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## PROSPECTUS

*Continuous Distribution*

April 6, 2018



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin Target Return Fund

**Series A Units, Series F Units, Series PF Units and Series O Units**

**Price: Series Net Asset Value per Unit**

Franklin Target Return Fund (the “**Fund**”) is a “commodity pool”, as defined under National Instrument 81-104 – *Commodity Pools* (“**NI 81-104**”), established as a trust under the laws of the Province of Ontario. This prospectus qualifies the issuance of units (each, a “**Unit**” and collectively, the “**Units**”) of four series of Units of the Fund: Series A, Series F, Series PF and Series O.

The Fund’s investment objective is to achieve a total return that exceeds the return of Government of Canada 91-day treasury bills over a rolling three-year period, regardless of the prevailing market conditions, by actively managing direct and indirect exposure to equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments. See “Investment Objectives”.

Franklin Templeton Investments Corp. (the “**Manager**”) is the trustee and manager of the Fund and is responsible for the administration of the Fund. See “Organization and Management Details of the Investment Fund – Manager of the Investment Fund”. The Manager has retained Fiduciary Trust Company of Canada (the “**Portfolio Manager**”) to act as the portfolio manager of the Fund. See “Organization and Management Details of the Investment Fund – Portfolio Manager”. The Portfolio Manager has retained Franklin Templeton Investment Management Limited (the “**Sub-Advisor**”) to act as the sub-advisor to the Fund. See “Organization and Management Details of the Investment Fund – Sub-Advisor”.

### **Purchases and Redemptions**

The Fund issues Series A, Series F, Series PF and Series O Units on a continuous basis. There is no maximum number of Units that may be issued. A separate series net asset value per Unit (the “**Series NAV per Unit**”) is calculated for each series of Units. The Series NAV per Unit of each series will not be the same because of the different fees and expenses charged or allocated to each series of Units. If the Manager receives a purchase order before 4:00 p.m. ET, or when the Toronto Stock Exchange (the “**TSX**”)

closes for the day, whichever is earlier (the “**Valuation Time**”), on a business day that the TSX is open for trading or on any other day designated by the Manager that the Series NAV per Unit of each series of Units of the Fund is calculated (a “**Valuation Date**”), the Manager will process such order based on the applicable Series NAV per Unit calculated on that Valuation Date. If the Manager receives a purchase order after the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will process such order based on the applicable Series NAV per Unit calculated on the next Valuation Date.

Each series of Units is intended for different types of investors and investors must meet eligibility criteria established by the Manager from time to time in order to hold certain series of Units of the Fund. The Manager will publicly announce any new eligibility criteria or any change to existing eligibility criteria, before such criteria or change becomes effective. If, at any time, a holder of Units (a “**Unitholder**”) ceases to be eligible to hold a series of Units of the Fund, the Manager may switch the Unitholder to another series of Units (including a series that may be created in the future). See “Purchases of Units”.

The minimum amount for an initial investment in the Fund is as follows: (i) \$500 for an initial investment in Series A or Series F Units; (ii) \$100,000 held in Related Accounts (as defined below) for an initial investment in Series PF Units; and (iii) \$200,000 held in Related Accounts for an initial investment in Series O Units. The Series F and Series O investment minimums may be waived by the Manager for purchases made by investors who purchase through a discretionary managed account. Each additional investment in Series A or Series F Units must be at least \$100. Additional investments in Series PF or Series O Units are not subject to an investment minimum. In addition to the investment minimums for Series F, Series PF and Series O, a Unitholder must also continue to qualify to hold Series F, Series PF and Series O after the initial purchase. See “Purchases of Units”.

A Unitholder may redeem his, her or its Units. To redeem Units, a Unitholder should contact his, her or its advisor or dealer, who may ask the Unitholder to complete a redemption request form. On redemption, Unitholders will receive the applicable Series NAV per Unit for the Units redeemed, less any applicable redemption fee. See “Fees and Expenses” and “Redemption of Units – Redemption Fee”. If the Manager receives the redemption request before the Valuation Time on a Valuation Date, the Manager will calculate the redemption value as of that Valuation Date. If the Manager receives a Unitholder’s redemption request after the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will calculate the redemption value as of the next Valuation Date. The Manager will pay redemption proceeds within three business days of receiving all of the required documents or instructions. The Manager will deduct any redemption fee and/or withholding tax from such payment. See “Redemption of Units”.

A Unitholder may, at any time, switch all or part of his, her or its investment in the Fund to a different investment fund managed by the Manager that is offered for sale under a prospectus, provided that the Unitholder is eligible to make the switch. A Unitholder may change between series of Units of the Fund, provided that the Unitholder is eligible to purchase the new series, or may change between purchase options. It is generally not advisable to make changes between purchase options. See “Redemption of Units – How to Switch Units of the Fund”.

## **Risks**

**For a discussion of the risks associated with an investment in Units of the Fund, such as the risks associated with the use of derivatives and leverage, see “Risk Factors”.**

A prospective investor should carefully consider whether his, her or its financial condition permits the investor to participate in this investment. The securities of this Fund involve a high degree of risk. A prospective investor may lose a substantial portion, or even all, of the money placed in the Fund.

In order to pursue its investment objective, the Fund invests in equity securities, fixed income securities, cash and cash equivalents, underlying funds, alternative asset classes including real estate, infrastructure and commodities, derivatives and other financial instruments. The risk of loss in trading in securities and derivatives can be substantial. In considering whether to participate in the Fund, a prospective investor should be aware that trading in securities and derivatives can quickly lead to large losses as well as gains.

Such trading losses can sharply reduce the net asset value (“NAV”) of the Fund and, consequently, the value of a Unitholder’s interest in the Fund. Also, at times market conditions may make it difficult or impossible for the Fund to liquidate a particular position.

The Fund is subject to certain conflicts of interest. The Fund will be subject to the charges payable by it as described in this prospectus that must be offset by revenues and trading gains before a Unitholder is entitled to a return on his, her or its investment. It may be necessary for the Fund to make substantial trading profits to avoid depletion or exhaustion of its assets before a Unitholder is entitled to a return on his, her or its investment.

Participation in transactions in foreign securities and derivatives by the Fund involves the execution and clearing of trades on or subject to the rules of foreign markets.

None of the Canadian securities regulatory authorities or Canadian exchanges regulates activities of any foreign markets, including the execution, delivery and clearing of transactions, or has the power to compel enforcement of the rule of a foreign market or any applicable foreign law. Generally, any foreign transaction will be governed by applicable foreign laws. This is true even if the foreign market is formally linked to a Canadian market so that a position taken on a market may be liquidated by a transaction on another market. Moreover, such laws or regulations will vary depending on the foreign country in which the transaction occurs.

For these reasons, entities such as the Fund that directly or indirectly trade in foreign securities and derivatives may not be afforded certain of the protective measures provided by Canadian legislation and the rules of Canadian exchanges. In particular, funds received from customers for transactions may not be provided the same protection as funds received in respect of transactions on Canadian exchanges.

The Fund is a mutual fund, but certain provisions of securities legislation designed to protect investors who purchase securities of mutual funds do not apply to the Fund.

These brief statements do not disclose all the risks and other significant aspects of investing in the Fund. A prospective investor should therefore carefully study this prospectus, including a description of the principal risk factors, before deciding to invest in the Fund. **See “Risk Factors”.**

### **Documents Incorporated by Reference**

Additional information about the Fund is available in the most recently filed annual financial statements, any interim financial statements filed after those annual financial statements, the most recently filed annual management report of fund performance (“MRFP”), and any interim MRFP filed after that annual MRFP. These documents are incorporated by reference into, and legally form an integral part of, this prospectus. These documents are publicly available on the Manager’s website at [www.franklintempleton.ca](http://www.franklintempleton.ca) and may be obtained upon request, at no cost, by calling 1.800.387.0830 or by contacting a registered dealer. These documents and other information about the Fund are also publicly available at [www.sedar.com](http://www.sedar.com). See “Documents Incorporated by Reference” for further details.

