2020 VISION

Uncover Five Hidden Risks That Could Impact Your Portfolio



Recent years have brought new and often unforeseen risks for investors, and effectively navigating the risks that lie ahead will demand foresight, discipline and focused expertise. You want your investments with an asset manager prepared for these challenges, otherwise your investment portfolio may be at greater risk.



RETHINKING RISK FOR THE DECADE AHEAD

There's no avoiding it—market participation involves some degree of risk. And given ongoing market volatility and the increasing complexity and interconnectivity of today's global investment landscape, effectively managing investment risk has never been more important. You want an investment management company that takes risk as seriously as you do. But some asset managers may oversimplify risk, leading to under-managing known risks or overlooking new or emerging threats.

If your investments are with asset managers who are missing the risks below, your portfolio could be exposed.

Five Hidden Investment Risks



1 HIDDEN PORTFOLIO CONCENTRATION

Portfolio managers evaluate correlation when selecting securities to construct diversified portfolios, but correlation between investments can change over time. Ongoing, independent, quantitative analysis can provide an unbiased examination of a portfolio and uncover hidden portfolio concentration—to industries, currencies, and market risk factors—exposing unintended and uncompensated risks.

At Franklin Templeton, our investment groups leverage analytics and insight from our team of over 80 dedicated risk and performance management specialists. Operating globally and co-located with portfolio teams across the world, our risk management team supports portfolio managers with independent, "top-down" portfolio evaluation and risk and performance analytics.



2 (MIS)USE OF DERIVATIVES & COMPLEX SECURITIES

Despite vilification in the media and on Capitol Hill, not all derivatives are high-risk investments. In fact, many were created as risk management tools. However, when not completely understood they can be misused, potentially leading to disastrous results. A full understanding of not only how these securities have performed historically, but how they can *potentially* perform, is critical—especially in extreme markets, like those experienced in 2008/9. It is essential to partner with a manager that has the expertise and resources to fully analyze both the risks and opportunities complex securities can present. It is important for investors to understand that derivatives and complex securities involve significant risks and they may not achieve the anticipated benefits and/or may result in losses.

In 2007, Franklin Templeton formed the Complex Securities Review Committee to address complex securities. Before any portfolio manager takes a position in such securities, a comprehensive vetting of the risks is completed. This committee helped portfolio managers avoid certain complex investment vehicles that proved highly problematic in 2008, and has provided guidance *against* the use of certain ETFs for hedging risk due to concerns about their potential performance in volatile markets and possible tax ramifications.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE



3 GLOBAL/EMERGING MARKET RISK

Growth across many world markets has created new opportunities for investors—and new risks. In 1988, MSCI initiated coverage of emerging markets, which included just eight countries. By the end of 2012, MSCI tracked 46 emerging and frontier market countries.¹ Companies in emerging markets from India to Brazil are commonly found in international portfolios. Yet some of the features of U.S. financial markets taken for granted by investors—including liquidity, corporate governance and standard accounting practices—may be absent from less mature or emerging markets.

1. Source: © 2013 MSCI, Inc. All rights reserved.

More than ever, you want an investment partner with resources on the ground in these locations to fully understand the investment topography. Franklin Templeton has been investing globally for over 65 years, with dedicated emerging market funds for almost a quarter century. With offices in over 30 countries and more than 550 investment professionals on the ground across the globe, we have the resources to identify and help navigate the risks that less experienced, less locally situated managers might overlook.



4 CONCENTRATED EXPOSURE TO COUNTERPARTIES

For many investment managers, recent history provided a painful reminder that taking the stability of counterparties (the banks, brokerages and investment banks that act as trading partners) for granted can be dangerous. In 2008, two high-profile Wall Street investment banks, each with venerable histories, collapsed, sending shock waves through the economy and causing financial losses not only for their own investors, but also for business partners for whom they provided trading and brokerage support. While such events are exceptional, analyzing the stability of these entities and diversifying across counterparties can be critical to avoiding such risks.

In 2007, Franklin Templeton created a Counterparty Credit Committee to monitor and manage the risk posed by counterparties. Drawing on proprietary risk analytics, their insights helped portfolio managers avoid exposure to unstable counterparties during the 2008/9 financial crisis.



5 DRIVING WITH ONLY THE REAR VIEW MIRROR

Using the past to model the future can be inexact, particularly in the short term. Relying solely on analysis of how markets have behaved in the past is like driving a car using only the rear view mirror. Investors may be vulnerable to flaws only exposed by a shift in the economic environment, after the damage is done. Managing portfolio risk for all market conditions—not just "normal" markets—is critical for success in today's environment.

Franklin Templeton's distinct asset management teams have unique investment processes grounded in fundamental, research-driven approaches. These groups are the first line of risk management as they select investments and construct portfolios. Their expertise has been honed over decades of managing investments through changing market cycles. Separately, our independent risk management specialists apply an unbiased "top-down" approach, analyzing the portfolios to identify unintended risks, including the potential impact of significant market events.

2020 Vision on Risk

At Franklin Templeton, risk management is fundamental to our culture; it's in our DNA. Investing across market highs and lows for over 65 years has taught us to expect the unexpected and to have the people and processes in place, worldwide, to navigate both the risks and opportunities of the global marketplace.

RISK MANAGEMENT AT FRANKLIN TEMPLETON INVESTMENTS

Risk is inherent to market participation. That's why we take a comprehensive, disciplined approach to risk management, looking at both risk and return from every angle—and at every phase of the investment life cycle. We believe risks must be:

RECOGNIZED	We strive to ensure that risks are recognized and understood at the security, portfolio and operational level
RATIONAL	Risk decisions are an intended and rational part of each portfolio's strategy
REWARDED	We seek to ensure that every risk has an opportunity for a commensurate reward

Our distinct, multi-tiered approach to risk management integrates:

Experienced Managers & Time-Tested Investment Strategies: At Franklin Templeton, risk management starts and ends with our portfolio managers, and is integrated within each step of our fundamental, research-driven approach. We leverage the specialized expertise of our Franklin, Templeton and Mutual Series teams, each of which has been investing through market highs and lows for over half a century.

Dedicated, Independent Risk Management and Performance Specialists: Our global portfolio teams are supported by dedicated, independent risk management specialists, located across the globe, providing robust analytics and critical, unbiased insight.

Comprehensive Review & Oversight: Senior oversight committees focused on complex securities, counterparty credit and other risks help ensure our management teams are fully equipped to navigate today's highly complex global investment landscape.

RETHINK RISK. TALK TO YOUR FINANCIAL ADVISOR TODAY.

Franklin Templeton's mutual funds are sold through financial advisors because we believe investors can benefit from ongoing professional advice. A financial advisor can prove invaluable in helping you define your needs and narrowing the search for investments suitable to your unique financial objectives. To invest in Franklin Templeton funds, or to learn more about our products and services, please contact your financial advisor.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, call us at (800) DIAL BEN/342-5236, or visit franklintempleton.com. Please carefully read the prospectus before you invest or send money.

