Franklin Managed Options

Risk Managed Equity

Overview

The Risk Managed Equity strategy from Franklin Managed Options Strategies (“Franklin MOST”) seeks to mitigate portfolio or concentrated equity downside (and benchmark beta) while maintaining partial portfolio upside participation and single stock alpha. The strategy combines call selling with the purchase of put spreads to potentially reduce volatility and downside portfolio risk.

Who it’s for; a simple solution for high-net-worth individuals, foundations and endowments

Holders of concentrated equity positions and diversified equity portfolios may benefit from a Risk Managed Equity option overlay to potentially monetize some of their equity volatility through call selling. Those proceeds are used to partially, or in some cases, fully finance the purchase of put spreads. The goal is to reduce their downside exposure in exchange with forgoing partial upside appreciation.

Specific use cases include:

- Investors seeking to maintain a lower risk tolerance on a portion of their equity assets, while potentially receiving equity-like returns with an expected reduction in volatility (when combined with the underlying equity)
- For institutions with “risk budgets” the strategy may allow more risk elsewhere in the portfolio, in an effort to boost returns
- Concentrated stockholders who feel they would like to systematically diversify and sell stock at specific price points incorporating target sales in their program
- Investors replacing a piece of their “fixed income” allocation with an asset that may have greater potential return than fixed income but potentially lower volatility than increasing equity allocation

The flexibility of Franklin MOST’s proprietary implementation strategy and technology platform allows our team to deliver a unique, individualized experience to clients at scale. Franklin MOST can accommodate each of the client scenarios listed above while delivering a customized approach tailored to specific client needs.

Key strategy goals

Downside risk reduction/ maintain partial upside participation	We strive to maintain attractive risk-adjusted performance throughout varying market environments.
Rules-based risk management	Attempt to mitigate potential date/time specific risk, while also balancing return considerations, by diversifying exposure across multiple option tranches.
Equity guardrails	Potential outperformance when underlying assets are flat, decline, or modestly rise. Potential underperformance when asset(s) are appreciating.
Rules-based portfolio rebalancing	Risk mitigation rules initiate attempts to systematically rebalance, with the goal of mitigating losses and capturing gains.

A unique and innovative approach to managed options investing

A customizable risk, return and diversification solution
Throughout market cycles, options overlay solutions have the potential to enhance cash flow or mitigate downside risk while maintaining potential upside performance.

Rigorous, rules-based approach
Solutions adhere to a transparent, rules-based investment process, designed with strict guardrails to attempt to deliver cashflow enhancement and total return while managing risk through minimizing the effect of directional movements in the selected beta.

Deep industry experience
Over 30 years of option experience, having helped create today's "risk-managed" options asset management business, along with designing and implementing industry leading research, technology, and strategies.

Our approach

The Risk Managed Equity strategy combines the purchase of medium-term, laddered protective put option "spreads" with the sale of short-term call options on the concentrated position or equity portfolio.

- ✓ Exchange traded options only
- ✓ Thoughtful portfolio construction and risk management paradigm
- ✓ Call option selection is risk-based
- ✓ Put spread option selection is based on absolute levels resulting in a "known" range of protection
- ✓ Multiple tranches diversify time specific risk and re-index to changing prices and volatility
- ✓ Rules based strategies with real-time risk management

Implementation

Managed options overlay
The Risk Managed Equity strategy combines the purchase of medium-term, laddered, protective put option "spreads" with the sale of short-term call options on the equity strategy.

1 Client Equity Holding

- Diversified passive equity exposure (ETFs, mutual funds, etc.)
- Actively managed equity portfolio correlated to a benchmark index
- Concentrated equity positions[1]

2 Income Generating Call Selling

- Exchange traded call options only
- Staggered portfolio
- Calls sold 1x per week (20% of notional)
- 5-week expiry
- Strike prices use sliding metric reflecting current market volatility
- Rules-based, real-time risk management

3 Protective Put Spread Buying

- Exchange traded put options only
- 3-month maturities
- 1/3rd of portfolio traded monthly
- Upper strike: 95%
- Lower strike: 80%
- Portfolio exposed to first 5% loss and any decline greater than 20% over a 3-month period

Risk Managed Equity

On demand simulations and reporting

Franklin MOST has the capability, upon written request, to run hypothetical simulations that illustrate how we believe a call selling program on a specific security may perform under various market scenarios. We require that all clients are shown a simulation prior to account/strategy inception. Performance reports are distributed quarterly and offered any time on-demand for our clients and their financial advisors.

