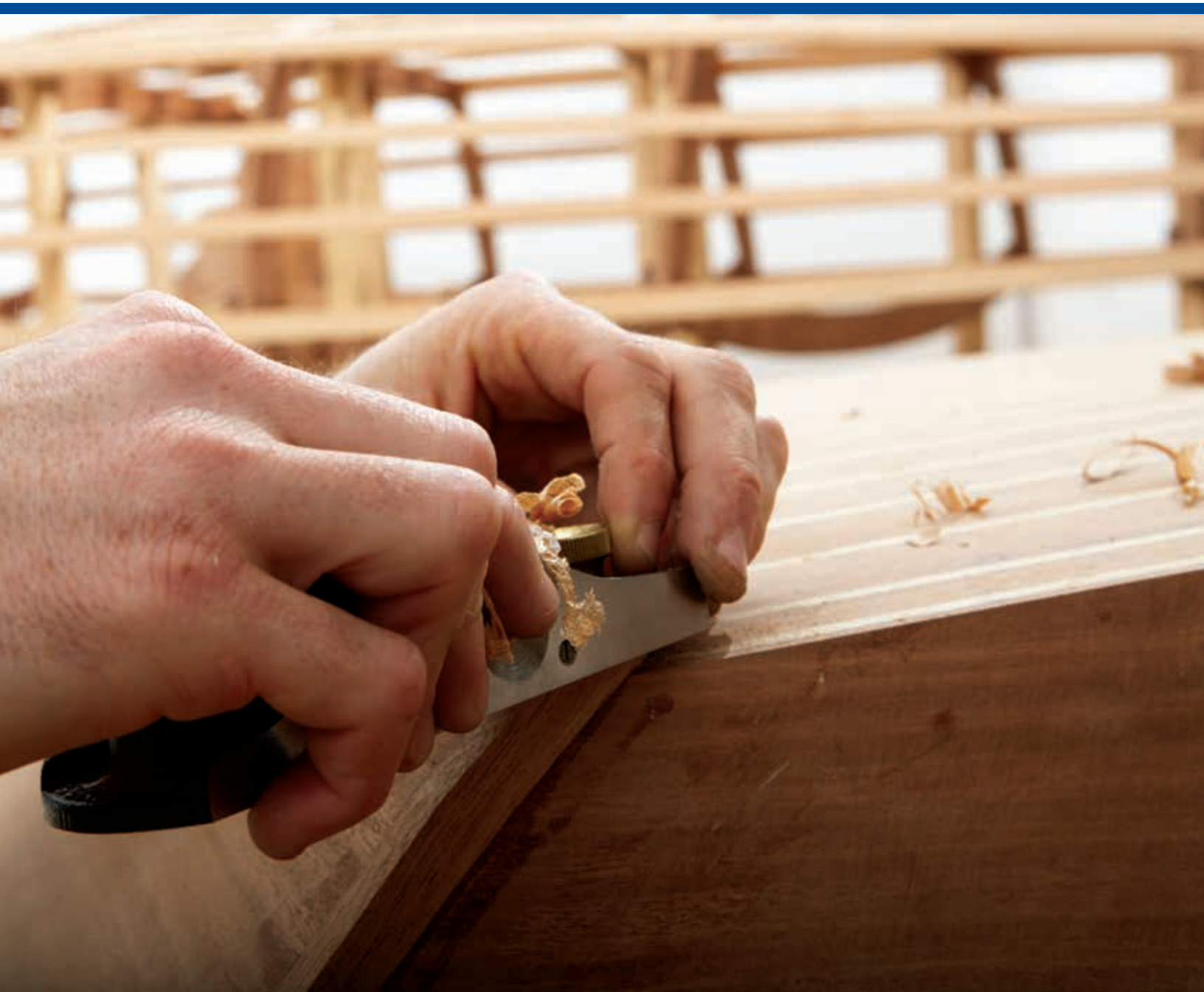
FRANKLIN TEMPLETON INVESTMENTS

Investor's Guide

RetireMetrics®



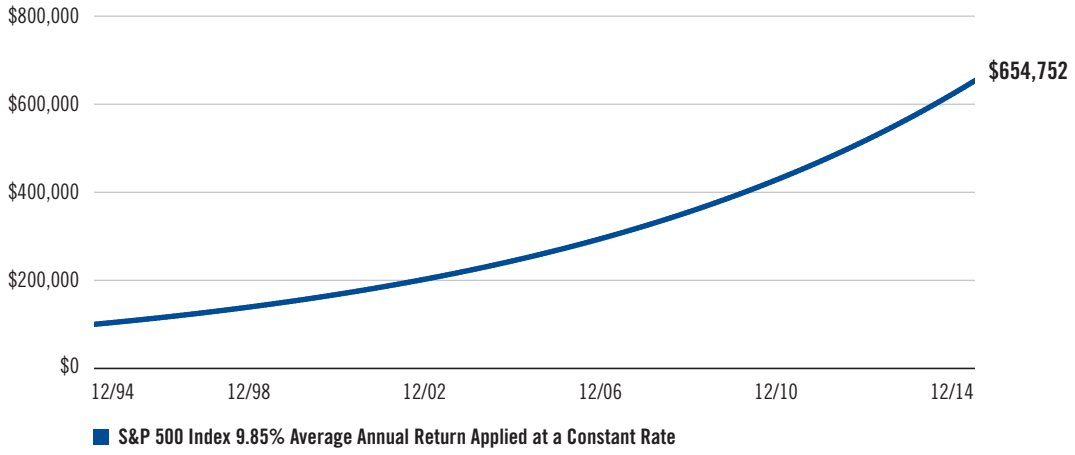
Which Numbers Are You Looking At?

Most people deciding where to invest assets for the future consider historical data such as average annual total returns. But are standard performance measures the only ones that should guide your investments as you prepare to take retirement distributions? Are these numbers providing the full story?

Over the last 20 years, the S&P 500 Index provided an average annual total return of 9.85%[1]—performance that can seem reassuringly solid to the many investors who picture it as illustrated in the hypothetical graph below.