## TABLE OF CONTENTS

|   |    |
|---|----|
| IMPORTANT TERMS   | 2  |
| PROSPECTUS SUMMARY  | 6  |
| OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND                           | 20 |
| INVESTMENT OBJECTIVES   | 20 |
| INVESTMENT STRATEGIES   | 20 |
| OVERVIEW OF THE SECTORS IN WHICH THE FUND INVESTS                     | 25 |
| INVESTMENT RESTRICTIONS   | 25 |
| EXEMPTIONS AND APPROVALS  | 26 |
| FEES AND EXPENSES   | 27 |
| FEES AND EXPENSES PAYABLE BY THE FUND                                 | 27 |
| FEES AND EXPENSES PAYABLE DIRECTLY BY UNITHOLDERS                     | 28 |
| ANNUAL RETURNS AND MANAGEMENT EXPENSE RATIO AND TRADING EXPENSE RATIO | 31 |
| RISK FACTORS  | 32 |
| DISTRIBUTION POLICY   | 43 |
| PURCHASES OF UNITS  | 43 |
| REDEMPTION OF UNITS   | 47 |
| INCOME TAX CONSIDERATIONS   | 53 |
| ORGANIZATION AND MANAGEMENT DETAILS OF THE INVESTMENT FUND            | 58 |
| CALCULATION OF NET ASSET VALUE  | 68 |
| ATTRIBUTES OF THE UNITS   | 71 |
| UNITHOLDER MATTERS  | 72 |
| TERMINATION OF THE FUND   | 73 |
| RELATIONSHIP BETWEEN THE FUND AND DEALERS                             | 73 |
| PRINCIPAL HOLDERS OF SECURITIES OF THE INVESTMENT FUND                | 75 |
| PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD                 | 75 |
| MATERIAL CONTRACTS  | 77 |
| LEGAL AND ADMINISTRATIVE PROCEEDINGS                                  | 78 |
| EXPERTS   | 79 |
| EXEMPTIONS AND APPROVALS  | 79 |
| OTHER MATERIAL FACTS  | 81 |
| PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION             | 82 |
| DOCUMENTS INCORPORATED BY REFERENCE                                   | 83 |
| CERTIFICATE OF THE FUND, THE TRUSTEE, MANAGER AND PROMOTER            | 84 |

## IMPORTANT TERMS

*Unless otherwise indicated, all references to dollar amounts in this prospectus are to Canadian dollars and all references to times in this prospectus are to Toronto time.*

**Account Linking**– *the service that allows Unitholders to link Related Accounts for the purpose of satisfying the minimum investment requirement for Series O and Series PF.*

**Administration Fee** – *the fixed-rate annual administration fee paid to the Manager by the Fund in respect of each series of Units in return for the Manager paying certain of the operating expenses of the Fund.*

**Canadian securities legislation** – the securities legislation in force in each province and territory of Canada, all regulations, rules, orders and policies made thereunder and all multilateral and national instruments adopted by the securities regulatory authorities, as the same may be amended, restated or replaced from time to time.

**CFTC** – the U.S. Commodity Futures Trading Commission.

**Clearing Corporation** – any clearing organization registered with the CFTC or central counterparty authorized by the European Securities and Markets Authority, as the case may be, that, in either case, is also recognized or exempt from recognition in Ontario.

**CRA** – the Canada Revenue Agency.

**Custodian** – J.P. Morgan Bank Canada or its successor.

**Custodian Agreement** – the custody agreement dated as of May 31, 2002, as amended, between the Manager, as manager of, among others, the Fund, and the Custodian, as the same may be amended or restated from time to time.

**Declaration of Trust** – the amended and restated master declaration of trust establishing, among others, the Fund dated as of April 11, 2017, as the same may be amended or restated from time to time.

**Franklin Templeton Mutual Funds** – all of the mutual funds managed by the Manager that are offered for sale under a prospectus, including, for greater certainty, the Fund, and a **Franklin Templeton Mutual Fund** means any one of the Franklin Templeton Mutual Funds.

**FTCC** – Fiduciary Trust Company of Canada or its successor.

**Fund Costs** – the operating expenses paid directly by the Fund.

**Futures Commission Merchant** – any futures commission merchant that is registered with the CFTC and/or is a clearing member for purposes of the European Market Infrastructure Regulation, as applicable, and is a member of a Clearing Corporation.

**HST** – the harmonized sales tax imposed under the Excise Tax Act (Canada) that is applicable in certain provinces of Canada.

**Institutional Investors** – includes institutional investors and ultra-high net worth investors that generally have more than \$10 million in investable assets.

**IRC** – the Independent Review Committee of, among others, the Fund.

**Management Agreement** – the master management agreement dated as of April 11, 2017 between Franklin Templeton Investments Corp., as trustee of, among others, the Fund, and the Manager, as the same may be amended or restated from time to time.

**Manager** – Franklin Templeton Investments Corp., a corporation amalgamated under the laws of Ontario, or its successor.

**Member State** – each of the United Kingdom, Ireland, Luxembourg, Germany, France, Netherlands, Italy and Spain.

**MER** – management expense ratio.

**MRFP** – management report of fund performance as defined in NI 81-106.

**NAV** – the aggregate net asset value of the Units of the Fund, as described in “Calculation of Net Asset Value”.

**NI 81-102** – National Instrument 81-102 – *Investment Funds, as the same may be amended, restated or replaced from time to time.*

**NI 81-104** – National Instrument 81-104 – *Commodity Pools, as the same may be amended, restated or replaced from time to time.*

**NI 81-106** – National Instrument 81-106 – *Investment Fund Continuous Disclosure, as the same may be amended, restated or replaced from time to time.*

**NI 81-107** – National Instrument 81-107 – *Independent Review Committee for Investment Funds, as the same may be amended, restated or replaced from time to time.*

**Investment Advisory Agreement** – the investment advisory agreement dated April 11, 2017 between Franklin Templeton Investments Corp., as manager of the Fund, among others, and the Portfolio Manager, as amended, and as the same may be amended or restated from time to time.

**Portfolio Manager** – Fiduciary Trust Company of Canada or its successor.

**Registered Plans** – registered retirement savings plans, registered retirement income funds, registered education savings plans, tax-free savings accounts, deferred profit sharing plans and registered disability savings plans.

**Registrar and Transfer Agent** – Franklin Templeton Investments Corp. or its successor.

**Related Accounts** – any account holding Units of the Fund belonging to one or more of following persons that have qualified for the Account Linking: (i) the Unitholder; (ii) the Unitholder’s spouse; (iii) the Unitholder and the Unitholder’s spouse jointly; (iv) the Unitholder’s children, grandchildren and great-grandchildren and the spouses of each of these persons; and (v) accounts in the names of companies for which the Unitholder owns more than 50% of the voting equity.

**Securities Lending Agent** – J.P. Morgan Bank Canada or its successor.

**Securities Lending Agreement** – the agreement between the Manager and the Securities Lending Agent that will be entered into by the parties prior to the commencement of any securities lending activity for the Fund, as the same may be amended or restated from time to time.

**Securities regulatory authorities** – the securities commission or similar regulatory authority in each province and territory of Canada that is responsible for administering the Canadian securities legislation in force in such province or territory.

**Series A Unit** – a series A unit of the Fund, which represents an equal, undivided interest in the assets of the Fund allocated to the series A units.

**Series F Unit** – a series F unit of the Fund, which represents an equal, undivided interest in the assets of the Fund allocated to the series F units.

**Series NAV** – for each series of Units of the Fund, the portion of the NAV allocated to that series, as described in “Calculation of Net Asset Value”.

**Series NAV per Unit** – for each series of Units of the Fund, the series NAV per Unit, as described in “Calculation of Net Asset Value”.

**Series O Investment Advisory Services Fee** – the fee that may be payable by a Series O Unitholder to the Unitholder’s dealer.

**Series O Management and Administration Fee** – the fee that may be payable by a Series O Unitholder to the Manager in consideration for the management and administration services provided in respect of Series O Units.

**Series O Program Fees** – collectively, any Series O Management and Administration Fee and any Series O Investment Advisory Services Fee payable by a Series O Unitholder.

**Series O Unit** – a series O unit of the Fund, which represents an equal, undivided interest in the assets of the Fund allocated to the series O units.

**Series PF Unit** – a series PF unit of the Fund, which represents an equal, undivided interest in the assets of the Fund allocated to the series PF units.

**Sub-Advisory Agreement** – the sub-advisory agreement dated April 11, 2017 between Fiduciary Trust Company of Canada, as portfolio manager of the Fund, and the Sub-Advisor, as the same may be amended or restated from time to time.

**Sub-Advisor** – Franklin Templeton Investment Management Limited or its successor.

**Tax Act** – the *Income Tax Act* (Canada) and the regulations issued thereunder, as amended, restated or replaced from time to time.

**Tax Proposals** – all specific proposals to amend the Tax Act that have been publicly announced in writing by the Minister of Finance (Canada) prior to the date of this prospectus.

**TER** – trading expense ratio.

**TSX** – the Toronto Stock Exchange.

**Trustee** – Franklin Templeton Investments Corp. or its successor.

**UCITS** – an undertaking for collective investments in transferable securities, which is a retail mutual fund domiciled in the European Union.

**UCITS Underlying Fund** – any fund authorized as a UCITS by, and subject to the supervision of, a national competent authority in any Member State.

