FRANKLIN TEMPLETON

Frequently asked questions

Franklin US Index

Why consider the Franklin US Index?

The Franklin US Index is designed to access the growth potential of US Equities while managing financial risk (volatility) with a volatility target of 7% annually.

What exposure is the index designed to provide?

Long-term investment growth has been historically optimized by an allocation to equity investments. Over the past 20 years, S&P 500 had average annual volatility of just over 17%. The Franklin US Index is designed to offer as much exposure to the US equity market as possible, without exceeding a volatility target of 7% (as measured by standard deviation[1]). Similarly, in low volatility environments, the index is designed to increase its equity exposure (up to 150%) in order to use the 7% volatility budget and to maximize growth opportunities.

What is the asset allocation mix for the index?

The index has an unconstrained asset allocation and no benchmark mix. It systematically uses four instruments to generate as much equity exposure as possible within the 7% volatility budget:

- Franklin US Equity Index (FTUELXTR)[2]
- S&P 10-Year Note Futures TR (SPUSTTTR)
- S&P 5-Year Note Futures TR (SPUST5TR)
- United States SOFR Secured Overnight Financing Rate plus a constant adjustment of +26 bps.

What is "Smart Screen" equity?

The equity "engine" of Franklin US Index is a smart beta equity index developed by Franklin Templeton and launched in 2016. It takes a list of 1000 well-recognized US large cap stocks and systematically measures those that demonstrate characteristics of investment quality and value—two systematic factors that our research shows are the most important contributors to stock performance. The index also looks at technical signals such as momentum and low volatility.

When the scores for each of these factors are added together, the top 250-scoring stocks are added to the index and those that fall below are removed. This rebalancing takes place semi-annually in June and December.

What is the anticipated average exposure to equity?

While the index rebalances its equity exposure daily, from live inception date to December 2024 shows that the average allocation to equity was 50%. Forward-looking equity exposure is unknown as it will depend on market volatility, but will range between 0% and 150%.

How does the "MarketNav Technology" work?

MarketNav Technology has four main components that work in harmony on a day-to-day basis with the objective of meeting the 7% volatility target:

1. A daily duration rule for fixed income index selection. The index uses a systematic rule to determine which fixed income index to use. If rates are rising, the 5-year UST Index is selected. If rates are falling, the index switches to the 10-year UST Index. In the backtest period, this switch was made 32 times over 20 years.
2. A daily allocation rule to determine the split between equity and fixed income. If recent equity volatility is greater than 7%, the index uses a systematic rule to determine an increase in fixed income allocation. Similarly, if recent volatility is less than 7%, the mathematical formula determines a decrease in fixed income allocation.

It is not possible to invest directly in an index.

1. A measure of the degree to which a strategy's return varies from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that a strategy's performance will fluctuate from the average return.

2. The underlying equity component of the Franklin US Index was the LibertyQ US Large Cap Equity Index (FLQL1TR) from 1/3/2001 to 5/1/2022 and then switched to the Franklin US Equity Index (FTUELXTR) from 5/2/2022 to present. The methodology of the two indices during these periods are almost entirely the same.

3. Short-term allocation to cash. If the short-term volatility of the index is still greater than 7%, the index uses a systematic rule to reduce the allocation to both equity and fixed income in order to increase the allocation to cash.

4. Short-term leverage into equity. If the short-term volatility of the index is still below 7%, the index uses a systematic rule to simulate an increase in leverage in order to increase the amount allocated to equity and fixed income.

What was the historical max drawdown[3] for the index?

In the historical backtests and live performance, the max drawdown period was -15.48% (December 29, 2021 to October 27, 2023).

Under what conditions might the index perform differently than the broader market?

The amount of equity exposure that the Franklin US index can take on is dictated by a systematic formula balancing estimates of equity risk with fixed income risk. Generally speaking, because equity is more volatile than fixed income, the index has lower equity exposure in periods where equity market volatility is high. Conversely, in periods where equity market volatility is low, the index can take on greater equity exposure.

- During periods of rapid decline and high equity market volatility—such as those experienced in 2001, 2002 and 2008—the Index exposure to equity was systematically reduced. In these conditions, the Franklin US Index outperformed the S&P 500.

- During periods of a broad market rally accompanied by high volatility—such as the 2009 recovery—the Franklin US Index would have reduced its exposure to equities in order to maintain its 7% volatility target. In these conditions, the Franklin US Index underperformed the S&P 500.