Featured investment capabilities

Equity call selling | Index call selling | Hedged equity

Pioneers in managed options investing

The Franklin Managed Options Strategies team has over 30 years of options investing experience. As pioneers in the "risk-managed" options asset management business, the team also has a strong reputation for working seamlessly with client's existing custodians such as trust banks, investment advisors, and broker dealers.

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To learn more, about Franklin Managed Options Strategies, please visit franklintempleton.com/MOST

IMPORTANT INFORMATION

Franklin Managed Options Strategies are provided by Franklin Managed Options Strategies, LLC, an affiliate of Franklin Templeton, and an investment advisor registered under the United States Securities and Exchange Commission Investment Advisers Act of 1940.

Franklin Managed Options Strategies may rely on the investment objectives described in the relevant investment management agreement and communicated to the Client until such time as it shall receive written notice of the modification, alteration, or amendment of such investment objective.

When determining which options to sell and/or repurchase, Franklin Managed Options Strategies will consider factors including (but not limited to) option liquidity, maturity, volatility, interest rates, underlying dividends, and time to maturity.

Fees

The fee paid to Franklin Managed Options Strategies is separate from and does not include the costs of stock and option commissions, clearing member trade agreement fees, exchange fees, dealer spreads (which are embedded in pricing) and other costs associated with the purchase or sale of securities, custodian fees, interest, taxes, and other portfolio expenses, which shall be the sole responsibility of client and shall be paid to parties other than Franklin Managed Options Strategies. The custodian of the client account will debit the account for payments of any such fees payable to other parties.

Management fees will reduce the rate of return on any account or portfolio.

Tax implications

Buying or selling options, and any potential asset sales required to satisfy option obligations, if any, may result in tax consequences for the investors. Investors are encouraged to seek the guidance of their own independent tax advisor prior to implementing any option program. Under no circumstance is Franklin Managed Options Strategies offering tax advice.

Franklin Templeton, its affiliates, and its employees are not in the business of providing tax or legal advice to taxpayers. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties or complying with any applicable tax laws or regulations. Tax-related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

WHAT ARE THE RISKS?

All investments are subject to risk, including possible loss of principal. There is no guarantee or assurance that any option strategy will achieve its investment objective.

Risk of loss/opportunity cost

The gain to an investor selling an option is limited to the premium received for the sale of that option.

The loss to an investor buying an option is limited to the premium paid for the purchase of that option.

The loss to an investor selling a put option is limited to the strike price of that option, less the premium received for the sale of that option.

No guarantee of performance

Regardless of the appreciation or depreciation of the strategy's underlying security or securities, the option strategy may underperform a portfolio that is otherwise identical to the underlying securities or equities owned by the client but did not engage in the option strategy. There is no guarantee that the option strategy will be profitable on a gross or net of fees basis.

Liquidity

There is no guarantee a secondary market in options will be liquid. If Franklin Managed Option Strategies is unable to close positions prior to expiry the risk management techniques described herein may not be implemented as described resulting in outsized losses or resulting in the sale of collateral shares.

Not a hedge

Investors selling call options have a maximum profit limited to the value of the premium received. Beyond the premium received, investors retain all the risk of the underlying portfolios and could suffer a loss of 100% of their equity holdings.

Unlimited loss

Investors selling call options accept the potential for unlimited loss as call options have no maximum value, or the risk of their shares being called away. For investors selling covered calls, their loss may be realized in the form of opportunity cost, with the possibility of their shares or ETFs being called away (and sold) at prices far below the market price of those shares or ETFs at the time of exercise.

Options and derivatives risk

Franklin Managed Options Strategies offers no guarantee that any of the strategies illustrated herein, will be successful or meet their intended objectives. Market movements or events, both foreseen and unforeseen, may render any strategy unsuccessful and may result in unforeseen losses.

Options are not suitable for all investors and carry additional risks. Investors must ensure that they have read and understood the current options risk disclosure document before entering any options transactions. In addition, investors should consult with a tax, legal and/or financial advisor prior to contemplating any derivative transactions. The options risk disclosure document, "Characteristics and Risks of Standardized Options," can be accessed at the following web address:
https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document.

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