***underlying fund*** – any investment ***fund*** (including an exchange-traded fund and a UCITS Underlying Fund) in which the Fund may invest.

***Unit*** – a redeemable, ***transferable Series A, Series F, Series PF or Series O Unit of the Fund***, which represents an equal, undivided interest in that series' proportionate share of the assets of the Fund.

***Unitholder*** – a holder of Units of the Fund.

***Valuation Date*** – each business day that the TSX is open for trading or any other day designated by the Manager on which the NAV, the Series NAV and the Series NAV per Unit of the Fund are calculated.

***Valuation Time*** – the close of trading on the TSX every business day (usually 4:00 p.m. ET), or such other time that the Manager deems appropriate on each Valuation Date.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the units of the fund and should be read together with the more detailed information and statements contained elsewhere in this prospectus or incorporated by reference in this prospectus.*

**Issuer:** Franklin Target Return Fund (the “**Fund**”) is a mutual fund established as a trust under the laws of the Province of Ontario. Franklin Templeton Investments Corp. (the “**Manager**”) is the trustee and manager of the Fund.

**Units and Purchase Options:** This prospectus qualifies the issuance of units (each, a “**Unit**” and collectively, the “**Units**”) of four series of the Fund: Series A, Series F, Series PF and Series O Units. Each series of Units is intended for different types of investors and investors must meet eligibility criteria established by the Manager from time to time in order to hold certain series of Units of the Fund. The Series NAV per Unit of each series will not be the same because of the different fees and expenses charged or allocated to each series of Units.

Certain series of Units of the Fund are available for purchase under different purchase options. An investor’s choice of purchase option will require payment of different fees and will affect the amount of compensation the investor’s dealer will receive.

### **Series A Units**

Series A Units are available to all investors, subject to certain minimum investment requirements. They are available for purchase under three different purchase options:

- **Front-load option.** The investor and dealer negotiate the fee, which may be up to 6% of the cost of the Units. The investor pays this fee to the dealer when the investor buys the Units.
- **Deferred sales charge option.** The investor does not pay a fee when the Units are purchased. However, if the investor redeems the Units within six years of buying them, the investor will pay a redemption fee that starts at 6% of the original cost and declines over time.
- **Low-load option.** The investor does not pay a fee when the Units are purchased. However, if the investor redeems the Units within three years of buying them, the investor will pay a redemption fee that starts at 3% of their original cost and declines over time.

An investor in Series A Units purchased under the deferred sales charge option or the low-load option may redeem some of these Units without paying a fee, even if they have been held for less than three years, in the case of low-low sales charge Units, or less than six years, in the case of deferred sales charge Units.

### **Series F Units**

Series F Units are available to the following types of investors as determined by the Manager in its discretion:

- investors who participate in dealer-sponsored “fee-for-service” or wrap programs and who pay their advisor an hourly fee or annual asset-based fee rather than commissions on each transaction;

- investors whose dealer is FTC Investor Services Inc. or who purchase, sell or hold their securities through a discount brokerage account; and
- any other investors for whom the Manager does not incur distribution costs.

Investors wishing to purchase Series F Units must also meet the minimum investment requirements.

Series F Units are only available to investors with less than \$100,000 invested in securities of Franklin Templeton Mutual Funds held in Related Accounts. On a monthly basis, the Manager will automatically switch Series F Unitholders with \$100,000 or more invested in securities of all Franklin Templeton Mutual Funds held in Related Accounts to Series PF securities of the same mutual fund, including the Fund.

Series F Units are designed for investors participating in programs that do not require the Manager to incur distribution costs in the form of trailing commissions to dealers. Participation in Series F is only available with the Manager's prior consent and the consent of the dealer.

Series F Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series F Units. Instead of paying sales charges, investors buying Series F Units pay fees to their dealer for investment advice and other services. The Manager does not pay any commission to dealers in respect of Series F Units, so lower management fees can be charged.

If a Unitholder ceases to be eligible to hold Series PF Units, the Manager may redesignate such Units as Series F Units.

### **Series PF Units**

Series PF Units are available to the following types of investors, as determined by the Manager in its discretion:

- investors who participate in dealer-sponsored "fee-for-service" or wrap programs and who pay their advisor an hourly fee or annual asset-based fee rather than commissions on each transaction;
- investors who purchase through a discretionary managed account; and
- any other investors for whom the Manager does not incur distribution costs.

Investors wishing to purchase Series PF Units must also meet the minimum investment requirements.

Series PF Units are available to investors who have in total invested a minimum of \$100,000 in securities of Franklin Templeton Mutual Funds within one month from the initial purchase of Series PF or PFT securities, held in Related Accounts. The investment minimum for Series PF may be waived for purchases made by investors who purchase through a discretionary managed account. On a monthly basis, the Manager will automatically switch Series F Unitholders with \$100,000 or more invested in securities of all Franklin Templeton Mutual Funds held in Related Accounts to Series PF securities of the same mutual fund, including the Fund.

Series PF Units are designed for investors participating in programs that do not require the Manager to incur distribution costs in the form of trailing commissions to dealers. Participation in Series PF is only available with the Manager's prior consent and the consent of the dealer.

Series PF Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series PF Units. Instead of paying sales charges, investors buying Series PF Units pay fees to their dealer for investment advice and other services. The Manager does not pay any commission to dealers in respect of Series PF Units, so lower management fees can be charged.

If a Unitholder ceases to be eligible to hold Series PF Units, the Manager may redesignate such Units as Series F Units.

### **Series O Units**

Series O Units are only available to the following types of investors, as determined by the Manager in its discretion:

- investors who have in total invested a minimum of \$200,000 in Franklin Templeton Mutual Funds within one month from initial purchase of Series O or OT securities, held in Related Accounts. The investment minimum may be waived for purchases made by investors who purchase through a discretionary managed account;
- mutual funds managed by the Manager or by a third party that use a fund on fund structure, provided that the third party fund manager has entered into an agreement with the Manager; and
- counterparties to derivatives contracts purchased or entered into by the Fund.

Series O Unitholders do not bear any of the management fees within the Fund, but instead pay a separate Series O Management and Administration Fee to the Manager and the Series O Investment Advisory Services Fee to the Unitholder's dealer. The Series O Investment Advisory Services Fee is remitted by the Manager to the Unitholder's dealer by redeeming Series O Units held in the Unitholder's account.

Series O Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series O Units.

If a Unitholder's account ceases to be eligible to hold Series O Units, the Manager may redesignate such Units as Series A Units under the front-load option.

See "Purchases of Units" and "Fees and Expenses".

### **Continuous Distribution:**

The Fund issues each series of Units on a continuous basis. There is no maximum number of Units that may be issued. A separate Series NAV per Unit is calculated for each series of Units. If the Manager receives a purchase order before the Valuation Time on a Valuation Date, the Manager will process such order based on the applicable Series NAV per Unit calculated on that Valuation Date. If the Manager receives a purchase order after the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will process such order based on the applicable Series NAV per Unit calculated on the next Valuation Date.

Investors must be of the age of majority in the province or territory in which they live to buy Units of the Fund. Investors may hold Units in trust for a minor. Units may not be purchased by nor transferred to US Persons, as defined in Regulation S under the United States Securities Act of 1933, as amended.

The Manager can accept or reject a purchase order within one business day of receiving it. If the Manager rejects a purchase order, any money sent with such order will be returned to the investor without interest.

See “Purchases of Units”.

**Minimum Initial and Additional Investment Amount:**

The minimum amount for an initial investment in the Fund is as follows: (i) \$500 for an initial investment in Series A or F Units; (ii) \$100,000 held in Related Accounts for an initial investment in Series PF Units; and (iii) \$200,000 held in Related Accounts for an initial investment in Series O Units. Each additional investment in Series A or F Units must be at least \$100. Additional investments in Series PF or O Units are not subject to a minimum investment requirement.

See “Purchases of Units”.

**Investment Objectives:**

The Fund’s investment objective is to achieve a total return that exceeds the return of Government of Canada 91-day treasury bills over a rolling three-year period, regardless of the prevailing market conditions, by actively managing direct and indirect exposure to equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments. See “Investment Objectives”.

**Investment Strategies:**

In pursuing its investment objective, the Fund:

- targets an annualized average return of 4% (net of fees and expenses) in excess of the FTSE TMX Canada 91-day T-Bill Index over a rolling three year period;
- aims to achieve its objective with an annualized volatility, under normal market conditions, that ranges between 6% and 9% over the same rolling three-year periods. For this purpose, volatility is the measure of the extent to which the prices of the Units of the Fund fluctuate over time; and
- intends to achieve its objective by actively managing direct and indirect exposure to equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments.

