a degree granting program licensed or approved by the New Jersey Commission on Higher Education.

ETF – exchange-traded fund.

FDIC – Federal Deposit Insurance Corporation.

Financial Advisors – broker-dealers or financial advisors acting pursuant to an agreement with FTDI.

Franklin Mutual Advisers – Franklin Mutual Advisers, LLC, an affiliate of FTDI, serving as the Investment Manager for the Investment Options.

Franklin Templeton Investment Options – Investment Options for which Franklin Advisers currently serves as Investment Manager, including the Investment Options described in this Investor Handbook.

Franklin Templeton Investments – a group of affiliated companies owned directly or indirectly by Franklin Resources, Inc.

FTDI – Franklin Templeton Distributors, Inc., the Program Manager.

FTIS – Franklin Templeton Investor Services, LLC, an affiliate of FTDI which provides certain administrative and record-keeping services for the Program.

Grandfathered Accounts – certain Program Accounts established prior to the expiration or termination of the Services Agreement.

HESAA – The New Jersey Higher Education Student Assistance Authority.

Investment Manager – an investment manager selected by HESAA for the plan, including Franklin Mutual Advisers or any successor as the Investment Manager.

Investment Option – the designation of a contribution received by the Trust to a particular trust portfolio and the resulting investment of such contribution.

Investment Policy – the applicable requirements of the investment policy established by HESAA with the approval of the State Investment Council.

Investor Handbook – this document, including any future supplements to it, which contain information you should know before you participate in the Plan, such as certain risks, limitations, performance history and fees.

IRS – Internal Revenue Service.

Maximum Contribution Limit – the aggregate balance in all Program Accounts on behalf of a particular Beneficiary which may not be exceeded through additional contributions (currently $305,000).

Member of the Family – a person related to the Beneficiary as follows: (i) a son or daughter, or a descendant of either; (ii) a stepson or stepdaughter; (iii) a brother, sister, stepbrother or stepsister; (iv) the father or mother, or an ancestor of either; (v) a stepfather or stepmother; (vi) a son or daughter of a brother or sister; (vii) a brother or sister of the father or mother; (viii) a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law; (ix) the spouse of the Beneficiary or of any of the other foregoing individuals; or (x) a first cousin. For purposes of the Member of the Family definition, a child includes a legally adopted child and a brother or sister includes a brother or sister by half-blood.

NAV – net asset value.

Non-Qualified Distribution – a withdrawal of money from an Account for any purpose other than to pay the qualified higher educational expenses of the Beneficiary at an Eligible Educational Institution.

NJBEST – the New Jersey Better Educational Savings Trust.

Plan – the NJBEST 529 College Savings Plan.

Program – the New Jersey Better Educational Savings Trust (NJBEST) Program, which includes both the Franklin Templeton 529 College Savings Plan and the Plan.

Program Accounts – Accounts within the Program.

Program Manager – FTDI or any successor as the Program Manager.

Program Record-Keeper – FTIS or any successor as the Program Record-Keeper.

Provisional Beneficiary – an individual designated by a state or local governmental organization, or an organization described in section 501(c)(3) of the Internal Revenue Code subject to terms and conditions established by such organization and which may be changed by such organization at any time, as a potential recipient of certain contributions to the Plan made by such organization to an Account owned by such organization as part of a scholarship program operated by such organization. A Provisional Beneficiary is not a Beneficiary as defined in this Investor Handbook prior to such time, if any, that such Provisional Beneficiary receives a distribution from such Account or such Account, or any portion thereof, is converted or transferred to an Account not owned by such organization of which the Provisional Beneficiary is the Beneficiary.

Qualified ABLE Program – a program established and maintained by a state or a state agency or instrumentality under which a person may make contributions for eligible individuals to an account established for the purpose of meeting the qualified disability expenses of such eligible individual, all in accordance with Section 529A of the Code.

Qualified Distribution – a distribution from an Account to pay the qualified higher-education expenses (see definition below) of the Beneficiary at an Eligible Educational Institution or to pay Qualified Elementary or Secondary Education Expenses in an amount which, together with all other Qualified Elementary or Secondary Education Expenses paid for the person that is the Beneficiary by any person from other accounts in any Qualified Tuition Program, do not exceed $10,000 per calendar year.

Qualified Elementary or Secondary Education Expenses – expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.

Qualified higher-education expenses – (i) the costs of tuition, fees, books, supplies and equipment required for the enrollment or attendance of a Beneficiary at an Eligible Educational Institution; (ii) expenses for room and board, within certain limits, for students attending an Eligible Educational Institution on at least a half-time basis; (iii) certain expenses for special needs services for special needs beneficiaries incurred in connection with such enrollment or attendance; (iv) expenses for the purchase of computer equipment or peripheral equipment controlled by a computer (excluding in either case equipment of a kind used primarily for amusement or entertainment of the user), computer software, or Internet access and related services, if such equipment, software, or services are to be used primarily by the Beneficiary during any of the years the Beneficiary is enrolled at an Eligible Educational Institution and (v) subject to the limitations described in this Investor Handbook, Qualified Elementary or Secondary Education Expenses.

Qualified Tuition Program – a "qualified tuition program" established and maintained in accordance with Section 529.

Rollover Distribution – a distribution from an Account to another Program Account or to, or that is reinvested in, an account in another Qualified Tuition Program or, for distributions prior to January 1, 2026, subject to limitations described in this Investor Handbook, an account in a Qualified ABLE Program, in a manner that meets the Code's requirements for a federally tax-free rollover distribution, as further described in this Investor Handbook.

SAI – Statement of Additional Information.

Savings-Type Qualified Tuition Program – any Qualified Tuition Program under which contributions may be made to an account established for the purpose of meeting the qualified higher-education expenses of the designated beneficiary of the account.

Scholarship Accounts – scholarship accounts established by governmental entities and corporations that are described in Section 501(c)(3) of the Code.

SEC – U.S. Securities and Exchange Commission.

Section 529 – Section 529 of the Code.

Services Agreement – The College Savings Services Agreement, dated April 1, 2014, between HESAA and FTDI as amended or restated from time to time.

State – The State of New Jersey.

Third-Party Contributor – any person, other than the Account Owner, who makes contributions to an Account.

TIN – U.S. Taxpayer Identification Number.

Trust – the New Jersey Better Educational Savings Trust (NJBEST).

Trust Shares – municipal fund securities representing interests in the Trust.

Trust Portfolio – an investment portfolio of the Trust.

UBTI – "unrelated business taxable income" as defined under the Code, which includes, among other items, debt-financed investment income and certain income from interest rate swap and other types of investment transactions.

Underlying Fund – means a mutual fund or ETF in which a Trust Portfolio invests all or a portion of the Trust Portfolio's assets.

Underlying Index – means the S&P 500® index.

UGMA – Uniform Gifts to Minors Act.

UTMA – Uniform Transfers to Minors Act.

You – the current owner of an account within the Plan, who may be either the person who established the Account or a successor Account Owner.

Key Features

Overview of the Program

The State established the Program to allow Account Owners and Beneficiaries under the Program to qualify for federal tax benefits as participants in a Qualified Tuition Program. The State also provides favorable state tax treatment for State taxpayers participating in the Program and additional non-tax benefits for State residents participating in the Program.

HESAA is responsible for establishing and maintaining the Program on behalf of the State. HESAA's mission is to provide students and families with the financial and informational resources for students to pursue their education beyond high school. Under the Act, HESAA administers the Program and is authorized to select Investment Managers, adopt regulations and provide for the performance of other functions necessary for the operation of the Program. Program assets are held by the Trust. HESAA, as the trustee of the Trust, has appointed FTDI as the current Program Manager under the Services Agreement. FTDI, directly or through affiliated or nonaffiliated entities, provides certain services for the Program.

The Program currently includes the NJBEST 529 College Savings Plan, which is described in this Investor Handbook (except for the Division Investment Options, which are not offered under this Investor Handbook), and the Franklin Templeton College Savings Plan, which is not offered under, or described in, this Investor Handbook. For more information, see "Opening, Maintaining and Contributing to an Account – The Franklin Templeton 529 Plan and Division Investment Options."

This Investor Handbook is applicable to contributions to the Franklin Templeton Investment Options under the Plan by: individuals who are, or whose Beneficiaries are, New Jersey residents, and who invest contributions directly without the assistance of Financial Advisors; or Account Owners who are employees of any Franklin Templeton Investments company (or their immediate family members) who do not reside in New Jersey, if contributions are made directly to the applicable Account without the assistance of a Financial Advisor.

A separate Investor Handbook is available from the Program Manager for persons who invest contributions through Financial Advisors in the Franklin Templeton 529 Plan.

Overview of the Plan

The Plan is designed to enable New Jersey residents, as well as residents of other states, to save for qualified higher-education expenses of a Beneficiary on a tax-advantaged basis. Under the Plan, you may set up one or more Accounts, each for the benefit of an individual you have designated as the Beneficiary of the Account, to save for the future payment of the expenses associated with the Beneficiary's attendance at most accredited post-secondary educational institutions throughout the country and at certain foreign institutions. Distributions for "qualified higher-education expenses" include distributions used to pay Qualified Elementary or Secondary Education Expenses of the Beneficiary, provided that such expenses paid from the Account or from any other account in any Savings-Type Qualified Tuition Program established for the same Beneficiary by any person (whether or not such person is the same person as the Account Owner) do not exceed $10,000 per calendar year. Accounts described in this Investor Handbook must be established without the assistance of a Financial Advisor and either the Account Owner (if an individual) or the Beneficiary must be a New Jersey resident at the time the Account is established. This Investor Handbook also applies to Accounts owned by employees of any Franklin Templeton Investments company (or their immediate family members) who do not reside in New Jersey, if contributions are made directly to the applicable Account without the assistance of a Financial Advisor. Contributions to an Account are invested by the Trust in one or more Trust Portfolios as designated by the Account Owner.

The Investment Manager

Franklin Mutual Advisers manages, either directly or through sub-advisers approved by HESAA, the contributions received by the Trust for a particular Investment Option. Currently there are multiple different Investment Options, some of which invest in a single type of asset class, and others that follow an asset allocation strategy. These Investment Options may be invested in mutual funds or ETFs for which Franklin Mutual Advisers or its affiliates serve as investment manager, or they may be invested in mutual funds, ETFs or other investments that are unaffiliated with Franklin Mutual Advisers. The investment return on contributions to an Account will vary based on the performance of the Investment Options selected by the Account Owner.

Federal and New Jersey Income Tax Benefits

Federal income tax is deferred on Account earnings while they remain in the Account, and such earnings, when withdrawn for qualified higher-education expenses, are tax-exempt for federal income tax purposes. As long as you or your Beneficiary is a New Jersey taxpayer, Account earnings are exempt from New Jersey state tax if withdrawn to pay for qualified higher-education expenses (for Qualified Elementary or Secondary Education Expenses, see "Tax Information – State Income Tax Treatment"). If you or your Beneficiary pays state taxes in states other than New Jersey, you should evaluate whether any state in which you or your Beneficiary pays taxes will tax any earnings withdrawn from your Account. You should also consider whether any state in which you, any Third-Party Contributor, or your Beneficiary resides or pays taxes offers special tax incentives or other benefits in connection with any Qualified Tuition Program sponsored by such state that may not be available to you, a Third-Party Contributor or your Beneficiary under the Program. You should consider this state tax treatment and other benefits, if any, before making an investment decision.

The statements contained in this Investor Handbook summarizing provisions of the Code applicable to Accounts or to contributions to, earnings of, or withdrawals from Accounts reflect the provisions of Section 529, proposed regulations published by the IRS that are expected to be revised prior to being finalized, certain notices issued by the IRS indicating the content of final regulations the IRS intends to promulgate under Section 529 but which have not been published as of the date of this Investor Handbook and other administrative interpretations of Section 529.

Special Gift and Estate Tax Treatment While Investing for College

The contributions you make to the Plan are treated as completed gifts for federal gift tax purposes. Annual contributions to an Account which, when combined with other gifts made by the same taxpayer to the same Beneficiary, do not exceed $15,000 ($30,000 for married couples making a gift-splitting election) are generally excludable for federal gift tax purposes. Currently contributions to an Account that exceed $15,000 ($30,000 for married couples making a gift-splitting election) in any year can be treated as if such contributions were spread evenly over a five-year period, with the result that up to $75,000 contributed to the Account in a single year ($140,000 for married couples making a gift-splitting election) may be excludable for federal gift tax purposes. Contributions to an Account are generally removed from the contributor's estate for federal estate tax purposes, subject to certain exceptions in the case of contributions that have been prorated over a five-year period for federal gift tax purposes. Please read the information under the heading "Tax Information" in this Investor Handbook and consult your tax advisor for further information, including treatment for state gift and estate tax purposes.

Control Over Your Account

You decide how to allocate contributions to any one or more Investment Options offered under this Investor Handbook at the time the contributions are made. You may reallocate the existing assets in your Account to one or more Investment Options twice each calendar year or whenever you change the Account's Beneficiary. All reallocations of assets among the Investment Options in all Program Accounts established by an Account Owner for a particular Beneficiary must occur on the same two days of the applicable calendar year, with the exception of reallocations in connection with a change of the Beneficiary of the applicable Program Account. You authorize withdrawals from the Plan when you are ready to pay for tuition or other qualified higher-education expenses. Earnings on Non-Qualified Distributions (other than Rollover Distributions) are subject to federal income tax and, with certain exceptions, a penalty consisting of a 10% additional federal income tax.

You can save for elementary, secondary, undergraduate or graduate education for a member of your immediate family, friends—or even yourself. If the Beneficiary you've saved for decides not to go to college, funds can be used to educate another Member of the Family of the Beneficiary.

You can contact the Plan for Account information. Account balances are normally updated after each day that the New York Stock Exchange is open for business. The Program also sends quarterly statements with a description of the activity in your Account and the value of your Account.

Contribution Requirement and Contribution Limit

Open an Account with just $25 per Investment Option. The Maximum Contribution Limit for all accounts established within the Program for the same Beneficiary is currently $305,000. A minimum of $300 per year must be contributed to keep an Account open, until total contributions reach $1,200.

Fees and Expenses

Each of the Underlying Funds in which the Trust invests assets contributed under an Investment Option charges investment management fees and other expenses. These fees and expenses are taken into account in valuing the shares of the Underlying Funds owned by the applicable Trust Portfolio, and accordingly indirectly affect the investment return on amounts invested under the applicable Investment Option. There may be brokerage fees associated with the purchase or sale of ETFs that also affect the investment return on amounts invested under the applicable Investment Option.

The Program also charges a management fee that is currently 10 basis points (0.10 percent) per annum assessed daily against the assets of each Trust Portfolio other than the Franklin U.S. Government Money 529 Portfolio. Such a management fee may also be imposed in whole or in part at any time with respect to the Franklin U.S. Government Money 529 Portfolio.

Please see "Fees and Expenses" below for additional information.

Opening, Maintaining and Contributing to an Account

Account Owner

Any individual who has reached the age of majority, or any corporation, trust or other entity, may establish an Account described in this Investor Handbook provided they reside in a state or jurisdiction where Trust Shares are eligible for sale. Trust Shares are not eligible for sale in Canada or in any member country of the European Union ("EU") or European Economic Area ("EEA") and may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or any member country of the EU or EEA, or to or for the benefit of residents of any provincial or territorial jurisdiction in Canada or any member country of the EU or EEA. Trust Shares are eligible for sale outside the United States in jurisdictions other than Canada, the EU and the EEA, provided that they are purchased through a Financial Advisor with an address in the United States or a territory of the United States. With the exception of Accounts owned by Account Owners with addresses in Canada ("Canadian Accounts") and Accounts owned by Account Owners with addresses in any member country of the EU or EEA ("European Accounts"), contributions may continue to be made to Accounts established prior to January 1, 2011 by Account Owners that do not have addresses in the United States or a territory of the United States and do not have a Financial Advisor with an address in the United States or a territory of the United States.

No new Canadian Accounts may be established. In the case of existing Canadian Accounts, (1) Account Owners of Canadian Accounts are not permitted to make additional contributions to such Accounts; (2) such Accounts are not allowed to receive any additional contributions from any source; and (3) investments in any such Account may not be transferred from one Trust Portfolio to another Trust Portfolio, but Age-Based Portfolio Transfers of Trust Shares owned by Canadian Accounts will continue to take place automatically to the extent provided in this Investor Handbook as it may be supplemented or restated in the future. Any Account belonging to an Account Owner who has moved to Canada or who moves to Canada will be treated as a Canadian Account subject to the provisions above.

No new European Accounts may be established. In the case of existing European Accounts, (1) Account Owners of European Accounts are not permitted to make additional contributions to such Accounts; (2) such Accounts are not allowed to receive any additional contributions from any source; and (3) investments in any such Account may not be transferred from one Trust Portfolio to another Trust Portfolio, but Age-Based Portfolio Transfers of Trust Shares owned by European Accounts will continue to take place automatically to the extent provided in this Investor Handbook as it may be supplemented or restated in the future. Any Account belonging to an Account Owner who moves to a member country of the EU or EEA will be treated as a European Account subject to the provisions above.

To establish an Account, the Account Owner must provide a TIN, which may be any one of the following: a Social Security Number, an IRS Individual Taxpayer Identification Number or an Employer Identification Number. The tax consequences associated with Accounts established by persons who do not have addresses in the United States are not described in this Investor Handbook. If you are such a person, you should consult your tax advisor concerning the tax consequences of an investment in the Program.

Third-Party Contributor

Subject to the restrictions set forth above under "Account Owner", any person may make contributions to an Account after the Account is opened. The Third-Party Contributor does not have to be related to the Account Owner or Beneficiary. The Third-Party Contributor does not have to reside in New Jersey to make contributions to the Plan Account. A Third-Party Contributor has no future control over the use of the contribution by the Account Owner, who may change the Beneficiary of the Account and/or authorize withdrawals from the Account for purposes other than paying the qualified higher-education expenses of the Beneficiary. A Third-Party Contributor may forego state or federal tax benefits for which the Third-Party Contributor might be eligible if he or she contributed to an Account owned by such Third-Party Contributor.

Beneficiary

The Beneficiary is the person designated by the Account Owner to use the savings in the Account for qualified higher-education expenses. The Beneficiary must be an individual. The Beneficiary of an Account does not have to be a United States citizen; however, the Beneficiary must have a TIN. The Beneficiary and the Account Owner do not have to be related. Account Owners may designate themselves as the Beneficiary. An Account Owner must open a separate Account for each Beneficiary. An individual may be the Beneficiary of more than one Account in the Program, in which case the Maximum Contribution Limit is applied on the basis of the aggregate balance of such Program Accounts. The Beneficiary of an Account established by a governmental entity or corporation described in Section 501(c)(3) of the Code ("a Scholarship Account") must be restricted to New Jersey residents in the case of Accounts described in this Investor Handbook.

Accounts Established under UTMA or UGMA

The Program permits the establishment of an Account in the name of a custodian for a minor under UTMA or UGMA. In order to transfer existing funds held under UTMA or UGMA to an Account, the custodian will need to liquidate any securities in such UTMA or UGMA account (which will require payment of taxes on any accrued gains) and transfer cash to the Account. If an Account is established for a minor under UTMA or UGMA, the minor must remain the Beneficiary of such Account at all times notwithstanding the Account Owner's ability to change the Beneficiary for other types of Accounts. In addition, when the minor attains an age specified by applicable state law, the custodian will cease to have any control over the Account and the former minor will control the disposition of assets in the Account. Furthermore, the minor will be treated as the owner of the Account at all times, so that any taxable distribution from the Account will be treated as income of the minor (except to the extent, if any, that applicable law requires that such distribution be treated as income of the custodian). The treatment of an Account established under UTMA or UGMA for federal financial aid purposes is described under "Risk Factors – Financial Aid – Federal Financial Aid." You should consult a tax advisor in your state of residence, and may also wish to consult a financial aid advisor, about the advisability of transferring UTMA/UGMA funds to an Account.

Opening an Account

To open an Account, complete an NJBEST 529 College Savings Plan Account Application form and mail it to the Program Record-Keeper at P.O. Box 33030, St. Petersburg, FL 33733-8030. You must include a check payable to "NJBEST 529 College Savings Plan" in the appropriate amount (the first deposit must be at least $25 for each Investment Option selected) with your completed application form. When you establish an Account, you must name an individual person as the Beneficiary, unless the Account is a Scholarship Account. Other people may also open Accounts for the same Beneficiary. After your application is processed, you will receive a confirmation that includes your Account number. If you want to open additional Accounts and need more application forms, photocopy the application form, call NJBEST at (877) 4NJBEST (or (877) 465-2378) or download the form from **www.NJBEST.com**. Each Account requires a separate application. By signing the application form, you agree that the Account is subject to the terms and conditions of the Participation Agreement which is attached to this Investor Handbook as Appendix A and also to the terms in this Investor Handbook.

Applicable Trust Share Net Asset Value

When you purchase (or sell) Trust Shares, you pay (or receive) the NAV per Trust Share. NAV is determined by deducting the relevant Trust Portfolio's liabilities from the total Trust Portfolio assets, and dividing that number by the number of Trust Shares outstanding of that Trust Portfolio. Each Trust Portfolio calculates its NAV per Trust Share each business day as of the close of trading on the New York Stock Exchange, normally 4 p.m. Eastern time ("Close of Trading"). A purchase (or sale) order for Trust Shares received by the Program Record-Keeper in good order by Close of Trading on a business day will ordinarily be priced according to the NAV calculated for the Trust Portfolio on that same business day. Under normal circumstances, the Trust does not calculate its NAV on days the New York Stock Exchange is closed for trading. The Program Record-Keeper must receive an order for Trust Shares by the Close of Trading on a given business day to submit the order for processing at that day's NAV.

Contributing to an Account

Once your Account is opened, Account Owners and Third-Party Contributors may send money by check payable to "NJBEST 529 College Savings Plan" directly to the address listed on the Account application form. The Plan will only accept pre-printed personal checks, cashier's checks, bank money orders or electronic fund transfers for Account contributions. The Plan does not accept cash, credit card convenience checks, non-bank money orders or traveler's checks as forms of payment to purchase Trust Shares. Account Owners and Third-Party Contributors may also choose to make regular contributions through automatic electronic transfers from their respective bank accounts or through payroll deduction, if offered by their respective employers. Please see the Account application form for more details on automatic electronic transfers.

Contributions, including contributions by Third-Party Contributors, are allocated to one or more of the Trust Portfolios in accordance with instructions from the Account Owner. If the Program Manager is aware that a contribution received has been made by a Third-Party Contributor, the Account Owner will be contacted for instructions regarding the investment of such contribution. To establish regular contributions through automatic electronic transfers from a Third-Party Contributor's bank account, the Third-Party Contributor must submit a voided check along with a letter of instruction signed by both the bank account owner and the Account Owner. Both signatures must be signature guaranteed.

The Program from time to time determines the Maximum Contribution Limit invested under the Program on behalf of a Beneficiary which should not be exceeded through additional contributions. As of the date of this Investor Handbook, the Maximum Contribution Limit is $305,000. No additional contribution may be made to your Account if the amount of the contribution, when added to the value, at the time of the proposed contribution, of all Program Accounts (whether or not owned by you) for the same Beneficiary, would exceed the Maximum Contribution Limit. The Program reserves the right to change the Maximum Contribution Limit and the method of calculating the Maximum Contribution Limit in accordance with its interpretation of federal and state law and regulations.

Until total contributions to your Account reach $1,200, a minimum of $300 per year must be contributed to keep your Account open. Once your total contributions are at least $1,200, no additional contributions are required to maintain the Account. If your Account fails to meet the minimum required contributions, the Program may terminate your Account without notice and distribute to you the amounts on deposit in your Account at the time of termination. If the Program terminates your Account under these circumstances, you may be required to pay federal and state income taxes and tax penalties on any earnings distributed to you.

The Franklin Templeton 529 Plan and Division Investment Options

The Franklin Templeton 529 Plan includes, in addition to the Investment Options described in this Investor Handbook, additional Investment Options offered only to persons who invest contributions through Financial Advisors. A separate Investor Handbook is available for individuals who wish to invest contributions through the Franklin Templeton 529 Plan. Such separate Investor Handbook is available from the Program Manager.

The New Jersey Department of the Treasury, Division of Investments serves as investment manager for certain other investment options ("Division Investment Options") that are part of the Plan but are no longer available to new investors.

Transfers and Rollovers

Rollovers from Other Qualified Tuition Programs to the Program

You may transfer funds from an account in another Qualified Tuition Program to an Account by requesting a "rollover distribution" to your Account, subject to the applicable requirements of the Code. You must provide the Program with acceptable documentation from the prior Qualified Tuition Program regarding the portion of any Rollover Distribution that consists of a return of principal and the portion that consists of earnings.

A Rollover Distribution can be made without any adverse federal income tax consequences provided that it is effected by a Direct Transfer or that, within 60 days of the date you withdraw funds from your other Qualified Tuition Program account, you deposit such funds in your Plan Account. Under current law, subject to certain limitations described in this Investor Handbook, the Beneficiary of your Plan Account can be either: (i) the same as the beneficiary of the account from which you are making the Rollover Distribution, if such Rollover Distribution is a Direct Transfer or does not occur within 12 months from the date of a previous Rollover Distribution (other than by Direct Transfer) to any Qualified Tuition Program for the benefit of the same beneficiary; or (ii) a different individual who is a Member of the Family of the beneficiary of the account from which the Rollover Distribution is made.

Contact the Program Record-Keeper for more information about how to complete such a transfer. An NJBEST 529 College Savings Plan Rollover/Transfer Request Form is available from the Program Record-Keeper or at **www.NJBEST.com**. Although a Rollover Distribution can be made without adverse federal income tax consequences, there may be state income tax consequences in the state(s) in which you pay state income taxes, and the Qualified Tuition Program from which the Rollover Distribution is made may assess some charges in connection with the withdrawal. You should consult a tax advisor, if you have any questions about the consequences of a transfer between Qualified Tuition Programs.

Transfers from Coverdell Education Savings Accounts to Accounts

You may move funds from a Coverdell ESA to an Account. The Beneficiary of the Account to which the funds are transferred must be the same as the beneficiary of the Coverdell ESA from which the transfer is made, and the deposit to the Account must occur in the same tax year as the withdrawal from the Coverdell ESA. After the amount has been moved from the Coverdell ESA to the Account, you may change the Beneficiary of the Account as described below under "Opening, Maintaining and Contributing to an Account – Changing a Beneficiary." Contact the Program Record-Keeper for information about how to complete such a transfer and documentation which must be submitted regarding the portion of such transfer to be treated as principal. Contact your tax advisor for information about federal and state tax treatment of a transfer of funds from a Coverdell ESA to the Program.

Reinvesting Proceeds of Certain U.S. Savings Bonds in an Account

Some U.S. Savings Bonds may be redeemed and, if the proceeds are deposited into an Account, no federal income tax will be due on some or all of the bond earnings in the year in which the bond is cashed. You may wish to consult a financial or tax advisor to determine whether it is better to reinvest the earnings in an Account or apply them directly to the payment of higher-education expenses, if there are such expenses in the year the bond is cashed in. Contact the Program Record-Keeper for information about documentation which must be submitted regarding the portion of such transfer to be treated as principal.

The bonds that qualify for such tax-favored treatment are Series EE bonds issued after 1989 and Series I bonds. The owner of the bonds must have been at least 24 years of age on the date the bonds were issued. The Beneficiary of the Account must be (1) the Account Owner or Third-Party Contributor making the contribution, (2) such person's spouse, or (3) a qualifying dependent of such taxpayer. And, to qualify for full or partial tax deferral, the owner of the bond must meet certain income restrictions. You should consult a tax advisor to determine whether you qualify for the tax deferral.

To take advantage of this opportunity, the bond owner simply redeems the bonds and sends a contribution to his or her Account for the amount of the proceeds. The bond owner needs to record certain information from the bonds that must be reported to the IRS. The taxpayer must file an IRS Form 8815 for the tax year in which the bonds are cashed in and the proceeds are placed in the Program Account.

Changing a Beneficiary

You can change the Beneficiary of your Account, provided that the new Beneficiary of your Account is a Member of the Family of the prior Beneficiary. You may not change the Beneficiary if such change would cause the aggregate account balances of all Program Accounts for the new Beneficiary to exceed the Maximum Contribution Limit or if the Account is owned in custody for a minor. See "Opening, Maintaining and Contributing to an Account – Accounts Established under UTMA or UGMA." A change in Beneficiary may be treated as a gift from the previous Beneficiary to the new Beneficiary in certain circumstances, and therefore may have gift tax and generation-skipping transfer tax implications. See "Tax Information – Federal Tax Treatment" for more information. In order to change a Beneficiary, you will need to complete an NJBEST 529 College Savings Plan Account Revision Form available from the Program Record-Keeper at **www.NJBEST.com**.

Change in Account Owner; Successor Account Owner

Under current Program policy, a change in the Account Owner of an Account is permitted upon completion of a Franklin Templeton 529 College Savings Plan Account Revision Form, which includes submission of a notarized signature or a signature guaranty from a banking institution. This form is available from the Program Record-Keeper or at **www.NJBEST.com**. An Account Owner may designate any person to become the successor Account Owner in the event of his or her death. Such designation may be made on the Account application or, subsequently, by submitting an NJBEST 529 College Savings Plan Account Revision Form available from the Program Record-Keeper or at **www.NJBEST.com**. If the original Account Owner dies and the designated person becomes the successor Account Owner, the successor Account Owner may continue to make contributions to the Account, may change the Beneficiary of the Account, may allocate Account balances and contributions among Investment Options and may make Qualified and Non-Qualified Distributions from the Account. The successor Account Owner also would assume tax liability in the event that he or she receives a Non-Qualified Distribution. See "Tax Information."

Under current Program policy, if the Account Owner has not designated a person as a successor Account Owner on the Account application or in an NJBEST 529 College Savings Plan Account Revision Form (or the designated person does not survive the Account Owner), the Beneficiary (if over 18 years old) or a trustee or guardian for the Beneficiary (if the Beneficiary is less than 18 years old) becomes the owner of the Account. The trustee or guardian may be the trustee or guardian, if any, named in the Account Owner's will, a trustee or guardian appointed for such purpose by a court or executor of the Account Owner's estate or a parent of the Beneficiary. Once a trustee or guardian has assumed ownership of such an Account, no further contributions to the Account will be accepted and the guardian or trustee may not change the Beneficiary. The Program's current policy is subject to change and to the requirements of applicable state law, including any applicable provision of an Account Owner's will that may govern the disposition of the Account in the event the Account Owner has not otherwise effectively designated a successor Account Owner.