Many investors picture average annual returns unfolding this way[1]

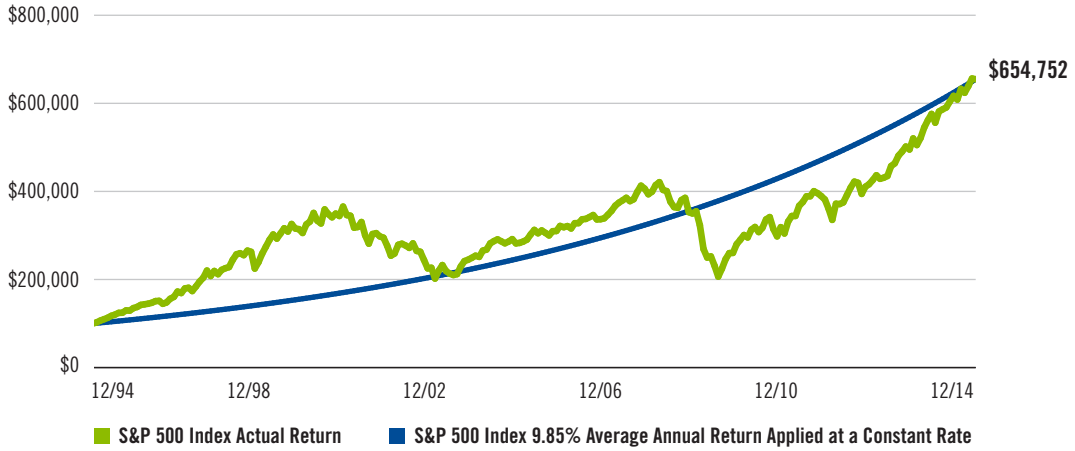
Hypothetical Growth of a $100,000 Investment Based on the 9.85% Average Annual Return of the S&P 500 Index APPLIED AT A CONSTANT RATE
20-Year Period Ending December 31, 2014



Of course, the problem with averages is that they come from a series of numbers—both higher *and* lower—that don't resemble the "average" very much. That's why a 9.85% average annual return can result from the more volatile stock market performance charted below.