There can be no guarantee that the Fund will achieve its return target, nor that it will remain within the above volatility range. All investment performance is inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Manager. In considering the return target and the volatility range, prospective investors should bear in mind that such targeted performance and volatility is not a guarantee, projection or prediction and is not indicative of future results of the Fund.

The Fund may hold all or a portion of its assets in cash, money market instruments, bonds or other debt securities for defensive or other purposes.

See “Investment Strategies”.

**Leverage of the Fund:**

The use of derivatives by the Fund may introduce leverage into the Fund. Leverage occurs when the Fund’s notional exposure to underlying assets is greater than the amount invested and is an investment technique that can magnify gains and losses. As a result, any adverse change in the value or level of the underlying asset, rate or index may amplify losses compared to those that would have been incurred if the underlying asset had been held directly by the Fund. Accordingly, adverse changes may result in losses greater than the amount invested in the derivative instrument itself. Leverage may increase volatility, impair the Fund’s liquidity and cause the Fund to liquidate positions at unfavourable times.

The Fund's leverage resulting from the use of derivatives is calculated using the "sum of notionals" method. According to this method, the total exposure of all of the Fund's derivative positions is calculated, without netting or offsetting positions that might ordinarily be expected to cancel each other out and without removing from the calculation those derivative positions that are entered into for hedging purposes or for which the Fund holds sufficient assets as cover. In addition, the Fund calculates its overall leverage exposure by adding to its calculation of leverage from the use of derivatives, the total amount of any outstanding cash borrowed and the market value of any securities sold short. Using this calculation, the maximum total amount of leverage that the Fund may use, which includes, but is not limited to, use of derivatives, as a multiple of its net assets, is 300% or 3:1. However, the amount of leverage typically used by the Fund is expected to be lower. Leverage should not necessarily be seen as a direct measure of investment risk. The Fund calculates leverage by adding together all of the notional amounts of its derivative transactions, irrespective of market direction, the risks entailed in the transaction, whether the transaction is for hedging purposes and whether the derivative position is covered plus adding the total amount of any outstanding cash borrowed and the market value of any securities sold short.

See "Investment Strategies".

**Risk Factors:** There are certain risk factors inherent in an investment in Units of the Fund, including:

- equity risk;
- interest rate risk;
- credit risk;
- sovereign debt risk;
- liquidity risk;
- market risk;
- foreign currency risk;
- underlying funds risk;
- asset allocation risk;
- derivatives risk;
- counterparty risk;
- credit-linked securities risk;
- swap agreements risk;
- target risk;
- portfolio turnover risk;
- emerging markets risk;
- low-rated or non-investment grade securities risk;
- structured notes risk;
- convertible securities risk;
- defaulted debt securities risk;
- short selling risk;
- securities lending risk;
- distressed securities risk;
- real estate securities risk;
- commodities related exposure risk;
- cyber security risk; and
- taxation risk.

See "Risk Factors".

**Income Tax Considerations :**

Each year a Unitholder (other than a Registered Plan) is generally required to include in computing income for tax purposes the amount of any income and the taxable portion of any capital gains of the Fund distributed to the Unitholder in the year, whether such amounts are paid in cash or reinvested in additional Units. A Unitholder will generally realize a capital gain (or loss) on the sale, redemption or other disposition of a Unit to the extent that the proceeds of disposition for the Unit exceed (or are less than) the total of the adjusted cost base to the Unitholder of the Unit and any reasonable costs of disposition.

See "Income Tax Considerations".

**Redemptions:**

A Unitholder may redeem his, her or its Units on a Valuation Date. To redeem Units, a Unitholder should contact his, her or its advisor or dealer, who may ask the Unitholder to complete a redemption request form. On redemption, Unitholders will receive the applicable Series NAV per Unit for the Units redeemed, less any applicable redemption fee. If the Manager receives the redemption request before the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will calculate the redemption value as of that Valuation Date. If the Manager receives a Unitholder's redemption request after the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will calculate the redemption value as of the next Valuation Date. The Manager will pay redemption proceeds within three business days of receiving all of the required documents or instructions. The Manager will deduct any redemption fee and/or withholding tax from such payment.

See "Redemption of Units".

**Switching:**

A Unitholder may, at any time, switch all or part of his, her or its investment in the Fund to a different Franklin Templeton Mutual Fund, provided that the Unitholder is eligible to make the switch. A Unitholder may change between series of the Fund, provided that the Unitholder is eligible to purchase the new series, or may change between purchase options. It is generally not advisable to make changes between purchase options.

See "Redemption of Units – How to Switch Units of the Fund".

**Distributions:**

The Fund will make a distribution of any income and capital gains in December of each year, though the Fund may make distributions of income, capital gains or capital at any other time that is considered appropriate by the Manager. Distributions on Units held in a Registered Plan are automatically reinvested in additional Units of the Fund. Distributions on Units held outside a Registered Plan are automatically reinvested in additional Units of the Fund, unless the Unitholder provides the Manager with a written request that the Unitholder wishes to receive them in cash.

See "Distribution Policy".

**Termination:**

The Fund does not have a fixed termination date, but may be terminated by the Manager upon not less than 60 days written notice to Unitholders.

See "Termination of the Fund".

**Documents Incorporated by Reference:**

Additional information about the Fund is available in the most recently filed annual financial statements, any interim financial statements filed after those annual financial statements, the most recently filed annual MRFP, and any interim MRFP filed after that annual MRFP. These documents are incorporated by reference into, and legally form an integral part of, this prospectus. These documents are publicly available on the Manager's website at [www.franklintempleton.ca](http://www.franklintempleton.ca) and may be obtained upon request,

at no cost, by calling 1.800.387.0830 or by contacting a registered dealer. These documents and other information about the Fund are also publicly available at [www.sedar.com](http://www.sedar.com).

See “Documents Incorporated by Reference”.

**Eligibility for Investment:**

The Units of the Fund will be a qualified investment under the Tax Act for a Registered Plan at any time that the Fund qualifies or is deemed to qualify as a “mutual fund trust” under the Tax Act.

Unitholders should consult their own tax advisers for advice on whether Units would be a “prohibited investment” under the Tax Act for their Registered Plan.

See “Income Tax Considerations – Status of the Investment Fund”.

## ORGANIZATION AND MANAGEMENT OF THE FUND

**Manager:**

Franklin Templeton Investments Corp. is the manager of the Fund and is responsible for managing the overall business of the Fund, including arranging for the provision of portfolio and investment advisory services, providing the Fund with accounting and administration services and promoting sales of the Fund through financial advisers in each province and territory of Canada. The head office of the Fund and the Manager is located at 200 King Street West, Suite 1500, Toronto, Ontario, M5H 3T4. The Manager carries on business under the name Franklin Templeton Investments.

See “Organization and Management Details of the Investment Fund – Manager of the Investment Fund”.

**Trustee:**

Franklin Templeton Investments Corp. is the trustee of the Fund pursuant to the Declaration of Trust and holds title to the assets of the Fund in trust for the Unitholders.

See “Organization and Management Details of the Investment Fund – Trustee”.

**Portfolio Manager:**

Fiduciary Trust Company of Canada has been appointed the portfolio manager to the Fund by the Manager. The Portfolio Manager provides, or causes to be provided, investment management services with respect to the Fund. The Portfolio Manager is an indirect wholly-owned subsidiary of Franklin Resources, Inc. The Portfolio Manager is a registered portfolio manager and commodity trading manager with its head office located in Toronto, Ontario. The Portfolio Manager has the authority to appoint sub-advisors to provide investment management services in respect of the Fund. The Portfolio Manager and the Sub-Advisor will jointly provide advice to the Fund but the Portfolio Manager is responsible for the investment advice that the Sub-Advisor provides to the Fund.

See “Organization and Management Details of the Investment Fund – Portfolio Manager”.

**Sub-Advisor:**

Fiduciary Trust Company of Canada, acting as Portfolio Manager, has retained Franklin Templeton Investment Management Limited to act as sub-advisor to the Fund. The Sub-Advisor is an indirect wholly-owned subsidiary of Franklin Resources, Inc. The head office of the Sub-Advisor is located in London, United Kingdom. It may be difficult to enforce any legal rights against the Sub-Advisor because all or substantially all of its

assets are located outside of Canada. The Sub-Advisor is not fully subject to the requirements of Canadian securities legislation and the Portfolio Manager is responsible for the investment advice provided by it to the Fund.

See “Organization and Management Details of the Investment Fund – Sub-Advisor”.

**Promoter:** Franklin Templeton Investments Corp. has taken the initiative in founding and organizing the Fund and is, accordingly, the promoter of the Fund within the meaning of securities legislation of certain provinces and territories of Canada.