Transfers to the Franklin Templeton Investment Options from the Division Investment Options

You may transfer assets from an Account invested in the Division Investment Options to an Account invested in the Plan's Investment Options described in this Investor Handbook, subject to HESAA notice requirements and to the general rule that transfers among Investment Options described in this Investor Handbook can only occur once per calendar year or in connection with a change of the Beneficiary. Assets invested in the Plan's Investment Options (including any assets transferred to an Account from the Division Investment Options) cannot be transferred, or transferred back, to the Division Investment Options.

It is important to note that amounts transferred from an NJBEST Account invested under one of the Division Investment Options to an Account invested under the Investment Options described in this Investor Handbook will no longer be subject to certain provisions of the Act requiring HESAA to request State legislative appropriations to prevent owners of Program Accounts invested in the Division Investment Options from recovering upon withdrawal less than the aggregate amount of contributions to their Program Accounts invested in the Division Investment Options. The applicability of such provisions of the Act to contributions made under the Division Investment Options, and their inapplicability to contributions made under the Franklin Templeton Investment Options, should be given careful consideration by an owner of a Program Account established in the NJBEST Plan prior to March 17, 2003 in evaluating the benefits and costs of any such transfer.

Telephone/Online Privileges

Online privileges allow you to view your Account information as well as exchange Trust Shares of most Trust Portfolios (subject to the restrictions described under "Investment Options – Changing Investment Options" below); use electronic funds transfer to buy Trust Shares of most Trust Portfolios; change your telephone number and/or address; make withdrawals to the address of record or pre-authorized address on file or to an Eligible Educational Institution (subject to certain additional requirements in the case of withdrawals over a specified amount); and change or delete your automatic investment plan via the Internet. Telephone privileges allow you to conduct a number of transactions by phone, including: exchange Trust Shares of most Trust Portfolios (subject to the restrictions described under "Investment Options – Changing Investment Options" below); use electronic funds transfer to buy Trust Shares of most Trust Portfolios; change your telephone number and/or address; make withdrawals to the address of record or pre-authorized address on file or to an Eligible Educational Institution (subject to certain additional requirements in the case of withdrawals over a specified amount) and change or delete your automatic investment plan. Online and telephone services may not be available at certain times, and online and telephone privileges are subject to revocation in certain instances.

To view your Account information online, you will first need to register for these services at the 529 College Savings Plan Overview – Account Access section of the **www.NJBEST.com** website. You will be asked to accept the terms of the applicable online agreement(s) and acquire a personal identification number for online services.

As long as the Program Manager follows reasonable security procedures and acts on instructions it reasonably believes are genuine, neither the Program nor any contractor or subcontractor of the Program will be responsible for any losses that may occur from unauthorized requests. The Program Manager will request passwords or other information, and also may record calls. To help safeguard your Account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact the Program Manager immediately if you believe someone has obtained unauthorized access to your Account or password. For Account information viewed over the Internet, the use of an Internet browser with 128-bit encryption is recommended. Certain methods of contacting the Program or Program Manager (such as by phone or by Internet) may be unavailable or delayed during periods of unusual market activity. Of course, you can decline telephone/online privileges. If you wish to do so upon opening an Account, or wish to discontinue telephone/online privileges on your Account at any time thereafter, please contact the Program Manager for instructions. You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

Legal Restrictions on Use of Plan Accounts

Neither the Account Owner nor the Beneficiary may use an Account as security for a loan.

Under New Jersey law, Accounts are exempt from claims of creditors and are excluded from an estate in bankruptcy except in cases of fraudulent conveyance, claims under an order for child or spousal support or of an alternate payee under a qualified domestic relations order, or punitive damages awarded in a civil action arising from manslaughter or murder. Please note that, depending on the circumstances, the laws of states other than New Jersey may determine the rights of creditors in a claim or bankruptcy involving a Program Account.

Federal bankruptcy laws exempt from an Account Owner's creditors in a bankruptcy proceeding certain funds contributed to an account under a Section 529 qualified tuition program. The exemption protects (i) up to $6,225 transferred to an Account at least 365 days and within 720 days before the bankruptcy filing, and (ii) all transfers made more than 720 days before the bankruptcy filing, provided in both cases that the Beneficiary of the Account during the tax year in which the contribution was made was a child, stepchild, grandchild or step grandchild of the Account Owner.

Community Property Laws

If you are a resident of any state that has community property laws and you are concerned about the application of those laws to contributions, withdrawals and ownership of Accounts, you should consult a legal advisor. Community property issues such as limitations on gifts of community property and ownership of community property upon death or dissolution of marriage are beyond the scope of this Investor Handbook.

Withdrawals

Only the Account Owner may request withdrawals from an Account. A withdrawal from your Account will have different tax consequences depending on whether it is (1) a distribution to pay the qualified higher-education expenses of the Beneficiary at an Eligible Educational Institution, (2) a distribution to pay Qualified Elementary or Secondary Education Expenses of the Beneficiary, (3) a distribution on account of death or permanent disability of the Beneficiary, (4) a distribution on account of a qualified scholarship awarded to the Beneficiary or attendance by the Beneficiary at a U.S. military academy, (5) a distribution corresponding to the amount of expenses for which the Hope Scholarship (now also known as the American Opportunity tax credit) or Lifetime Learning credit is claimed, (6) a Rollover Distribution or (7) a distribution for any other purpose. A distribution of the type described in clauses (1) or (2) of the prior sentence is sometimes referred to in this Handbook as a "Qualified Distribution" and a distribution of the type described in clauses (3), (4), (5), (6) or (7) of the prior sentence is sometimes referred to in this Investor Handbook as a "Non-Qualified Distribution." Each type of withdrawal is discussed below. You may request a withdrawal from your Account by completing an NJBEST 529 College Savings Plan Withdrawal Form (available at **www.NJBEST.com**) and submitting it to the Program Record-Keeper. You may also request a withdrawal over the phone or on **www.NJBEST.com** as long as the withdrawal is sent to the address of record or a pre-authorized address on file.

Currently, you are not required to submit proof to the Program of the type of withdrawal you are making, and the Program is not required to report the type of withdrawal to tax authorities. The Program is required to report on Form 1099-Q the amount of earnings and return of contribution distributed from a Program Account. For this purpose, all Program Accounts with the same Account Owner for the same Beneficiary are currently treated as a single Program Account upon any withdrawal, and the earnings component of any withdrawal from any such Program Account will be reported to the IRS, in accordance with the tax methodology required by the Code, on the basis of all earnings in all such Program Accounts, irrespective of which Program Account you select for the particular withdrawal.

It will be the Account Owner's or Beneficiary's responsibility, as applicable, to substantiate upon request by the IRS or state tax authorities a distribution that has been treated on a tax return as a Qualified Distribution, a distribution on account of death or permanent disability of the Beneficiary, a distribution on account of a qualified scholarship awarded to the Beneficiary or attendance by the Beneficiary at a U.S. military academy, or a Rollover Distribution. Accordingly, the Account Owner and, if applicable, the Beneficiary should maintain records and documentation substantiating the type of distribution(s) received in each tax year. A summary description of certain types of documentation that currently may be required is provided below for informational purposes only, but you should be aware that such requirements are subject to change and that you are responsible for determining the current applicable requirements in accordance with federal or state tax regulations and policies.

After a withdrawal is requested by the Account Owner, it generally will be processed and disbursed within seven days after we receive your request in proper form. The Program may require you to submit a separate request for each distribution.

Selling Recently Purchased Shares

If you sell Trust Shares recently purchased, the Program may delay sending you the proceeds until your check, draft or wire/electronic funds transfer has cleared, which may take seven business days or more. A certified or cashier's check may clear in less time.

Qualified Distributions

A "Qualified Distribution" is a distribution that is used to pay the qualified higher-education expenses of the Beneficiary at an Eligible Educational Institution. Distributions are treated as "Qualified Distributions" to the extent the amount of such distributions in a tax year does not exceed the amount of qualified higher-education expenses of the Beneficiary at an Eligible Educational Institution paid in the applicable tax year. Distributions used to pay Qualified Elementary or Secondary Expenses of the Beneficiary are treated as "Qualified Distributions" to the extent the amount of such distributions in a tax year does not, together with the amount of all other distributions made in the same tax year to pay Qualified Elementary or Secondary Education Expenses of the Beneficiary from any other account in any Savings-Type Qualified Tuition Program (irrespective of whether such account is owned by the Account Owner or by another person), does not exceed the lesser of $10,000 or the amount of Qualified Elementary or Secondary Education Expenses of the Beneficiary paid in the applicable tax year. The IRS has not yet provided guidance on the allocation of payments of Qualified Elementary or Secondary Education Expenses to Qualified Distributions in the event different taxpayers make payments aggregating more than $10,000 for the Qualified Elementary or Secondary Education Expenses of the same Beneficiary in the same tax year. See "Tax Information – Federal Tax Treatment" for more information.

To establish, if required, that a distribution qualifies as a Qualified Distribution for tax purposes, it is advisable that you or the Beneficiary maintain records of the Eligible Educational Institution attended by the Beneficiary, the dates of attendance and the amount and type of qualified higher-education expenses (including, if applicable, Qualified Elementary or Secondary Education Expenses) paid (including bills, receipts or other documentation of the expenses paid).

Non-Qualified Distributions

The federal tax treatment of Non-Qualified Distributions depends on the circumstances of the withdrawal. See "Tax Information – Federal Tax Treatment." In general, the earnings portion of distributions on account of the death or permanent disability of, or receipt of a qualified scholarship by, or of a distribution corresponding to the amount of expenses for which the Hope Scholarship/American Opportunity tax credit or Lifetime Learning credit is claimed, the Beneficiary is subject to federal income taxes, but not to any additional federal income tax. Rollover Distributions are not subject to any federal income taxes. The earnings portion of a Non-Qualified Distribution for any other purpose is subject to federal income taxes and to a 10% additional federal income tax.

Distributions on Account of Death or Permanent Disability of, or Qualified Scholarship Awarded to or Attendance at a U.S. Military Academy by, the Beneficiary

Under current federal tax law, a distribution on account of the Beneficiary's death is included in the estate of the Beneficiary and, if actually received by the estate, the portion of such distribution deemed to constitute earnings will be subject to federal income tax but not to the 10% additional federal income tax. If received by the Account Owner, though, the portion of such distribution deemed to constitute earnings will be subject to federal income tax and the 10% additional federal income tax. However, the Account Owner may be able to change the Beneficiary to another Member of the Family instead of requesting a distribution in such circumstances. To establish, if required, that a distribution qualifies as a distribution on account of the death of the Beneficiary, it is advisable that the Account Owner maintain a certified death certificate containing the name and Social Security Number or TIN of the Beneficiary or other appropriate proof of death.

A distribution qualifies as a distribution on account of the permanent disability of the Beneficiary if at the time it is made the Beneficiary is unable to engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. To be able to establish, if required, that a distribution so qualifies, it is advisable that the Account Owner obtains and maintains a certification to such effect from a doctor of medicine or osteopathy who is legally authorized to practice in a state of the United States.

The amount of the withdrawal from an Account treated as a distribution on account of a qualified scholarship cannot exceed the amount of the qualified scholarship received by the Beneficiary. To be able to establish, if required, that a distribution should be treated as a distribution on account of a qualified scholarship, it is advisable that the Account Owner obtain and maintain a letter from the grantor of the scholarship or from the Eligible Educational Institution receiving or administering the scholarship that: (i) identifies the Beneficiary by name and Social Security Number or IRS TIN as the recipient; (ii) states the amount of the qualified scholarship; (iii) indicates the period of time or number of credits or units to which the scholarship applies or the date of the grant; and (iv) if applicable, identifies the Eligible Educational Institution to which the qualified scholarship is to be applied. The amount of the withdrawal from an Account treated as a distribution on account of attendance at a U.S. military academy cannot exceed the costs of advanced education (as defined by United States Code title 10, section 2005 (e) (3)) attributable to such attendance. See "Tax Information – Federal Tax Treatment" for more information.

Distributions Corresponding to Expenses Taken into Account in Claiming Certain Tax Credits. Qualified higher-education expenses are reduced to the extent that such expenses are taken into account in the applicable tax year in claiming the Hope Scholarship/American Opportunity tax credit or the Lifetime Learning Credit. To the extent that a Non-Qualified Distribution corresponds in amount to or does not exceed the amount of expenses that would have been qualified higher-education expenses in the applicable tax year if a Hope Scholarship/American Opportunity or Lifetime Learning credit had not been claimed for such expenses, the portion of such distribution deemed to constitute earnings will be subject to federal income tax but not to the 10% additional federal income tax.

Rollover Distributions

Rollover Distributions are not subject to federal income taxation. A Rollover Distribution from your Program Account includes any of the following: (i) within 60 days of a withdrawal you transfer the funds withdrawn from your Program Account to another Program Account with a Beneficiary who is a Member of the Family of the Beneficiary of the Program Account from which the distribution was made; (ii) within 60 days of your withdrawal of funds from your Program Account you transfer such funds to an account established in another Qualified Tuition Program; (iii) for distributions made prior to January 1, 2026, within 60 days of your withdrawal of funds from your Program Account you transfer such funds to an account established in a Qualified ABLE Program, provided that the amount of the Rollover Distribution cannot, together with amounts previously contributed to the recipient account in the same year, exceed the annual limit on contributions to an account in a Qualified ABLE Program (currently $15,000) without consideration of certain provisions applicable to additional contributions by working beneficiaries of such accounts; or (iv) you direct the Program to transfer funds directly from your Program Account to such other Program Account described in clause (i) above or other Qualified Tuition Program account or, subject to the limitations described in clause (iii) above, Qualified ABLE Program account. HESAA regulations currently permit HESAA to charge a fee of up to $75 with respect to Rollover Distributions from Program Accounts to other Qualified Tuition Programs. HESAA has not, as of this date, charged such a fee, but reserves the right to do so without prior notice at any time. In the case of a Rollover Distribution from a Program Account to another Qualified Tuition Program account or vice versa, the Beneficiary can remain unchanged if, at the time of such transfer, at least 12 months have elapsed since the last Rollover Distribution to any Qualified Tuition Program for the benefit of the same Beneficiary. Otherwise, the Beneficiary of the account in the Qualified Tuition Program receiving the Rollover Distribution must be a different individual from the Beneficiary of the Program Account from which the Rollover Distribution is made, and must be a Member of the Family of the Beneficiary of the Program Account from which the Rollover Distribution is made. In the case of a Rollover Distribution from a Program Account to a Qualified ABLE Program account, the Beneficiary can remain unchanged or be a Member of the Family of the Beneficiary of the Program Account from which the Rollover Distribution is made. In addition, a Rollover Distribution is currently treated for federal tax purposes as a gift from the previous Beneficiary to the new Beneficiary in certain circumstances, and therefore may have gift tax and generation-skipping transfer tax implications. See "Tax Information – Federal Tax Treatment."

Distributions for Any Other Reason

The earnings component of a distribution for any purpose other than those described above will be subject to federal income tax as income of the distributee and to the 10% additional federal income tax. See "Tax Information – Federal Tax Treatment" for more information.

If All the Plan Assets Are Not Used for the Beneficiary's College Costs

If all of the assets in the Account are not used for the Beneficiary's elementary, secondary or undergraduate qualified higher-education expenses, you have several options. First, you can use the funds for the Beneficiary's graduate or professional school expenses. Second, you may designate a new Beneficiary who is a Member of the Family of the existing Beneficiary. Third, you may close the Account and withdraw all of the funds, although that will be less advantageous because the withdrawal will constitute a Non-Qualified Distribution, the earnings portion of which generally is subject to federal income tax as well as the 10% additional federal income tax or penalty. Finally, you may leave the Account open until you determine the best course of action.

The Investment Options

The contributions to your Plan Account are invested in "municipal fund securities" (also referred to as "Trust Shares"), which represent interests in specific Trust Portfolios of the Trust. The Trust Portfolios are not registered mutual funds and are not sponsored by the Franklin Templeton organization. Based on the Investment Option(s) you select at the time a contribution is made, the Trust invests your contributions in one or more Trust Portfolios. The assets of the Trust Portfolios are then invested in mutual fund shares, ETF shares or other investments, in accordance with the Investment Policy established by HESAA with the approval of the State Investment Council, as it applies to such Investment Option(s).

You may choose among the Investment Options described below. **The Franklin Age-Based Allocations have been designed for amounts intended to be applied to qualified higher-education expenses other than Qualified Elementary or Secondary Education Expenses. Account Owners who intend to apply amounts in an Account to Qualified Elementary or Secondary Education Expenses of the Beneficiary should consider other Investment Options.**

- Franklin Age-Based Allocations
- Franklin Corefolio® 529 Portfolio
- Franklin Growth Allocation 529 Portfolio
- Franklin Growth & Income Allocation 529 Portfolio
- Franklin Income Allocation 529 Portfolio
- S&P 500 Index 529 Portfolio
- Franklin U.S. Government Money 529 Portfolio

Additional Franklin Templeton Investment Options exist under the Program, but are restricted to Account Owners investing through a Financial Advisor, and are not offered under this Investor Handbook.

Contributions to an Account do not result in direct ownership by the Account Owner of shares of any Franklin Templeton Investments mutual fund or other mutual fund or ETF, or of any other investment owned by the applicable Trust Portfolio. The Trust Shares are not registered with the SEC or any state, nor are the Trust, the Program, the Plan or any of the Investment Options registered as investment companies with the SEC or any state. The Trust and the Investment Manager may from time to time change the mutual funds, ETFs or other investments in which contributions under an Investment Option are invested or the percentage allocation within a Trust Portfolio of such contributions to a particular mutual fund, ETF or other investment. Additional Investment Options may be added in the future, and existing Investment Options may be changed, consolidated or eliminated (and Trust Shares relating to any eliminated Investment Option exchanged for Trust Shares in another Investment Option selected by the Trust) in the future, all as determined in accordance with the then-current Investment Policy. The investment of Trust Portfolio assets will be reviewed, and may be adjusted, from time to time in accordance with the Investment Policy. The consent of Account Owners, Third-Party Contributors or Beneficiaries to any such change, addition, elimination or consolidation of Investment Options is not required.

Description of the Trust Portfolios

Age-Based Allocations

You may choose between Age-Based Growth, Moderate and Conservative Asset Allocations and may allocate contributions among such Age-Based Asset Allocations (i.e., you may invest in more than one such Age-Based Asset Allocation for a Beneficiary). Each Age-Based Asset Allocation (Growth, Moderate, Conservative) is made up of Age-Based Investment Portfolios that customize their investments in combinations of Underlying Funds based in part on the age of the Beneficiary (see tables below).

The Age-Based Investment Portfolios are set up for the following age brackets:

Prior to March 5, 2019
Franklin Newborn–8 Years 529 Portfolio
Franklin Age 9–12 Years 529 Portfolio
Franklin Age 13–16 Years 529 Portfolio
Franklin Age 17+ Years 529 Portfolio

On and after March 5, 2019
Franklin Newborn–4 Years 529 Portfolio
Franklin Age 5–8 Years 529 Portfolio
Franklin Age 9–10 Years 529 Portfolio
Franklin Age 11–12 Years 529 Portfolio
Franklin Age 13–14 Years 529 Portfolio
Franklin Age 15–16 Years 529 Portfolio
Franklin Age 17–18 Years 529 Portfolio
Franklin Age 19+ Years 529 Portfolio

Each Age-Based Growth Investment 529 Portfolio has an investment strategy designed for higher potential return, with greater investment risk, than the investment strategy of the Age-Based Moderate Investment 529 Portfolio or Age-Based Conservative Investment 529 Portfolio corresponding to the same Beneficiary ages. Each Age-Based Moderate Investment 529 Portfolio has an investment strategy designed for potential return, and investment risk, that is less than that of the investment strategy of the Age-Based Growth Investment 529 Portfolio corresponding to the same Beneficiary ages, but more than that of the investment strategy of the Age-Based Conservative Investment 529 Portfolio corresponding to the same Beneficiary ages. Each Age-Based Conservative Investment 529 Portfolio has an investment strategy designed for lower investment risk and potential return than the investment strategy of either the Age-Based Growth Investment 529 Portfolio or Age-Based Moderate Investment 529 Portfolio corresponding to the same Beneficiary ages. The absolute and relative levels of risk or return of any Age-Based Investment 529 Portfolio or of any Age-Based Asset Allocation (Growth, Moderate or Conservative) may vary over different periods of time and may deviate from the intended levels; an Age-Based Investment 529 Portfolio or Age-Based Asset Allocation may not achieve its risk or return goals and its risk and performance in relation to other Age-Based Investment 529 Portfolios and Age-Based Asset Allocations may not be as intended.

Although there can be no assurance as to investment results, the Age-Based Investment 529 Portfolios are designed with the intent that portfolios corresponding to Beneficiary ages closer to college age have less investment risk than portfolios within the same Age-Based Asset Allocation (Growth, Moderate or Conservative) corresponding to Beneficiary ages farther from college age. Accordingly, the potential return of Age-Based Investment 529 Portfolios likewise decreases as the Beneficiary approaches college age.

When the Account is established, the investments will be placed in Age-Based Asset Allocations (Growth, Moderate or Conservative) you select and within each such allocation will be placed in the Age-Based Investment 529 Portfolio that corresponds to the age of the Beneficiary (as reported on the completed application form) on the day the Account is established. A contribution or reallocation to an Age-Based Investment 529 Portfolio that does not correspond to the Beneficiary's age is not permissible under the Plan. Over time, the amount originally invested for a Beneficiary in an Age-Based Investment 529 Portfolio, together with any subsequent contributions for such Beneficiary in the Age-Based Investment 529 Portfolio are, as part of a collective transfer of investments for similarly situated Beneficiaries, periodically transferred to the next Age-Based Investment 529 Portfolio (within the same Age-Based Asset Allocation (Growth, Moderate or Conservative)) corresponding to the age of each Beneficiary at the time of such transfer (see chart below for the different Age-Based Investment 529 Portfolios). All accounts in an Age-Based Investment 529 Portfolio with a Beneficiary that has entered a new age bracket as of the applicable transfer date are transferred at approximately the same time (an "Age-Based Portfolio Transfer"). Because Age-Based Portfolio Transfers are periodic, the investment for a Beneficiary in an Age-Based Investment 529 Portfolio may remain invested in that portfolio after the time the Beneficiary reaches the age qualifying for the next Age-Based Investment 529 Portfolio, until the time of the next Age-Based Portfolio Transfer. Thus, for example, the investment for a Beneficiary who reaches his or her fifth birthday will not be transferred from the Newborn–4 Years 529 Portfolio to the Age 5–8 Years 529 Portfolio until the date of the Age-Based Portfolio Transfer following his or her fifth birthday.

On or about March 5, 2019, the number of Age-Based Investment 529 Portfolios within each Age-Based Asset Allocation (Growth, Moderate or Conservative) will expand from four to eight, and on or about March 6, 2019 there will be a one-time Age-Based Portfolio Transfer for all accounts in an Age-Based Investment 529 Portfolio with a Beneficiary who as of that date is of an age that is within the age bracket of one of the new Age-Based Investment 529 Portfolios within the applicable Age-Based Asset Allocation (Growth, Moderate or Conservative).

If the Beneficiary has attained the age necessary to qualify for the next Age-Based Investment 529 Portfolio but an Age-Based Portfolio Transfer that would transfer the investment for the Beneficiary into that portfolio has not yet taken place, you can reallocate the investments for that Beneficiary into that Age-Based Investment 529 Portfolio yourself. Please note, however, that existing assets in a Program Account can only be reallocated twice per calendar year, or upon a change in the Beneficiary of the Account (see the section titled "Changing Investment Options" below).

Age-Based Portfolio Transfers currently take place approximately once every three months. The timing and frequency of Age-Based Portfolio Transfers are subject to change. For current information about Age-Based Portfolio Transfers, contact Franklin Templeton Investments at (866) 362-1597.

The Trust Portfolios will be invested in Underlying Funds that invest in domestic equity securities, international equity securities, fixed income securities and cash equivalents, among other investment assets. Except as otherwise indicated, the tables below identify Trust Portfolios constituting the Age-Based Growth, Moderate and Conservative Asset Allocations, the asset allocation targets and ranges for each asset class within each Trust Portfolio under the current Investment Policy, and the mutual funds and, where applicable, ETFs in which assets allocated to a particular asset class within the applicable Trust Portfolio may be invested under the current Investment Policy. The Investment Manager may from time to time change the percentage allocation to a particular Underlying Fund within a particular asset class within a Trust Portfolio (including eliminating any percentage allocation to a particular Underlying Fund), and may from time to time determine whether to use ETFs emphasizing the applicable asset class and, if so, the particular ETF(s) selected for investment and the percentage allocation to such ETF. The asset allocation ranges, the asset allocations within the ranges and the investment of portfolio assets will be reviewed, and may be adjusted, from time to time in accordance with the Investment Policy.

The Age-Based Investment Options are portfolios of the Trust, and are not registered mutual funds or mutual funds sponsored by Franklin Templeton Investments.

PRIOR TO MARCH 5, 2019	**Asset Classes and Target Percentage Investments in Them** (actual percentage investments may vary +/- 5% from the target)			
Portfolio	**U.S. Equity**	**Non-U.S. Equity**	**Fixed Income**	**Money Market**
Franklin Age-Based Growth Allocations				
Newborn–8 Years	70.00	30.00	—	—
9–12 Years	52.50	22.50	20	5
13–16 Years	35.00	15.00	40	10
17+ Years	17.50	7.50	60	15

PRIOR TO MARCH 5, 2019	Asset Classes and Target Percentage Investments in Them (actual percentage investments may vary +/- 5% from the target)			
Portfolio	**U.S. Equity**	**Non-U.S. Equity**	**Fixed Income**	**Money Market**
Franklin Age-Based Moderate Allocations				
Newborn–8 Years	52.50	22.50	20.00	5.00
9–12 Years	35.00	15.00	40.00	10.00
13–16 Years	17.50	7.50	60.00	15.00
17+ Years	—	—	80.00	20.00
Franklin Age-Based Conservative Allocations				
Newborn–8 Years	35.00	15.00	40.00	10.00
9–12 Years	17.50	7.50	60.00	15.00
13–16 Years	—	—	80.00	20.00
17+ Years	—	—	40.00	60.00

ON AND AFTER MARCH 5, 2019	Asset Classes and Target Percentage Investments in Them (actual percentage investments may vary +/- 5% from the target)			
Portfolio	**U.S. Equity**	**Non-U.S. Equity**	**Fixed Income**	**Money Market**
Franklin Age-Based Growth Allocations				
Newborn–4 Years*	70.00	30.00	—	—
5–8 Years**	61.25	26.25	10.00	2.50
9–10 Years*	52.50	22.50	20.00	5.00
11–12 Years**	43.75	18.75	30.00	7.50
13–14 Years*	35.00	15.00	40.00	10.00
15–16 Years**	26.25	11.25	50.00	12.50
17–18 Years*	17.50	7.50	60.00	15.00
19+ Years**	8.75	3.75	70.00	17.50
Franklin Age-Based Moderate Allocations				
Newborn–4 Years*	52.50	22.50	20.00	5.00
5–8 Years**	43.75	18.75	30.00	7.50
9–10 Years*	35.00	15.00	40.00	10.00
11–12 Years**	26.25	11.25	50.00	12.50
13–14 Years*	17.50	7.50	60.00	15.00
15–16 Years**	8.75	3.75	70.00	17.50
17–18 Years*	—	—	80.00	20.00
19+ Years**	—	—	60.00	40.00
Franklin Age-Based Conservative Allocations				
Newborn–4 Years*	35.00	15.00	40.00	10.00
5–8 Years**	26.25	11.25	50.00	12.50
9–10 Years*	17.50	7.50	60.00	15.00
11–12 Years**	8.75	3.75	70.00	17.50
13–14 Years*	—	—	80.00	20.00
15–16 Years**	—	—	60.00	40.00
17–18 Years*	—	—	40.00	60.00
19+ Years**	—	—	20.00	80.00

*Portfolio name changes to this name on March 5, 2019
**Portfolio formation date is March 5, 2019.

The Underlying Funds that may be used for each asset class allocation (U.S. Equity, Non-U.S. Equity, Fixed Income and Money Market) are:

U.S. Equity	Non-U.S. Equity
Franklin Growth Fund	Franklin International Growth Fund*
Franklin Growth Opportunities Fund	Franklin Int'l Small Cap Growth Fund
Franklin Mutual Shares Fund	Franklin Mutual European Fund
Franklin Rising Dividends Fund	Templeton Foreign Fund
Franklin Small-Mid Cap Fund	Exchange-traded funds ("ETFs") emphasizing non-U.S. equity
Franklin Utilities Fund	
Exchange-traded funds ("ETFs") emphasizing U.S. equity	
Fixed Income	**Money Market**
Franklin Floating Rate Daily Access Fund*	Money Market Portfolio
Franklin High Income Fund	
Franklin Strategic Income Fund	
Franklin Total Return Fund	
Franklin U.S. Government Fund	
Templeton Global Bond Fund	
Exchange-traded funds ("ETFs") emphasizing fixed income	

*Mutual fund added to asset class as of March 5, 2019.

Objective-Based Asset Allocations

These four Objective-Based Allocations allow your assets to be invested according to the amount of investment risk you're comfortable taking and the return characteristics you prefer. Except as otherwise indicated, the table below identifies the asset allocation targets and ranges for each asset class within each Trust Portfolio under the current Investment Policy, and the mutual funds and, where applicable, ETFs in which assets allocated to a particular asset class within the applicable Trust Portfolio may be invested under the current Investment Policy. The Investment Manager may from time to time change the percentage allocation to a particular Underlying Fund within a particular asset class within a Trust Portfolio (including eliminating any percentage allocation to a particular Underlying Fund), and may from time to time determine whether to use ETFs emphasizing the applicable asset class and, if so, the particular ETF(s) selected for investment and the percentage allocation to such ETF.