What market performance REALLY looks like[1]

Cumulative Total Return of S&P 500 Index (Actual) vs. the Hypothetical Growth of a $100,000 Investment Growing at a CONSTANT 9.85% RATE
20-Year Period Ending December 31, 2014



1. Source: © 2015 Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. Not representative of the performance of any Franklin Templeton fund. **Past performance does not guarantee future results.**

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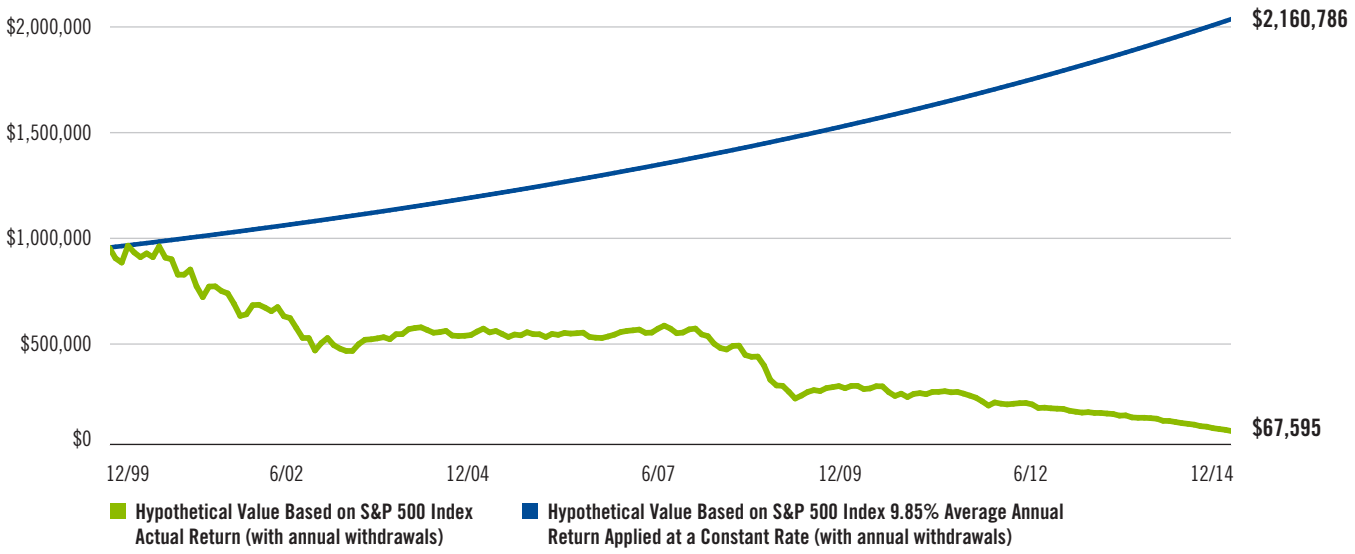
When Volatility Cuts Deepest: Retirement

For many on the cusp of retirement, the idea of taking an initial withdrawal of an amount equal to 5% of the value of their investment portfolio during their first year of withdrawals, and adjusting that initial amount each year to account for inflation, seemed prudent and reasonable. Depending on how their funds were invested, however, beginning this plan in 2000 could have produced an unwelcome surprise after market volatility took its toll.

Expectations vs. Reality Once Withdrawals Enter the Equation[2]

This example assumes an initial investment of $1,000,000 and an annual withdrawal equal to 5%, or $4,167 monthly payments, during the first year. The withdrawal amount increases 3% for each of the following calendar years.