See “Organization and Management Details of the Investment Fund – Promoter”.

**Custodian:** The Manager has retained the services of J.P. Morgan Bank Canada, at its principal offices in Toronto, Ontario, to act as the Custodian of the assets of the Fund and to hold those assets in safekeeping, except for cash and other portfolio assets deposited with a counterparty or a futures commission merchant, or indirectly with a clearing corporation, as margin or collateral for derivative transactions. The Custodian is entitled to receive fees from the Manager as described under “Fees and Expenses” and to be reimbursed for disbursements and expenses that are reasonably incurred by the Custodian in connection with the services of the Custodian under the Custodian Agreement.

See “Organization and Management Details of the Investment Fund – Custodian”.

**Securities Lending Agent** The Manager intends to retain the services of J.P. Morgan Bank Canada, at its principal offices in Toronto, Ontario, to act as the Securities Lending Agent of the Fund.

See “Organization and Management Details of the Investment Fund – Securities Lending Agent”.

**Registrar and Transfer Agent:** Franklin Templeton Investments Corp. is the registrar and transfer agent for the Units of the Fund. The Registrar and Transfer Agent maintains the register of registered Unitholders. The register of the Fund is kept in Toronto, Ontario.

See “Organization and Management Details of the Investment Fund – Registrar and Transfer Agent”.

**Auditor:** PricewaterhouseCoopers LLP, at its principal offices in Toronto, Ontario, is the auditor of the Fund. The auditor audits the Fund’s annual financial statements and provides an opinion as to whether they present fairly the Fund’s financial position, financial performance and cash flows. The auditor is independent of the Manager.

See “Organization and Management Details of the Investment Fund – Auditor”.

## SUMMARY OF FEES AND EXPENSES

This table lists the fees and expenses that an investor may have to pay if the investor invests in the Fund. An investor may have to pay some of these fees and expenses directly. The Fund may have to pay some of these fees and expenses, which will therefore reduce the value of an investment in the Fund.

See “Fees and Expenses”.

### Fees and Expenses Payable by the Fund

#### Type of Fee

#### Amount and Description

#### **Management Fee:**

The Fund pays a management fee, plus applicable taxes, to the Manager based on the annual rate set forth in the table below and the Series NAV of Series A, Series F and Series PF Units of the Fund. This management fee is calculated and accrued daily and paid monthly and is subject to applicable taxes such as HST. This management fee pays for the services that the Manager provides to the Fund, including arranging for the provision of portfolio and investment advisory services, oversight of any service providers to the Fund, the general administration of Fund operations, marketing and other promotional activities, arranging for the distribution and sale of Units and the payment of commissions to advisors and dealers.

| <b>Annual Management Fee</b> |              |
|------------------------------|--------------|
| <b>Series A</b>              | 1.90% of NAV |
| <b>Series F</b>              | 0.90% of NAV |
| <b>Series PF</b>             | 0.70% of NAV |

For Series O Units, Unitholders pay the Series O Management and Administration Fee directly to the Manager. See Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

The Manager may, at its discretion, waive a portion or the entire amount of the management fee chargeable to a series of the Fund at any given time.

The Manager may also, at its discretion, reduce the management fee applicable to certain Unitholders in the Fund. The decision to do so depends on a number of factors, including the size of the investment or the nature of the investment, such as investments by pension funds, insurers or other institutional investors.

See “Fees and Expenses – Fees and Expenses Payable by the Fund”.

**Fund Costs:** In addition to the applicable management fee, the Fund Costs payable by the Fund are: (i) borrowing and interest costs incurred by the Fund from time to time; (ii) investor meeting costs (as permitted by Canadian securities legislation); (iii) fees and expenses payable to or in connection with the Fund's IRC; (iv) any costs or expenses associated with litigation for the benefit of the Fund or brought to pursue rights on behalf of the Fund; (v) the costs of complying with any new regulatory or legal requirement imposed on the Fund after its inception date or with any material change to existing governmental and regulatory requirements imposed on the Fund after its inception date; and (vi) any new types of costs, expenses or fees not incurred prior to the Fund's inception date, including those arising from new government or regulatory requirements.

The Fund also pays all applicable taxes, including without limitation, income taxes, withholding taxes, HST and related taxes. The Fund also pays its portfolio transaction costs, which include costs associated with the purchase and sale of securities and other property, such as brokerage commissions for portfolio trading and related trading fees (including the costs of any derivative transactions), commissions for portfolio trading and related trading fees (including the costs of any derivative transactions), commissions, service charges and research and execution costs, as well as forward agreement and derivative transaction costs.

The Manager may, at its discretion, absorb all or a portion of the Fund Costs. The decision to absorb the Fund Costs, or a portion thereof, is reviewed annually and determined at the discretion of the Manager, without notice to Unitholders.

See "Fees and Expenses – Fees and Expenses Payable by the Fund".

**Underlying Fund Fees and Expenses:** When the Fund invests in an underlying fund, the underlying fund may pay a management fee and other expenses in addition to the fees and expenses payable by the Fund. The fees and expenses of the underlying fund will have an impact on the MER of the Fund that invests in such underlying fund, as the Fund is required, in determining its MER, to take into account the expenses incurred by the Fund that are attributable to its investment in the underlying fund. However, the Fund will not pay management fees on the portion of its assets that it invests in the underlying fund that, to a reasonable person, would duplicate a fee payable by the underlying fund for the same service. In addition, the Fund will not pay duplicate sales charges or redemption fees for its purchase or redemption of securities of the underlying fund.

See "Fees and Expenses – Fees and Expenses Payable by the Fund".

**Administration Fee:** The Fund pays an Administration Fee, plus applicable taxes, to the Manager based on the annual rate set forth in the table below and the Series NAV of Series A Units, Series F Units and Series PF Units. This Administration Fee is calculated and accrued daily and paid monthly and is subject to the applicable taxes, such as HST. The expenses paid by the Manager in return for the Administration Fee include, but are not limited to, audit fees, fund accounting costs, transfer agency and recordkeeping costs, custodian costs, administration costs and trustee services relating to a Registered Plan, costs of printing and disseminating prospectuses, annual information forms, fund facts and continuous disclosure materials, legal fees, investor communication costs and regulatory filing fees.

| <b>Annual Administration Fee</b> |                     |
|----------------------------------|---------------------|
| <b>Series A</b>                  | <b>0.20% of NAV</b> |
| <b>Series F</b>                  | <b>0.20% of NAV</b> |
| <b>Series PF</b>                 | <b>0.15% of NAV</b> |

The Manager may, at its discretion, absorb all or a portion of the Administration Fee. The decision to absorb the Administration Fee, or a portion thereof, is reviewed

annually and determined at the discretion of the Manager, without notice to Unitholders.

See “Fees and Expenses – Fees and Expenses Payable by the Fund”.

### **Fees and Expenses Payable Directly by Unitholders**

#### **Series O Management and Administration Fee:**

Series O Unitholders do not bear any of the management fees within the Fund, but instead pay a separate Series O Management and Administration Fee, plus applicable taxes, to the Manager directly, at the annual rate set forth in the table below. The Series O Management and Administration Fee is calculated and paid as described under “Series O Program Fees”. In consideration for the management and administration services the Manager provides in respect of Series O Units by placing an order to purchase Series O Units of the Fund, an investor is agreeing to pay the Series O Management and Administration Fee to the Manager as set forth in the table below, which varies based on the average daily NAV of the Series O Units held in the Unitholder’s account(s).

| <b>Series O Management and Administration Fee</b> |       |
|---|-------|
| From first C\$200k to under C\$2.5M               | 0.85% |
| On next C\$2.5M to under C\$5M                    | 0.75% |
| On next C\$5M and over                            | 0.65% |

Certain Institutional Investors may negotiate a different Series O Management and Administration Fee with the Manager.

The Manager may change the Series O Management and Administration Fee for the Fund and/or the asset thresholds at any time in its sole discretion, but will not increase the fee or change the asset thresholds in a manner that could result in an existing Unitholder paying a higher fee, unless the Manager has provided the Unitholder with at least 60 days’ prior written notice of such change.

See “Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

#### **Series O Investment Advisory Services Fee**

Series O Unitholders agree to pay the Series O Investment Advisory Services Fee to their dealers in consideration for the investment advice and suitability analysis provided by each Unitholder’s dealer in respect of a purchase of Series O Units of the Fund. This fee is negotiated between the Unitholder and the dealer. The Series O Investment Advisory Services Fee is subject to applicable taxes and is calculated and paid as described under “Series O Program Fees”.