Franklin Corefolio® 529 Portfolio

This allocation is also designed for investors with a longer investment time horizon and/or a higher tolerance for risk. Contributions received by the Trust under the Franklin Corefolio 529 Investment Option are invested by the Trust in the Franklin Corefolio 529 Portfolio. Assets of this Trust Portfolio will be invested in approximately equal allocations to four mutual funds that invest in stocks and bonds in the U.S. and abroad. The Franklin Corefolio 529 Portfolio's allocation is monitored and rebalanced to adapt to market movements. This rebalancing feature helps maintain equal exposure to four distinct investment strategies in any market environment.

Franklin Growth Allocation 529 Portfolio

This allocation is also designed for investors with a longer investment time horizon and/or a higher tolerance for risk. Contributions received by the Trust under the Growth Investment Option are invested by the Trust in the Franklin Growth Allocation 529 Portfolio. The Franklin Growth Allocation 529 Portfolio seeks capital appreciation. Contributions designating the Franklin Growth Allocation 529 Portfolio will be invested in mutual funds that invest in domestic equity securities and international equity securities, among other investment assets.

Franklin Growth & Income Allocation 529 Portfolio

This allocation is designed for investors with a longer-to-medium investment time horizon and/or a moderate tolerance for risk. Contributions received by the Trust under the Franklin Growth & Income Allocation 529 Investment Option are invested by the Trust in the Franklin Growth & Income Allocation 529 Portfolio. The Franklin Growth & Income Allocation 529 Portfolio seeks capital appreciation and current income consistent with the preservation of capital. Under the current Investment Policy, assets of this Trust Portfolio may be invested in Underlying Funds that invest in domestic equity securities, international equity securities, fixed income securities and cash equivalents, among other investment assets.

Franklin Income Allocation 529 Portfolio

This allocation is designed for investors with a shorter-to-medium investment time horizon and/or a lower tolerance for risk. Contributions received by the Trust under the Income Option are invested by the Trust in the Franklin Income Allocation 529 Portfolio. The Franklin

Income Allocation 529 Portfolio seeks current income consistent with the preservation of capital. Assets of the Franklin Income Allocation 529 Portfolio will be invested in mutual funds that invest in fixed income securities and cash equivalents, among other investment assets.

Portfolio	Asset Classes and Target Percentage Investments in Them (actual percentage investments may vary +/- 5% from the target) Underlying Funds/Investments	
Franklin Corefolio® 529 Portfolio	**25%** Franklin Growth Opportunities Fund **25%** Franklin Growth Fund **25%** Franklin Mutual Shares Fund **25%** Templeton Growth Fund	
Franklin Growth & Income Allocation 529 Portfolio	**U.S. Equity – 35%** Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Mutual Shares Fund Franklin Rising Dividends Fund Franklin Small/Mid Cap Growth Fund Franklin Utilities Fund Exchange-traded funds ("ETFs") emphasizing U.S. equity	**Non-U.S. Equity – 15%** Franklin International Growth Fund Franklin Int'l Small Cap Growth Fund Franklin Mutual European Fund Templeton Foreign Fund Exchange-traded funds ("ETFs") emphasizing non-U.S. equity
	Fixed Income – 40% Franklin Floating Rate Daily Access Fund Franklin High Income Fund Franklin Strategic Income Fund Franklin Total Return Fund Franklin U.S. Government Fund Templeton Global Bond Fund Exchange-traded funds ("ETFs") emphasizing fixed income	**Money Market – 10%** Money Market Portfolio
Franklin Growth Allocation 529 Portfolio	**U.S. Equity – 70%** Franklin Growth Fund Franklin Growth Opportunities Fund Franklin Mutual Shares Fund Franklin Rising Dividends Fund Franklin Small/Mid Cap Fund Franklin Utilities Fund Exchange-traded funds ("ETFs") emphasizing U.S. equity	**Non-U.S. Equity – 30%** Franklin Gold and Precious Metals Fund Franklin Int'l Small Cap Growth Fund Franklin Mutual European Fund Templeton Foreign Fund Exchange-traded funds ("ETFs") emphasizing non-U.S. equity
Franklin Income Allocation 529 Portfolio	**Fixed Income – 80%** Franklin Floating Rate Daily Access Fund Franklin High Income Fund Franklin Strategic Income Fund Franklin Total Return Fund Franklin U.S. Government Fund Templeton Global Bond Fund Exchange-traded funds ("ETFs") emphasizing fixed income	**Money Market – 20%** Money Market Portfolio

Individual Portfolios

S&P 500 Index 529 Portfolio

Contributions received by the Trust under the S&P 500 Index 529 Investment Option are normally invested by the Trust in the S&P 500 Index 529 Portfolio. The S&P 500 Index 529 Portfolio seeks to replicate the performance of the Standard & Poor's 500 Index, before fees and expenses. Assets of the S&P 500 Index 529 Portfolio are normally invested in an Underlying Fund that is invested in a manner that seeks investment results that correspond to the aggregate price and dividend performance of securities in the Standard & Poor's 500 Index, before fees and expenses. The ETF in which the S&P 500 Index 529 Portfolio is currently invested is the iShares S&P 500 Index ETF.

Franklin U.S. Government Money 529 Portfolio

Contributions received by the Trust under the Franklin U.S. Government Money 529 Investment Option are invested by the Trust in the Franklin U.S. Government Money 529 Portfolio, which seeks a high level of current income as consistent with the preservation of shareholder's capital and liquidity. Assets of the Franklin U.S. Government Money 529 Portfolio are normally invested in a mutual fund that normally invests in another mutual fund that invests mainly in government securities, cash and repurchase agreements.

Changing Investment Options

You, the Account Owner, may allocate contributions to any one or more of the Investment Options offered under this Investor Handbook at the time the contributions are made. Although Account Owners may select among Investment Options for contributions made to Accounts, and may vary the Investment Options selected in connection with each contribution, under federal law neither Account Owners nor Beneficiaries may exercise any investment discretion, directly or indirectly, over contributions to an Account or any earnings on contributions. Accordingly, once made, contributions and any earnings thereon in all Program Accounts with the same Account Owner for a particular Beneficiary may only be transferred to another Investment Option twice per calendar year or in connection with a change of Beneficiary.

Investment Policy

The Trust Portfolio corresponding to each Investment Option must be invested in accordance with the Investment Policy, which is subject to change by HESAA at any time.

Historical Performance Data for Investment Options

Except as described below, the historical performance of the Trust Portfolios for the Investment Options described in this Investor Handbook are set forth in Appendix B to this Investor Handbook. Descriptions of each of the mutual funds and ETFs constituting the Underlying Funds in which one or more of the Trust Portfolios for the Investment Options are invested are set forth in Appendix C to this Investor Handbook. Historical performance information and expenses for the Franklin Templeton mutual funds are available at franklintempleton.com. The performance of any of the Investment Options may be expected to vary over time, both in relation to the performance of other Investment Options or other investments over a comparative period of time and absolutely. The inclusion of information as to historical performance in this Investor Handbook is for reference only and is not intended as a projection of future results. In general, past performance should not be viewed as predictive of future results.

The following Age-Based Investment 529 Portfolios will not be offered prior to March 5, 2019, and accordingly no historical performance with respect to such Trust Portfolios is included in Appendix B to this Investor Handbook.

Franklin Age-Based Growth Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 19+ Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 19+ Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 19+ Years 529 Portfolio

The following Age-Based Investment 529 Portfolios for which historical performance is described in Appendix B to this Investor Handbook will be renamed as follows on or about March 5, 2019:

Franklin Age-Based Growth Allocation Newborn–8 Years 529 Portfolio will be renamed:
Franklin Age-Based Growth Allocation Age Newborn–4 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 9–12 Years 529 Portfolio will be renamed:
Franklin Age-Based Growth Allocation Age 9–10 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 13–16 Years 529 Portfolio will be renamed:
Franklin Age-Based Growth Allocation Age 13–14 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 17+ Years 529 Portfolio will be renamed:
Franklin Age-Based Growth Allocation Age 17–18 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Newborn–8 Years 529 Portfolio will be renamed:
Franklin Age-Based Moderate Allocation Age Newborn–4 Years 529 Portfolio

Franklin Age-Based Moderate Allocation Age 9–12 Years 529 Portfolio will be renamed:
Franklin Age-Based Moderate Allocation Age 9–10 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 13–16 Years 529 Portfolio will be renamed:
Franklin Age-Based Moderate Allocation Age 13–14 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 17+ Years 529 Portfolio will be renamed:
Franklin Age-Based Moderate Allocation Age 17–18 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Newborn–8 Years 529 Portfolio will be renamed:
Franklin Age-Based Conservative Allocation Age Newborn–4 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 9–12 Years 529 Portfolio will be renamed:
Franklin Age-Based Conservative Allocation Age 9–10 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 13–16 Years 529 Portfolio will be renamed:
Franklin Age-Based Conservative Allocation Age 13–14 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 17+ Years 529 Portfolio will be renamed:
Franklin Age-Based Conservative Allocation Age 17–18 Years 529 Portfolio

Risk Factors

The Program is designed to facilitate tax-advantaged savings for the qualified higher-education expenses of a Beneficiary. However, as is the case with most financial products, there are various risks associated with a contribution to the Program. This section briefly describes some of the principal risks associated with a contribution to the Program, but does not constitute an exhaustive summary of the factors you should consider before making a contribution to the Program. You may wish to consult your tax advisor and financial advisor before making a contribution to the Program or determining what portion of your savings for the Beneficiary's education costs should be invested in the Program.

General Risks

Your Account is not an insured investment, and will be subject to the risks of the securities markets. Amounts invested under the Franklin Templeton Investment Options are subject to the investment risks of the investment instruments selected from time to time by Franklin Mutual Advisers or any successor thereto as Investment Manager for the Franklin Templeton Investment Options, in accordance with the applicable requirements of the Investment Policy. The value of your Account will vary with the investment return generated by the mutual funds, ETFs or other investments in which the Trust Portfolio for each Investment Option you select is invested by the Trust and the Investment Manager. None of the State, HESAA, Franklin Templeton Investments, any entity affiliated therewith, any consultant or adviser retained by any such party, or any other person or entity provides any guarantee that you will achieve any targeted rate of return or that the value of your contributions will not decrease. No such party makes any guarantee that the return on an investment in the Program will be advantageous relative to other investment alternatives.

The provisions of the Act requiring HESAA to request State legislative appropriations to prevent owners of Program Accounts invested in the Division Investment Options from recovering upon withdrawal less than the aggregate amount of contributions to their Program Accounts invested in the Division Investment Options do not apply to Plan Accounts invested under the Franklin Templeton Investment Options.

There is no guarantee that your Beneficiary will be accepted at any Eligible Educational Institution or, if applicable, any particular elementary or secondary school, or that, if accepted, he or she will be able to attend, will graduate, or will be considered a resident of any particular state for tuition purposes. There is no guarantee that there will be sufficient funds in your Account to cover fully all qualified higher-education expenses of attending an Eligible Educational Institution or, if applicable, any elementary or secondary school. There is no guarantee that the expenses of attending, if applicable, any particular elementary or secondary school will be less in any year than the maximum Qualified Distribution for Qualified Elementary or Secondary Education Expenses.

The rate of return from an Account could be less than the rate of increase in the cost of higher education or, if applicable, public, private or religious elementary or secondary school. Even if you have reached the Maximum Contribution Limit for a Beneficiary, the balance in your Program Account may not be enough to cover all of the Beneficiary's qualified higher-education expenses. During certain historic periods, the rate at which qualified higher-education expenses have increased has substantially outpaced most investment gains.

Exposure to Mutual Funds and ETFs

The Investment Options will be invested entirely or primarily in mutual funds or ETFs.

General Investment Risks

Contributions invested under any of the Investment Options can lose money over periods that may be significant as compared to the period in which your Account will be invested and can earn money at rates that may be less than the rate at which education expenses will increase over a portion of or the entire period of investment. One or more of the investment instruments selected for the Investment Option(s) you choose may lose value, may not appreciate in value or may appreciate less on a relative basis than do other investment instruments during any particular time period. None of the Investment Options is intended as a complete investment program. An investment with the Program under one or more of the Investment Options does not constitute a deposit in a bank, and such investments are not insured or guaranteed by the FDIC or any other government agency.

No one can predict the returns from the investment of your contributions under the Investment Options. The returns under any particular Investment Option may be better or worse than those available under other Investment Options, other Qualified Tuition Programs or other investments not involving Qualified Tuition Programs. There is no guarantee that the Program's investment objectives set forth in the Investment Policy will be realized. The value of your Account may increase or decrease each day, and the rate of return on your Account will vary, based on the Investment Option(s) you select and the investment performance of the investments in which such Investment Option(s) is or are invested and the applicable fees and expenses of the Plan and the applicable Trust Portfolio(s).

During the particular period in which your Account is invested, the relative risk and reward profiles of Investment Options based on the historic long-term trends may not accurately predict their actual performance, and the return under any of the Investment Options may be lower than the return under that Investment Option during other time periods or than the return under other investment options within or outside of the Program during the same period.

The relative risks and potential rewards of investing under any of the Investment Options vary considerably. While the Program, the Division of Investment, HESAA and the Investment Managers have provided a range of alternatives, none of the Program, the Division of Investment, HESAA or the Investment Managers have determined, or have assumed any obligation to determine, whether any investment by any Account Owner under any particular Investment Option or combination of Investment Options is suitable or appropriate in light of the needs, financial circumstances and investment horizon of the Account Owner or Beneficiary of an Account. **The Age-Based Investment Portfolios have been designed for amounts intended to be applied to qualified higher-education expenses other than Qualified Elementary or Secondary Education Expenses. Account Owners who intend to apply amounts in an Account to Qualified Elementary or Secondary Education Expenses of the Beneficiary should consider other Investment Options.** This Investor Handbook does not constitute a recommendation, and none of the Program, the Division of Investment, HESAA or the Investment Managers by its participation in the Program recommends, or intends to recommend, any investment by any Account Owner in the Program or in any particular Investment Option or class of Trust Shares offered under this Investor Handbook.

Specific Investment Risks

Set forth below are certain specific investment risks associated with the current investments of the Trust Portfolios established for contributions received under the respective Franklin Templeton Investment Options and for certain ETFs that are permitted investments under the Investment Policy. The information contained under this caption "Specific Investment Risks" relating to the investment risks of Trust Portfolios invested in Underlying Funds has been summarized for inclusion herein by the Program Manager from the most current prospectus available for the applicable Underlying Fund as of the date this Investor Handbook was printed. Neither HESAA nor the Program Manager has independently verified the information contained in any such Underlying Fund or ETF prospectus and no representation is made by HESAA or the Program Manager as to its accuracy or completeness. Brief descriptions of the specific investment risks identified for each Trust Portfolio are included under "Risk Factors – Specific Investment Risks – Types of Investment Risk." Certain further information concerning the Underlying Funds is set forth in Appendix C.

A. Portfolio Risks

Age-Based Allocations

The risk and reward profiles of the Age-Based Investment Portfolios vary with the age of the Beneficiary, with the risk and return potential expected to be the highest at the youngest age and the lowest when the Beneficiary's age is 19 and above. The asset allocation in the Age-Based Investment Portfolios is based on the age of the Beneficiary and on the assumption that the assets in the Account will be used to pay for the qualified higher education costs of the Beneficiary during a time period in which individuals of the Beneficiary's age normally attend college. If your Beneficiary attends college during an earlier or later time period than that in which individuals of your Beneficiary's age normally attend college, the asset allocation of amounts invested for your Beneficiary in the Age-Based Investment Portfolios may not be appropriate for your Beneficiary.

Franklin Age-Based Growth Allocation – Newborn–4 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Growth Allocation Newborn–8 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency and management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, focus, concentration, utilities industry, emerging markets, midsize companies, smaller companies, and developing market countries.

Franklin Age-Based Growth Allocation – Age 5–8 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 9–10 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Growth Allocation Age 9–12 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 10–11 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 13–14 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Growth Allocation Age 13–16 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 15–16 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 17–18 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Growth Allocation Age 17+ 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, focus, growth-style investing, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Growth Allocation – Age 19+ Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, focus, growth-style investing, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Newborn–4 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Moderate Allocation Newborn–8 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, focus, growth-style investing, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 5–8 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 9–10 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Moderate Allocation Age 9–12 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 11–12 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 13–14 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Moderate Allocation Age 13–16 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, focus, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 15–16 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, focus, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Moderate Allocation – Age 17–18 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Moderate Allocation Age 17+ Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: regional, developing market countries, non-diversification, Ginnie Maes, Extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Age-Based Moderate Allocation – Age 19+ Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: Regional, developing market countries, non-diversification, Ginnie Maes, Extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Age-Based Conservative Allocation – Newborn–4 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Conservative Allocation Newborn–8 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Conservative Allocation – Age 5–8 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Conservative Allocation – Age 9–10 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Conservative Allocation Age 9–12 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Conservative Allocation – Age 11–12 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, and portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Age-Based Conservative Allocation – Age 13–14 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Conservative Allocation Age 13–16 Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: regional, developing market countries, non-diversification, Ginnie Maes, extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Age-Based Conservative Allocation – Age 15–16 Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: regional, developing market countries, non-diversification, Ginnie Maes, extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Age-Based Conservative Allocation – Age 17–18 Years 529 Portfolio (prior to March 5, 2019, the Franklin Age-Based Conservative Allocation Age 17+ Years 529 Portfolio)

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: Regional, developing market countries, non-diversification, Ginnie Maes, Extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Age-Based Conservative Allocation – Age 19+ Years 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: Regional, developing market countries, non-diversification, Ginnie Maes, Extension, prepayment, mortgage dollar rolls, portfolio turnover, income, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, focus, prepayment, management, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Objective-Based Asset Allocations

Franklin Corefolio® 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, developing markets, growth-style investing, focus, currency management strategies, smaller and midsize companies, value-style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, and management.

Franklin Growth Allocation 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency and management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, focus, concentration, utilities industry, emerging markets, midsize companies, smaller companies, and developing market countries.

Franklin Growth & Income Allocation 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: market, growth-style investing, focus, currency management strategies, management, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, management, dividend-oriented companies, concentration, utilities industry, emerging market countries, midsize companies, smaller companies, developing market countries, credit, floating rate corporate investments, impairment of collateral, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, mortgage securities and asset-backed securities, inflation, marketplace loans, mortgage dollar rolls, portfolio turnover, extension, Ginnie Maes, sovereign debt securities, and non-diversification.

Franklin Income Allocation 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Funds in which its assets may be invested, including the following main investment risks of such funds: income, focus, credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, extension, mortgage dollar rolls, marketplace loans, portfolio turnover, prepayment, interest rate, variable rate securities, income, concentration, management, variable rate securities, sovereign debt securities, emerging market countries, developing market companies, regional, mortgage securities and asset-backed securities, inflation, derivative instruments, marketplace loans, currency management strategies, Ginnie Maes, non-diversification, and foreign securities.

Individual Portfolios

S&P 500 Index 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Fund in which it invests, including the following main investment risks: asset class, authorized participant concentration, concentration, cyber security, equity securities, index-related, information technology sector, issuer, large-capitalization companies, management, market, market trading, operational, passive investment, investing in the United States, securities lending, and tracking error.

Franklin U.S. Government Money 529 Portfolio

This portfolio is subject to the investment risks of the Underlying Fund in which it currently invests, including the following main investment risks of such securities: credit, U.S. Government securities, repurchase agreements, market, master/feeder structure, and management.

B. Types of Investment Risk (listed alphabetically)

Adjustable Rate Securities

Because changes in interest rates on adjustable rate securities may lag behind changes in market rates, the value of such securities may decline during periods of rising interest rates until their interest rates reset to market rates. During periods of declining interest rates, because the interest rates on adjustable rate securities generally reset downward, their market value is unlikely to rise to the same extent as the value of comparable fixed rate securities.

Asset Class

Securities and other assets in the Underlying Index or in the Underlying Fund's portfolio may underperform in comparison to the general financial markets, a particular financial market or other asset classes.

Authorized Participant Concentration

Only an "authorized participant" may engage in creation or redemption transactions directly with the Underlying Fund. The Underlying Fund has a limited number of institutions that may act as authorized participants on an agency basis (i.e., on behalf of other market participants). To the extent that authorized participants exit the business or are unable to proceed with creation or redemption orders with respect to the Underlying Fund and no other authorized participant is able to step forward to create or redeem "creation units", Underlying Fund shares may be more likely to trade at a premium or discount to NAV and possibly face trading halts or delisting.

Concentration

Because of the Underlying Fund's focus on a given industry or group of industries, the losses the Fund may experience are greater upon any single economic, business, political, regulatory, or other occurrence affecting such industry or group of industries. As a result, there may be more fluctuation in the price of the Underlying Fund's shares.

The Underlying Fund may be susceptible to an increased risk of loss, including losses due to adverse events that affect the Fund's investments more than the market as a whole, to the extent that the Fund's investments are concentrated in the securities of a particular issuer or issuers, country, group of countries, region, market, industry, group of industries, sector or asset class.

Credit

An issuer of debt securities may fail to make interest payments or 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.

U.S. government investments generally have the least credit risk but are not completely free of credit risk. The Underlying Fund may incur losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the Underlying Fund's investment manager or the rating agencies than such securities actually do. Any downgrade of securities issued by the U.S. government may result in a downgrade of securities issued by its agencies or instrumentalities.

Currency Management Strategies

Currency management strategies may substantially change the Underlying Fund's exposure to currency exchange rates and could result in losses to the Underlying Fund if currencies do not perform as the Underlying Fund's investment manager expects. In addition, currency management strategies, to the extent that they reduce the Underlying Fund's exposure to currency risks, may also reduce the Underlying Fund's ability to benefit from favorable changes in currency exchange rates. Using currency management strategies for purposes other than hedging further increases the Underlying Fund's exposure to foreign investment losses. Currency markets generally are not as regulated as securities markets. In addition, currency rates may fluctuate significantly over short periods of time, and can reduce returns.

Cyber Security

Failures or breaches of the electronic systems of the Underlying Fund, the Underlying Fund's adviser, distributor, and other service providers, market makers, "authorized participants" or the issuers of securities in which the Underlying Fund invests have the ability to cause disruptions and negatively impact the Underlying Fund's business operations, potentially resulting in financial losses to the Underlying Fund and its shareholders. While the Underlying Fund has established business continuity plans and risk management systems seeking to address system breaches or failures, there are inherent limitations in such plans and systems. Furthermore, the Underlying Fund cannot control the cyber security plans and systems of the Underlying Fund's service providers, the Underlying Index provider, market makers, authorized participants or issuers of securities in which the Underlying Fund invests.

Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying currency, security, interest rate or index, and such instruments often have risks similar to the underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Underlying Fund's portfolio, which may result in significant volatility and cause the Underlying Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Underlying Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Underlying Fund may not realize the intended benefits. The successful use of derivatives will usually depend on the investment manager's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Underlying Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the Underlying Fund's investment manager is not successful in using such derivative instruments, the Underlying Fund's performance may be worse than if the Underlying Fund's investment manager did not use such derivative instruments at all. When a derivative is used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security, interest rate, index or other risk being hedged. Derivatives also may present the risk that the other party to the transaction will fail to perform. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

Dividend-Oriented Companies

Companies that have historically paid regular dividends to shareholders may decrease or eliminate dividend payments in the future. A decrease in dividend payments by an issuer may result in a decrease in the value of the issuer's stock and less available income for the Underlying Fund.

Equity Securities

Equity securities are subject to changes in value, and their values may be more volatile than those of other asset classes. The Underlying Index is comprised of common stocks, which generally subject their holders to more risks than holders of preferred stocks and debt securities because common stockholders' claims are subordinated to those of holders of preferred stocks and debt securities upon the bankruptcy of the issuer.

Extension

Some debt securities, particularly mortgage-backed securities, are subject to the risk that the debt security's effective maturity is extended because calls or prepayments are less or slower than anticipated, particularly when interest rates rise. The market value of such security may then decline and become more interest rate sensitive.

Floating Rate Corporate Investments

Floating rate corporate loans and corporate debt securities generally have credit ratings below investment grade and may be subject to resale restrictions. They are often issued in connection with highly leveraged transactions, and may be subject to greater credit risks than other investments, including the possibility of default or bankruptcy. In addition, a secondary market in corporate loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability to accurately value existing and prospective investments and to realize in a timely fashion the full value on sale of a corporate loan. A significant portion of floating rate investments may be "covenant lite" loans that may contain fewer or less restrictive constraints on the borrower or other borrower-friendly characteristics.

Focus

To the extent that the Underlying Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, the fund may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments. There are also the following risks associated with regional focus:

Regional Focus. Because the Underlying Fund may invest at least a significant portion of its assets in companies in a specific region, including Europe, the Underlying Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the fund is not invested, may adversely affect the value of investments held by the Underlying Fund. Current political uncertainty surrounding the European Union (EU) and its membership, including the 2016 referendum in which the United Kingdom voted to exit the EU, may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of such instability impacting other more stable countries may increase the economic risk of investing in companies in Europe.

Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: (i) internal and external political and economic developments – e.g., the political, economic and social policies and structures of some foreign countries may be less stable and more volatile than those in the U.S. or some foreign countries may be subject to trading restrictions or economic sanctions; (ii) trading practices – e.g., government supervision and regulation of foreign securities and currency markets, trading systems and brokers may be less than in the U.S.; (iii) availability of information – e.g., foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; (iv) limited markets – e.g., the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and (v) currency exchange rate fluctuations and policies. The risks of foreign investments may be greater in developing or emerging market countries.

Developing Market Countries. The Underlying Fund's investments in securities of issuers in developing market countries 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.

Emerging Market Countries. The Underlying Fund's investments in emerging market countries 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 and currency markets, including: delays in settling portfolio 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.

Sovereign Debt Securities. Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign investments generally, including, but not limited to, the risk that a governmental entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due, because of cash flow problems, insufficient foreign reserves, the relative size of the debt service burden to the economy as a whole, the government's policy towards principal international lenders such as the International Monetary Fund, or the political considerations to which the government may be subject. If a sovereign debtor defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. Some sovereign debtors have in the past been able to restructure their debt payments without the approval of some or all debt holders or to declare moratoria on payments. In the event of a default on sovereign debt, the Underlying Fund may also have limited legal recourse against the defaulting government entity.

Government National Mortgage Association Obligations ("Ginnie Maes")

Ginnie Maes differ from conventional corporate debt securities because principal is paid back monthly over the life of the security rather than at maturity. The Underlying Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancing or foreclosure on the underlying mortgage loans. Because of prepayments, Ginnie Maes may be less effective than some other types of securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. A reduction in the anticipated rate of principal prepayments, especially during periods of rising interest rates, may increase the effective maturity of Ginnie Maes, making them more susceptible than some other debt securities to a decline in market value when interest rates rise.

Growth-Style Investing

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

High-Yield Debt Securities

Issuers of lower-rated or "high-yield" debt securities (also known as "junk bonds") are not as strong financially as those issuing higher credit quality debt securities. High-yield debt securities are generally considered predominantly speculative by the applicable rating agencies as their issuers are more likely to encounter financial difficulties because they may be more highly leveraged, or because of other considerations. In addition, high yield debt securities generally are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. The prices of high-yield debt securities generally fluctuate more than those of higher credit quality. High-yield debt securities are generally more illiquid (harder to sell) and harder to value.

Impairment of Collateral

The value of collateral securing a loan or other corporate debt security may decline after the Underlying Fund invests and there is a risk that the value of the collateral may not be sufficient to cover the amount owed to the Fund, or the collateral securing a loan may be found invalid, may be used to pay other outstanding obligations of the borrower under applicable law or may be difficult to sell.

Income

Because the Underlying Fund can only distribute what it earns, the Underlying Fund's distributions to shareholders may decline when prevailing interest rates fall, when the Underlying Fund experiences defaults on debt securities it holds, or when the Underlying Fund realizes a loss upon the sale of a debt security.

Because the Underlying Fund limits its investments to high-quality, short-term securities, its portfolio generally will earn lower yields than a portfolio with lower-quality, longer term securities subject to more risk.

Index-Related

There is no guarantee that the Underlying Fund's investment results will have a high degree of correlation to those of the Underlying Index or that the Underlying Fund will achieve its investment objective. Market disruptions and regulatory restrictions could have an adverse effect on the Underlying Fund's ability to adjust its exposure to the required levels in order to track the Underlying Index. Errors in index data, index computations or the construction of the Underlying Index in accordance with its methodology may occur from time to time and may not be identified and corrected by the Underlying Index provider for a period of time or at all, which may have an adverse impact on the Underlying Fund and its shareholders.

Inflation

The market price of debt securities generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less when received by the Underlying Fund. Debt securities that pay a fixed rather than variable interest rate are especially vulnerable to inflation risk because variable-rate debt securities may be able to participate, over the long term, in rising interest rates which have historically corresponded with long-term inflationary trends.

Information Technology Sector

Information technology companies face intense competition and potentially rapid product obsolescence. They are also heavily dependent on intellectual property rights and may be adversely affected by the loss or impairment of those rights.

Interest Rate

When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. Interest rate changes are influenced by a number of factors including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of debt securities. In general, securities with longer maturities and durations are more sensitive to these interest rate changes. The Underlying Fund's yield will vary. A sharp and unexpected rise in interest rates could cause the Underlying Fund's share price to drop below a dollar. A low interest rate environment may prevent the Underlying Fund from providing a positive yield or paying Underlying Fund expenses out of current income and could impair the Underlying Fund's ability to maintain a stable net asset value.

Issuer

The performance of the Underlying Fund depends on the performance of individual securities to which the Underlying Fund has exposure. Changes in the financial condition or credit rating of an issuer of those securities may cause the value of the securities to decline.

Large-Capitalization Companies

Large-capitalization companies may be less able than smaller capitalization companies to adapt to changing market conditions. Large-capitalization companies may be more mature and subject to more limited growth potential compared with smaller capitalization companies. During different market cycles, the performance of large capitalization companies has trailed the overall performance of the broader securities markets.

Liquidity

From time to time, the trading market for a particular security or type of security or other investments in which the Underlying Fund invests may become less liquid or even illiquid. Reduced liquidity will have an adverse impact on the Underlying Fund's ability to sell such securities or other investments when necessary to meet the Underlying Fund's liquidity needs, which may arise or increase in response to a specific economic event or because the Underlying Fund's investment manager wishes to purchase particular investments or believes that a higher level of liquidity would be advantageous. Reduced liquidity will also generally lower the value of such securities or other investments. Market prices for such securities or other investments may be volatile.

Management

The Underlying Fund is subject to management risk because it is an actively managed investment portfolio. The Underlying Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Underlying Fund, but there can be no guarantee that these decisions will produce the desired results.

