



US Purchase Option Soft-Cap

1. What is a “USD” purchase option?

All Franklin Templeton funds are denominated in Canadian dollars. But for convenience, certain funds are also available in U.S. dollars so that investors can use U.S. dollars to purchase our funds. This option is provided as a convenience only. Purchasing funds with U.S. dollars will have no impact on the overall performance of the investor’s investment in the fund in Canadian dollars and does not act as a hedge against currency fluctuations between the Canadian and U.S. dollars. (Note, investments purchased in USD may not be held in Franklin Templeton registered plans, except in a tax-free savings account.)

2. What’s happening and why?

USD purchase options in select 13 Canadian retail mutual funds will be soft-capped effective Feb. 1, 2017.

Even though USD purchase options are offered only as a convenience, there is prevailing confusion around their impact on performance, particularly for those funds that have predominantly high Canadian exposure (either through direct holdings in Canadian securities or through hedging of any non-Canadian currency to the Canadian dollar). Franklin Templeton believes it is in the best interest of investors to soft cap the USD purchase for the impacted retail mutual funds.

3. Which funds are impacted?

This is not a wholesale soft-capping of all USD purchase options available in our fund line-up. The following funds are in-scope: **all of Frk. Quotential Portfolios (including Corporate Class), Frk. High Income Fund and Frk. Strategic Income Fund**. For the list of impacted fund codes, please see the Appendix.

4. Why are these specific funds being soft-capped and not others?

Quotential portfolios have substantial Canadian content as part of their geographic asset mix. As a result, anytime the Canadian dollar depreciates against the US dollar, USD NAV for US purchase options will have a negative performance drag **in US dollars** (assuming no change to the value of the Canadian securities within Quotential portfolios).

Franklin Strategic Income Fund (FSIF) and Franklin High Income Fund (FHIF) are both US-centric funds with 70%-80% of the portfolio holdings in US securities. The non-Canadian currency exposure in the funds however are hedged to the Canadian dollar. As a result, a significant portion of the portfolio is exposed the Canadian dollar (due to the hedging nature of the funds). Due to this, anytime the Canadian dollar depreciates against the US dollar, USD NAV for US purchase options will have a negative performance drag **in US dollars** (assuming no change to the value of the securities within the funds).

Due to prevailing lack of understanding of this impact to the performance of the USD purchase options for these funds, the USD purchase options of Quotential portfolios (including Corporate Class), Franklin Strategic Income Fund and Franklin High Income Fund will be soft capped.

5. Will we be soft-capping Series T-USD too?

No, we will not be soft-capping Series T-USD. This series has its own separate NAV; therefore, it is considered a stand-alone series versus a USD purchase option.

The monthly distributions for Series T-USD securities are an amount fixed in U.S. dollars (based on an opening USD NAV) and will therefore not fluctuate in that specific calendar year, regardless of the exchange rate of the Canadian dollar relative to U.S. dollar. The daily NAV in U.S. dollars of T-USD will fluctuate based on the exchange rate of the Canadian dollar relative to U.S. dollar, which will have an impact on the invested capital.

Franklin Templeton believes there is continued benefit in offering these T-USD share classes, which are primarily used for monthly distributions.

6. Can existing investors in the fund continue to buy USD purchase options?

Yes. As of Jan. 31, 2017, all existing investors in USD purchase options will be grandfathered, so they will be able to continue purchasing. We will only be restricting new investors as of Feb. 1, 2017.

7. What funds are affected by the soft capping?

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Fund List (as of 01/23/17)

Parent Fund Name	Series A			Series F	Series I	Series O	Series PF
	FE	DSC	LL				
Franklin High Income Fund	187	189	191	262	3381	149	3811
Franklin Strategic Income Fund	388	390	393	263	3383	174	3806
Franklin Quotential Fixed Income Portfolio	3938	3940	3939	3941	–	3942	3949
Franklin Quotential Diversified Income Portfolio	3861	3863	3862	3864	3865	3866	3878
Franklin Quotential Diversified Income CC Portfolio	3515	3517	3516	3518	3519	3520	3726
Franklin Quotential Balanced Income Portfolio	3700	3702	3701	3703	3704	3705	3874
Franklin Quotential Balanced Income CC Portfolio	3706	3708	3707	3709	3710	3711	3785
Franklin Quotential Balanced Growth Portfolio	3852	3854	3853	3855	3856	3857	3872
Franklin Quotential Balanced Growth CC Portfolio	3842	3844	3843	3845	3846	3848	3847
Franklin Quotential Growth Portfolio	662	663	644	673	680	687	3880
Franklin Quotential Growth CC Portfolio	1046	1048	1047	1049	3373	1051	3800
Franklin Quotential Diversified Equity Portfolio	324	824	822	855	857	859	3876
Franklin Quotential Diversified Equity CC Portfolio	1058	1060	1059	1061	1062	1063	3802

The above list of funds has been updated as of January 23, 2017.



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