Another lever that has an influence on the index performance is yields. Because the Franklin US Index uses a US Treasury Index (long or short duration) as one of its volatility levers, rising rates (and rising yields) can have a negative impact on index returns, particularly if it coincides with periods of high volatility in the equity markets. A good example of this scenario occurred in 2012 to 2013 when the 10-Year US Treasury increased from approximately 1.87% to 3.02% (1/1/2012 to 12/31/2013). In these conditions, the Franklin US Index had greater exposure to fixed income (due to high equity market volatility) and and therefore had a greater impact from rising yields. In these conditions, the Franklin US Index underperformed the S&P 500, but still maintained its 7% volatility profile.

	Total Return		Average Weight (Exposure)		
	Franklin US Index	S&P 500 Index	S&P 10-Year US Treasury Note Futures Total Return Index	S&P 5-Year US Treasury Note Futures Total Return Index	Smart Screen US Large Cap Index
2017	20.83%	21.83%	0.35%	3.04%	104.18%
2018	-2.44%	-4.38%	0.48%	42.36%	61.16%
2019	13.67%	31.49%	49.87%	0.00%	60.72%
2020	2.87%	18.40%	66.73%	0.99%	36.24%
2021	10.05%	28.71%	0.00%	39.33%	58.65%
2022	-12.13%	-18.11%	0.00%	52.43%	30.29%
2023	4.05%	26.59%	0.00%	40.10%	55.02%
2024	0.84%	25.02%	13.24%	17.88%	63.73%

Sources: Bloomberg and Morningstar, underlying data provider S&P Opco, LLC. **Past data quoted represents past hypothetical and performance, which does not guarantee future results.** The Franklin US Index is an excess return index. Prior to December 3, 2021 the Index levels represent performance in excess of the 3-month US Dollar LIBOR rate. From December 3, 2021 on, the Index levels represent performance in excess of the United States SOFR Secured Overnight Financing Rate plus a constant adjustment of +26 bps. The performance data does not reflect the deduction of any fees/charges and assumes reinvestment of interest or dividends. There can be no assurance that implementation of managed volatility strategies will produce desired results.

3. Monthly compounded return, net of all fees and expenses, representing the largest 'peak to trough loss sustained within a specified date range, including any temporary gains.

How often does the index rebalance?

Unlike market-cap weighted indexes which need to rebalance periodically to account for changes in market cap, the Franklin US Index is a systematic solution that rebalances daily[4] to blend the asset mix, in order to maintain the 7% volatility target.

Who is administering the index?

Franklin US Index is administered by Standard & Poor's. http://www.customindices.spindices.com/indices/custom-indices/franklin-us-index.

What are the key features of the Franklin US Index?

1. Smart-Screen Equity seeks to screen for the highest quality US stocks, providing an engine for growth.
2. MarketNav Technology aims to manage the fluctuation in capital during periods of market volatility.
3. By systematically managing volatility in an effort to limit drawdowns, the time-to-recovery may be shortened.

4. Although the Franklin US Index rebalances daily, the underlying index rebalances quarterly.

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For more information about the Franklin US Index:

(800) DIAL BEN/342-5236

www.franklinsusindex.com

It is not possible to invest directly in an index. There is no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. There is no guarantee that any strategies utilizing the Index will be effective or successful. Multi-asset indices and diversification do not promise any level of performance, success, or guarantee against loss of principal. This does not serve as an offer to sell or a solicitation of an offer to buy any product or security or the use or suitability of the Index. This information should not be relied upon as investment advice, research, or a recommendation by Franklin regarding (i) any products tied to the Index, (ii) the use or suitability of the Index or (iii) any security in particular.

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Index information

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"Volatility Control" Indices are designed to shift allocations, based on signals in the market, to help keep volatility at or near the stated target. When market volatility is relatively low the index will likely maintain exposure to riskier assets, such as equities. When volatility increases, the index is likely to reallocate so that it is weighted toward low-risk assets, such as cash.

The Franklin US Index is an excess return index. An excess return index deducts the value of cash daily, which is reflected in the index value. Prior to December 3, 2021 the Index used the 3-month US Dollar LIBOR rate as its basis for the daily cash value. From December 3, 2021 on, the Index uses the United States SOFR Secured Overnight Financing Rate plus a constant adjustment of +26 bps as its basis for the daily cash value.

Index-linked annuities are insurance contracts issued by an insurance company. Index-linked annuities are not invested in the Index itself, but rather interest is credited based on the performance of the Index and the rules prescribed in the insurer's Index crediting strategy. Index-linked annuities are not issued by Franklin.

Investment risks

Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds adjust to a rise in interest rates, the performance of the Index may decline. During times of extreme market volatility, the Index will not be able to eliminate market losses or capture all market gains.