As the Underlying Fund may not fully replicate the Underlying Index, it is subject to the risk that its investment manager's investment strategy may not produce the intended results.

Market

The market values of securities or other investments owned by the Underlying Fund will go up or down, sometimes rapidly or unpredictably. The market value of a security or other investment 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 investments. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

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

Marketplace Loans

Marketplace loans are subject to the risks associated with debt investments generally, including but not limited to, interest rate, credit, liquidity, high yield debt, market and income risks. Marketplace loans generally are not rated by rating agencies, are often unsecured, and are highly risky and speculative investments. Lenders and investors, such as the Underlying Fund, assume all of the credit risk on the loans they fund or purchase and there are no assurances that payments due on underlying loans will be made. In addition, investments in marketplace loans may be adversely affected if the platform operator or a third-party service provider becomes unable or unwilling to fulfill its obligations in servicing the loans. Moreover, the Underlying Fund may have limited information about the underlying marketplace loans and information provided to the platform regarding the loans and the borrowers' credit information may be incomplete, inaccurate or outdated. It also may be difficult for the Underlying Fund to sell an investment in a marketplace loan before maturity at the price at which the Underlying Fund believes the loan should be valued because these loans typically are considered by the Underlying Fund to be illiquid securities.

Market Trading

The Underlying Fund faces numerous market trading risks, including the potential lack of an active market for Underlying Fund shares, losses from trading in secondary markets, periods of high volatility and disruptions in the creation/redemption process. These factors, among others, may lead to the Underlying Fund's shares trading at a premium or discount to NAV.

Master/Feeder Structure

The Underlying Fund seeks to achieve its investment goal by investing all of its assets in shares of another fund (the "Master Portfolio"). The Master Portfolio has the same investment goal and policies as the Underlying Fund. The Underlying Fund buys shares of the Master Portfolio at net asset value. An investment in the Underlying Fund is an indirect investment in the Master Portfolio. It is possible that the Underlying Fund may have to withdraw its investment in the Master Portfolio if the Master Portfolio changes its investment goal or if the Underlying Fund's board of trustees, at any time, considers it to be in the Underlying Fund's best interest.

Merger Arbitrage Securities and Distressed Companies

A merger or other restructuring, or a tender or exchange offer, proposed or pending at the time the Underlying Fund invests in merger arbitrage securities may not be completed on the terms or within the time frame contemplated, which may result in losses to the Underlying Fund. 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.

Midsize Companies

Securities issued by 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.

Mortgage Dollar Rolls

In a mortgage dollar roll, the Underlying Fund takes the risk that: the market price of the mortgage-backed securities will drop below their future repurchase price; the securities that it repurchases at a later date will have less favorable market characteristics; the other party to the agreement will not be able to perform; the roll adds leverage to the Underlying Fund's portfolio and the roll increases the Underlying Fund's sensitivity to interest rate changes. In addition, investment in mortgage dollar rolls may increase the portfolio turnover rate for the Underlying Fund.

Mortgage Securities and Asset-Backed Securities

Mortgage securities differ from conventional debt securities because principal is paid back periodically over the life of the security rather than at maturity. The Underlying Fund may receive unscheduled payments of principal due to voluntary prepayments, refinancings or foreclosures on the underlying mortgage loans. Because of prepayments, mortgage securities may be less effective than some other types of debt securities as a means of "locking in" long-term interest rates and may have less potential for capital appreciation during periods of falling interest rates. A reduction in the anticipated rate of principal prepayments, especially during periods of rising interest rates, may increase or extend the effective maturity of mortgage securities, making them more sensitive to interest rate changes, subject to greater price volatility, and more susceptible than some other debt securities to a decline in market value when interest rates rise. Mortgage securities purchased on a delayed delivery or forward commitment basis through the to-be-announced ("TBA") market are subject to the risk that the actual securities received by the Underlying Fund may be less favorable than anticipated, or that a counterparty will fail to deliver the security.

Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default. Like mortgage securities, asset-backed securities are subject to prepayment and extension risks.

Non-Correlation

There is no guarantee that the Underlying Fund will achieve a high degree of correlation to the Underlying Index and therefore achieve its investment goal. Market disruptions and regulatory restrictions could have an adverse effect on the Underlying Fund's ability to adjust its exposure to the required levels in order to track the Underlying Index. In addition, the Underlying Fund's NAV may deviate from the Underlying Index if the fund fair values a portfolio security at a price other than the price used by the Underlying Index for that security.

Non-Diversification

Because the Underlying Fund is non-diversified, it may be more sensitive to economic, business, political or other changes affecting individual issuers or investments than a diversified fund, which may result in greater fluctuation in the value of the Underlying Fund's shares and greater risk of loss.

Operational

The Underlying Fund is exposed to operational risks arising from a number of factors, including, but not limited to, human error, processing and communication errors, errors of the Underlying Fund's service providers, counterparties or other third-parties, failed or inadequate processes and technology or systems failures. The Underlying Fund and the Underlying Fund's manager seek to reduce these operational risks through controls and procedures. However, these measures do not address every possible risk and may be inadequate to address significant operational risks.

Passive Investment

The Underlying Fund is not actively managed, and the Underlying Fund's manager generally does not attempt to take defensive positions under any market conditions, including declining markets.

Portfolio Turnover

The Underlying Fund's investment manager will sell a security when it believes it is appropriate to do so, regardless of how long the fund has held the security. The Underlying Fund's turnover rate may exceed 100% per year because of the anticipated use of certain investment strategies. The rate of portfolio turnover will not be a limiting factor for the fund's investment manager in making decisions on when to buy or sell securities, including entering into mortgage dollar rolls. High turnover will increase the Underlying Fund's transaction costs and may increase tax liability if the transactions result in capital gains.

Prepayment

Prepayment risk occurs when a debt security can be repaid in whole or in part prior to the security's maturity and the Underlying Fund must reinvest the proceeds it receives, during periods of declining interest rates, in securities that pay a lower rate of interest. Also, if a security has been purchased at a premium, the value of the premium would be lost in the event of prepayment. Prepayments generally increase when interest rates fall.

Regional

Adverse conditions in a certain region or country can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Underlying Fund invests a significant portion of its assets in a specific geographic region or a particular country, the Underlying Fund will generally have more exposure to the specific regional or country economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Underlying Fund's assets are invested, the Underlying Fund may experience substantial illiquidity or reduction in the value of the Underlying Fund's investments.

Repurchase Agreements

A repurchase agreement exposes the Underlying Fund to the risk that the party that sells the securities to the Underlying Fund may default on its obligation to repurchase them.

Risk of Investing in the United States

Certain changes in the U.S. economy, such as when the U.S. economy weakens or when its financial markets decline, may have an adverse effect on the securities to which the Underlying Fund has exposure.

Securities Lending

The Underlying Fund may engage in securities lending. Securities lending involves the risk that the Underlying Fund may lose money because the borrower of the loaned securities fails to return the securities in a timely manner or at all. The Underlying Fund could also lose money in the event of a decline in the value of collateral provided for loaned securities or a decline in the value of any investments made with cash collateral. These events could also trigger adverse tax consequences for the Underlying Fund.

Smaller Companies

Securities issued by smaller 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.

Smaller and Midsize Companies

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

Tracking Error

The Underlying Fund may be subject to tracking error, which is the divergence of the Underlying Fund's performance from that of the Underlying Index. Tracking error may occur because of differences between the securities and other instruments held in the Underlying Fund's portfolio and those included in the Underlying Index, pricing differences, differences in transaction costs, the Underlying Fund's holding of uninvested cash, differences in timing of the accrual of or the valuation of dividends or interest, tax gains or losses, changes to the Underlying Index or the costs to the Underlying Fund of complying with various new or existing regulatory requirements. This risk may be heightened during times of increased market volatility or other unusual market conditions. Tracking error also may result because the Underlying Fund incurs fees and expenses, while the Underlying Index does not.

U.S. Government Securities

Not all obligations of the U.S. Government, its agencies and instrumentalities are backed by the full faith and credit of the United States. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. Government or its agencies or instrumentalities of a security held by the Underlying Fund does not apply to the market value of such security or to shares of the Underlying Fund itself. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity.

Utilities Industry

Utility company equity securities, to the extent they are purchased for their dividend yield, historically have been sensitive to interest rate movements: when interest rates have risen, the stock prices of these companies have tended to fall. In some states, utility companies and their rates are regulated; other states have moved to deregulate such companies thereby causing nonregulated companies' returns to generally be more volatile and more sensitive to changes in revenue and earnings. Certain utilities companies face risks associated with the operation of nuclear facilities for electric generation, including, among other considerations, litigation, the problems associated with the use of radioactive materials and the effects of natural or man-made disasters. In general, all utility companies may face additional regulation and litigation regarding their power plant operations; increased costs from new or greater regulation of these operations; the need to purchase expensive emissions control equipment or new operations due to regulations; and the availability and cost of fuel, all of which may lower their earnings.

Value Style Investing

A value stock may not increase in price as anticipated by the Underlying Fund's investment manager 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 Underlying Fund's investment manager believes will increase the price of the security do not occur or do not have the anticipated effect.

Variable Rate Securities

Because changes in interest rates on variable rate securities (including floating rate securities) may lag behind changes in market rates, the value of such securities may decline during periods of rising interest rates until their interest rates reset to market rates. During periods of declining interest rates, because the interest rates on variable rate securities generally reset downward, their market value is unlikely to rise to the same extent as the value of comparable fixed rate securities.

Variability in Underlying Investments in Trust Portfolios

The Investment Policy for most of the Trust Portfolios (other than the Individual Portfolios) provides the Investment Manager with flexibility as to the particular Underlying Funds in which assets of the applicable Trust Portfolio allocated to a particular asset class are invested from time to time, permits the Investment Manager to use ETFs instead of or in addition to mutual funds from time to time and permits the Investment Manager to vary the allocations to particular mutual funds or ETFs within any applicable asset class targets for the applicable Trust Portfolio. Accordingly, the specific underlying investments, and the portion of a Trust Portfolio allocated to a specific underlying investment, may vary from time to time, and may vary from the composition of the Trust Portfolio during any period for which historical performance or projected expense information is provided in this Investor Handbook. Past performance should not be viewed as predictive of future results even if the underlying investments remain unchanged from period to period, and particularly so when the underlying investments differ or may differ from those in effect during any applicable historic performance period. Similarly, projected expenses based on a weighting of the historic expenses of a Trust Portfolio's underlying investments as of a particular date should not be viewed as predictive of future expenses, particularly so when the specific underlying investments during any future period and their weighting within the Trust Portfolio differ or may differ from those on which the projected expenses were based.

Change in Investment Policy, Program Manager or Investment Manager

Each Investment Option must be invested in accordance with the Investment Policy. HESAA may change the Investment Policy applicable to the Program at any time, with the approval of the Division of Investment and subject to the provisions of HESAA's contract with FTDI. In addition, the Services Agreement, under which investment management, administrative, distribution and marketing services for the Program are provided, expires in March 2021. There can be no assurance that HESAA and FTDI will renew the Services Agreement after its term, and under certain circumstances, either HESAA or FTDI may terminate the Services Agreement prior to its expiration date. Any changes in the Investment Policy or in the Investment Manager for the Investment Options may affect the manner in which the Program invests the assets that determine the value of your Account. You do not control the investment instruments or asset allocation selected by the Program under each Investment

Option. The specific investment instruments in which the assets that determine the value of your Account are invested, as well as the allocation among asset categories, are subject to change without the consent of Account Owners, and HESAA is not obligated to continue investing in investment instruments selected by Franklin Mutual Advisers or in investment companies sponsored or managed by affiliates of Franklin Templeton. HESAA may eliminate, consolidate or otherwise change Investment Options without the consent of Account Owners. Regardless of whether FTDI or another entity is the Program Manager, the fee structure for the Program Manager may change during the term of your Account. In the event that a Program Manager fee structure that is more favorable to Account Owners were to be implemented in the future, it might be necessary for existing Account Owners to open new Program Accounts to take advantage of such structure with respect to new contributions or existing Program Account balances. If the Investment Policy, the Program Manager, the Investment Manager or the fee structure changes during the term of your Program Account in a way that is not to your liking, you may choose to withdraw the assets in your Program Account, but any earnings you withdraw from the Account generally will be subject to income tax and to an additional federal income tax of 10% of earnings unless you reinvest the withdrawn amount through a Rollover Distribution in compliance with federal requirements. In addition, any such withdrawal may be subject to charges assessed in connection with the withdrawal. See "Fees and Expenses."

Restriction on Changes among Investment Options

Federal tax rules restrict the frequency of the reallocation of Account balances among the Investment Options. An Account Owner may reallocate assets in a Program Account among Investment Options (including transfers from an Account established under the Division Investment Options to an Account established under the Franklin Templeton Investment Options) twice per calendar year, or in connection with a change of the Beneficiary of the Program Account. All reallocations of assets among the Investment Options in all Program Accounts established by an Account Owner for a particular Beneficiary must occur on the same two days of the applicable calendar year, with the exception of reallocations in connection with a change of the Beneficiary of the applicable Program Account. Unless reallocated in accordance with the provisions described above, amounts in your Account invested under a particular Investment Option must remain invested under that Investment Option until withdrawn from the Program, even if at some point prior to withdrawal you would prefer to switch such assets to another Investment Option.

Financial Aid

Federal Financial Aid

Being the Account Owner or Beneficiary of an Account may impact eligibility for financial aid. If the Account Owner is the student's parent, the available balance may be treated as a parental asset, as is the case with other financial assets of the parent that are considered in determining federal financial aid eligibility. As a general matter, a smaller percentage of such parental assets (under current law, a maximum of 5.64%) than of student assets (under current law, 20%) is deemed available to the student, and accordingly parental assets generally have a lesser impact than student assets for purposes of determining federal financial aid eligibility. If a dependent student is the Account Owner, whether through an UTMA/UGMA custodian or directly, the available balance in the Account is treated as a parental asset. If an independent student is the Account Owner, whether through an UTMA/UGMA custodian or directly, the available balance in the Account is treated as a student asset. Assets in an Account not owned by the applicable student or the student's parent (such as non-UTMA/UGMA accounts opened by a grandparent as Account Owner) generally are not considered in the student's need analysis for federal financial aid purposes, but payments from such an Account may be considered income of the applicable student for purposes of subsequent financial aid determinations. Being the Account Owner or Beneficiary of an Account may impact eligibility for non-federal financial aid opportunities, including financial aid opportunities at any elementary or secondary school. You should consult a financial aid advisor for further information on your particular circumstances.

New Jersey Financial Aid

The Act provides that an amount to be annually determined by HESAA, which shall not be less than $25,000, of all Program Accounts shall be excluded from consideration in evaluating the financial need of a Beneficiary for the purpose of determining the eligibility of a Beneficiary for any scholarship, grant or monetary assistance awarded by the State. The currently applicable amount is $25,000. The Beneficiary may be required to verify the dollar amount in the Program Account(s) to the satisfaction of the entity or agency awarding the State funds. You should consult with your financial aid advisor to determine the impact of an Account on financial aid in another state.

Tax Risks

The federal and state tax benefits and related tax implications of an investment in an Account depend on qualification of the Program as a Qualified Tuition Program within the meaning of Section 529. Section 529 sets forth numerous requirements and the Program has been designed to comply with these requirements as understood by HESAA. HESAA has not obtained a private letter ruling from the IRS determining that the Program satisfies the requirements of Section 529. The United States Treasury Department (the "Treasury Department") has published proposed regulations under

Section 529, but those regulations do not provide guidance on various changes to Section 529 implemented by the 2001 Tax Act or the 2017 Tax Act, including without limitation regarding Qualified Distributions for Qualified Elementary or Secondary Education Expenses. Final regulations have not been issued. The Treasury Department also has published certain notices that may be relied upon pending issuance of final regulations, concerning investment reallocations affecting amounts contributed to a Qualified Tuition Program and certain other matters arising under Section 529. On January 17, 2008, the Treasury Department released an advance notice of proposed rulemaking (the "2008 Advance Notice") relating to Qualified Tuition Programs under Section 529. The 2008 Advance Notice indicated that the Treasury Department intends to repropose the initial Section 529 regulations proposed in 1998. The reproposed regulations have not yet been published, and although the 2008 Advance Notice indicated certain changes and clarifications that will be included in the reproposed regulations, the exact content of the new proposed regulations, and the ultimate content of the final regulations, is not known. The reproposed regulations could limit or require changes to, and affect tax consequences of, certain features of the Program described in this Investor Handbook.

HESAA and the Program Manager intend to modify the Program from time to time in accordance with applicable federal tax law and administrative guidance to maintain Program compliance with the requirements of Section 529. There can be no assurance, however, that the IRS or any state tax regulator will agree that the Program, in its current form or as it may be modified, satisfies the current and any future requirements of Section 529 or that, if challenged by the IRS or a state tax regulator, the status of the Program as a Qualified Tuition Program under Section 529 would be sustained in court. If the Program as currently structured or as subsequently modified does not meet the requirements of Section 529 for any reason, the tax consequences to Account Owners, Third-Party Contributors and Beneficiaries are uncertain and it is possible that Account Owners or Beneficiaries could become subject to taxes on undistributed earnings in their Accounts as well as to other adverse tax consequences. In addition, changes in the law governing any of the federal or state tax consequences described in this Investor Handbook might require material changes to the Program for the anticipated tax consequences to apply, or might change the federal or state tax consequences from those described in this Investor Handbook.

None of the Program, the State, HESAA, the Division of Investment, the Program Manager or any other party assumes any responsibility for the tax treatment of any withdrawal from an Account or for the adequacy of the documentation obtained and maintained by an Account Owner or Beneficiary to support favorable federal and state tax treatment. It is the responsibility of the Account Owner and the Beneficiary to identify, obtain and retain such documentation. HESAA and the Program Record-Keeper reserve the right to report the earnings components of all withdrawals from an Account without characterizing the purpose of the withdrawals or the treatment of such earnings for federal or state income tax purposes, except as may be required by applicable federal tax requirements. See "Tax Information – Federal Tax Treatment" for more information.

Program Changes

HESAA may change the terms and conditions of the Program without the consent of the Account Owners or Beneficiaries to the extent required to achieve or preserve the Program's status as a Qualified Tuition Program or to the extent otherwise deemed necessary or appropriate by HESAA. Such changes may impose additional requirements on your participation in the Program, limit the flexibility of the Program or otherwise change terms and conditions of the Program that you consider important. Although the consent of the Account Owners or Beneficiaries to such changes is not required, if the Account Owner does not wish to continue participating in the Program after such changes, under current law the Account Owner has the ability to transfer the Account balance to another Qualified Tuition Program through a Rollover Distribution. See "Withdrawals – Non-Qualified Distributions – Rollover Distributions."

Amount of and Inflation in Qualified Higher-Education Expenses

Even if the balance in your Account has reached the Maximum Contribution Limit, the Account may not be sufficient to pay the Beneficiary's qualified higher-education expenses. This could be the case if the Beneficiary attends institutions at which the qualified higher-education expenses of students for the period of attendance by the Beneficiary are greater than the Maximum Contribution Limit plus the earnings thereon in the Account. In addition, the level of future inflation in qualified higher-education expenses is uncertain. In the recent past, qualified higher-education expenses often have grown at a rate which substantially exceeds the rate of return on many investments, including investments similar to the Investment Options, as well as the rate of increase in the general cost of living. The rate of future increases in qualified higher-education expenses over any period could exceed the rate of investment return earned by any or all the Investment Options over the corresponding periods.

Non-Use by Beneficiary of Account for Qualified Higher-Education Expenses

If the Beneficiary of an Account (or any successor Beneficiary you may designate) does not apply for admission to attend any Eligible Educational Institution, is not accepted for admission to an Eligible Educational Institution, does not achieve satisfactory academic performance or is otherwise not permitted to continue to attend an Eligible Educational Institution, or otherwise does not need all or a portion of the balance in the Account to pay for Qualified Higher-Education Expenses then, except in the case of a Rollover Distribution to an account in a Qualified Tuition Program for a Member of the Family of the Beneficiary or, subject to the limitations described in this Investor Handbook, a Rollover Distribution to a Qualified ABLE Program for the Beneficiary or a Member of the Family of the Beneficiary, the earnings portion of amounts withdrawn from the Account would be subject to federal income tax and, unless the withdrawal is due to the Beneficiary's permanent disability paid to the Beneficiary's estate upon death of the Beneficiary, or on account of a qualified scholarship awarded to the Beneficiary or attendance by the Beneficiary at a U.S. military academy, a 10% additional federal income tax. State and local income taxes may also be applicable to the withdrawn earnings.

Risks Related to Illiquidity

Investment in the Program involves the risk of reduced liquidity of the amounts invested. The circumstances under which funds may be withdrawn from the Account without a tax penalty are limited. See "Withdrawals" for further information about these restrictions. In addition, you may not assign or pledge any part of an Account as security for a loan or otherwise.

Impact on Medicaid Eligibility and Other Non-Educational Benefits

Account Owners and Third-Party Contributors should be aware that ownership of an Account in the Program could have an impact on eligibility for Medicaid and other federal and state non-educational benefits. Although the result may vary from state to state, assets in your Account may be considered available assets for determining eligibility. You should consult qualified financial and tax advisors for advice on your particular situation.

Alternative Investment Products

A variety of other savings and investment products are available to parents and other persons who wish to provide for the future payment of tuition and other higher education costs for their children or other beneficiaries. There are substantial differences in the structure, benefits, tax treatment, risks and liquidity provided by each such product, and the appropriateness of any such product, and the relative benefits of investing in any particular product, may depend on the product, the individual, the time frame and other factors. No assurance can be provided that the performance of investments in the Program in general or for any specific Account Owner or Beneficiary will compare favorably with existing alternative savings and investment products or ones that may be developed in the future. You may wish to consider other currently available and proposed investment alternatives before establishing or making additional contributions to an Account and from time to time thereafter.

Fees and Expenses

Each of the Underlying Funds in which the Trust may invest assets contributed under an Investment Option charges investment management fees and other expenses. These fees and expenses are taken into account in valuing the Underlying Fund shares owned by the applicable Trust Portfolio and accordingly indirectly affect the investment returns on amounts invested under the applicable Investment Option. In addition, there may be brokerage fees associated with the purchase or sale of ETFs that also affect the investment return on amounts invested under the applicable Investment Option.

In addition, the program currently charges a Program management fee of 10 basis points (0.10 percent) per annum assessed daily against the assets of each Trust Portfolio except the Franklin U.S. Government Money 529 Portfolio; though that fee is currently not imposed for the Franklin U.S. Government Money 529 Portfolio, it may be imposed in whole or in part at any time, increasing expenses and reducing performance. The Program management fee is used to pay for the services of FTDI, Franklin Mutual Advisers and other FTDI affiliates under the Services Agreement, as well as to pay HESAA for its services in connection with the Program. The Program management fee is subject to change by HESAA at any time without the consent of Account owners.

Other Compensation to Program Manager

In connection with the sale by an Underlying Fund of its shares to the Trust, the Program Manager and/or its affiliates may be compensated by the Underlying Fund for administrative and other services provided to such fund.

The Fees and Expenses Chart below includes, for each Trust Portfolio, annual asset-based fees assessed by the Program and additional investor expenses. It also includes estimated expenses assessed by the Underlying Funds of the applicable Trust Portfolio. Such estimated expenses are based on the expenses associated with the Trust Portfolio's Underlying Funds reported in the applicable Underlying Fund's most recent publicly available financial statements as of August 31, 2018. For a Trust Portfolio with multiple Underlying Funds, the estimated underlying expenses are weighted in accordance with each applicable Underlying Fund's average monthly percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio for the 6-month period ended September 30, 2018, or, in the case of those Age-Based Allocation Trust Portfolios with a March 6, 2019 inception date, in accordance with the Investment Manager's projected percentage, as of the date of this Investor Handbook, of the applicable Underlying Fund's percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio. Such reported expenses and weighting in accordance with each applicable Underlying Fund's percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio as of September 30, 2018 or projected percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio, as applicable, also are used in the "Approximate Cost of a $10,000 Investment" table immediately following the Fees and Expenses Chart. It should be noted that the Investment Policy for most of the Trust Portfolios (other than the Individual Portfolios) provides the Investment Manager with flexibility as to the particular Underlying Funds in which assets of the applicable Trust Portfolio allocated to a particular asset class are invested from time to time, permits the Investment Manager to use ETFs instead of or in addition to mutual funds from time to time, and permits the Investment Manager to vary the allocations to particular Underlying Funds within any applicable asset class targets for the applicable Trust Portfolio. Accordingly, the specific Underlying Funds, and the portion of a Trust Portfolio allocated to a specific Underlying Fund, may vary from time to time, and may vary from the composition of the Trust Portfolio on which the estimated expense information in the tables below is based. Any such variation could increase or decrease the actual Underlying Fund expenses affecting the applicable Trust Portfolio in comparison to the estimated underlying expenses and could increase or decrease the cost of a $10,000 investment from the amount shown below. In addition, the actual expenses of an Underlying Fund may differ from those in the financial statements for any period that does not coincide with the period reported on by such financial statements.

Fees and Expenses Chart

Investment Option	Estimated Underlying Fund Expenses[1]	Program Management Fee	Estimated Total Annual Asset-Based Fees
OBJECTIVE-BASED ASSET ALLOCATIONS			
Franklin Corefolio® 529 Portfolio	0.72%	0.10%	0.82%
Franklin Growth Allocation 529 Portfolio	0.65%	0.10%	0.75%
Franklin Growth & Income Allocation 529 Portfolio	0.59%	0.10%	0.69%
Franklin Income Allocation 529 Portfolio	0.49%	0.10%	0.59%
AGE-BASED ALLOCATIONS (Prior to March 5, 2019)			
Franklin Age-Based Growth Allocations			
Newborn–8 Years	0.77%	0.10%	0.87%
Age 9–12 Years	0.71%	0.10%	0.81%
Age 13–16 Years	0.66%	0.10%	0.76%
Age 17+ Years	0.61%	0.10%	0.71%
Franklin Age-Based Moderate Allocations			
Newborn–8 Years	0.71%	0.10%	0.81%
Age 9–12 Years	0.66%	0.10%	0.76%
Age 13–16 Years	0.60%	0.10%	0.70%
Age 17+ Years	0.55%	0.10%	0.65%
Franklin Age-Based Conservative Allocations			
Newborn–8 Years	0.66%	0.10%	0.76%
Age 9–12 Years	0.61%	0.10%	0.71%
Age 13–16 Years	0.55%	0.10%	0.65%
Age 17+ Years	0.45%	0.10%	0.55%
AGE-BASED ALLOCATIONS (On and after March 5, 2019)			
Franklin Age-Based Growth Allocations			
Newborn–4 Years	0.65%	0.10%	0.75%
Age 5–8 Years	0.63%	0.10%	0.73%
Age 9–10 Years	0.61%	0.10%	0.71%
Age 11–12 Years	0.59%	0.10%	0.69%
Age 13–14 Years	0.57%	0.10%	0.67%
Age 15–16 Years	0.55%	0.10%	0.65%
Age 17–18 Years	0.53%	0.10%	0.63%
Age 19+ Years	0.51%	0.10%	0.61%

Investment Option	Estimated Underlying Fund Expenses[1]	Program Management Fee	Estimated Total Annual Asset-Based Fees
Franklin Age-Based Moderate Allocations			
Newborn–4 Years	0.61%	0.10%	0.71%
Age 5–8 Years	0.59%	0.10%	0.69%
Age 9–10 Years	0.57%	0.10%	0.67%
Age 11–12 Years	0.55%	0.10%	0.65%
Age 13–14 Years	0.53%	0.10%	0.63%
Age 15–16 Years	0.51%	0.10%	0.61%
Age 17–18 Years	0.49%	0.10%	0.59%
Age 19+ Years	0.45%	0.10%	0.55%
Franklin Age-Based Conservative Allocations			
Newborn–4 Years	0.57%	0.10%	0.67%
Age 5–8 Years	0.55%	0.10%	0.65%
Age 9–10 Years	0.53%	0.10%	0.63%
Age 11–12 Years	0.51%	0.10%	0.61%
Age 13–14 Years	0.49%	0.10%	0.59%
Age 15–16 Years	0.45%	0.10%	0.55%
Age 17–18 Years	0.42%	0.10%	0.52%
Age 19+ Years	0.38%	0.10%	0.48%
INDIVIDUAL PORTFOLIOS			
S&P 500 Index 529 Portfolio	0.04%	0.10%	0.14%
Franklin U.S Government Money 529 Portfolio	0.35%[2]	0.00%[3]	0.35%[4]

1. Based on most recent fiscal annual or semi-annual period reported upon in the applicable Underlying Fund's most recent financial statements that were publicly available as of August 31, 2018, and for Investment Options invested in multiple Underlying Funds, based on a weighted average of each Underlying Fund's expense ratio, in accordance with the Investment Option's average monthly asset allocation among the applicable funds for the 12-month period ended September 30, 2018, or, in the case of those Age-Based Allocation Trust Portfolios with a March 6, 2019 inception date, in accordance with the Investment Manager's projected percentage, as of the date of this Investor Handbook, of the applicable Underlying Fund's percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio. Underlying Fund expenses will vary and in some cases have been, and may from time to time be, reduced by fee and expense waivers or reimbursements, which may be ended at any time, increasing future expenses.
2. Based on most recent fiscal annual period reported in the Underlying Fund's most recent financial statements that were publicly available by June 30, 2018. The expenses of the Underlying Fund of the Franklin U.S. Government Money 529 Portfolio were 0.35%.
3. The Program management fee has been reduced from 0.10% to 0.00% for the Franklin U.S. Government Money 529 Portfolio since its inception date of October 8, 2014; the Program management fee may be increased at any time, which would increase future expenses.
4. This total reflects the reduced Program management fee of 0.00% in effect for the Franklin U.S. Government Money 529 Portfolio as of the date of this Investor Handbook; such Program management fee may be increased at any time, which would increase future expenses.

The following table compares the approximate cost of investing in the Plan over different periods of time. Your actual cost may be higher or lower. The table is based on the following assumptions:

- A $10,000 investment invested for the time periods shown.
- A 5% annually compounded rate of return on the amount invested throughout the period.
- All units are redeemed at the end of the period shown for qualified higher-education expenses (the table does not consider the impact of any potential state or federal taxes on the redemption).
- Total annual asset-based fees that are the same as those shown in the table above, reflecting a Program management fee of 20 basis points (0.20 percent) per annum assessed daily against the assets of each Trust Portfolio.
- In the case of the Franklin U.S. Government Money 529 Portfolio, the annual costs assume the continuation of the reduced Program management fee described in footnotes 2 and 3 above; however, such Program management fee may be increased at any time, which would increase the applicable annual costs.