A Tale of Two Withdrawal Scenarios
December 31, 1999–December 31, 2014



Use **RetireMetrics®**

RetireMetrics are measures that can help you evaluate mutual funds for your portfolio for the distribution phase of your retirement, paying special attention to a fund's potential to add survivability to a portfolio that's distributing income. The three RetireMetrics discussed in this brochure are:

RetireMetric #1:
Standard Deviation

RetireMetric #2:
Correlation

RetireMetric #3:
Probability Analysis

2. Source: © 2015 Morningstar. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.** Indexes are unmanaged, and one cannot invest directly in an index.

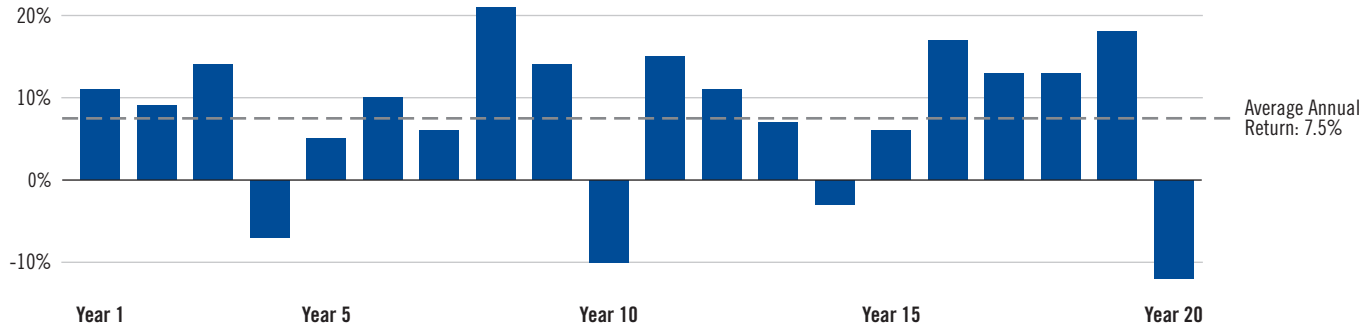
Measuring the Upside & Downside of Volatility

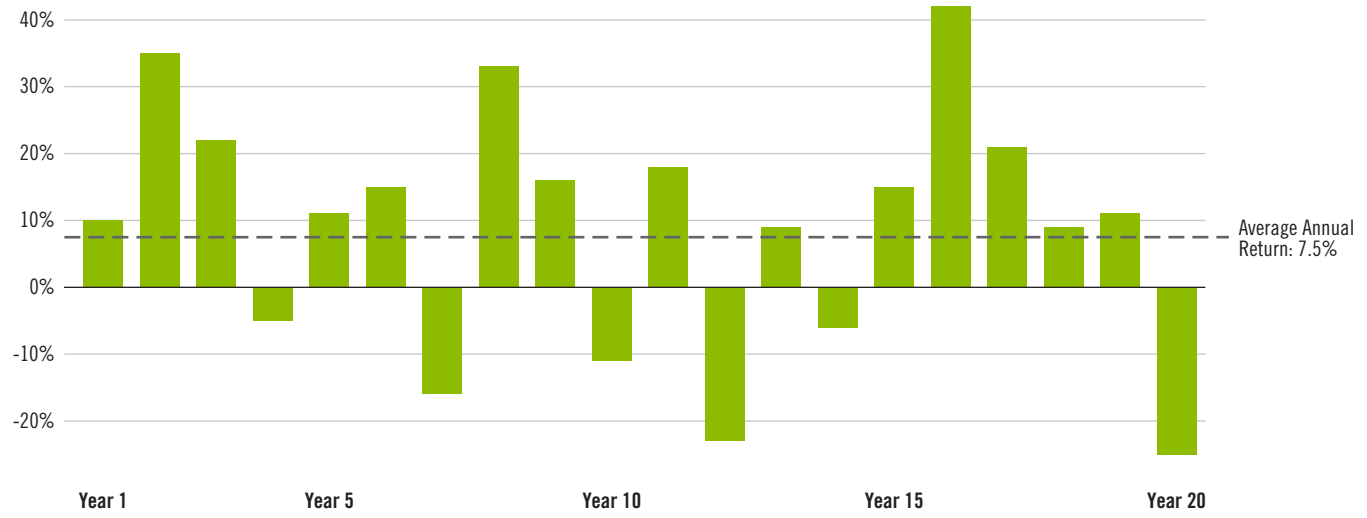
Standard deviation measures the historical volatility of a mutual fund, giving investors a quick snapshot of the range of returns that compose a fund's average return. Lower standard deviation indicates a tighter band of returns and lower volatility. Higher standard deviation points to a broader range of returns and greater volatility. **For investors looking to take retirement distributions from a fund, it is especially important to consider this volatility measurement.**