See “Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

#### **Series O Program Fees**

The Series O Program Fees paid by a Series O Unitholder are calculated based on the average daily Series NAV of the Series O Units held in the Unitholder’s accounts at the Valuation Time on a Valuation Date. For the purposes of calculating the Series O Program Fees, the average daily Series NAV of the Series O Units held in the Unitholder’s account will be calculated based on a full calendar quarter, even though the Series O Units may not have been held in an Unitholder’s account for the full quarter. If such Units have not been held in a Unitholder’s account on any day during the quarter, the Series NAV for such Units for such day will be zero. For the purposes of determining the Series O Program Fees payable by the Unitholder, the Series O Units of the Fund held by the Unitholder in all of the Unitholder’s accounts shall be aggregated.

The Program Fees and any applicable taxes are paid quarterly in arrears by the redemption of sufficient Series O Units held by the Unitholder between the first (1<sup>st</sup>) and the eighteenth (18<sup>th</sup>) business day of the month following the end of the calendar quarter. When an Unitholder has more than one account holding Series O Units, the Manager will collect payment for the Series O Program Fees and any applicable taxes by redeeming Series O Units from each such account in proportion to the market value of each account as at the end of the calendar quarter and within each account in proportion to the Series NAV of the Series O Units of the Fund held by the Unitholder in such account as at the end of the calendar quarter.

In the event that a Unitholder moves his, her or its account(s) holding Series O Units to a new dealer, the Manager will redeem sufficient Units from the applicable account(s) either at the time that the Unitholder moves to the new dealer or shortly thereafter to pay any accrued Series O Program Fees and applicable tax(es) owing to the former dealer, prorated to the number of days in the calendar quarter that the former dealer was the dealer of record in respect of such account(s), and remit such amount to the former dealer.

The Series O Program Fees are payable for as long as the Unitholder (or the Unitholder's successor and permitted assign) holds Series O Units of the Fund. The Unitholder should consult with a tax adviser regarding the tax deductibility of the Series O Program Fees.

See "Fees and Expenses – Fees and Expenses Payable Directly by Unitholders".

**Sales  
Charges:**

Under the front-load option, a Unitholder may have to pay up to 6% of the purchase price of the Series A Units purchased. For Series F, Series PF and Series O Units, the Unitholder pays no sales charges with his, her or its advisor.

See "Fees and Expenses – Fees and Expenses Payable Directly by Unitholders".

**Switch Fees:**

Dealers may charge a Unitholder a switch fee of up to 2% of the NAV of the switched Units.

The following switches may result in a switch fee payable to your dealer:

- switches from Units purchased on a front-load basis to Units on a no-load basis;
- switches from Units purchased on a front-load basis to Units on a front-load basis;
- switches from Units purchased on a low-load basis to Units on a low-load basis. A redemption fee will not be charged until the Units are later redeemed. The redemption fee will be based on the date and original cost of the low-load Units purchased before the switch; and
- switches from Units purchased on a deferred sales charge basis to Units on a deferred sales charge basis. A redemption fee will not be charged until the Units are later redeemed. The redemption fee will be based on the date and original cost of the deferred sales charge Units purchased before the switch.

See "Fees and Expenses – Fees and Expenses Payable Directly by Unitholders".

**Redemption  
Fees:**

*Deferred sales charge option:*

A Unitholder pays up to 6% of the original cost of the Series A Units if the Unitholder redeems such Units within six years, as follows:

| <u>If redeemed during:</u> | <u>Unitholder pays:</u> |
|----------------------------|-------------------------|
| Year 1                     | 6.0%                    |
| Year 2                     | 5.5%                    |
| Year 3                     | 5.0%                    |
| Year 4                     | 4.5%                    |
| Year 5                     | 4.0%                    |
| Year 6                     | 3.0%                    |
| After year 6               | Nil                     |

*Low-load option:*

A Unitholder pays up to 3% of the original cost of the Series A Units if the Unitholder redeems such Units within three years, as follows:

| <u>If redeemed during:</u> | <u>Unitholder pays:</u> |
|----------------------------|-------------------------|
| Year 1                     | 3.0%                    |
| Year 2                     | 2.5%                    |
| Year 3                     | 2.0%                    |
| After year 3               | Nil                     |

In each calendar year, a Unitholder may redeem up to 10% of Series A Units purchased under the deferred sales charge option or the low-load option without a redemption charge. This right is not cumulative if it is not used in any calendar year.

See "Fees and Expenses – Fees and Expenses Payable Directly by Unitholders".

**Other Charges:**

A Unitholder's bank or other financial institution will charge a fee should any cheque be dishonoured because of insufficient funds in the Unitholder's account.

See "Fees and Expenses – Fees and Expenses Payable Directly by Unitholders".

**Annual Returns, Management Expense Ratio and Trading Expense Ratio**

The following chart provides the annual returns, the MER and TER for each Series of the Fund since its inception to December 31, 2017.

| <b>Series A</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
|---------------------|-------|------|------|------|------|
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 2.42% | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |
| <b>Series F</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 1.30% | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |
| <b>Series PF</b>    | 2017  | 2016 | 2015 | 2014 | 2013 |
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 0.99% | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |
| <b>Series O</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | N/A   | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |

\* Investment performance has not been disclosed for the stated period since the Fund was not a reporting issuer for at least the last 12 consecutive months.

\*\* "MER" means management expense ratio based on management fees, administration fees and operating expenses (excluding commissions and other portfolio transaction costs) expressed as an annualized percentage of daily average net asset value.

\*\*\* "TER" means trading expense ratio and represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value.

## **OVERVIEW OF THE LEGAL STRUCTURE OF THE FUND**

The Fund is a mutual fund established as a trust under the laws of the Province of Ontario. The Fund has been established pursuant to the Declaration of Trust.

The Fund is a mutual fund as defined under Canadian securities legislation, but certain provisions of Canadian securities legislation applicable to conventional mutual funds do not apply. The Fund is subject to certain restrictions and practices contained in Canadian securities legislation, including NI 81-102, and the Fund is managed in accordance with these restrictions, except as otherwise permitted by NI 81-104 and any other exemptions therefrom obtained by the Fund. See “Investment Restrictions – Exemptions and Approvals” and “Exemptions and Approvals”.

The head office and registered office of the Fund and the Manager is 200 King Street West, Suite 1500, Toronto, Ontario, M5H 3T4.

## **INVESTMENT OBJECTIVES**

The Fund’s investment objective is to achieve a total return that exceeds the return of Government of Canada 91-day treasury bills over a rolling three-year period, regardless of the prevailing market conditions, by actively managing direct and indirect exposure to equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments.

## **INVESTMENT STRATEGIES**

In pursuing its investment objective, the Fund:

- targets an annualized average return of 4% (net of fees and expenses) in excess of the FTSE TMX Canada 91-day T-Bill Index over a rolling three year period;
- aims to achieve its objective with an annualized volatility, under normal market conditions, that ranges between 6% and 9% over the same rolling three-year periods. For this purpose, volatility is the measure of the extent to which the prices of the Units of the Fund fluctuate over time; and
- intends to achieve its objective by actively managing direct and indirect exposure to equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments.

There can be no guarantee that the Fund will achieve its return target, nor that it will remain within the above volatility range. All investment performance is inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Manager. In considering the return target and the volatility range, prospective investors should bear in mind that such targeted performance and volatility is not a guarantee, projection or prediction and is not indicative of future results of the Fund.

The Portfolio Manager and Sub-Advisor identify and pursue multiple investment ideas and opportunities across and within a wide range of asset classes. The identity and number of investment strategies used by the Fund, and the amount of assets allocated among them, will change over time.

The Fund may hold all or a portion of its assets in cash, money market instruments, bonds or other debt securities for defensive or other purposes.

## **Equities**

The Fund:

- may obtain its global equity exposure directly by investing in equity securities and/or indirectly by investing in underlying funds that invest in such securities;
- may invest in equity securities of issuers of any market capitalization, located anywhere in the world, including emerging markets, using a quantitative approach that systematically analyzes, selects and weights portfolio holdings based on factors including but not limited to quality, value, momentum and volatility;
- may obtain exposure to global equity securities by investing in securities of: (i) mutual funds managed by the Manager, (ii) Franklin Templeton Investment Funds sub-funds (“**FTIF Sub-Funds**” and each a “**FTIF Sub-Fund**”) (see “Investment Restrictions – Exemptions and Approvals” and “Exemptions and Approvals”), and (iii) exchange-traded funds (“**ETFs**”) managed by the Manager and/or third parties;
- may obtain exposure to global equity securities through the use of derivative instruments, as discussed under “Derivatives” below; and
- will determine its equity exposure on a net basis, taking the combined value of long and short exposures across all equity markets.