Approximate Cost of a $10,000 Investment in Dollars[1]

Investment Option	1 Year	3 Years	5 Years	10 Years
OBJECTIVE-BASED ASSET ALLOCATIONS				
Franklin Corefolio® 529 Portfolio	$84	$262	$455	$1,014
Franklin Growth Allocation 529 Portfolio	$77	$240	$418	$933
Franklin Growth & Income Allocation 529 Portfolio	$70	$221	$384	$859
Franklin Income Allocation 529 Portfolio	$60	$188	$328	$735
AGE-BASED ALLOCATIONS (Before March 5, 2019)				
Franklin Age-Based Growth Allocations				
Newborn–8 Years	$89	$278	$483	$1,075
Age 9–12 Years	$83	$260	$451	$1,006
Age 13–16 Years	$78	$243	$422	$942
Age 17+ Years	$72	$226	$393	$878
Franklin Age-Based Moderate Allocations				
Newborn–8 Years	$83	$260	$452	$1,007
Age 9–12 Years	$78	$243	$423	$944
Age 13–16 Years	$72	$225	$392	$875
Age 17+ Years	$67	$208	$363	$812
Franklin Age-Based Conservative Allocations				
Newborn–8 Years	$78	$243	$423	$944
Age 9–12 Years	$72	$226	$393	$879
Age 13–16 Years	$67	$208	$363	$811
Age 17+ Years	$56	$176	$307	$689
AGE-BASED ALLOCATIONS (On and after March 5, 2019)				
Franklin Age-Based Growth Allocations				
Newborn–4 Years	$77	$240	$418	$933
Age 5–8 Years	$75	$234	$407	$909
Age 9–10 Years	$73	$227	$396	$884
Age 11–12 Years	$71	$221	$385	$859
Age 13–14 Years	$68	$214	$373	$835
Age 15–16 Years	$66	$208	$362	$810
Age 17–18 Years	$64	$201	$351	$785
Age 19+ Years	$62	$195	$339	$760
Franklin Age-Based Moderate Allocations				
Newborn–4 Years	$73	$227	$396	$884
Age 5–8 Years	$71	$221	$385	$859
Age 9–10 Years	$68	$214	$373	$835
Age 11–12 Years	$66	$208	$362	$810
Age 13–14 Years	$64	$201	$351	$785
Age 15–16 Years	$62	$195	$339	$760
Age 17–18 Years	$60	$188	$328	$735
Age 19+ Years	$57	$177	$309	$693

Investment Option	1 Year	3 Years	5 Years	10 Years
Franklin Age-Based Conservative Allocations				
Newborn–4 Years	$68	$214	$373	$835
Age 5–8 Years	$66	$208	$362	$810
Age 9–10 Years	$64	$201	$351	$785
Age 11–12 Years	$62	$195	$339	$760
Age 13–14 Years	$60	$188	$328	$735
Age 15–16 Years	$57	$177	$309	$693
Age 17–18 Years	$53	$166	$290	$651
Age 19+ Years	$50	$155	$271	$609
INDIVIDUAL PORTFOLIOS				
S&P 500 Index 529 Portfolio	$14	$45	$79	$179
Franklin U.S. Government Money 529 Portfolio[1]	$36	$113	$197	$443

1. Includes estimated Underlying Fund expenses, which are based on most recent fiscal semi-annual period reported upon in the applicable Underlying Fund's most recent financial statements that were publicly available as of August 31, 2018 and for Investment Options invested in multiple Underlying Funds, are based on a weighted average of each Underlying Fund's expense ratio, in accordance with the Investment Option's average monthly asset allocation among the applicable Underlying Funds for the 12-month period ended September 30, 2018, or, in the case of those Age-Based Allocation Trust Portfolios with a March 6, 2019 inception date, in accordance with the Investment Manager's projected percentage, as of the date of this Investor Handbook, of the applicable Underlying Fund's percentage of the aggregate value of the Underlying Funds in the applicable Trust Portfolio. Underlying Fund expenses will vary and are being reduced by fee and expense waivers or reimbursements, which may be reduced or ended at any time, which would increase future expenses. Cost estimates for the Franklin U.S Government Money 529 Portfolio do not include a Program management fee, since that fee (which is 0.10% for other Trust Portfolios) is not in effect for the Franklin U.S. Government Money 529 Portfolio as of the date of this Investor Handbook; the Program Management Fee may be imposed in whole or in part at any time in the future, which would increase future expenses.

NJBEST Scholarship

The NJBEST Scholarship is provided by the New Jersey Higher Education Student Assistance Authority. To qualify for the scholarship the Program Account must have been open for at least four years prior to the scholarship award, during which time total contributions must equal at least $1,200; the Account Owner must submit a certification to HESAA demonstrating the Beneficiary's attendance at an Eligible New Jersey Higher Educational Institution; the Account Owner must take a qualified withdrawal from the Program Account; and the Account Owner (if an individual) or Beneficiary must be a resident of New Jersey at the time the Beneficiary attends college. In addition, the availability of the scholarship is subject to the appropriation of sufficient funds by the State legislature for such purpose. The scholarship may be awarded only once to an eligible Beneficiary and only for the Beneficiary's first semester of attendance at any institution of post-secondary education. Beginning in the 2015-2016 academic year, the NJBEST Scholarship application must be completed and received by HESAA by October 1 of each year for scholarships for the fall academic term and by March 1 of each year for scholarships for the spring academic term.

The scholarship amount is at least $500. The amount of the scholarship increases by $250 for every two years, in excess of four years, for which the Program Account has been open, up to a maximum amount of $1,500, depending on the number of years and the level of contributions. However, the scholarship fund may not exceed the Beneficiary's actual cost of attendance. The table below indicates the possible scholarship amounts.

Contributions	Full Years Account Open	Scholarship Amount
$1,200	4	$500
$1,800	6	$750
$2,400	8	$1,000
$3,000	10	$1,250
$3,600	12	$1,500

The Beneficiary must be enrolled at least half-time in an Eligible New Jersey Higher Educational Institution to be eligible for the scholarship. Scholarships are not awarded for study at out-of-state institutions, for graduate study, or for elementary or secondary school attendance.

Scholarships are not awarded to transfer students attending their initial semester at an Eligible New Jersey Higher Educational Institution after having attended their first semester of college elsewhere.

Program Management

The New Jersey Higher Education Student Assistance Authority

HESAA administers the Program for the State of New Jersey. HESAA's Board is composed of public members and members representing various sectors of higher education appointed by the Governor of New Jersey, the State Treasurer, the Executive Director of the Authority, students, and representatives of other public boards with a mission in higher education. Originally founded in 1959, and expanded in 1999, HESAA's mission is to provide students and families with the financial and informational resources for students to pursue their education beyond high school. In addition to the Program, HESAA administers a variety of state grant and scholarship programs, serves as a guarantor and lender for federal student loans and offers a state supplemental student loan program.

Under the Act, HESAA acts as trustee for the Trust, selects Investment Managers for the Program, adopts regulations and carries out other functions necessary for the operation of the Program.

New Jersey Division of Investment and State Investment Council

The Division of Investment is among the 50 largest public or private money managers in the United States. The State Investment Council oversees the administration of the Division of Investment. It is composed of public members appointed by the Governor of New Jersey and representatives of pension funds' boards. State law requires that no State Investment Council member shall hold any office, position or employment with any political party, and that no one can benefit from the transactions of the Division of Investment. The State Investment Council is required to approve the Investment Policy.

Franklin Templeton Investments

Franklin Templeton Investments ("Franklin Templeton") is the name used to refer to a group of affiliated companies owned directly or indirectly by Franklin Resources, Inc. Franklin Templeton is a global organization with many world-class investment management groups. With headquarters just south of San Francisco in San Mateo, California, offices in 35 countries across the globe, and more than 65 years of experience, Franklin Templeton is a recognized leader in international and domestic stock investments as well as innovative fixed income investments, servicing clients in more than 150 countries.

Franklin Templeton has been a pioneer in worldwide investing and fundamental securities analysis since 1947. Franklin Templeton offers a diversified range of equity and fixed income investment products, as well as comprehensive client services to individual and institutional investors. Franklin Templeton's primary business is to provide investment management services to mutual funds and other institutional investors and individual clients. Franklin Resources, Inc. is a publicly traded company (NYSE: BEN).

FTDI, a subsidiary of Franklin Resources, Inc., has been retained by HESAA to provide certain distribution and administrative services for the NJBEST Program and investment management services for the Investment Options. FTDI is not responsible for the investment management of the Division Investment Options. FTDI has retained its affiliate Franklin Mutual Advisers to serve as the Investment Manager for the Investment Options.

FTIS has been retained by FTDI, to provide the administrative and record-keeping services for which FTDI is responsible under the Services Agreement.

Tax Information

The discussion below is based on the Program's current understanding of Section 529. **This discussion is not exhaustive and is not intended as individual tax advice. In addition, there can be no assurance that the IRS or a state tax regulator will agree with the Program's understanding, or that it would be sustained in court if challenged. The applicable federal and New Jersey tax rules are complex, certain of the rules are at present uncertain, and their application to any particular person may vary according to the facts and circumstances specific to that person. You should consult a qualified tax advisor regarding the application of federal, state and local tax law to your circumstances.** See "Risk Factors – Tax Risks" for additional information.

Federal Tax Treatment

The following discussion summarizes certain aspects of federal income, gift, estate and generation-skipping transfer tax consequences relating to the Program and contributions to, earnings on and distributions from Accounts and reflects guidance provided in certain IRS notices regarding the content of final regulations that to date have not been promulgated.

The Program has been designed to meet the requirements of a Qualified Tuition Program under Section 529. Accordingly, Account Owners and Beneficiaries are expected to be exempt from federal income tax on undistributed earnings allocated to Accounts established under the Program. In order to be eligible for such tax treatment and for Account Owners, Third-Party Contributors and Beneficiaries to receive the favorable federal income, estate, gift and generation-skipping transfer tax treatment described below, the Program is required to implement certain restrictions and procedures applicable to the operation of the Program. Certain of these restrictions and procedures are described below.

- **Contributions.** Contributions to an Account by an Account Owner or a Third-Party Contributor do not result in taxable income to the Beneficiary. Neither the Account Owner nor a Third-Party Contributor may deduct the contribution from income for purposes of determining federal income taxes (i.e., contributions to an Account are made on an after-tax basis).

  Contributions to an Account for a specific Beneficiary must be rejected (or, if accepted, returned) to the extent that the amount of the contribution would cause the aggregate amount held in Program Accounts for that Beneficiary to exceed the Maximum Contribution Limit established by HESAA. This limitation on contributions is intended to comply with the federal tax law requirement that the Program have adequate safeguards to prevent contributions to a Program Account in excess of those necessary to provide for the reasonably anticipated qualified higher-education expenses of the Beneficiary. For purposes of this limit, amounts on deposit in all Program Accounts for the same Beneficiary are taken into account, regardless of the Account Owner. While not now expected, it is possible that federal law might impose a lower limit on aggregate contributions to Program Accounts for the same Beneficiary than the current Maximum Contribution Limit.

  An Account Owner may generally transfer into a Program Account, without adverse federal income tax consequences, all or part of the funds held in another Program Account, the Beneficiary of which is a Member of the Family of the Beneficiary of the receiving Account, if the funds are deposited to the receiving Program Account within 60 days of the distribution from the distributing Program Account. In addition, all or part of the funds held in a Coverdell ESA may be transferred without adverse tax consequences into a Program Account with a Beneficiary who is the same as the Coverdell ESA beneficiary. A person (whether the Account Owner or a Third-Party Contributor) who meets certain age and income limitations and who makes contributions to an Account, the Beneficiary of which is such person or such person's spouse or eligible dependent, may be allowed to exclude all or a portion of income from certain United States savings bonds issued after 1989 in computing such person's federal taxable income for the year in which a contribution to the Account is made. In those circumstances, some or all of the excluded savings bond income may be recognized at the time of a subsequent distribution from the Account. See "Opening, Maintaining and Contributing to an Account – Transfers and Rollovers."

- **Taxation of Account Earnings.** Earnings from the investment of contributions to an Account will not be included in computing the federal taxable income of the Account Owner or Beneficiary until funds are distributed, in whole or in part, from the Account. Qualified Distributions, Rollover Distributions and certain refunds of qualified higher-education expenses described below ("Qualified Refunds") are tax-exempt for federal income tax purposes. Except in the case of tax-exempt Qualified Distributions, Rollover Distributions and Qualified Refunds, the earnings portion of any other distribution from an Account will be includable in computing the taxable income, for the year in which the distribution is paid, of the person receiving, or treated as receiving, the distribution, as described below. Any income which is not tax-exempt will be taxed at ordinary income tax rates. "Qualified Refunds" consist of any portion of a distribution made from an Account received by the Beneficiary from an eligible educational institution as a refund of qualified higher-education expenses and recontributed within 60 days of the refund date to any account under any Qualified Tuition Program within the meaning of Section 529, provided that the refund recipient is the beneficiary of the account to which the recontribution is made. In the case of any such refund received after December 31, 2014 and before December 18, 2015, any such recontribution must have been made no later than February 16, 2016.

- **Taxation of Distributions.** The earnings portion of Non-Qualified Distributions, other than Rollover Distributions and Qualified Refunds (as defined above), is treated as taxable income of the person receiving the distribution. The earnings portion of Non-Qualified Distributions, other than Rollover Distributions, is treated as taxable income of the person receiving the distribution. For this purpose, in the case of a distribution to the Beneficiary's estate on account of the Beneficiary's death, the Beneficiary's estate will be treated as the person receiving the distribution. Except as described in the next sentence, a Non-Qualified Distribution is subject to the imposition of an additional federal income tax of 10% of the earnings portion. A distribution that is a distribution to the Beneficiary's estate on account of the death of the Beneficiary, a distribution on account of the disability of the Beneficiary, a distribution to the extent of a qualified scholarship received by the Beneficiary or the costs of advanced education for a Beneficiary who attends a U.S. military academy or a distribution corresponding to expenses that would have been qualified higher-education expenses in the applicable tax year if a Hope Scholarship/American Opportunity or Lifetime Learning credit had not been claimed for such expenses, is not subject to the 10% additional income tax as a federal tax matter. For this purpose, a qualified scholarship also includes certain educational assistance allowances under federal law and certain payments for education expenses or attributable to attendance at certain educational institutions that are exempt from federal income tax. Account Owners and Beneficiaries should contact their tax advisors for more information.

  Any distribution will be treated as consisting in part of contributions to the Account and in part of earnings, which latter part, to the extent it is taxable, is included in computing the taxable income of the recipient. For this purpose, calculations of the earnings portions of a distribution generally will be made as of the date of distribution. The taxable portion, if any, is based on the relative proportions of earnings and contributions in the Account (and in any other account established by the applicable Account Owner for the same Beneficiary in any college savings plan sponsored by HESAA that, if so required by federal tax law under any guidance issued by the Treasury Department determined to be in effect for the year of such distribution, is consolidated with such Account for such purpose). Apportionments of distributions between a return of contributions and earnings will be made in accordance with Section 529.

- **Qualified Higher-Education Expenses; Qualified Elementary or Secondary Education Expenses.** Pursuant to Section 529, qualified higher-education expenses include the costs of tuition, fees, books, supplies and equipment required for the enrollment or attendance of a Beneficiary at an Eligible Educational Institution. "Eligible Educational Institutions" are defined under Section 529 generally as accredited post-secondary educational institutions located in the United States offering credit toward a bachelor's degree, an associate's degree, a graduate level or professional degree, or another recognized post-secondary credential; however, certain proprietary institutions and post-secondary vocational institutions and certain institutions located in foreign countries may be Eligible Educational Institutions. To be an Eligible Educational Institution for purposes of Section 529, the institution must be eligible to participate in U.S. Department of Education student financial aid and student loan programs under Title IV of the Higher Education Act of 1965, as amended. You also can use money in your Account to pay for costs associated with a non-accredited institution, but if you do so the amount will be treated as a Non-Qualified Distribution, the earnings portion of which is subject to federal income tax as well as the 10% additional federal income tax. You should consult your tax and financial aid advisor for further information.

  Qualified higher-education expenses also include expenses for the purchase of computer equipment or peripheral equipment controlled by a computer (excluding in either case equipment of a kind used primarily for amusement or entertainment of the user), computer software, or Internet access and related services, if such equipment, software, or services are to be used primarily by the Beneficiary during any of the years the Beneficiary is enrolled at an eligible educational institution.

  Reasonable expenses for room and board of a Beneficiary incurred during an academic period while enrolled or accepted for enrollment in a degree, certificate or other program (including a program of study abroad approved for credit by the Eligible Educational Institution) at an Eligible Educational Institution at least half-time may also be considered qualified higher-education expenses. A student will be considered to be enrolled at least half-time if the student is enrolled for at least half the full-time academic workload for the course of study the student is pursuing as determined under the standards of the institution where the student is enrolled. The institution's standard for a full-time workload must equal or exceed a standard established by the U.S. Department of Education under the Higher Education Act of 1965, as amended. The amount of room and board treated as a qualified higher-education expense cannot exceed the room and board allowance (applicable to the Beneficiary) included, for the period to which the withdrawal relates, in calculating the "cost of attendance" (as defined under the Higher Education Act of 1965, as in effect on the date of enactment of the 2001 amendments to that act, for purposes of federal financial aid programs) at the applicable Eligible Educational Institution, or, in the case of students living in housing owned or operated by the Eligible Educational Institution, the actual invoice amount, if higher than the "cost of attendance" figure. The Beneficiary need not be enrolled at least half-time for a distribution to pay for expenses relating to tuition, fees, books, supplies and equipment to be a Qualified Distribution.

Qualified higher-education expenses also include expenses for special needs services incurred by a Beneficiary who is a special needs beneficiary in connection with enrollment or attendance at the Eligible Educational Institution.

Distributions used to pay Qualified Elementary or Secondary Education Expenses of the Beneficiary are treated as Qualified Distributions to the extent the amount of such distributions in a tax year does not, together with the amount all other distributions made in the same tax year to pay Qualified Elementary or Secondary Education Expenses of the Beneficiary from any other account in any Savings-Type Qualified Tuition Program (irrespective of whether such account is owned by the Account Owner or by another person), does not exceed the lesser of $10,000 or the amount of Qualified Elementary or Secondary Education Expenses of the Beneficiary paid in the applicable tax year. The IRS has not yet provided guidance on the allocation of payments of Qualified Elementary or Secondary Education Expenses to Qualified Distributions in the event different taxpayers make payments aggregating more than $10,000 for the Qualified Elementary or Secondary Education Expenses of the same Beneficiary in the same tax year.

- **Other Higher Education Expense Benefit Programs.** The tax benefits afforded to Qualified Tuition Programs must be coordinated with other programs designed for meeting higher-education expenses in order to avoid the duplication of such benefits. The coordinated programs include Coverdell ESAs under Section 530 of the Code and the Hope Scholarship and Lifetime Learning Credits under Section 25A of the Code.

  Under Section 529 as currently in effect, the amount of a Beneficiary's qualified higher-education expenses in any tax year will be reduced by the aggregate of (i) the amount of the Beneficiary's expenses used for such tax year to qualify for the Hope Scholarship Credit and/or Lifetime Learning Credit; and (ii) the amount received by the Beneficiary from certain qualified scholarships, allowances or payments.

  A taxpayer may contribute to or direct the distribution from both a Program Account and a Coverdell ESA in the same year. However, if distributions for the benefit of a Beneficiary from the Program, any other Qualified Tuition Program and/or one or more Coverdell ESAs in any tax year exceed the Beneficiary's qualified higher-education expenses for the year (after the reduction described in the previous paragraph), then the taxpayer will be required to allocate the expenses among such distributions. The same expenses cannot count both for Coverdell ESA purposes and as qualified higher-education expenses for purposes of the Program.

- **Account Transfers and Rollover Distributions.** The earnings portion of a distribution from an Account will not be treated as taxable income and will not be subject to the 10% additional federal income tax to the extent that, within 60 days of the distribution, the Account Owner transfers some or all of the distribution to another Program Account, or an account established with another Qualified Tuition Program under Section 529, as long as the Beneficiary of the transferee Account or of such other account is a new Beneficiary who is a Member of the Family of the Beneficiary of the Account from which the distribution was made. The earnings portion of a distribution from an Account also will not be treated as taxable income and will not be subject to the 10% additional federal income tax if within 60 days of the distribution, the distribution is transferred to another account established with another Qualified Tuition Program for the same Beneficiary, provided that the transfer does not occur within twelve months from the date of any previous similar Rollover Distribution to any Qualified Tuition Program for the benefit of the same Beneficiary.

  An Account Owner may not change the Beneficiary of an Account or transfer funds between Program Accounts to the extent that the change or transfer would result in contributions in excess of the Maximum Contribution Limit for the applicable Beneficiary.

  For distributions made prior to January 1, 2026, the earnings portion of a distribution from an Account will not be treated as taxable income and will not be subject to the 10% additional federal income tax to the extent that, within 60 days of the distribution, the Account Owner transfers some or all of the distribution to an account established in a Qualified ABLE Program for the Beneficiary or for a Member of the Family of the Beneficiary of the Account, provided that the amount of the Rollover Distribution cannot, together with amounts previously contributed to the recipient account in the same year, exceed the annual limit on contributions to an account in a Qualified ABLE Program (currently $15,000) without consideration of certain provisions applicable to additional contributions by working beneficiaries of such accounts.

- **Distributions on Account of Death or Permanent Disability of, or Qualified Scholarship Awarded to or Attendance at a U.S. Military Academy by, Beneficiary.** A distribution due to the death or permanent disability of the Beneficiary or to the extent of a qualified scholarship received for the benefit of, or on account of attendance at a U.S. military academy by, the Beneficiary will not be subject to the 10% additional federal income tax on earnings that is generally applicable to Non-Qualified Distributions. The earnings portion of such distributions will, however, be treated as taxable income of the recipient. For this purpose, a qualified scholarship also includes certain educational assistance allowances under federal law and certain payments for education expenses or attributable to attendance at certain educational institutions that are exempt from federal income tax. For a discussion of the procedures for distributions on account of death, permanent disability, qualified scholarship or attendance at a U.S. military academy, see "Withdrawals – Non-Qualified Distributions – Distributions on Account of Death or Permanent Disability of, or Qualified Scholarship Awarded to or Attendance at a U.S. Military Academy by, the Beneficiary."

- **Distributions Corresponding to Expenses Claimed for Hope Scholarship/American Opportunity or Lifetime Learning Credit.** A distribution corresponding to expenses that would have been qualified higher-education expenses in the applicable tax year if a Hope Scholarship/American Opportunity or Lifetime Learning credit had not been claimed for such expenses, will not be subject to the 10% additional federal income tax on earnings that is generally applicable to Non-Qualified Distributions. The earnings portion of such distributions will, however, be treated as taxable income of the recipient.

- **Record Retention.** You should retain records, invoices or other documents and information adequate to substantiate: (i) particular expenses which you claim to be qualified higher-education expenses; (ii) distributions due to death or permanent disability of, or receipt of a qualified scholarship or attendance at a U.S. military academy by, a Beneficiary; (iii) the earnings component of and compliance with the timing requirements applicable to Rollover Distributions; and (iv) the earnings component of contributions funded from qualified savings bonds or Coverdell ESAs, because it is your responsibility to substantiate contributions to, and transfers from, any Qualified Tuition Program account if the IRS or any state taxing authority requires you to do so. You should consult with your tax advisor as to what documentation may be required.

- **Federal Gift, Estate and Generation-Skipping Transfer Taxes.** Contributions to the Program, including certain Rollover Distributions, are generally considered completed gifts to the Beneficiary for federal gift, estate and generation-skipping transfer tax purposes and are, therefore, potentially subject to federal gift tax and generation-skipping transfer tax. Under current tax law, if contributions made by an Account Owner or Third-Party Contributor to Accounts of a Beneficiary, together with all other gifts by the Account Owner or Third-Party Contributor who makes the contribution to the Beneficiary, including contributions to all Qualified Tuition Program accounts, do not exceed $15,000 during a year ($30,000 for married filers electing gift splitting on their federal tax return), no federal gift tax or generation-skipping transfer tax will be imposed on the Account Owner or Third-Party Contributor, as applicable, for gifts to the Beneficiary during that year. (These annual exclusion amounts are periodically adjusted for inflation.) In cases where contributions to a Qualified Tuition Program account exceed the applicable annual exclusion amount for a single Beneficiary, the contributions may be subject to federal gift tax and possibly generation-skipping transfer tax in the year of contribution. However, an individual currently can make a gift to an Account for a Beneficiary of up to five times the annual exclusion amount. For example, for 2018, the maximum contribution that may be made using this rule would be $75,000 in one year (or married filers electing gift splitting can make a joint gift of up to $150,000 in one year) without triggering the tax. To do this, the person making the contribution must elect to treat the entire gift as a series of five equal annual gifts. The five-year prorating is elected by filing a gift tax return for the year in which the gift is made. Once this election is made, any additional gifts by the person making the contribution to the same Beneficiary during the applicable five years that will, when combined with the gift spread over five years under Section 529, result in a gift in any year of more than the annual exclusion amount may be subject to gift tax or generation-skipping transfer tax and will require a separate federal gift tax return.

  Amounts in an Account that were considered completed gifts by the Account Owner or Third-Party Contributor who makes the contribution will not be included in such person's gross estate for federal estate tax purposes. However, if such person elects to treat the gifts as having been made over a five-year period and dies before the end of the five-year period, the portion of the contribution allocable to the remaining years in the five-year period (not including the year of death) would be includable in computing such person's gross estate for federal estate tax purposes.

  Each individual has an $11,200,000 (as of 2018, and indexed for inflation) lifetime exemption equivalent that may be applied to gifts in excess of the gift tax annual exclusion amounts referred to above made after December 31, 2017 and before January 1, 2026, and a $5,600,000 (as of 2018, and indexed for inflation) lifetime exemption equivalent that may be applied to gifts made before January 1, 2018 or after December 31, 2025. For this reason, this tax is unlikely to apply to many individuals making a contribution to Program Accounts or Beneficiaries. The maximum gift tax rate imposed on gifts not sheltered by the annual exclusion or lifetime exemption is 40%. A person making or contemplating a contribution to a Program Account should consult with his or her own tax advisor regarding the applicability of gift, estate and generation-skipping transfer tax to their Program Account transactions, the current lifetime exemptions and the gift tax filing requirements.

  Under Section 529, amounts distributed on account of the death of a Beneficiary will be included in the Beneficiary's gross estate for federal estate tax purposes. Each individual has an $11,200,000 exemption (as of 2018, subject to annual upwards adjustment for inflation), reduced by the amount of lifetime gifts made by such individual in excess of the annual gift tax exclusion amounts, for deaths occurring after December 31, 2017 and before January 1, 2026, and a $5,600,000 (as of 2018, and indexed for inflation) estate tax exemption, reduced by the amount of lifetime gifts made by such individual in excess of the annual gift tax exclusion amounts, for deaths occurring before January 1, 2018 or after December 31, 2025. The proposed U.S. Treasury regulations provide, however, that all amounts in an Account at the death of a Beneficiary will be included in the Beneficiary's gross estate for federal estate tax purposes without regard to whether any distribution results from the Beneficiary's death. A change of the Beneficiary of an Account or a transfer to an Account for another Beneficiary will potentially be subject to gift tax if the new Beneficiary is of a younger generation than the Beneficiary being replaced. In addition, if the new Beneficiary is two or more generations below the Beneficiary being replaced, the transfer may be subject to the generation-skipping transfer tax (discussed below). Under the proposed U.S. Treasury regulations, these taxes are imposed on the prior Beneficiary. Account Owners should consult their own tax advisors for guidance when considering a change of Beneficiary or a transfer to another Qualified Tuition Program account and should evaluate the potential gift tax implications to an existing Beneficiary when considering such a change. Furthermore, Account Owners who transfer Account assets to the Qualified Tuition Program account of another Account Owner, as well as the recipient Account Owner, should consult their tax advisors regarding the potential applicability of gift tax or generation-skipping transfer tax as a result of such transfer.

Because contributions to an Account are treated as completed gifts for federal transfer tax purposes, an Account Owner or Third-Party Contributor making a contribution to an Account may also need to evaluate the effect of the generation-skipping transfer tax. This tax may apply to contributions in excess of the amount that may be elected to be ratably spread over the above-referenced five-year period where the Beneficiary is deemed to be a member of a generation that is two or more generations younger than the generation of the individual making the contribution. Each individual has a $11,200,000 generation-skipping transfer tax exemption (as of 2018, subject to annual upwards adjustment for inflation) for transfers made after December 31, 2017 and before January 1, 2026, and a $5,600,000 (as of 2018, and indexed for inflation) generation-skipping transfer tax exemption for transfers made before January 1, 2018 or after December 31, 2025 that will be allocated to transfers that are subject to generation-skipping transfer tax unless certain elections are made. For this reason, this tax is unlikely to apply to many individuals making a contribution to Program Accounts or Beneficiaries. However, where it does apply, it is imposed at a 40% rate. A person making or contemplating a contribution to a Program Account who is concerned about application of the generation-skipping transfer tax should consult with his or her own tax advisor.

Accounts Established by Business Entities

Corporations, limited liability companies, partnerships, trusts and other entities that wish to contribute to or own Accounts should seek counsel on how tax rules will apply to their transfer of funds and to Accounts that they own. Business entities should be aware that their contributions to an Account or withdrawals from the Account to pay qualified higher-education expenses may constitute employment compensation (if the Beneficiary is or was an employee or a family member of an employee) or constructive dividends or distributions (if the Beneficiary is an owner or a family member of an owner of the entity).

Unrelated Business Taxable Income

Under Section 529, the Program is generally exempt from taxation, but is subject to taxation on UBTI of charitable organizations under Section 511 of the Code. UBTI includes, among other items, debt-financed investment income and certain income from interest rate swap and other types of investment transactions. The Investment Managers generally are not expected to engage in transactions that would generate UBTI. If any UBTI is generated with respect to any investment or other income of the Program, any tax payable in connection therewith will be treated as an expense of the Program and will be allocated among the applicable Investment Options in accordance with the income allocated thereto from the applicable transaction.