What Standard Deviation *Looks* Like[3]

The following example compares two hypothetical portfolios. Both have the same average annual return of 7.5% but different standard deviations. Which portfolios would you prefer?

	Standard Deviation	Average Annual Return
PORTFOLIO A	9%	7.5%
PORTFOLIO B	18%	7.5%





3. Hypothetical illustration only—not indicative of actual performance of any Franklin Templeton fund.

Are You Diversifying or Just Duplicating?

After evaluating funds individually comes the task of combining them. Most investors know that diversification should guide their choices. The idea behind diversification is simple—spread your money across different asset classes in an effort to reduce risk. But asset classes that seem different may perform more alike than most people would have guessed.

Correlation takes a deeper look at diversification. It measures how two investments have historically moved in relation to each other. If they tend to perform in tandem, they are highly correlated. If one typically zigs when the other zags, they are less correlated.

The Risk of Similarity between Indexes

Correlation is the statistical measure of the degree to which the movements of two variables are related:

1.00 = perfect positive correlation
0.00 = no correlation
-1.00 = perfect negative correlation

Correlations for the 10-Year Period Ended December 31, 2014[4]

	SMALL CAP STOCKS	LARGE CAP STOCKS	FOREIGN STOCKS	FOREIGN SMALL CAP STOCKS	TAX-FREE BONDS	U.S. BONDS	GLOBAL BONDS
SMALL CAP STOCKS	1.00						
LARGE CAP STOCKS	0.92	1.00					
FOREIGN STOCKS	0.79	0.89	1.00				
FOREIGN SMALL CAP STOCKS	0.78	0.83	0.96	1.00			
TAX-FREE BONDS	0.06	0.12	0.14	0.15	1.00		
U.S. BONDS	-0.02	0.05	0.13	0.14	0.54	1.00	
GLOBAL BONDS	0.08	0.16	0.33	0.31	0.27	0.69	1.00

Diversification does not ensure a profit or protect against a loss.

4. Source: © 2015 Morningstar. Data as of 12/31/14. Small Cap Stocks are represented by the Russell 2000 Index, Large Cap Stocks are represented by the S&P 500 Index, Foreign Stocks are represented by the MSCI EAFE Index, Foreign Small Cap Stocks are represented by the MSCI EAFE Small Cap Index, Tax-Free Bonds are represented by the Barclays Capital Municipal Bond Index, U.S. Bonds are represented by the Barclays Capital U.S. Aggregate Bond Index, and Global Bonds are represented by the Citigroup World Government Bond Index. Indexes are unmanaged, and one cannot invest directly in an index. **Past performance does not guarantee future results.**

The Challenge: Generating Income for Life

Even well-diversified portfolios face challenges with changing and unpredictable market conditions. In retirement, you want your portfolio to weather those forces *and* provide an income stream. How can you "stress-test" a portfolio to account for thousands of possible scenarios? You can use probability analysis, also referred to as Monte Carlo simulation.

The table below shows probability analysis results for four hypothetical portfolios, assuming different initial withdrawal rates. The simulation assumes that the initial withdrawal amount is increased annually by 3%. The percentages represent the historical probability of the portfolios to sustain withdrawals for the 30-year period ended December 31, 2014. These examples may help you determine if your retirement distribution expectations and your portfolio construction are aligned.