## **Fixed Income**

The Fund:

- may obtain its domestic and foreign fixed income exposure directly by investing in fixed income securities or indirectly by investing in underlying funds that invest in such securities;
- may obtain its developed market and emerging market government fixed income exposure directly by investing in bonds issued by issuers around the world:
  - may invest in bonds including floating, variable and fixed rate debt of securities of any maturity, such as bonds, notes, bills and debentures, issued or guaranteed by governments, government agencies, or instrumentalities, including government-sponsored entities, supra-national entities and public-private partnerships;
  - may invest in investment grade debt securities, including fixed income and floating rate securities, issued or guaranteed by all levels of government or agencies of these governments;
  - may invest in real return bond and mortgage-backed securities issued or guaranteed by any of the different levels of government;
- may obtain its global corporate bond exposure directly by investing in bonds issued by issuers around the world using a quantitative approach that systematically analyzes, selects and weights portfolio holdings based on factors including but not limited to quality, value, momentum and volatility across various maturities, durations, qualities and liquidity;
- may obtain exposure to fixed income securities by investing in securities of: (i) mutual funds managed by the Manager, (ii) FTIF Sub-Funds, and (iii) ETFs managed by the Manager and/or third parties;
- may invest in domestic and foreign fixed income securities denominated in Canadian or non-Canadian dollars;
- may obtain exposure to global fixed income securities through the use of derivative instruments, as discussed under “Derivatives” below.

## ***Use of Derivatives***

The Fund may use derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments in an effort to seek to capture the excess return associated with each investment, while also enhancing the risk-return profile of the overall portfolio. The intention of the Portfolio Manager and/or Sub-Advisor is to use derivatives to take and alter market exposures and to access risk premia where it is believed to assist the Fund in meeting its investment objective. “Risk premia” investing, in general, is identifying the sources of return that represent identifiable, replicable, and exploitable compensation for taking investment risk.

The Fund:

- may use derivative instruments for hedging, efficient portfolio management and/or investment purposes. In addition, the underlying funds may enter various transactions involving derivative instruments for hedging or investment purposes;
- may use derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments in an effort to capture the excess return associated with each investment (sometimes referred to as “risk premia” investing), while also enhancing the risk-return profile of the overall portfolio;
- may invest in derivative instruments including but not limited to swaps (such as credit default swaps or total return swaps on equity, fixed income, currency or commodity related indices), options (including options on equity securities and securities indices and covered calls), forwards and futures contracts (including futures on equity indices and on government securities);
- may engage in currency management strategies. These currency management strategies may include investing in currency forward contracts, exchange traded currency options, foreign exchange futures and options on foreign exchange futures; and
- may also invest in securities, cash-settled structured products or exchange traded notes where the security is linked to or derives its value from another security, index or currencies of any country.

An option on an equity security, equity index or futures contract gives the purchaser of the option the right but not the obligation to take a position at a specified price (the “striking”, “strike” or “exercise” price) in the underlying security, index or contract. A “call” option gives the purchaser the right to take a long position in the underlying security, index or contract, and the purchaser of a “put” option acquires the right to take a short position in the underlying security, index or contract. The purchase price of an option is referred to as its “premium”. The seller (or “writer”) of an option is obligated to take a position at a specified price if the option is exercised. In the case of a call option, the seller must stand ready to take a short position in the underlying security, index or contract. A seller of a put option, on the other hand, stands ready to take a long position in the underlying security, index or contract at the striking price if the option is exercised. A “naked” option refers to an option written by a party which does not possess the underlying security, index or contract. A “covered” option refers to an option by a party which does possess the underlying security, index or contract. A call option is said to be “in-the-money” if the striking price is below current market levels and “out-of-the-money” if the striking price is above current market levels. Similarly, a put option is said to be “in-the-money” if the striking price is above current market levels and “out-of-the-money” if the striking price is below current market levels.

Options have limited life spans and are usually tied to the delivery or settlement date of the underlying futures contract. Some options however expire significantly in advance of this date. An option that is “out-of-the-money” and not offset by the time it expires become worthless. On certain exchanges “in-the-money” options are automatically exercised on their expiration date but on other exchanges unexercised options simply become worthless after their expiration date. Options usually trade at a premium above their intrinsic value (the difference between the market price for the underlying futures contract and the striking price). As an option nears its expiration date, the market value and the intrinsic value typically move into parity.

The difference between an option's intrinsic value and its market value is referred to as the "time value" of the option.

Swap agreements, such as total return swaps, are contracts between the Fund and another party (the swap counterparty) involving the exchange of payments on specified terms over periods ranging from a few days to multiple years. In general, a swap agreement may be negotiated bilaterally and traded OTC between two parties (for an uncleared swap) or, in some instances, must be transacted through a futures commission merchant and cleared through a clearing corporation that serves as a central counterparty (for a cleared swap). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates.

A total return swap (also sometimes referred to as a synthetic equity swap or "contract for difference") is an agreement between two parties under which the parties agree to make payments to each other so as to replicate the economic consequences that would apply had a purchase or short sale of the underlying reference instrument taken place. For example, one party agrees to pay the other party the total return earned or realized on the notional amount of an underlying equity security index. In return the other party makes payments, typically at a floating rate, calculated based on the notional amount.

A forward contract is an obligation to buy or sell a commodity or other asset for an agreed upon price at a future date. Forward contracts are not traded on organized exchanges and are not subject to standardized terms. Instead, the terms are subject to negotiation between the two parties and generally a bank or dealer acts as principal in the transaction. The prices quoted by the bank or dealer include its anticipated profit in the price quoted in the forward contract. There is no direct means of "offsetting" a forward contract by purchase of an offsetting position on the same or a linked exchange as may be done with a futures contract on an exchange. A trader would instead need to establish an opposite position with another forward contract.

A futures contract is a standard binding agreement to buy or sell a specified quantity of an underlying instrument or asset, such as a specific index, at a specified price at a specified later date that trades on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument specified in the contract at a specified price on a specified date. The sale of an equity index futures contract will allow the Fund to decrease its exposure to a certain asset or asset class. Equity index futures contracts allow for a cash payment of the net gain or loss on the contract at the time of delivery. The Fund may sell futures contracts that trade on U.S. and foreign exchanges. By way of example, when the investment managers believe that the value of the U.S. equity securities market is expected to increase in volatility, the Fund could sell futures contracts on S&P 500 futures contracts. If at such future date the value of the securities on the index is less than the amount to be paid by the Fund under the contract, the Fund will recognize a gain that would offset losses on the Fund's portfolio resulting from volatility in the equity markets.

The Fund will only use derivatives as permitted by securities regulatory authorities, including pursuant to any exemptive relief obtained by the Fund. See "Investment Restrictions – Exemptions and Approvals" and "Exemptions and Approvals".

### ***Alternative Asset Classes***

The Fund

- may obtain direct or indirect exposure to alternative asset classes, such as real estate, infrastructure and commodities;

- may obtain exposure to real estate by investing in real estate securities, securities linked to real estate indices or a basket of real estate securities, or real estate investment trusts;
- may obtain exposure to infrastructure and commodities directly or indirectly by investing in commodity securities or indirectly by investing in underlying funds that invest in commodity and or infrastructure securities;
- may seek exposure to, inter alia, commodities or real estate through the use of financial derivative instruments on eligible financial indices;
- may obtain exposure to less liquid or illiquid debt securities, including lower-rated or non-investment grade securities, defaulted debt securities, convertible or contingent convertible securities, distressed debt securities and private debt securities; and
- may invest up to 10% of the total value of the Fund's net assets in alternative asset classes.

### ***Leverage***

The use of derivatives by the Fund may introduce leverage into the Fund. Leverage occurs when the Fund's notional exposure to underlying assets is greater than the amount invested and is an investment technique that can magnify gains and losses. As a result, any adverse change in the value or level of the underlying asset, rate or index may amplify losses compared to those that would have been incurred if the underlying asset had been held directly by the Fund. Accordingly, adverse changes may result in losses greater than the amount invested in the derivative instrument itself. Leverage may increase volatility, impair the Fund's liquidity and cause the Fund to liquidate positions at unfavourable times.

The Fund's leverage resulting from the use of derivatives is calculated using the "sum of notionals" method. According to this method, the total exposure of all of the Fund's derivative positions is calculated, without netting or offsetting positions that might ordinarily be expected to cancel each other out and without removing from the calculation those derivative positions that are entered into for hedging purposes or for which the Fund holds sufficient assets as cover. In addition, the Fund calculates its overall leverage exposure by adding to its calculation of leverage from the use of derivatives, the total amount of any outstanding cash borrowed and the market value of any securities sold short. Using this calculation, the maximum total amount of leverage that the Fund may use, which includes, but is not limited to, use of derivatives, as a multiple of its net assets, is 300% or 3:1. However, the amount of leverage typically used by the Fund is expected to be lower. Leverage should not necessarily be seen as a direct measure of investment risk. The Fund calculates leverage by adding together all of the notional amounts of its derivative transactions, irrespective of market direction, the risks entailed in the transaction, whether the transaction is for hedging purposes and whether the derivative position is covered plus adding the total amount of any outstanding cash borrowed and the market value of any securities sold short.