Future Regulatory Changes

The 2008 Advance Notice released by the Treasury Department on January 17, 2008 indicated the Treasury Department's intention to repropose the initial Section 529 regulations proposed in 1998. The reproposed regulations described in the 2008 Advance Notice have not yet been published, and the exact content of such new proposed regulations, and the ultimate content of the final Section 529 regulations, is not known. The 2008 Advance Notice indicated that the new regulations, when promulgated, would generally apply prospectively and that there would be a grace period of no less than 15 months for programs to implement most of the regulatory changes. There is no certainty that the specific provisions described in the 2008 Advance Notice will become effective nor is it clear whether, if and when any such provisions become effective, any of such provisions will be applicable to Accounts established prior to the effective date of the regulations or to amounts contributed to Accounts prior to such effective date. The specific provisions in the Advance Notice include, among others:

- Clarification that a distribution for the payment of qualified higher-education expenses must occur in the same calendar year as the applicable qualified higher-education expenses are incurred, or, for qualified higher-education expenses incurred on or before March 31 of a calendar year, in the calendar year preceding such expenses.
- Clarification that investment losses in Section 529 accounts may be deducted only as miscellaneous itemized deductions, which are deductible only if in excess of 2% of adjusted gross income. (However, investment losses may not be deducted in tax years beginning on or after January 1, 2018 and before January 1, 2026.)
- Amounts withdrawn by an account owner that correspond to contributions to the Section 529 account by a person other than the account owner would be subject to taxation as income to the account owner, even if they would otherwise be treated as a non-taxable return of the investment.
- A new anti-abuse regulation would deny favorable gift tax, estate tax and generation-skipping tax treatment to contributions to 529 accounts that are deemed to be made for purposes other than providing for the qualified higher-education expenses of the designated beneficiary.
- Liability for payment of gift tax due upon an account owner's designation of a new beneficiary of a lower generation than the prior beneficiary would be shifted from the prior beneficiary to the account owner.
- In the case of Section 529 accounts for which the contributor is also the designated beneficiary, any subsequent change in the designated beneficiary would be treated as a distribution to the contributor and a gift by the contributor to the new beneficiary.
- Account ownership may be restricted to individuals.
- The only specified circumstance under which, upon the death of the beneficiary of a Section 529 account, amounts in such account would be included in the beneficiary's estate for estate tax purposes will be if the account owner makes a distribution from the account to the beneficiary's estate within six months of the beneficiary's death.

State Income Tax Treatment

- **In General.** The tax benefits described in this Investor Handbook are federal tax benefits. State and local tax treatment may differ based on the state or states in which you pay taxes. **If you pay state taxes in states other than New Jersey, you should evaluate whether any state in which you or your Beneficiary pays taxes will tax any earnings withdrawn from your Account. You should also consider whether any state in which you, a Third-Party Contributor or your Beneficiary resides or pays taxes offers special tax incentives or other benefits in connection with any Qualified Tuition Program sponsored by such state that may not be available to you, a Third-Party Contributor or your Beneficiary under the Program. You should consider this state tax treatment and other benefits, if any, before making an investment decision.** You should also consult with your tax advisor about any state or local taxes, including income, gift, estate and generation-skipping transfer taxes.
- **State of New Jersey.** Contributions to an Account by an Account Owner or a Third-Party Contributor do not result in income to the Beneficiary for purposes of New Jersey personal income tax. Neither an Account Owner nor a Third-Party Contributor may deduct the contribution from gross income for purposes of determining New Jersey personal income tax (i.e., contributions to an Account are made on an after-tax basis). Account Owners and Beneficiaries are exempt from New Jersey personal income tax on undistributed earnings allocated to Accounts established under the Program. Upon distribution from an Account the earnings portion of the amount distributed will be recognized as taxable income of the distributee unless such distribution: (i) is used to pay for qualified higher-education expenses (for "qualified higher-education expenses" include distributions for Qualified Elementary or Secondary Education Expenses, see discussion below) pursuant to Section 529; (ii) is a Rollover Distribution; or (iii) involves a change in the Beneficiary of an Account to a Member of the Family of the prior Beneficiary of the Account. The portion of a distribution that is attributable to earnings is determined in accordance with the principles applied in determining the amount of a distribution attributable to earnings under Section 529. The earnings portion of any amount distributed to pay for Qualified Elementary or Secondary Education Expenses may not be treated as taxable income of the distributee for New Jersey personal income tax purposes. However, New Jersey taxpayers receiving distributions from an Account for payment of Qualified Elementary or Secondary Education Expenses should consult a tax adviser as to the appropriate treatment of the earnings portion of such distributions. New Jersey taxpayers receiving distributions from an Account for payment of Qualified Elementary or Secondary Education Expenses should consult a tax adviser as to the appropriate treatment of the earnings portion of such distributions.

New Jersey currently has both an estate tax and an inheritance tax. New Jersey's estate tax, which is imposed upon the estates of New Jersey resident decedents, generally follows the federal estate tax rules in determining the taxable estate, and therefore generally excludes an Account from the Account Owner's estate to the same extent that it is excluded for federal estate tax purposes. For New Jersey inheritance tax purposes, the New Jersey Division of Taxation takes the position that Accounts are included in the gross estate of an Account Owner who is a New Jersey resident decedent. Accordingly, the transfer of an Account to a new Account Owner upon the death of an Account Owner may be subject to New Jersey inheritance tax if the new Account Owner is someone other than a lineal descendant of the decedent. Transfers made to an Account by a Third Party Contributor who was a New Jersey resident within three years of such Third Party Contributor's death may be subject to New Jersey inheritance tax if they were made to a non-lineal descendant and if the contribution is determined both to constitute a material part of the decedent's estate, or to be in the nature of a final disposition or distribution of the estate, and to have been made in contemplation of death. Account Owners and Third-Party Contributors should consult their own tax advisors about the potential applicability of New Jersey estate and inheritance taxes, and the liability for the payment of such taxes when due.

- **Other States.** Potential Account Owners and Third-Party Contributors should consider the potential impact of taxes which may be imposed by jurisdictions other than the State. It is possible that an Account Owner or recipient of money distributed from Program Accounts may be subject to income tax on Account earnings or distributions by a state other than New Jersey, where he or she lives or pays taxes. It is also possible that Rollover Distributions to Program Accounts from another Qualified Tuition Program may be subject to a tax imposed on the Rollover Distributions by another state. Other state or local taxes may also apply.

Account Owners, Third-Party Contributors and Beneficiaries should consult their own tax advisors about the applicability, if any, of state or local taxes in other jurisdictions and the applicability of the New Jersey personal income tax on Account Owners and Beneficiaries who are not New Jersey residents.

Tax Reporting

The Program will report distributions and other matters to the IRS, distributees and other persons, if any, to the extent required pursuant to applicable federal, state or local law, regulation or ruling or requested by a taxing authority entitled to such information. Under federal law, a separate return will be filed by the Program with the IRS reporting distributions from an Account to each distributee reflecting, among other information, the earnings portion withdrawn during the calendar year to which the report pertains. By January 31 of the following year, the distributee (which in the case of Qualified Distributions is deemed to be the Beneficiary whose qualified higher-education expenses are paid thereby) will receive a copy of the return or a corresponding statement.

Reporting and Other Matters

Account Statements

The Program Record-Keeper will send quarterly Account statements to Account Owners.

Audited Financial Statements

An annual audit report will be prepared for the Program by an independent accountant in accordance with generally accepted accounting principles.

Tax Withholding

Under the proposed U.S. Treasury regulations, distributions from Accounts are not subject to backup withholding.

Continuing Disclosure

HESAA has executed a Continuing Disclosure Agreement for the benefit of Account Owners in accordance with Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934, as amended. Under the Continuing Disclosure Agreement, HESAA is required to provide certain updated financial information and operating data relating to the Program ("Annual Information") within 200 days of each June 30, and notices of the occurrence of certain enumerated events set forth in the Continuing Disclosure Agreement. The Annual Information is required to be filed by or on behalf of HESAA with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) website.

Securities Investor Protection Corporation (SIPC)

Account Owners may obtain information about the Securities Investor Protection Corporation ("SIPC"), including the SIPC brochure, by contacting SIPC at its website, **www.sipc.org**, or its telephone number, (202) 371-8300. The inclusion of this information is not intended to suggest that Accounts are subject to SIPC protection or that any losses sustained in an Account would be covered by SIPC.

Obtaining Additional Information; Program Contacts

Other documents and reports, including prospectuses for any mutual fund which is referenced in this Investor Handbook, are available upon request from the Plan Record-Keeper. The toll-free phone number for the Program is (877) 4NJBEST (or (877) 465-2378). The Plan's and Program Record-Keeper's address is NJBEST 529 College Savings Plan, P.O. Box 33030, St. Petersburg, FL 33733-8030. The email address for the Plan is **NJBEST@HESAA.org** and the website is **www.NJBEST.com**.

Appendix A

Participation Agreement

ARTICLE I – General Provisions

By signing and submitting the application for an Account, you (the original "Account Owner") agree, on behalf of yourself, each Beneficiary of your Account, any Third-Party Contributors to your Account and any successor Account Owner, to the terms and conditions set forth in this Participation Agreement and in the Investor Handbook, subject to the requirements of the Act and of regulations adopted by HESAA under the Act. Copies of the Act, and of such regulations, may be obtained from HESAA or the Program Record-Keeper upon request. As used in this Participation Agreement, "Investor Handbook" refers to the Investor Handbook to which this Participation Agreement is attached, and any revised, supplemented or replacement version applicable to Direct Class Trust Shares from time to time. "Direct Class Trust Shares" means interests in the Trust received in exchange for contributions made, without use of a Financial Advisor, to an Account owned by an individual Account Owner who is a New Jersey resident or whose Beneficiary is a New Jersey resident, or alternatively, to an Account owned by an employee of any Franklin Templeton Investments company (or his or her immediate family member) who does not reside in New Jersey, if contributions are made directly to the applicable Account without the assistance of a Financial Advisor. Other capitalized terms used, but not defined, in this Participation Agreement have the meaning ascribed to such terms in the Investor Handbook.

The Act authorizes and directs HESAA to establish and administer the Program in a manner that qualifies the Program as a "qualified tuition program" as defined in Section 529 of the Internal Revenue Code, as amended. The Program is established and maintained so that the Account Owners and Third-Party Contributors may make contributions to the Account for the purpose of meeting the qualified higher-education expenses of the Beneficiary of such Account.

HESAA has retained the Program Manager to provide, directly or through affiliates and sub-contractors, certain investment management, administrative and marketing services for the Program pursuant to a contract between HESAA and FTDI. The Program does not provide investment management services for the Division Investment Options.

The Program has been structured so as to provide several Investment Options under which amounts contributed to an Account are invested by the Trust in one or more of the investment portfolios established within the Trust.

The terms and conditions under which Accounts are established and contributions to Accounts are invested are set forth in the Investor Handbook. Notwithstanding anything to the contrary in this Participation Agreement, investments by eligible Contributors under the Division Investment Options are not offered under or described in the Investor Handbook, but are offered and described under separate materials provided by HESAA (the "Division Investment Options Disclosure").

ARTICLE II – Opening an Account

1. ***General.***

In order to open an Account, the prospective Account Owner must sign and submit by mail, electronic or other acceptable means to the Program Manager the appropriate completed application for the Program, and make an initial contribution.

2. ***Account Designations.***
   - **A. Beneficiary Designation.** The Account Owner must designate the Beneficiary in the application at the time an Account is established, unless the Account Owner is eligible to open a scholarship Account under the Program and Section 529 without designating a Beneficiary. The Program Record-Keeper, on behalf of HESAA, shall establish a separate Account for each separate Beneficiary designated by the Account Owner. The Beneficiary of the Account may be changed as described in the Investor Handbook.
   - **B. Investment Option Designation.** The Account Owner must designate on the application or other authorized form the Investment Option(s) under which the initial and each subsequent contribution will be invested by the Trust.
   - **C. Successor Account Owner.** The Account Owner may transfer ownership of the Account to a successor Account Owner upon completion of the appropriate form, which includes submission of a notarized signature or signature guaranty from a banking institution. In addition, the Account Owner may designate any person as the successor Account Owner in the event of his or her death. If such designation is not made on the application form, the Account Owner may make such designation at a later time through written notification to the Program Record-Keeper. The Account Owner should consult a probate lawyer as to the effect of the designation of a successor owner in the Account Owner's state of residence. If a successor Account Owner has not been properly designated, or if the successor Account Owner does not survive the Account Owner, ownership of the Account shall be transferred as described in the Investor Handbook, subject to the requirements of applicable law.

3. Accounts Established by Fiduciaries.

Accounts may be established as fiduciary accounts. An Account may be opened for a minor under UTMA or UGMA. The Account Owner should review the Investor Handbook about special restrictions applicable to Accounts established for a minor under UTMA or UGMA, and should review the Investor Handbook and consult a tax advisor and probate lawyer about the advisability of transferring UTMA/UGMA funds to an Account.

4. Accounts Established by Business Entities.

Certain types of legal entities, including corporations, partnerships, limited liability companies, limited liability partnerships, limited and general partnerships, and nonprofit corporations, may establish Accounts.

ARTICLE III – Contributions and Withdrawals

Contributions to, and withdrawals from, an Account may be made as described in the Investor Handbook.

ARTICLE IV – Fees and Charges

1. General.

HESAA and/or the Program Manager shall charge such fees in such amounts as HESAA and the Program Manager may determine are necessary. HESAA may change the services and functions for which it or the Program Manager charges fees as well as the amount of such fees. Fees charged by HESAA or the Program Manager may be payable by the Account Owner or a Third-Party Contributor or may be payable out of the assets of the applicable portfolio of the Trust. HESAA and/or the Program Manager reserves the right to waive any fee upon finding that such waiver would be appropriate due to extenuating circumstances.

2. Specific Fees and Expenses.

- **A. Fees.** A Program management fee is currently charged by the Program Manager. This fee, including the methods by which such fee is paid or payable, is described in detail in the Investor Handbook. In addition, HESAA or the Program Manager may, at its option, charge a "Rollover Fee" of $75 for a distribution from the Account that is transferred to an account in a Qualified Tuition Program other than the Program in accordance with the requirements applicable to a "rollover distribution" under Section 529.

- **B. Expenses.** Each of the investment companies or ETF in which assets are invested under each Investment Option also has investment management fees and other expenses, and, in the case of certain Investment Options, additional charges described in the Investor Handbook or Division Investment Options Disclosure, as applicable, which fees, expenses and charges will be deducted by the applicable investment company or ETF and result in a reduction of the net asset value of such investments, thereby correspondingly decreasing the net asset value of the applicable Trust Shares.

ARTICLE V – Representations, Warranties and Acknowledgments

The original Account Owner, by execution of an Account application, each successor Account Owner, by succession to ownership of the Account, and each Third-Party Contributor, by contributing to the Account, represents and warrants to, acknowledges for the benefit of and agrees with HESAA and the Program Manager as follows:

A. The Account Owner or Third-Party Contributor, as applicable, has received, read and understands the Investor Handbook and this Participation Agreement, including the appropriate application form. In making a decision to establish or contribute to an Account, such person has not relied on any representations or other information about the Program, whether oral or written, other than as set forth in the Investor Handbook and this Participation Agreement, and, if applicable, the Division Investment Options Disclosure. Each such person will be deemed to certify, at the time of each contribution, that such contribution, together with the earnings thereon, is intended to be applied to pay for the qualified higher-education expenses of the Beneficiary. All information provided by an Account Owner in the application form and in any form or other notice requesting a distribution from an Account or other form submitted in connection with the Account is and will be true and correct. The Account Owner will promptly notify the Program Record-Keeper of any changes to any such information.

B. Each Account Owner and Third-Party Contributor understands that the Trust will invest contributions made to the Account under each of the Investment Options selected by the Account Owner pursuant to the Program's then applicable Investment Policy adopted by HESAA, and that HESAA may change such Investment Policy at any time without the consent of Account Owners, Third-Party Contributors or Beneficiaries. Each Account Owner and Third-Party Contributor agrees that such person has no authority to direct the investment of any contributions made to the Account, or any earnings thereon, either directly or indirectly; provided that the Account Owner is permitted to select among Investment Options and reallocate assets among Investment Options to the extent permitted under the Code, the Investor Handbook and this Participation Agreement. Each Account Owner and Third-Party Contributor understands and acknowledges that HESAA will retain the right to change the investment instruments in which each Trust Portfolio corresponding to an Investment Option is invested and to consolidate Trust Portfolios or close Trust Portfolios and substitute replacement Trust Portfolios, and that, in accordance with the requirements of Section 529, none of the Account Owner, any Third-Party Contributor or any Beneficiary shall have any right to consent or object to such changes or own or have any voting rights as to any investment made by the Trust with contributions received under this Participation Agreement.

C. The original Account Owner is opening, each successor Account Owner is succeeding to ownership of and each Account Owner or Third-Party Contributor making a contribution is contributing to, the Account for the sole purpose of providing funds for qualified higher-education expenses of the Beneficiary of the Account, and no such person will make any contributions in excess of the limitations described in the Investor Handbook. Contributions to an Account that cause the balance in all Accounts established on behalf of a Beneficiary under the Program to exceed the amount described in the Investor Handbook will be returned to the person making the applicable contribution, subject to any investment losses or applicable liabilities and tax penalties.

D. Each Account Owner and Third-Party Contributor understands that participation in the Program does not guarantee, and that none of the State of New Jersey, HESAA, the Trust, NJBEST, the Division of Investment, the Program Manager or any other person makes any promise, that: (i) contributions and the investment return on contributions, if any, will be adequate to cover future tuition and other qualified higher-education expenses of a Beneficiary; (ii) the Beneficiary of the Account will be admitted to any institution (including any Eligible Educational Institution); (iii) upon admission to an institution, the Beneficiary will be permitted to continue to attend; (iv) the Beneficiary will receive a degree from any institution; or (v) New Jersey residency will be created for tax, financial aid eligibility or any other purpose for the Beneficiary solely because the individual is a Beneficiary of an Account under the Program. Each Account Owner and Third-Party Contributor acknowledges that the Beneficiary of the Account has not been given any rights or legal interest with respect to the Account unless the Beneficiary is the Account Owner.

E. NONE OF: 1) THE STATE OF NEW JERSEY; 2) HESAA; 3) FRANKLIN TEMPLETON INVESTMENTS OR ANY ENTITY AFFILIATED THEREWITH; 4) ANY CONSULTANT OR ADVISER RETAINED BY ANY SUCH PARTY; OR 5) ANY OTHER PERSON GUARANTEES OR INSURES ANY ACCOUNTS ESTABLISHED UNDER THE PLAN, THE PRINCIPAL DEPOSITED OR THE INVESTMENT RETURN. EACH ACCOUNT OWNER AND THIRD-PARTY CONTRIBUTOR UNDERSTANDS THAT THE VALUE OF ANY ACCOUNT AT ANY TIME MAY BE MORE OR LESS THAN THE AMOUNT INVESTED IN THE ACCOUNT. Each Account Owner and Third-Party Contributor understands that returns on contributions or investments in the Program are not guaranteed by the State of New Jersey, HESAA, the Trust, NJBEST, the Division of Investment, the Program Manager or any other contractor, consultant or adviser retained by any such party, that none of such parties assumes any risk or liability for funds contributed to or invested in the Program and that the Account Owner assumes all investment risk of an investment in or contribution to the Program, including the potential loss of principal and liability for income tax surcharges or penalties that are assessable in connection with a distribution of amounts invested under the Program. Neither the Account, nor any amount contributed thereto or on deposit therein, is a bank deposit or is insured by the Federal Deposit Insurance Corporation. Each Account Owner and Third-Party Contributor recognizes that the investment of contributions to the Account and of Account balances involves certain risks, and has taken into consideration and understands the risk factors relating to investments of contributions to the Account and Account balances, including, but not limited to, those set forth in the Investor Handbook under the caption "Risk Factors."

F. Each Account Owner and Third-Party Contributor recognizes that none of the Account Owner, any Third-Party Contributor or the Beneficiary is or will be permitted to have any role in the selection or retention of the Program Manager or to direct the investment of contributions to the Account and of Account balances, either directly or indirectly, other than the Account Owner's selection, and potential later revision, of the Investment Option(s) for the contributions to the Account. Each Account Owner and Third-Party Contributor understands and acknowledges that once invested under a particular Investment Option, contributions and earnings thereon may only be transferred by the Account Owner to another Investment Option twice per calendar year, or otherwise when the Account Owner changes the Beneficiary of the Account as provided in the Investor Handbook. All reallocations of assets among the Investment Options in all Program Accounts established by the Account Owner for a particular Beneficiary must occur on the same two days of the applicable calendar year, with the exception of reallocations in connection with a change of the Beneficiary of the applicable Program Account.

G. Each Account Owner and Third-Party Contributor acknowledges and agrees that no Account can be used by the Account Owner, Third-Party Contributor or the Beneficiary as collateral for any loan. Any attempted use of an Account as collateral for a loan shall be void.

H. Each Account Owner and Third-Party Contributor acknowledges and agrees that no Account Owner, Third-Party Contributor or Beneficiary may assign or transfer any interest in any Account except, to the extent described in the Investor Handbook, to any person designated by the Account Owner to assume ownership of the Account in accordance with the Investor Handbook and this Participation Agreement or as required by law (including transfers of record ownership from a custodian of an Account established for a minor under

UTMA or UGMA when the minor for whom such Account was established reaches the age specified by applicable law). Any other attempted assignment or transfer of such interest shall be void.

I. Each Account Owner and Third-Party Contributor acknowledges and agrees that the Program shall not loan any assets on deposit in any Account established under the Program to any Account Owner, Third-Party Contributor or Beneficiary.

J. Each Account Owner and Third-Party Contributor acknowledges and agrees that the Program is established and maintained by the State of New Jersey and HESAA pursuant to applicable state laws and is intended to qualify for certain federal income tax consequences under Section 529. Each Account Owner and Third-Party Contributor further acknowledges that such federal and state laws are subject to change, sometimes with retroactive effect, and that none of the State of New Jersey, HESAA, the Trust, NJBEST, the Division of Investment, the Program Manager or any contractor, adviser or consultant retained by any such party makes any representation that such state or federal laws will not be changed or repealed or that the terms and conditions of the Program will remain as currently described in the Investor Handbook and this Participation Agreement.

K. The Account Owner acknowledges and agrees that he or she will, or will cause the Beneficiary to, provide, if required by HESAA or Program Manager in order to comply with Section 529, a signed statement identifying the amount of distributions, if any, received from an institution at the end of each calendar year in which distributions for qualified higher-education expenses are made and at the end of the subsequent calendar year, and/or any other information that may be required in order to comply with Section 529.

L. If the Account Owner is establishing an Account as a custodian for a minor under UTMA or UGMA, the Account Owner acknowledges and agrees that he or she has reviewed the portion of the Investor Handbook entitled "Opening, Maintaining and Contributing to an Account – Accounts Established under UTMA or UGMA," and acknowledges and agrees that such Account Owner assumes responsibility for any adverse consequences resulting from the establishment of an Account under UTMA or UGMA.

M. If a person is executing this Agreement in a representative or fiduciary capacity, such person represents that such person has full power and authority to enter into and perform this Participation Agreement on behalf of the entity or individual named as the Account Owner.

N. Each Account Owner and Third-Party Contributor understands that FTDI will not necessarily continue as Program Manager for the entire period the Account is open, that, even if it does, there is no assurance that the terms and conditions of the current Services Agreement between HESAA and FTDI would continue without material change, and that there are, accordingly, various potential consequences Account Owners and Third-Party Contributors should take into consideration as discussed in the Investor Handbook under the caption "Risk Factors – Change in Investment Policy, Program Manager or Investment Manager," including: (i) changes in the Investment Manager of the Franklin Templeton Investment Options; and (ii) changes in the current Program management fee or other fees.

O. Each Account Owner and Third-Party Contributor acknowledges that no such person has been advised by the State of New Jersey, HESAA, the Trust, the Program Manager or any of their affiliates, officers or employees to invest, or to refrain from investing, in a particular Investment Option. Each Account Owner and Third-Party Contributor acknowledges that such person is not relying on the State of New Jersey, HESAA, the Trust, the Program Manager or any of their affiliates, officers or employees as such person's tax consultant or financial planner.

ARTICLE VI – Miscellaneous Provisions

1. **Limitation of Liability.** The original Account Owner, by execution of an Account application, each successor Account Owner, by succession to ownership of the Account, and each Third-Party Contributor, by contributing to the Account, acknowledges that the payment of obligations under this Participation Agreement will be made only from the applicable investment portfolio(s) of the Trust. Any claim against the Program or HESAA pursuant to a Participation Agreement may be made solely against the assets of the applicable investment portfolio(s) of the Trust and not against any other funds or sources of funds of HESAA or the State of New Jersey. Each Account Owner and Third-Party Contributor further acknowledges that neither HESAA nor the Trust may pledge the credit or taxing power of the State of New Jersey.
2. **Contract Modifications.** HESAA reserves the right to modify this Participation Agreement, as deemed necessary by HESAA in its sole discretion, for such reasons as, but not limited to, assuring compliance with state or federal laws and regulations or preserving the fiscal integrity of the Program. To the extent, if any, that this Participation Agreement references procedures, HESAA reserves the right to change those procedures.
3. **Necessity of Qualification.** The Program is established with the intent that it shall qualify for favorable federal tax treatment under Section 529. Each Account Owner and Third-Party Contributor agrees and acknowledges that qualification under Section 529 is vital, and agrees that this Participation Agreement may be amended by HESAA at any time without the Account Owner's or Third-Party Contributor's consent or prior notice if HESAA determines that such an amendment is required to maintain qualification of the Program under Section 529 or to comply with other applicable laws.

4. **Reporting.** HESAA shall provide, or cause to be provided, quarterly statements to Account Owners with respect to each Account, and tax reporting with respect to each Account as required by federal tax law.
5. **Account Owner's Indemnity.** The Account Owner recognizes that the establishment of any Account will be based upon the statements, agreements, representations, warranties and covenants set forth in this Participation Agreement, and the Account Owner agrees to indemnify and to hold harmless the State of New Jersey, HESAA, the Trust, NJBEST, the Division of Investment, the Program Manager and any representatives or contractors of any such party from and against any and all loss, damage, liability or expense, including costs of reasonable attorney's fees, to which they may be put or which they may incur by reason of, or in connection with, any misstatement or misrepresentation made by the Account Owner, any Third-Party Contributor or any Beneficiary, any breach by any such person of the acknowledgments, representations or warranties contained herein, any failure of any such person to fulfill any covenants or agreements set forth herein or any action taken by such person other than in accordance with the terms of this Participation Agreement. All statements, representations, warranties or covenants of any such person, and this paragraph, shall survive the termination of this Participation Agreement.
6. **Finality of Decisions and Interpretations.** All decisions and interpretations by HESAA and the Program Manager in connection with the operation of the Program shall be final and binding on each Account Owner, Third-Party Contributor, Beneficiary and other person affected thereby.
7. **Binding Nature; Third-Party Beneficiaries.** This Participation Agreement shall survive the Account Owner's death and shall be binding upon the Account Owner's personal representatives, heirs, successors and assigns. Each of the Program Manager and HESAA is a Third-Party beneficiary of, and can rely upon and enforce, any agreements, representations and warranties in this Participation Agreement. Neither a Third-Party Contributor nor any Beneficiary is an intended beneficiary of or may enforce the provisions of this Participation Agreement.
8. **Amendment and Termination.** HESAA may at any time, and from time to time, amend this Participation Agreement, or suspend or terminate the Program, by giving written notice of such action to the Account Owner (including, without limitation, through the inclusion of an amended form of Participation Agreement in a revised Investor Handbook distributed to the Account Owner or the separate distribution of an amended form of Participation Agreement to the Account Owner) but, except as otherwise expressly provided herein or permissible under applicable law, the Account Owner's Account may not be diverted from the Account Owner's or the Beneficiary's exclusive benefit. Nothing contained in this Participation Agreement shall constitute an agreement or representation by HESAA or any other party that HESAA will continue to maintain the Program indefinitely.
9. **Effective Date.** The Participation Agreement shall become effective between HESAA and an original Account Owner upon the Account Owner's execution of an appropriate application form for the establishment of an Account, the acceptance of such application form by the Program Record-Keeper on behalf of HESAA and the receipt of an initial contribution to the Account established for such Account Owner. The Participation Agreement shall become effective as between HESAA and any successor Account Owner upon the successor Account Owner's succession to ownership of the Account, without the need for other action. The Participation Agreement shall become effective with respect to the representations, warranties, and acknowledgments of any Third-Party Contributor immediately upon receipt by or on behalf of HESAA of any contribution from such Third-Party Contributor, without the need for other action.
10. **Factual Determinations.** All factual determinations regarding residency, whether a false statement by an Account Owner, Third-Party Contributor or Beneficiary relating to a substantial fact regarding the Program was made with the intention to deceive and any other factual determinations regarding this Participation Agreement will be at the sole discretion of HESAA.
11. **Governing Law.** The Participation Agreement will be construed in accordance with the laws of the State of New Jersey.
12. **Construction.** In the event that any clause or portion of this Participation Agreement is found to be invalid or unenforceable by a court of competent jurisdiction, at the option of HESAA, this Participation Agreement may be deemed void or that clause or portion found to be invalid will be severed from this Participation Agreement and the remainder of this Participation Agreement will continue in full force and effect as if such clause or portion had never been included.
13. **Exclusivity.** Subject to all applicable state and federal laws, rules, and regulations, the Investor Handbook, including the most recent Participation Agreement included therein, and the related application form, (and, if applicable, the Division Investment Options Disclosure) constitute the complete and exclusive statement of the agreement between HESAA and the Account Owner, and supersede any prior agreement, oral or written, and any other communications between HESAA (through any means and by any individuals) relating to the subject matter of this Participation Agreement. If however, there is a conflict between any such documentation and this Participation Agreement, the terms described in the then current Investor Handbook shall take precedence.
14. **Actions by Program Manager and Program Record-Keeper.** The Program Manager and Program Record-Keeper may act, as stated in the Investor Handbook or otherwise authorized from time to time by HESAA, as HESAA's, the Trust's or the Program's agents for purposes of effecting actions, instructions or determinations by HESAA, the Trust or the Program under this Participation Agreement.

