FRANKLIN TEMPLETON

Frequently asked questions

Franklin US Equity Index

Why consider the Franklin US Equity Index?

A: The Franklin US Equity Index is designed to access the growth potential of US equities.

What exposure is the index designed to provide?

A: Long-term investment growth is historically optimized by an allocation to equity investments. The Franklin US Equity Index is designed to offer exposure to 250 high-quality stocks that are attractively valued and poised for strong performance.

What is the asset allocation?

A: The Franklin US Equity Index is a smart beta equity index developed by Franklin Templeton and launched in 2016.
It takes a list of 1,000 well-recognized US large-cap stocks and systematically measures those that demonstrate characteristics of investment quality and value—two 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 250 stocks that score the highest are included in the index, while those scoring lower are removed. This rebalancing takes place semi-annually in June and December.

How do you define quality?

A: Our proprietary definition of quality is based on academic and practitioner research. It is grounded in traditional financial statement analysis and seeks to capture stocks with:

- High profitability
- Strength of balance sheet from a debt-quality perspective
- Efficient use of assets
- Low earnings volatility

How do you define value?

A: Our definition of value applies a blend of metrics aiming to identify stocks that are both attractively valued and poised for strong performance.

How do you define momentum?

A: Our definition of momentum applies a blend of forward- and backward-looking metrics. We include momentum because it may help identify investment trends and avoid value traps. Furthermore, momentum tends to be negatively correlated with value, so it offers the benefit of diversification.

How do you define low volatility?

A: Our definition of low volatility is based on a historical beta resulting from a 104-week return analysis in which a stock's returns are compared with those of the local benchmark.

What kind of drawdown could be expected?

A: Over a historical back test covering more than 15 years, the index had a maximum drawdown of 42.5%. In contrast, the S&P 500 Index saw a maximum drawdown of 52.6% during that period.[1]

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

A: The index is driven by companies that score highly on our proprietary score card, which measures a stock's quality, value, momentum and low volatility characteristics. It will perform differently from the S&P 500 at times when market performance is driven by equity factors that differ from the factors we prioritize in our index construction.[2]

Annual Index Returns

	Franklin US Equity Index	S&P 500 PR Index
2005	6.2%	3.0%
2006	13.3%	13.6%
2007	9.9%	3.5%
2008	-31.0%	-38.5%
2009	25.0%	23.5%
2010	13.1%	12.8%
2011	7.3%	0.0%
2012	9.2%	13.4%
2013	31.3%	29.6%
2014	12.6%	11.4%
2015	-0.3%	-0.7%
2016	8.8%	9.5%
2017	19.1%	19.4%
2018	-4.0%	-6.2%
2019	25.9%	28.9%
2020	8.2%	16.3%
2021	24.5%	26.9%
2022	-10.4%	-19.4%
2023	12.4%	24.2%
2024	8.7%	23.3%

How often is the index rebalanced?

A: The index is rebalanced every June and December.

Who administers the index?

A: The Franklin US Equity Index is administered by FTSE Russell.

What are the key features?

A: The index determines its stock allocation using a proprietary factor methodology that promotes quality and value—the two equity factors that our research has shown to be significant drivers of long-term stock price growth. Momentum and low volatility factors provide additional means of diversification.

It is not possible to invest directly in an index.

1. 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.
2. Source: Bloomberg. The Franklin US Equity Index is a price return index. **Performance data quoted represents past performance, which does not guarantee future results. Current performance may differ from figures shown.** All information for the index prior to its launch date is back-tested, based on the methodology that was in effect on the launch date on December 30, 2016. Back-tested performance, which is hypothetical is subject to inherent limitations because it reflects application of an index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than back-tested returns. The performance data does not reflect the deduction of any fees/charges and assumes reinvestment of interest or dividends. Hypothetical performance information is not indicative or a guarantee of future results.

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The Index is a price return index.

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The hypothetical performance information presented herein does not reflect the results of actual trading and calculation of the Index levels and performance do not reflect the fees and expenses that an investor would pay. These fees and expenses would cause the actual and back-tested performance of the Index to be lower. For example, if an investor invested $100,000 in an investment product that returned 10% ($10,000 in gains) over a 12-month period and was charged an asset-based fee of 1.5% at the end of the period on the investment plus gains (a $1,650 fee), the investor's net return would be 8.35% ($8,350). Over three years, an annual 1.5% fee taken at the end of each year with the same assumed 10% return per year would result in a cumulative gross return of 33.10% but a net return (after $5,375 in fees) of 27.2%.

WHAT ARE THE RISKS?

Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. During times of extreme market volatility, the Index will not be able to eliminate market losses or capture all market gains.