Consider These Sample Portfolios

Probability of Sustaining Withdrawals over the 30-Year Period Ended December 31, 2014 with the Annual Withdrawal Amount Increased by 3% Each Year[5]

	INITIAL WITHDRAWAL RATE			
	3%	4%	5%	6%
Asset Allocations	Probability to Sustain Withdrawals over the 30-Year Period Ended 12/31/14			
U.S. Bonds 100%	>95%	90%	64%	33%
U.S. Stocks 100%	>95%	>95%	90%	77%
U.S. Stocks . . . . . 60% U.S. Bonds 40%	>95%	>95%	86%	75%
U.S. Stocks . . . . . 30% U.S. Bonds . . . . . 30% International Stocks . . . . . 30% Global Bonds 10%	>95%	>95%	92%	75%
Cash 100%	>95%	>95%	1%	0%

ASSET CLASS INDEXES USED: Cash: P&R 90-Day U.S. Treasury (1969–12/31/14); **U.S. Stocks:** S&P 500 Index (1955–12/31/14); **U.S. Bonds:** Ibboston U.S. Long-Term Corporate Bond Index (1955–12/31/14); **Global Bonds:** Citigroup World Government Bond Index (1985–12/31/14); **International Stocks:** MSCI EAFE Index[6] (1970–12/31/14). Indexes are unmanaged and one cannot invest directly in an index. **Past performance does not guarantee future results.**

5. Source: Zephyr Associates, Inc.

6. Source: MSCI. All MSCI data is provided "as is." The information described herein is not sponsored or endorsed by MSCI. In no event shall MSCI, its affiliates or any MSCI data provider have any liability of any kind in connection with the MSCI data or the information herein. Copying or redistributing MSCI data is strictly prohibited.

DISCLOSURE INFORMATION

IMPORTANT: The Monte Carlo projections or other information generated by Zephyr Associates, Inc., regarding the likelihood of various investment outcomes are hypothetical in nature and should not be considered investment advice. They do not reflect actual investment results and are not guarantees of future results.

It's important to remember, the preceding Monte Carlo simulation uses historical data for asset classes, including arithmetic mean (return), standard deviation (risk) and correlation, to estimate a range of possible outcomes. **Past performance does not guarantee future results.** Note that other investments not considered may have characteristics similar or superior to those being analyzed.

Each Monte Carlo simulation generates randomized scenarios consistent with the historical characteristics of the asset classes. The simulation survival rates (probability of a portfolio supporting withdrawals over the indicated periods with a positive balance at the end of the period) are based on 10,000 simulations of possible market scenarios. These projections are only estimates based on the simulations and assumptions and do not guarantee or predict future investment results.

There can be no assurance that the simulation survival rates will be achieved or sustained. Actual results will vary and may be better or worse than the probabilities indicated, which only present a range of possible outcomes based on the simulations and assumptions. Consequently, it may be prudent for you to be more conservative with your withdrawal rates, especially early in retirement, given the unpredictable nature of market performance.

This type of Monte Carlo simulation also assumes that the distribution of returns is normal. A normal distribution means that returns are concentrated near the average (arithmetic mean) and decrease in frequency as the distance from the average increases. Should actual returns not follow this pattern, results may vary significantly.

Results may also significantly vary over time and each time the simulation is run.

This simulation does not take into account taxes on withdrawals, nor early withdrawal penalties.

Indexes are unmanaged, include reinvestment of dividends and, as they are unmanaged, do not include any fees and expenses. A mutual fund, or other managed account, will include investment management fees and other expenses which will reduce returns. One cannot invest directly in an index. These calculations are based on a limited collection of asset classes and some of these asset classes may have relatively short histories.

Other asset classes may be more appropriate for your individual situation.

Periods of significant market volatility may increase the chances that actual results will differ, possibly significantly, from the examples provided.

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