15. **Arbitration.** The original Account Owner, by execution of an Account application, each successor Account Owner, by succession to ownership of the Account, and each Third-Party Contributor, by contributing to the Account, agrees (on behalf of themselves and the Beneficiary of the Account) that all controversies which may arise between any Account Owner, Third-Party Contributor or Beneficiary and HESAA or the Program Manager involving any transaction in the Account, or the construction, performance or breach of this Participation Agreement, shall be determined by arbitration.

    This agreement to arbitrate all controversies does not constitute an agreement to arbitrate the arbitrability of any controversy, unless otherwise clearly and unmistakably required by the arbitration rules of the forum elected, as set forth below.

    In connection with this agreement to arbitrate, the Account Owner and each Third-Party Contributor acknowledge that:

    - Arbitration is final and binding on the parties.
    - Each Account Owner, Third-Party Contributor and Beneficiary of the Account, HESAA and the Program Manager are waiving their right to seek remedies in court, including the right to a jury trial.
    - Pre-arbitration discovery is generally more limited than and different from court proceedings.
    - The arbitrators' award is not required to include factual findings or legal reasoning and any party's right to appeal or to seek modification of rulings by the arbitrators is strictly limited.
    - The panel of arbitrators will typically include a minority of arbitrators who are affiliated with the securities industry.

    Any arbitration under this Participation Agreement shall be conducted only before the New York Stock Exchange, Inc., an arbitration facility provided by any other exchange of which the Program Manager is a member, or the Financial Industry Regulatory Authority, and in accordance with its arbitration rules then in force. An Account Owner, Third-Party Contributor or Beneficiary may elect in the first instance whether arbitration shall be conducted before the New York Stock Exchange, Inc., or the Financial Industry Regulatory Authority, but if the Account Owner, Third-Party Contributor or Beneficiary fails to make such election, by registered letter or telegram addressed to the office of HESAA or the Program Manager, as applicable, or such other address that HESAA or the Program Manager may advise such person of from time to time, before the expiration of five days after receipt of a written request from HESAA or the Program Manager to make such election, then HESAA or the Program Manager may make such election. Judgment upon the award of the arbitrators may be entered in any court, state or federal, having jurisdiction.

    Nothing contained herein shall limit the ability of the arbitrators to make an award under the rules of the arbitration forum and applicable law. Nothing contained herein is intended: (i) to cause any Third-Party Contributor or Beneficiary to have, or to imply that any such person may have, any contractual rights under this Participation Agreement; or (ii) to cause any such person to be, or to imply that any such person may be intended third-party beneficiaries of this Participation Agreement.

    No person who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action shall bring a putative or certified class action to arbitration, or seek to enforce any pre-dispute arbitration, or seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action until:

    (i) the class certification is denied;

    (ii) the class is decertified; or

    (iii) such person is excluded from the class by the court.

    Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Participation Agreement except to the extent stated herein.

Appendix B

Historical Performance of the Trust Portfolios

The table below shows total returns for Franklin Templeton Investment Options under the NJBEST 529 College Savings Plan. The investment return and principal value will fluctuate so that an investor's Trust Shares, when redeemed, may be worth more or less than the original cost. See "Risk Factors – General Risks" and "Risk Factors – General Investment Risks." Performance shown is past performance and includes periods with unusually favorable conditions in some markets. No assurances can be given that such performance or market conditions will be repeated in the future. Ongoing market volatility can dramatically impact short-term returns. Current performance may differ from figures shown.

The returns shown under "Total Return" are net of applicable fees and expenses of the Plan, including: (1) except for the Franklin U.S. Government Money 529 Portfolio, a Program management fee of 20 basis points per annum prior to April 1, 2014 and of 10 basis points thereafter assessed against the assets of the applicable Trust Portfolio, and of 40 basis points for prior periods; no Program management fee has been assessed to date on the Franklin U.S. Government Money 529 Portfolio; and (2) expenses applicable to the share classes of the underlying mutual funds in which the applicable Trust Portfolio invests. Underlying fund expenses will vary and in some cases have been, and may from time to time be, reduced by fee and expense waivers or reimbursements, which may be ended at any time. The implementation and termination of any such waiver or reimbursement would affect future performance. For more recent performance information, please call (877) 4NJBEST (or (877) 465-2378) *or visit* ***www.NJBEST.com****.*

The following Age-Based Investment 529 Portfolios will not be offered prior to March 5, 2019, and accordingly no historical performance with respect to such Trust Portfolios is included in this Appendix B.

Franklin Age-Based Growth Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Growth Allocation Age 19+ Years 529 Portfolio

Franklin Age-Based Moderate Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Moderate Allocation Age 19+ Years 529 Portfolio

Franklin Age-Based Conservative Allocation Age 5–8 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 11–12 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 15–16 Years 529 Portfolio
Franklin Age-Based Conservative Allocation Age 19+ Years 529 Portfolio

Trust Portfolio Performance[1]

		Average Annual Total Return as of September 30, 2018					
Trust Portfolio	**Year-to-Date Total Return as of 9/30/2018**	**1 Year**	**3 Years**	**5 Years**	**10 Years**	**Since Inception**	**Inception Date[2]**
OBJECTIVE-BASED ASSET ALLOCATIONS							
Franklin Corefolio® 529 Portfolio[4]	9.44%	13.99%	14.01%	10.33%	9.96%	—	03/25/03
Franklin Growth Allocation 529 Portfolio[3]	7.21%	11.30%	12.57%	9.26%	9.57%	—	03/24/03
Franklin Growth & Income Allocation 529 Portfolio[3]	3.76%	5.61%	7.17%	5.32%	6.69%	—	03/24/03
Franklin Income Allocation 529 Portfolio	-0.30%	-0.60%	1.74%	1.29%	3.06%	—	04/01/03
AGE-BASED ALLOCATIONS							
Franklin Age-Based Growth Allocations							
Newborn–8 Years Portfolio[3] (to be renamed Newborn–4 Years Portfolio on March 5, 2019)	7.15%	11.25%	12.60%	9.33%	9.62%	—	03/24/03
Age 9–12 Years Portfolio[3] (to be renamed 9–10 Years Portfolio on March 5, 2019)	5.54%	8.55%	9.86%	7.32%	8.14%	—	03/25/03

Trust Portfolio	Year-to-Date Total Return as of 9/30/2018	Average Annual Total Return as of September 30, 2018: 1 Year	3 Years	5 Years	10 Years	Since Inception	Inception Date[2]
Franklin Age-Based Growth Allocations (cont'd.)							
Age 13–16 Years Portfolio (to be renamed 13–14 Years Portfolio on March 5, 2019)	3.56%	5.38%	7.12%	5.33%	6.79%	—	03/25/03
Age 17+ Years Portfolio[3] (to be renamed 17–18 Years Portfolio on March 5, 2019)	1.57%	2.29%	4.45%	3.32%	4.91%	—	03/31/03
Franklin Age-Based Moderate Allocations							
Newborn–8 Years Portfolio[3] (to be renamed Newborn–4 Years Portfolio on March 5, 2019)	5.70%	8.66%	9.89%	7.36%	—	8.34%	12/18/09
Age 9–12 Years Portfolio[3] (to be renamed 9–10 Years Portfolio on March 5, 2019)	3.56%	5.34%	7.10%	5.34%	—	6.34%	12/18/09
Age 13–16 Years Portfolio (to be renamed 13–14 Years Portfolio on March 5, 2019)	1.67%	2.38%	4.40%	3.27%	—	4.40%	12/18/09
Age 17+ Years Portfolio[3] (to be renamed 17–18 Years Portfolio on March 5, 2019)	-0.32%	-0.65%	1.77%	1.32%	—	2.38%	12/18/09
Franklin Age-Based Conservative Allocations							
Newborn–8 Years Portfolio[3] (to be renamed Newborn–4 Years Portfolio on March 5, 2019)	3.51%	5.33%	7.03%	5.30%	—	6.51%	12/18/09
Age 9–12 Years Portfolio[3] (to be renamed 9–10 Years Portfolio on March 5, 2019)	1.65%	2.35%	4.42%	3.49%	—	4.56%	12/18/09
Age 13–16 Years Portfolio (to be renamed 13–14 Years Portfolio on March 5, 2019)	-0.33%	-0.65%	1.69%	1.24%	—	2.33%	12/18/09
Age 17+ Years Portfolio[3] (to be renamed 17–18 Years Portfolio on March 5, 2019)	0.29%	0.19%	1.08%	0.73%	—	0.48%	12/18/09
INDIVIDUAL PORTFOLIOS							
S&P 500 Index 529 Portfolio	10.23%	17.68%	17.06%	13.74%	11.63%	—	03/24/03
Franklin U.S. Government Money 529 Portfolio	1.00%	1.00%	0.33%	—	—	0.25%	10/08/14

1. Non-Qualified Distributions from the Program generally are subject to ordinary federal income taxes on earnings and a 10% additional federal tax on earnings, as well as possible state taxes. Performance does not reflect any taxes payable in connection with Non-Qualified Distributions, or, if applicable, Qualified Distributions. Expense or fee waivers and/or reimbursements applicable to Underlying Funds in which certain Trust Portfolios invest may have increased past performance for such Trust Portfolios relative to their performance if such waivers or reimbursements had not been provided. For periods prior to April 1, 2014, reflects a Program Management Fee of 0.20% per annum; such fee was reduced to 0.10% as of April 1, 2014. No Program Management Fee has been assessed to date on the Franklin U.S. Government Money 529 Portfolio.

2. The inception date of each Trust Portfolio is the date on which shares of the share class purchased by the Plan were first issued.

3. Performance prior to May 6, 2009 reflects investment in Franklin Capital Growth Fund rather than Franklin Flex Cap Growth Fund, which replaced it until August 16, 2016, when it was consolidated into Franklin Growth Opportunities Fund.

4. Performance prior to May 6, 2009 reflects an allocation of 25% of portfolio assets to Franklin Capital Growth Fund. From May 6, 2009 to July 14, 2010, that allocation was replaced by an allocation to Franklin Growth Fund; during that time the portfolio had an allocation of 50% of its assets to that fund. Beginning on July 15, 2010, half of the portfolio's allocation to Franklin Growth Fund was replaced with an allocation to Franklin Flex Cap Growth Fund, so that the portfolio allocated 25% of its assets to each of those funds. As of August 16, 2016, Franklin Flex Cap Growth Fund was consolidated into Franklin Growth Opportunities Fund.

Appendix C

Description of Mutual Funds in Which Trust Portfolio Assets May Be Invested

Set forth below is a summary of the investment goals and main strategies of the mutual funds and ETFs (each of which is referred to as the "Fund" or "Underlying Fund") in which one or more of the Trust Portfolios invest. The summary also identifies the main types of risk to which the Underlying Funds may be subject, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks." The information set forth below has been summarized for inclusion herein by the Program Manager from the most current prospectus available for the applicable mutual fund or ETF as of the date this Investor Handbook was sent to print. Neither HESAA nor the Program Manager has independently verified the information contained in any such mutual fund or ETF prospectus and no representation is made by HESAA or the Program Manager as to its accuracy or completeness. Additional information regarding each of the Underlying Funds, and the risks associated with such Funds, is set forth in each Fund's prospectus and statement of additional information ("SAI"). Copies of the Underlying Fund prospectuses, SAIs, annual and semiannual shareholder reports and performance information can be obtained from Financial Advisors or by calling Franklin Templeton toll free at (866) 362-1597. No offer is made in this Investor Handbook of shares of any of the underlying funds.

Franklin Floating Rate Daily Access Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is to achieve a high level of current income. Its secondary goal is preservation of income. The Fund normally invests at least 80% of its net assets in income-producing floating interest rate corporate loans and corporate debt securities made to or issued by U.S. companies, non-U.S. entities and U.S. subsidiaries of non-U.S. entities. Floating interest rates vary with and are periodically adjusted to a generally recognized base interest rate such as the London Interbank Offered Rate (LIBOR) or the Prime Rate. The Fund may invest in companies whose financial condition is troubled or uncertain and that may be involved in bankruptcy proceedings, reorganizations or financial restructurings. Floating interest rate corporate loans and debt securities, also called bank loans or senior floating rate interests (collectively, floating rate investments), generally have credit ratings below investment grade and may be subject to restrictions on resale.

  Under normal market conditions, the Fund invests at least 75% of its net assets in floating rate investments that are rated B- or higher at the time of purchase by a nationally recognized statistical rating organization (NRSRO) or, if unrated, are determined to be of comparable quality by the Fund's investment manager. Under normal market conditions, the Fund may invest up to 25% of its net assets in floating rate investments that are rated below B- by an NRSRO or, if unrated, are determined to be of comparable quality by the Fund's investment manager.

  The Fund's floating rate investments typically hold the most senior position in the capitalization structure of a company and are generally secured by specific collateral. Such senior position means that, in case the company becomes insolvent, the lenders or security holders in a senior position like the Fund's position will typically be paid before other unsecured or subordinated creditors of the company from the assets of the company. The Fund typically invests in a corporate loan or corporate debt security if the Fund's investment manager judges that the borrower can meet the scheduled payments of interest and principal on the obligation. The Fund's investment manager performs its own independent credit analysis of each borrower/issuer and of the collateral structure securing the Fund's investment. The Fund's investment manager also considers the nature of the industry in which the borrower operates, the nature of the borrower's assets, and the general quality and creditworthiness of the borrower and of any shareholder or other entity providing credit support to the borrower.

  The Fund may invest in "covenant lite" loans and debt securities. Certain financial institutions may define "covenant lite" loans differently. Covenant lite loans or securities, which have varied terms and conditions, may have tranches that contain fewer or no restrictive covenants. The tranche of the covenant lite loan or debt security that has fewer restrictions typically does not include the legal clauses which allow an investor to proactively enforce financial covenants or prevent undesired actions by the borrower/issuer. The Fund may treat all of the tranches of a loan with a covenant lite tranche as covenant lite, regardless of what tranche the Fund owns. Covenant lite loans and debt securities also generally give the borrower/issuer more flexibility, including the ability to make an acquisition, pay dividends or issue additional debt, if they have met certain loan terms. Covenant lite loans and debt securities also generally do not permit an investor to declare a default, and therefore receive collateral, if certain criteria are breached or to force restructurings and other capital changes on struggling borrowers/issuers. The Fund may experience relatively greater difficulty or delays in enforcing its rights on its holdings of certain covenant lite loans and debt securities than its holdings of loans or securities with the usual covenants. However, the portfolio managers are normally able to take appropriate actions without the help of covenants in the loans or debt securities.

  The Fund currently limits its investments in debt obligations of non-U.S. entities to no more than 25% of its total assets. The Fund currently invests predominantly in debt obligations that are U.S. dollar-denominated or otherwise provide for payment in U.S. dollars. The Fund currently does not intend to invest more than 25% of its net assets in the obligations of borrowers in any single industry, except that, under normal market conditions, the Fund invests more than 25% of its net assets in debt obligations of companies operating in the industry group consisting of financial institutions and their holding companies, including commercial banks, thrift institutions, insurance companies and finance companies. These firms, or "agent banks," may serve as administrators of corporate loans issued by other companies. For purposes of this restriction, the Fund currently considers such companies to include the borrower, the agent bank and any intermediate participant. The Fund may invest up to 100% of its net assets in loans where firms in such industry group are borrowers, agent banks or intermediate participants.

In addition to the Fund's main investments, the Fund may invest up to 20% of its net assets in certain other types of debt obligations or securities, including other secured, second lien, subordinated or unsecured corporate loans and corporate debt securities, and fixed rate obligations of U.S. companies, non-U.S. entities and U.S. subsidiaries of non-U.S. entities.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": credit, floating rate corporate investments, liquidity, impairment of collateral, market, high-yield debt securities, prepayment, interest rate, variable rate securities, income, concentration, management, and foreign securities.

Franklin Growth Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is capital appreciation. Under normal market conditions, the Fund invests substantially in the equity securities of companies that are leaders in their industries. In selecting securities, the Fund's investment manager considers many factors, including historical and potential growth in revenues and earnings, assessment of strength and quality of management, and determination of a company's strategic positioning in its industry. Although the Fund normally invests substantially in the equity securities (principally common stocks) of U.S.-based large and medium market capitalization companies, it may invest in companies in new and emerging industries where growth is expected to be above average and may invest up to 25% of its assets in smaller companies. The Fund's investment manager is a research driven, fundamental investor, generally pursuing a "buy-and-hold" growth strategy. As a "bottom-up" investor focusing primarily on individual securities, the Fund's investment manager chooses companies that it believes are positioned for growth in revenues, earnings or assets. Such advantages as a particular marketing niche, proven technology, sound financial records, strong management, and industry leadership are all factors the Fund's investment manager believes point to strong growth potential. Although the Fund's investment manager searches for investments across a large number of sectors, from time to time, based on economic conditions, the Fund may have significant positions in particular sectors.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, focus, growth-style investing, management, and smaller and midsize companies.

Franklin Growth Opportunities Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is capital appreciation. Under normal market conditions, the Fund invests predominantly in equity securities of companies demonstrating accelerating growth, increasing profitability, or above average growth or growth potential as compared with the overall economy. The Fund normally invests predominantly in equity securities, primarily to predominantly common stock.

  A portion to a significant amount of the Fund's investments may be in smaller and midsize companies. The Fund, from time to time, may have significant positions in particular sectors, such as technology.

  The Fund's investment manager uses fundamental, "bottom-up" research to seek companies meeting its criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, the Fund's investment manager looks for companies that it believes can produce sustainable earnings and cash flow growth, evaluating the long term market opportunity and competitive structure of an industry to target leaders and emerging leaders. In assessing value, the Fund's investment manager considers whether security prices fully reflect the balance of the sustainable growth opportunities relative to business and financial risks.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, growth-style investing, focus, currency management strategies, smaller and midsize companies, and management.

Franklin High Income Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is to earn a high level of current income. Its secondary goal is to seek capital appreciation to the extent it is possible and consistent with the Fund's principal goal. Under normal market conditions, the Fund invests predominantly in high-yield, lower-rated debt securities. Lower-rated securities generally pay higher yields than more highly rated securities to compensate investors for the higher risk. These securities include bonds, notes, debentures, convertible securities and senior and subordinated debt securities. The Fund may also invest in preferred stock. The Fund may invest up to 100% of its total assets in debt securities that are rated below investment grade, also known as "junk bonds." Investment grade debt securities are rated in one of the top four ratings categories by at least one independent rating agency such as Standard & Poor's (S&P®) and Moody's Investors Service (Moody's). The Fund may buy both rated and unrated debt securities, including securities rated below B by Moody's or S&P® (or deemed comparable by the Fund's investment manager). The Fund may also invest in defaulted debt securities and in securities issued by issuers in any foreign country, developed or developing. Foreign securities held by the Fund generally will be denominated in U.S. dollars and traded on U.S. markets. The Fund's investment manager is a research driven, fundamental investor that relies on a team of analysts to provide in-depth industry expertise and uses both qualitative and quantitative analysis to evaluate issuers. As a "bottom-up" investor, the Fund's investment manager focuses primarily on individual securities. The Fund's investment manager also considers sectors when choosing investments and, from time to time, may have significant investments in certain sectors. In selecting securities for the Fund's investment portfolio, the Fund's investment manager does not rely principally on the ratings assigned by rating agencies, but performs its own independent investment analysis to evaluate the creditworthiness of the issuer. The Fund's investment manager considers a variety of factors, including the issuer's experience and managerial strength, its sensitivity to economic conditions, and its current and prospective financial condition.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": credit, high-yield debt securities, income, liquidity, interest rate, foreign securities, focus, prepayment, market, and management.

Franklin International Growth Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is long-term capital appreciation. Under normal market conditions, the Fund invests predominantly in equity securities, primarily common stock, of mid- and large-capitalization companies located outside the U.S., including developing or emerging market countries. The Fund may invest up to 20% of its net assets in emerging market countries. Mid- and large-capitalization companies are generally companies with market capitalizations of greater than $2 billion. The Fund, from time to time, may have significant investments in a particular sector or country.

  The Fund's investment manager employs a disciplined, bottom-up investment approach to identify attractive investment opportunities that have higher expected revenue and earnings growth than their peers. The Fund's investment manager uses a growth investment style and in-depth, fundamental research to identify high-quality companies, across all industry groups, with sustainable business models that offer the most attractive combination of growth, quality and valuation.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, growth-style investing, foreign securities, regional focus, emerging markets, midsize companies, focus, and management.

Franklin International Small Cap Growth Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is long-term capital appreciation. Under normal market conditions, the Fund invests at least 80% of its net assets in a diversified portfolio of marketable equity and equity-related securities of smaller international companies. Smaller international companies are companies with market capitalizations not exceeding (i) $5 billion or the equivalent in local currencies or (ii) the highest market capitalization in the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Small Cap Index, whichever is greater, at the time of purchase. The equity securities in which the Fund primarily invests are common stock.

  The Fund's investment manager generally intends to maintain a more focused portfolio consisting of approximately 25–45 securities. The Fund, from time to time, may have significant investments in a particular sector or country.

  In choosing individual equity investments, the Fund's investment manager utilizes a fundamental "bottom-up" approach involving in-depth proprietary analysis of individual equity securities. In narrowing down the universe of eligible investments, the Fund's investment manager employs a quantitative and qualitative approach to identify smaller international companies that the Fund's investment manager believes have the potential to generate attractive returns with lower downside risk. Overall, the Fund's investment manager seeks to invest in growth companies with attractive valuations.

  The Fund's investment manager does not select investments for the Fund that are merely representative of the small cap asset class, but instead aims to produce a portfolio of securities of exceptional companies operating in sectors that offer attractive growth potential. While the Fund's investment manager seeks to outperform the MSCI EAFE Small Cap (Net Dividends) Index, positions may be taken by the Fund that are not represented in that index.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, growth-style investing, foreign securities, regional focus, emerging markets, smaller companies, liquidity, focus, and management.

Franklin Mutual European Fund

- **Investment Goals and Main Strategies.** This Fund's principal investment goal is capital appreciation, which may occasionally be short-term. Its secondary goal is income. Under normal market conditions, the Fund invests at least 80% of its net assets in securities of European companies that the Fund's investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued equity securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

  The Fund 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 Fund may invest in securities of issuers from emerging markets. The Fund also may invest up to 20% of its total assets in securities of U.S. issuers and in securities of issuers from the Middle East and the remaining regions of the world.

  The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund 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 Fund regularly attempts to hedge (protect) against currency risks, largely using currency forward contracts and currency futures contracts (including currency index futures contracts) when, in the Fund's investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, value style investing, foreign securities, regional focus, smaller and midsize companies, derivative instruments, merger arbitrage securities and distressed companies, liquidity, and management.

Franklin Mutual Global Discovery Fund

- **Investment Goals and Main Strategies**. This Fund's investment goal is capital appreciation. Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the Fund's investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the Fund's investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

  The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund 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 Fund may invest substantially and potentially up to 100% of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Fund presently does not intend to invest more than a portion (no more than 25%) of its assets in securities of issuers located in emerging market countries.

  The Fund regularly attempts to hedge (protect) against currency risks, largely using currency forward contracts and currency futures contracts (including currency index futures contracts) when, in the Fund's investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, value style investing, foreign securities, regional focus, smaller and midsize companies, derivative instruments, merger arbitrage securities and distressed companies, liquidity, and management.

Franklin Mutual Shares Fund

- **Investment Goals and Main Strategies.** This Fund's primary investment goal is capital appreciation, which may occasionally be short term. Its secondary goal is income. Under normal market conditions, the Fund invests primarily in equity securities (including securities convertible into, or that the Fund's investment manager expects to be exchanged for, common or preferred stock) of U.S. and foreign companies that the Fund's investment manager believes are available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). Following this value-oriented strategy, the Fund invests primarily in undervalued securities (securities trading at a discount to intrinsic value). The equity securities in which the Fund invests are primarily common stock. To a lesser extent, the Fund also invests in merger arbitrage securities and the debt and equity of distressed companies.

The Fund may invest a significant portion (up to 35%) of its assets in foreign securities, which may include sovereign debt and participations in foreign government debt. The Fund presently does not intend to invest more than 20% of its assets in foreign securities.

The Fund is not limited to pre-set maximums or minimums governing the size of the companies in which it may invest. However, the Fund generally invests the equity portion of its portfolio primarily to predominantly in companies with market capitalizations greater than $5 billion, with a portion in smaller companies.

The Fund regularly attempts to hedge (protect) against currency risks, largely using currency forward contracts and currency futures contracts (including currency index futures contracts) when, in the Fund's investment manager's opinion, it would be advantageous to the Fund to do so. The Fund may also, from time to time, attempt to hedge against market risk using a variety of derivatives.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, smaller and midsize companies, value style investing, foreign securities, regional focus, derivative instruments, merger arbitrage securities and distressed companies, liquidity, and management.

Franklin Rising Dividends Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is long-term capital appreciation. Preservation of capital, while not a primary goal, is also an important consideration. Under normal market conditions, the Fund invests at least 80% of its net assets in investments of companies that have paid consistently rising dividends. The Fund invests predominantly in equity securities, primarily common stock. Companies that have paid consistently rising dividends include those companies that currently pay dividends on their common stocks and have maintained or increased their dividend rate during the last four consecutive years.

  Under normal market conditions, the Fund invests at least 65% of its net assets in securities of companies that have:

  - consistently increased dividends in at least 8 out of the last 10 years and have not decreased dividends during that time;
  - increased dividends substantially (at least 100%) over the last 10 years;
  - reinvested earnings, paying out less than 65% of current earnings in dividends (except for utility companies);
  - either long-term debt that is no more than 50% of total capitalization (except for utility companies) or senior debt that has been rated investment grade by at least one of the major bond rating organizations; and
  - attractive prices, either: (1) in the lower half of the stock's price/earnings ratio range for the past 10 years; or (2) less than the price/earnings ratio of the Standard & Poor's® 500 Stock Index (this criterion applies only at the time of purchase).

  The Fund typically invests the rest of its assets in equity securities of companies that pay dividends but do not meet all of these criteria. The Fund may invest in companies of any size, across the entire market spectrum. Although the Fund's investment manager searches for investments that it believes to meet the criteria across all sectors, from time to time, based on economic conditions, the Fund may have significant positions in particular sectors.

  The Fund's investment manager is a research driven, fundamental investor. As a "bottom-up" investor focusing primarily on individual securities, the Fund's investment manager looks for companies that it believes meet the criteria above and are fundamentally sound and attempts to acquire them at attractive prices. In following these criteria, the Fund does not necessarily focus on companies whose securities pay a high dividend rate but rather on companies that consistently increase their dividends. The Fund may invest up to 25% of its total assets in foreign securities.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, dividend-oriented companies, smaller and midsize companies, focus, foreign securities, and management.

Franklin Small-Mid Cap Growth Fund

- **Investment Goals and Main Strategies.** Under normal market conditions, the Fund invests at least 80% of its net assets in the equity securities of small-capitalization (small-cap) and mid-capitalization (mid-cap) companies. For this Fund, small-cap companies are companies within the market capitalization range of companies in the Russell 2500™ Index, at the time of purchase, and mid-cap companies are companies within the market capitalization range of companies in the Russell Midcap® Index, at the time of purchase. Under normal market conditions, the Fund invests predominantly in equity securities, predominantly in common stock. The Fund, from time to time, may have significant positions in particular sectors such as information technology (including healthcare technology, technology services and electronic technology), consumer discretionary, industrials and healthcare. The Fund's investment manager uses fundamental, "bottom-up" research to seek companies meeting its criteria of growth potential, quality and valuation. In seeking sustainable growth characteristics, the Fund's investment manager looks for companies that it believes can produce sustainable earnings and cash flow growth, evaluating the long term market opportunity and competitive structure of an industry to target leaders and emerging leaders. In assessing value, the Fund's investment manager considers whether security prices fully reflect the balance of the sustainable growth opportunities relative to business and financial risks.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, growth-style investing, smaller and midsize companies, focus, liquidity, and management.

Franklin Strategic Income Fund

- **Investment Goals and Main Strategies.** This Fund's principal investment goal is to earn a high level of current income. Its secondary goal is capital appreciation over the long term. Under normal market conditions, the Fund invests at least 65% of its assets in U.S. and foreign debt securities, including those in emerging markets. Debt securities include all varieties of fixed, variable and floating rate income securities, including bonds, U.S. and foreign government and agency securities, corporate loans (and loan participations), mortgage-backed securities and other asset-backed securities and convertible securities. The Fund shifts its investments among various classes of debt securities and at any given time may have a substantial amount of its assets invested in any class of debt security.

  The Fund may invest up to 100% of its assets in high yield, lower-quality debt securities (also known as "junk bonds"). The below-investment grade debt securities in which the Fund invests are generally rated at least Caa by Moody's Investors Service (Moody's) or CCC by Standard & Poor's (S&P®) or are unrated securities the Fund's investment manager determines are of comparable quality.

  The Fund may invest a small portion of its assets in marketplace loans to consumers and small and mid-sized enterprises or companies (SMEs) originated through online lending platforms.

  The Fund may invest in many different securities issued or guaranteed by the U.S. government or by non-U.S. governments, or their respective agencies or instrumentalities, including mortgage-backed securities and inflation-indexed securities issued by the U.S. Treasury. Mortgage-backed securities represent an interest in a pool of mortgage loans made by banks and other financial institutions to finance purchases of homes, commercial buildings and other real estate. The individual mortgage loans are packaged or "pooled" together for sale to investors. As the underlying mortgage loans are paid off, investors receive principal and interest payments. These securities may be fixed-rate or adjustable-rate mortgage-backed securities (ARMS). The Fund may purchase or sell mortgage-backed securities on a delayed delivery or forward commitment basis through the "to-be-announced" (TBA) market. With TBA transactions, the particular securities to be delivered must meet specified terms and standards. The Fund may also invest a small portion of its assets directly in mortgage loans.

  For purposes of pursuing its investment goals, the Fund regularly enters into various currency-related transactions involving derivative instruments, including currency and cross currency forwards, currency swaps, currency and currency index futures contracts, and currency options. The Fund may also enter into interest rate and credit-related transactions involving derivative instruments, including interest rate, fixed income total return and credit default swaps and interest rate and/ or bond futures contracts. The use of these derivative transactions may allow the Fund to obtain net long or net short exposures to selected currencies, interest rates, countries, durations or credit risks. These derivative instruments may also be used for hedging purposes, to enhance Fund returns or to obtain exposure to various market sectors.

  The Fund uses an active asset allocation strategy to try to achieve its investment goals. The Fund's investment manager uses a "top-down" analysis of macroeconomic trends combined with a "bottom-up" fundamental analysis of market sectors, industries, and issuers to try to take advantage of varying sector reactions to economic events.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": credit, high-yield debt securities, interest rate, market, income, variable rate securities, foreign securities, sovereign debt securities, emerging market countries, mortgage securities and asset-backed securities, focus, inflation, floating rate corporate investments, derivative instruments, marketplace loans, currency management strategies, liquidity, and management.

Franklin Total Return Fund

- **Investment Goals and Main Strategies.** This Fund's principal investment goal is high current income, consistent with the preservation of capital. Its secondary goal is capital appreciation over the long term. Under normal market conditions, the Fund invests primarily in debt securities, which may be represented by derivative investments that provide exposure to debt securities such as futures, options and swap agreements. The debt securities in which the Fund may invest include government and corporate debt securities, mortgage- and asset-backed securities, floating interest rate corporate loans and debt securities and municipal securities. The Fund currently focuses on government and corporate debt securities and mortgage- and asset-backed securities.

Under normal market conditions, the Fund invests primarily in investment grade debt securities and in unrated securities that the Fund's investment manager deems are of comparable quality. Derivatives whose reference securities are investment grade are considered by the Fund to be investment grade. The Fund's focus on the credit quality of its portfolio is intended to reduce credit risk and help to preserve the Fund's capital.

The Fund also may invest up to 20% of its total assets in non-investment grade securities, including up to 5% in securities rated lower than B- by S&P or Moody's, which may include defaulted securities. (In calculating the above non-investment grade debt limitations, the Fund combines its non-investment grade debt securities with the net long and short exposure to non-investment grade debt securities from derivative instruments.) Excluding derivatives, the Fund will invest no more than 33% of its total assets in non-investment grade debt securities, including no more than 5% in securities rated lower than B- by S&P or Moody's, which may include defaulted securities. For purposes of the credit limitations above, non-investment grade debt securities include unrated securities that the Fund's investment manager deems are of comparable quality.

The Fund may invest up to 25% of its total assets in foreign securities, including up to 20% of its total assets in non-U.S. dollar denominated securities and up to 10% of its total assets in emerging market securities.

The Fund may invest a small portion of its assets in marketplace loans to consumers and small and mid-sized enterprises or companies (SMEs) originated through online lending platforms. The Fund may invest in many different securities issued or guaranteed by the U.S. government or by non-U.S. governments, or their respective agencies or instrumentalities, including mortgage-backed securities and inflation-indexed securities issued by the U.S. Treasury. Mortgage-backed securities represent an interest in a pool of mortgage loans made by banks and other financial institutions to finance purchases of homes, commercial buildings and other real estate. The individual mortgage loans are packaged or "pooled" together for sale to investors. As the underlying mortgage loans are paid off, investors receive principal and interest payments. These securities may be fixed-rate or adjustable-rate mortgage-backed securities (ARMS). The Fund may purchase or sell mortgage-backed securities on a delayed delivery or forward commitment basis through the "to-be-announced" (TBA) market. With TBA transactions, the particular securities to be delivered must meet specified terms and standards. The Fund may also invest a small portion of its assets directly in mortgage loans.

To pursue its investment goals, the Fund regularly enters into various derivative transactions, including currency forwards, currency, interest rate/bond futures contracts and options on interest rate futures contracts, and swap agreements, including interest rate, fixed income total return, currency and credit default swaps, and options on interest rate and credit default swap agreements. The use of these derivative transactions may allow the Fund to obtain net long or short exposures to select currencies, interest rates, countries, duration or credit risks. These derivatives may be used to enhance Fund returns, increase liquidity, gain exposure to certain instruments or markets in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

The Fund may invest in mortgage dollar rolls. In a mortgage dollar roll, the Fund sells mortgage-backed securities for delivery in the current month and simultaneously contracts to repurchase substantially similar (same type, coupon, and maturity) securities on a specified future date. During the period between the sale and repurchase, the Fund forgoes principal and interest paid on the mortgage backed securities. The Fund earns money on a mortgage dollar roll from any difference between the sale price and the future purchase price, as well as the interest earned on the cash proceeds of the initial sale.

In choosing investments, the Fund's investment manager selects securities in various market sectors based on the Fund's investment manager's assessment of changing economic, market, industry and issuer conditions. The Fund's investment manager uses a "top-down" analysis of macroeconomic trends, combined with a "bottom-up" fundamental analysis of market sectors, industries and issuers, to try to take advantage of varying sector reactions to economic events.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": interest rate, credit, high-yield debt securities, floating rate corporate investments, derivative instruments, income, mortgage and asset-backed securities, foreign securities, currency management strategies, sovereign debts securities, emerging market countries, extension, prepayment, mortgage dollar rolls, marketplace loans, liquidity, variable rate securities, market, management, and portfolio turnover.

Franklin U.S. Government Money Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is to provide investors with as high a level of current income as is consistent with the preservation of shareholders' capital and liquidity. The Fund also tries to maintain a stable $1.00 share price. The Fund is a "feeder fund" that invests, through the Master Portfolio, at least 99.5% of its total assets in Government securities, cash and repurchase agreements collateralized fully by Government securities or cash. For purposes of this policy, "Government securities" means any securities issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing. The Fund intends to be a "Government money market fund," as such term is defined in or interpreted under Rule 2a-7 under the Investment Company Act of 1940. Shareholders will be given at least 60 days' advance notice of any change to the 99.5% policy.

The Fund uses the amortized cost method of valuation to seek to maintain a stable $1.00 share price and does not currently intend to impose liquidity fees or redemption gates on Fund redemptions. Please note, however, that the board of trustees reserves the ability to subject the Fund to a liquidity fee and/or redemption gate in the future, after providing prior notice to shareholders.

Government agency or instrumentality issues have different levels of credit support. **U.S. government-sponsored entities ("GSEs"), such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), may be chartered by Acts of Congress, but their securities are neither issued nor guaranteed by the U.S. government. Although the U.S. government has provided financial support to Fannie Mae, Freddie Mac and certain other GSEs, no assurance can be given that the U.S. government will continue to do so.** Accordingly, securities issued by Fannie Mae and Freddie Mac may involve a risk of non-payment of principal and interest. Investors should remember that guarantees of timely repayment of principal and interest do not apply to the market prices and yields of the securities or to the net asset value or performance of the Fund, which will vary with changes in interest rates and other market conditions.

Unless the context otherwise requires, references to the Fund's investments refer to those investments of the Master Portfolio to which the Fund is exposed and references to the Fund's investment manager refer to the Master Portfolio's investment manager.

The Fund invests in:

1. **U.S. government securities** which may include fixed, floating and variable rate securities.
2. **Repurchase agreements** which are agreements by the Fund to buy Government securities and then to sell the securities back on an agreed upon date (generally, less than seven days) at a higher price, which reflects prevailing short-term interest rates.
3. **Portfolio maturity and quality** The Fund only buys securities that the Fund's investment manager determines present minimal credit risks. The Fund maintains a dollar-weighted average portfolio maturity of 60 calendar days or less, maintains a dollar-weighted average life for its portfolio of 120 calendar days or less, and only buys securities that mature in 397 calendar days or less.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": interest rate, credit, income, U.S. Government securities, repurchase agreements, market, master/feeder structure, and management.

Franklin U.S. Government Securities Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is income. Under normal market conditions, the Fund invests at least 80% of its net assets in U.S. government securities. The Fund presently invests substantially all of its assets in Government National Mortgage Association obligations (Ginnie Maes). Ginnie Maes represent an ownership interest in mortgage loans pooled together for sale to investors to finance purchases of homes. The mortgage loans may have either fixed or adjustable interest rates. As the underlying mortgage loans are paid off, Ginnie Maes provide investors with monthly payments of interest and principal as well as any unscheduled prepayments on the underlying mortgage loans.

  Ginnie Maes carry a guarantee as to the timely repayment of principal and interest that is backed by the full faith and credit of the U.S. government. The full faith and credit guarantee does not apply to the market prices and yields of the Ginnie Maes or to the net asset value or performance of the Fund, which will vary with changes in interest rates and other market conditions.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": interest rate, prepayment, extension, Ginnie Maes, income, credit, management and market.

Franklin Utilities Fund

- **Investment Goals and Main Strategies.** This Fund's investment goals are capital appreciation and current income. Under normal market conditions, the Fund invests at least 80% of its net assets in the securities of public utilities companies. These are companies that provide electricity, natural gas, water, and communications services to the public and companies that provide services to public utilities companies. The Fund concentrates (invests more than 25% of its total assets) in companies operating in the utilities industry. The Fund invests primarily in equity securities, which consist mainly of common stocks.

  The Fund searches for the best return opportunities available in the global utilities arena with a specific focus on the U.S. electricity and gas sector. Generally, the Fund seeks to invest in companies producing a high percentage of earnings from their regulated operations.
- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": utilities industry, market, concentration, and management.

iShares Core S&P 500 ETF

- **Investment Goals and Main Strategies.** This Fund seeks to track the investment results of the S&P 500® (the "Underlying Index"), which measures the performance of the large-capitalization sector of the U.S. equity market, as determined by S&P Dow Jones Indices LLC (the "Index Provider" or "SPDJI"). As of March 31, 2018, the Underlying Index included approximately 82% of the market capitalization of all publicly traded U.S. equity securities. The securities in the Underlying Index are weighted based on the float-adjusted market value of their outstanding shares. The Underlying Index consists of securities from a broad range of industries. As of March 31, 2018, a significant portion of the Underlying Index is represented by securities of companies in the information technology industry or sector. The components of the Underlying Index are likely to change over time. The Fund's investment manager, BlackRock Fund Advisors (BFA) uses a "passive" or indexing approach to try to achieve the Fund's investment objective. Unlike many investment companies, the Fund does not try to "beat" the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued.

  Indexing may eliminate the chance that the Fund will substantially outperform the Underlying Index but also may reduce some of the risks of active management, such as poor security selection. Indexing seeks to achieve lower costs and better after-tax performance by keeping portfolio turnover low in comparison to actively managed investment companies.

  BFA uses a representative sampling indexing strategy to manage the Fund. "Representative sampling" is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to that of an applicable underlying index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability and yield) and liquidity measures similar to those of an applicable underlying index. The Fund may or may not hold all of the securities in the Underlying Index.

  The Fund generally invests at least 90% of its assets in securities of the Underlying Index and in depositary receipts representing securities of the Underlying Index. The Fund may invest the remainder of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates, as well as in securities not included in the Underlying Index, but which BFA believes will help the Fund track the Underlying Index. The Fund seeks to track the investment results of the Underlying Index before fees and expenses of the Fund. The Fund may lend securities representing up to one-third of the value of the Fund's total assets (including the value of any collateral received).

  The Underlying Index is a product of SPDJI which is independent of the Fund and BFA. The Index Provider determines the composition and relative weightings of the securities in the Underlying Index and publishes information regarding the market value of the Underlying Index.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": asset class, authorized participant concentration, concentration, cyber security, equity securities, index-related, information technology sector, issuer, large-capitalization companies, management, market, market trading, operational, passive investment, investing in the United States, securities lending, and tracking error.

Money Market Portfolio

- **Investment Goals and Main Strategies.** This Fund's investment goal is to provide investors with as high a level of current income as is consistent with the preservation of shareholders' capital and liquidity. The Fund also tries to maintain a stable $1.00 share price. The Fund is a "feeder fund" that invests, through the U.S. Government Money Market Portfolio (the "Master Portfolio"), at least 99.5% of its total assets in Government securities, cash and repurchase agreements collateralized fully by Government securities or cash. For purposes of this policy, "Government securities" means any securities issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing. The Fund intends to be a "Government money market fund," as such term is defined in or interpreted under Rule 2a-7 under the Investment Company Act of 1940. Shareholders will be given at least 60 days' advance notice of any change to the 99.5% policy.

  The Fund uses the amortized cost method of valuation to seek to maintain a stable $1.00 share price and does not currently intend to impose liquidity fees or redemption gates on Fund redemptions. Please note, however, that the board of trustees reserves the ability to subject the Fund to a liquidity fee and/or redemption gate in the future, after providing prior notice to shareholders.

  Government agency or instrumentality issues have different levels of credit support. **U.S. government-sponsored entities ("GSEs"), such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), may be chartered by Acts of Congress, but their securities are neither issued nor guaranteed by the U.S. government. Although the U.S. government has provided financial support to Fannie Mae, Freddie Mac and certain other GSEs, no assurance can be given that the U.S. government will**

continue to do so. Accordingly, securities issued by Fannie Mae and Freddie Mac may involve a risk of non-payment of principal and interest. Investors should remember that guarantees of timely repayment of principal and interest do not apply to the market prices and yields of the securities or to the net asset value or performance of the Fund, which will vary with changes in interest rates and other market conditions.

Unless the context otherwise requires, references to the Fund's investments refer to those investments of the Master Portfolio to which the Fund is exposed and references to the investment manager or the Fund's investment manager refer to the Master Portfolio's investment manager.

The Fund invests in:

1. **U.S. government securities** which may include fixed, floating and variable rate securities.
2. **Repurchase agreements** which are agreements by the Fund to buy Government securities and then to sell the securities back on an agreed upon date (generally, less than seven days) at a higher price, which reflects prevailing short-term interest rates.
3. **Portfolio maturity and quality** The Fund only buys securities that the Fund's investment manager determines present minimal credit risks. The Fund maintains a dollar-weighted average portfolio maturity of 60 calendar days or less, maintains a dollar-weighted average life for its portfolio of 120 calendar days or less, and only buys securities that mature in 397 calendar days or less.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": interest rate, credit, income, U.S. Government securities, repurchase agreements, market, master/feeder structure, and management.

Templeton Foreign Fund

- **Investment Goals and Main Strategies.** This Fund's investment goal is long-term capital growth. Under normal market conditions, the Fund invests at least 80% of its net assets in foreign securities. These securities are predominantly equity securities of companies located outside the U.S., including developing markets. The equity securities in which the Fund invests are predominantly common stock, and may include smaller and midsize companies. Although the Fund's investment manager will search for investments across a large number of regions, countries and sectors, from time to time, based on economic conditions, the Fund may have significant positions in particular regions, countries or sectors.

  The Fund may, from time to time, seek to hedge (protect) against currency risks using certain derivative instruments including currency and cross currency forwards and currency futures contracts.

  When choosing equity investments for the Fund, the Fund's investment manager applies a "bottom-up," value-oriented, long-term approach, focusing on the market price of a company's securities relative to the Fund's investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The Fund's investment manager also considers a company's price/earnings ratio, price/cash flow ratio, profit margins and liquidation value.

  The Fund's investment manager may consider selling an equity security when it believes the security has become overvalued due to either its price appreciation or changes in the company's fundamentals, or when the Fund's investment manager believes another security is a more attractive investment opportunity.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, foreign securities, currency management strategies, regional focus, developing market countries, smaller and midsize companies, value style investing, liquidity, management, focus, and derivative instruments.

Templeton Global Bond Fund

- **Investment Goals and Main Strategies.** The Fund's investment goal is current income with capital appreciation and growth of income. Under normal market conditions, the Fund invests at least 80% of its net assets in "bonds." Bonds include debt obligations of any maturity, such as bonds, notes, bills and debentures.

  The Fund invests predominantly in bonds issued by governments, government-related entities and government agencies located around the world. Bonds may be denominated and issued in the local currency or in another currency. The Fund may also invest in securities or structured products that are linked to or derive their value from another security, asset or currency of any nation. In addition, the Fund's assets are invested in issuers located in at least three countries (including the U.S.). The Fund may invest without limit in developing markets.

  The Fund is a "non-diversified" fund, which means it generally invests a greater portion of its assets in the securities of one or more issuers and invests overall in a smaller number of issuers than a diversified fund.

  Although the Fund may buy bonds rated in any category, it focuses on "investment grade" bonds. These are issues rated in the top four rating categories by at least one independent rating agency, such as Standard & Poor's (S&P®) or Moody's Investors Service (Moody's) or, if unrated, determined by the Fund's investment manager to be of comparable quality. The Fund may invest up to 25% of its total assets in bonds that are rated below investment grade or, if unrated determined by the Fund's investment manager to be of comparable quality. Generally, lower rated securities pay higher yields than more highly rated securities to compensate investors for the higher risk. The Fund may invest in debt securities of any maturity, and the average maturity of debt securities in the Fund's portfolio will fluctuate depending on the Fund's investment manager's outlook on changing market, economic, and political conditions.

For purposes of pursuing its investment goals, the Fund regularly enters into various currency related transactions involving derivative instruments, principally currency and cross currency forwards, but it may also use currency and currency index futures contracts. The Fund maintains extensive positions in currency related derivative instruments as a hedging technique or to implement a currency investment strategy, which could expose a large amount of the Fund's assets to obligations under these instruments. The results of such transactions may represent, from time to time, a large component of the Fund's investment returns. The use of these derivative transactions may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may also enter into various other transactions involving derivatives, including interest rate/bond futures and swap agreements (which may include interest rate and credit default swaps). These derivative instruments may be used for hedging purposes, to enhance returns, or to obtain net long or net negative (short) exposure to selected, interest rates, countries, durations or credit risks.

When choosing investments for the Fund, the Fund's investment manager allocates the Fund's assets based upon its assessment of changing market, political and economic conditions. It considers various factors, including evaluation of interest rates, currency exchange rate changes and credit risks. The Fund's investment manager may consider selling a security when it believes the security has become fully valued due to either its price appreciation or changes in the issuer's fundamentals, or when the Fund's investment manager believes another security is a more attractive investment opportunity.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": foreign securities, currency management strategies, sovereign debt securities, regional, developing market countries, market, liquidity, interest rate, credit, derivative instruments, high-yield debt securities, income, non-diversification, and management.

Templeton Growth Fund, Inc.

- **Investment Goals and Main Strategies.** This Fund's investment goal is long-term capital growth. Under normal market conditions, the Fund invests predominantly in the equity securities of companies located anywhere in the world, including developing markets. The equity securities in which the Fund primarily invests are common stock. The Fund may invest in companies of any size, including small and medium capitalization companies. Although the Fund seeks investments across a number of regions, countries and sectors, from time to time, based on economic conditions, the Fund may have significant positions in particular regions, countries or sectors.

  When choosing equity investments for the Fund, the Fund's investment manager applies a "bottom-up," value-oriented, long-term approach, focusing on the market price of a company's securities relative to the Fund's investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The Fund's investment manager also considers a company's price/earnings ratio, price/cash flow ratio, profit margins and liquidation value.

  The Fund's investment manager may consider selling an equity security when it believes the security has become overvalued due to either its price appreciation or changes in the company's fundamentals, or when the Fund's investment manager believes another security is a more attractive investment opportunity.

- **Main Risks.** This Fund is subject to the following types of main investment risks, which are described in the Investor Handbook under "Risk Factors – Specific Investment Risks": market, foreign securities, regional focus, developing markets, smaller and midsize companies, value style investing, management and focus.

Appendix D

NJBEST Scholarship Regulations

The NJBEST Scholarship is provided by the New Jersey Higher Education Student Assistance Authority. The State regulations with respect to the NJBEST scholarship are set forth below.

New Jersey Administrative Code
Title 9a. Higher education
Chapter 10. Student Loan and College Savings Programs
Subchapter 7. Policy Governing New Jersey Better Educational Savings Trust (NJBEST) Program

9A: 10-7.15 Eligibility for NJBEST scholarship

(a) An additional amount of $500.00, subject to appropriations available therefore, shall be credited toward the qualified higher-education expenses of a designated beneficiary at the time of a qualified withdrawal provided:

1. The contributor demonstrates to the satisfaction of the Authority that the contributor participated in the program by making and not withdrawing a qualifying minimum initial deposit of $1,200.00 or that qualifying minimum annual contributions of $300.00 for a designated beneficiary were made by persons based on the time periods for crediting these contributions in (a) i through iii below. In all cases involving the eligibility of a designated beneficiary for an NJBEST scholarship, the Authority reserves the right to make the final determination as to whether contributions have met the time periods as stated in this paragraph for participation in the NJBEST Program.
   i. For students enrolling for the first time in the fall semester of an academic year, the first contribution to NJBEST must have been credited to the contributor's account more than 48 months prior to September 1st of that academic year;
   ii. For students enrolling for the first time in the spring semester of an academic year, the first contribution to NJBEST must have been credited to the contributor's account more than 48 months prior to February 1st of that academic year; or
   iii. For students enrolling for the first time in any trimester of an academic year at an institution operating on a trimester or other academic schedule, the first contribution to NJBEST must have been credited to the contributor's account more than 48 months prior to the first day of the month in which the student is first enrolled.
   iv. First time enrollment is defined as the first time a student enrolls on either a full- or half-time basis at any institution of post-secondary education. Students who have previously attended another institution of post-secondary education are not first time students, for semester schools, if a student's first term of enrollment is for the summer or winter term, the scholarship is awarded for the succeeding fall or spring semester.
2. The designated beneficiary in (a) above demonstrates his or her undergraduate attendance or enrollment in a higher education institution in this State by submitting a certification by the higher education institution at the time of initial attendance or enrollment;
   i. With respect to proprietary institutions, undergraduate attendance or enrollment must be in a degree granting program licensed or approved by the Commission on Higher Education; and
3. Either the contributor, if a person, or the designated beneficiary demonstrates to the satisfaction of the Authority that the contributor or designated beneficiary is a New Jersey resident. Residence for purposes of the NJBEST scholarship is defined in N.J.A.C. 9A:10-7.4(a.)4.

(b) For every two additional years in which the minimum annual contribution of $300.00 is deposited in the account of a designated beneficiary, an additional amount of $250.00, up to a maximum scholarship of $1,500.00, subject to appropriations available therefor, shall be credited toward the qualified higher-education expenses of a designated beneficiary at the time of a qualified withdrawal provided the requirements of (a)2 and 3 above are met.

(c) The additional amounts provided under (a) and (b) above shall meet the requirements of a qualified scholarship within the meaning of section 117 of the Federal Internal Revenue Code of 1986, 26 U.S.C. § 117, for a designated beneficiary satisfying the requirements of (a) or (a) and (b) above.

(d) A designated beneficiary satisfying the requirements of (a) or (a) and (b) above shall not be eligible to receive more than one such additional amount provided under (a) or (a) and (b) above.

(e) A student must be enrolled at least half-time in a higher education institution to be eligible for an NJBEST scholarship.

Business Continuity Planning Information Notice

At Franklin Templeton Investments ("FTI" and "we"/"our" in this notice), we recognize how heavily our clients rely on our services. We also recognize that the unexpected can and does occur, from simple outages to major incidents affecting multiple sites. We have successfully supported critical business activities during disruptions of normal business processes from both natural and man-made disasters, including hurricanes, fires, September 11th and other events. We want you to know that we have plans in place to help safeguard your assets and protect vital account information in the event of a business disruption.

Franklin Templeton Investments and its affiliated companies, including Fiduciary Trust Company International, Franklin/Templeton Distributors, Inc., Templeton/Franklin Investment Services, Inc., and Franklin Templeton Financial Services Corp., ("Franklin Templeton") have Crisis Management, Business Continuity and technology Disaster Recovery plans. In addition, Franklin Templeton Investments has dedicated business continuity planners on staff to assist in preparing and testing of plans.

Franklin Templeton Investments (FTI) Contingency Planning Guidelines

Franklin Templeton plans are developed around specific corporate-wide guidelines. As such, FTI has developed plans that include the ability to recover from various situations including but not limited to unplanned evacuations, power outages, fire, severe weather, intentional acts, and facilities failures that may cause interruptions to our business. Our plans address the ability to recover critical functions according to their time criticality. In order to maintain secure and effective plans, FTI does not provide the specific details in this notice, but you should be aware that FTI's corporate disaster recovery planning includes the following:

- Identification and recovery of mission critical systems to include telecommunications.
- Replication, backup and recovery for critical information.
- Alternate and redundant communications between Franklin Templeton and its customers.
- Alternate communications with and alternate locations for employees.
- Regulatory reporting and communications with regulators.
- Review of financial and operational risks.

Franklin Templeton Investments Contingency Planning and Business Recovery

Franklin Templeton actively identifies and seeks to mitigate risks to reduce potential issues and their impact. In the event of an outage or other site-specific problems, Franklin Templeton has plans in place to support recovery of its critical business systems and functions. In addition to the guidelines stated above, Franklin Templeton's recovery plans also include the following:

- **Designated Contingency Sites and Seamless Client Contact** – There are pre-established and tested processes for rerouting of critical telephone and computer systems. Customers should experience minimal downtime in their ability to contact Franklin Templeton. Within a minimal period of time, customers would be able to re-attempt contact via FTI's published toll free telephone numbers, or the FTI website.
- **Access to Your Funds** – An outage should not impact your ability to have access to your available funds, as Franklin Templeton Investments business continuity plans are designed to help ensure sustained service. However, factors outside Franklin Templeton's control, such as the market closure following the September 11 tragedy, may impact our ability to service our customers.

Please note that Franklin Templeton Investments' Business Continuity Plans are reviewed and tested as necessary, and at least annually, to ensure they account for technology, business and regulatory changes. The plans are subject to change, and material changes to our approach will be reflected in an updated "Business Continuity Planning Information Notice" that will be posted on our website at franklintempleton.com. You may obtain a current written copy of this notice by contacting a Franklin Templeton representative.

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Franklin Templeton Privacy Notice

Your Privacy Is Our Priority

Franklin Templeton Distributors, Inc. ("FTDI" and "we"/"us" in this notice) is committed to safeguarding information provided to us by investors in the Franklin Templeton 529 College Savings Plan and the NJBEST 529 College Savings Plan (together referred to as the "Program"). This notice is designed to provide you with a summary of the non-public personal information we may collect and maintain about current or former investors, our policy regarding the use of that information, and the measures we take to safeguard the information. We do not sell non-public personal information to anyone and only share it as described in this notice.

Information We Collect

If you invest in the Program directly through FTDI you provide us with your non-public personal information. We collect and use this information to service your accounts and respond to your requests. The non-public personal information we collect falls into the following categories:

- Information we receive from you on applications or other forms, whether we receive the form in writing or electronically. For example, this information includes your name, address, tax identification number, birth date, investment selection, beneficiary information, and possibly your personal bank account information and/or email address if you have provided that information.
- Information about your transactions and account history within the Program. This category also includes your communications to us concerning your investments.
- Other general information that we may obtain about you such as demographic information.

Disclosure Policy

To better service your accounts and process transactions or services you've requested, we may share non-public personal information with other Franklin Templeton companies. From time to time we may also send you information about products/services offered by other Franklin Templeton companies although we will not share your non-public personal information with these companies without first offering you the opportunity to prevent that sharing. We will only share non-public personal information with outside parties in the limited circumstances permitted by law. For example, this includes situations where we need to share information with companies who work on our behalf to service or maintain your account or process transactions you have requested, when the disclosure is to companies assisting us with our own marketing efforts, when the disclosure is to a party representing you, or when required by law (for example, in response to legal process). Additionally, we will ensure that any outside companies working on our behalf, or with whom we have joint marketing agreements, are under contractual obligations to protect the confidentiality of your information, and to use it only to provide the services we have asked them to perform.

Confidentiality and Security

Our employees are required to follow procedures with respect to maintaining the confidentiality of our investors' non-public personal information. Additionally, we maintain physical, electronic, and procedural safeguards to protect the information. This includes performing ongoing evaluations of our systems containing investor information and making changes when appropriate. At any time, you may contact us for a copy of this notice at (866) 362-1597.

HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

New Jersey Higher Education Student Assistance Authority Notice of Privacy Policy

The New Jersey Higher Education Student Assistance Authority's (HESAA) mission includes, in part, providing New Jersey students and families with financial resources such as loans, grants, scholarships and college savings programs to assist students in achieving their educational goals.

Protecting the privacy of your personal information is important to us at HESAA. We respect your right to privacy and recognize our obligation to keep information about you secure and confidential. We do not sell or share information about you with outside marketers.

Federal legislation requires us to provide you with this notice about our privacy policy. This means personal Information about you which identifies you, and that is not available from public sources.

HESAA's Privacy Policy

Facts

WHAT DOES: NJ Higher Education Student Assistance Authority ("HESAA") DO WITH YOUR PERSONAL INFORMATION?

Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Social Security number, income and assets
- Account balances and payment history
- Account transactions, credit scores and credit history

When you are *no longer* our customer, we continue to share your information as described in this notice.

How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons HESAA chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does HESAA share?	Can you limit this sharing?
For our everyday business purposes— such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	YES	No
For our marketing purposes— to offer our products and services to you	YES	No
For joint marketing with other financial companies	No	We Don't Share
For our affiliates' everyday business purposes— information about your transactions and experiences	YES	No
For our affiliates' everyday business purposes— information about your creditworthiness	No	We Don't Share
For nonaffiliates to market to you	No	We Don't Share

Questions?

Call (609) 584-4480 or go to www.hesaa.org

Who we are

Who is providing this notice?

This Privacy Notice is being provided by the State of New Jersey Higher Education Student Assistance Authority "HESAA".

What we do

How does HESAA protect my personal information?

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

How does HESAA collect my personal information?

We collect your personal information, for example, when you:

- Apply for a loan or give us your contact information
- Open an account or pay your bills
- Provide employment information

We also collect your personal information from others, such as credit bureaus, affiliates, or other companies.

Why can't I limit all sharing?

Federal law gives you the right to limit only:

- Sharing for affiliates' everyday business purposes—information about your creditworthiness
- Affiliates from using your information to market to you
- Sharing for nonaffiliates to market to you

State laws and individual companies may give you additional rights to limit sharing.

Definitions

Affiliates

Companies related by common ownership or control. They can be financial and nonfinancial companies.

- *Our affiliates include other State of New Jersey government agencies, authorities, boards and commissions.*

Nonaffiliates

Companies not related by common ownership or control. They can be financial and nonfinancial companies.

- *HESAA does not share with nonaffiliates so they can market to you.*

Joint marketing

A formal agreement between nonaffiliated financial companies that together market financial products or services to you.

- *HESSA doesn't jointly market.*

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HIGHER EDUCATION STUDENT ASSISTANCE AUTHORITY

FRANKLIN TEMPLETON INVESTMENTS

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