### ***High Portfolio Turnover***

The Fund may engage in active trading and there may be a high portfolio turnover rate. Portfolio turnover refers to the frequency of portfolio transactions and the percentage of portfolio assets being bought and sold during the year, which may increase overall costs. A high portfolio turnover rate may result in correspondingly greater brokerage commission expenses and the distribution to Unitholders of additional capital gains for tax purposes, some of which may be taxable at ordinary income rates. There is not necessarily a relationship between a high portfolio turnover rate and the Fund's performance.

### ***Short Selling***

Some of the investment strategies employed by the Fund may be implemented by engaging in short selling which involves borrowing securities from a lender and then selling those securities in the open market. The proceeds from the short sale are deposited with the lender as collateral and the Fund pays interest to the lender for the securities it has borrowed. At a later date, the same number of securities are repurchased by the Fund and returned to the lender. If the value of the securities decreases between the time that the Fund

borrowes the securities and the time it repurchases and returns the securities to the lender, the Fund makes a profit for the difference (less the interest the Fund is required to pay to the lender). In this way, the Fund has more opportunities for gains when markets are generally volatile or declining.

The Fund has written policies and procedures that set out the objectives and goals for short selling and the risk management procedure applicable to short selling. All short sales by the Fund will comply with the limits described in NI 81-102. In addition, the Fund generally establishes stop-loss requirements for individual short-sale positions.

### ***Securities Lending***

The Fund may lend securities that it holds to borrowers acceptable to the Fund pursuant to the terms of a securities lending agreement between the Fund and such borrower. Under such a securities lending agreement: (i) the borrower will pay to the Fund a negotiated securities lending fee and will make compensatory payments to the Fund equal to distributions, if any, received by the borrower on the securities borrowed; and (ii) the Fund will receive collateral security. The Fund is not limited in the amount of securities lending transactions in which it may engage.

### **Overview of the Investment Structure**

In accordance with its investment objective and strategies, the Fund invests in an actively managed, low volatility portfolio based on the investment ideas and opportunities identified by the Portfolio Manager and Sub-Advisor. It invests globally in equity securities, fixed income securities, cash and cash equivalents and alternative asset classes, either directly or indirectly by using underlying funds, derivatives and other financial instruments. The Fund may use derivatives for hedging, efficient portfolio management and/or investment purposes.

## **OVERVIEW OF THE SECTORS IN WHICH THE FUND INVESTS**

The Fund provides the opportunity to gain exposure to an actively managed, low volatility portfolio of equity securities, fixed income securities, cash and cash equivalents and derivative instruments to access alternative investment strategies with low correlation to traditional equity and fixed income investments. The Fund provides the opportunity to gain exposure to global investment instruments, as the Fund may invest in Canadian, U.S. and other foreign securities, including securities of issuers in emerging market countries and securities denominated in a currency other than the Canadian dollar.

## **INVESTMENT RESTRICTIONS**

The Fund is subject to certain investment restrictions and practices contained in Canadian securities legislation, including NI 81-102. The Fund is managed in accordance with these restrictions and practices, except as otherwise permitted by NI 81-104, which regulates investment funds that are considered “commodity pools” as currently defined under Canadian securities regulations, and as otherwise permitted by exemptions obtained from the securities regulatory authorities. See “Investment Restrictions – Exemptions and Approvals” and “Exemptions and Approvals”. The term “commodity pool” includes, among others, a mutual fund that has adopted fundamental investment objectives that permit it to use or invest in specified derivatives in a manner that is not permitted by NI 81-102.

A change to the investment objective of the Fund requires the approval of the Unitholders. See “Unitholder Matters – Matters Requiring Unitholder Approval”.

The Fund is also restricted from making an investment or undertaking an activity that would result in the Fund failing to qualify as a “mutual fund trust” for the purposes of the Tax Act.

## EXEMPTIONS AND APPROVALS

The Fund has obtained exemptive relief from the securities regulatory authorities to permit the Fund to deviate from the investment restrictions and practices contained in Canadian securities legislation as follows:

- to invest up to 10% of its net assets, taken at market value at the time of the investment, in aggregate, in securities of FTIF Sub-Funds. The FTIF Sub-Funds are managed by an affiliate of the Manager and organized under the laws of Luxembourg as a Société d'Investissement à Capital Variable, an open-end investment company. The FTIF Sub-Funds each qualify as a UCITS, an undertaking for investment in transferable securities, and are distributed under a prospectus in several European and other countries. As part of the Fund's investment strategy, investing in the FTIF Sub-Funds gives the Fund greater opportunities for diversification according to asset class, investment style, geography, sector weighting and market capitalization. The FTIF Sub-Funds are not subject to Canadian securities regulation. However, the FTIF Sub-Funds are subject to investment restrictions and practices that are substantially similar to those that govern the Fund in Canada;
- to enter into interest rate swaps, credit default swaps and, if the transaction is for hedging purposes, currency swaps and forwards that, in each case, have a remaining term to maturity of greater than three years;
- to use as cover: (i) bonds, debentures, notes or other evidences of indebtedness that are liquid, provided that they have a remaining term to maturity of 365 days or less and have an approved credit rating; (ii) floating rate evidences of indebtedness that meet certain specified requirements; or (iii) securities of one or more of the money market funds;
- to use as cover, when it holds a long position in a debt-like security that has a component that is a long position in a forward contract or in a future or forward contract or when it is entitled to receive fixed payments under a swap: (i) cash cover in an amount that, together with margin on account for the derivative and the market value of the derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the derivative; (ii) in the case of a debt-like security, future or forward contract, a right or obligation to sell an equivalent quantity of the underlying interest of the future or forward contract and cash cover that, together with margin on account for the position, is not less than the amount, if any, by which the strike price of the future or forward contract exceeds the strike price of the right or obligation to sell the underlying interest or, in the case of a swap, a right or obligation to enter into an offsetting swap on an equivalent quantity and with an equivalent term and cash cover that, together with margin on account for the position, is not less than the aggregate amount, if any, of the obligations of the Fund under the swap less the obligations of the Fund under such offsetting swap; or (iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to the other assets of the Fund, to enable the Fund to acquire the underlying interest of the future or forward contract or to satisfy its obligations under the swap;
- to enter into cleared derivative transactions and may deposit cash and other portfolio assets directly with a Futures Commission Merchant and indirectly with a Clearing Corporation as margin in connection with such cleared derivatives;
- to engage in inter-fund trading. This exemption permits the Fund to purchase securities from or sell securities to another investment fund or managed account managed by the Manager or an affiliate of the Manager, subject to certain conditions; and

- to engage in in-specie transfers. This exemption permits the Fund to receive portfolio securities from, or deliver portfolio securities to, a managed account or another investment fund managed by the Manager or an affiliate of the Manager in respect of a purchase or redemption of Units of the Fund, subject to certain conditions.

## **FEES AND EXPENSES**

This section details the fees and expenses that an investor may have to pay if the investor invests in the Fund. An investor may have to pay some of these fees and expenses directly. The Fund may have to pay some of these fees and expenses, which will therefore reduce the value of an investment in the Fund.

### **FEES AND EXPENSES PAYABLE BY THE FUND**

#### ***Management Fee***

The Fund pays a management fee, plus applicable taxes, to the Manager based on the annual rate set forth in the table below and the Series NAV of Series A, Series F and Series PF Units of the Fund. This management fee is calculated and accrued daily and paid monthly and is subject to applicable taxes, such as HST. This management fee pays for the services that the Manager provides to the Fund, including arranging for the provision of portfolio and investment advisory services, oversight of any service providers to the Fund, the general administration of Fund operations, marketing and other promotional activities, arranging for the distribution and sale of Units and the payment of commissions to advisors and dealers. This list is not exhaustive.

| <b>Annual Management Fee</b> |              |
|------------------------------|--------------|
| <b>Series A</b>              | 1.90% of NAV |
| <b>Series F</b>              | 0.90% of NAV |
| <b>Series PF</b>             | 0.70% of NAV |

For Series O Units, Unitholders pay the Series O Management and Administration Fee directly to the Manager. See Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

The Manager may, at its discretion, waive a portion or the entire amount of the management fee chargeable to a series of the Fund at any given time.

The Manager may also, at its discretion, reduce the management fee applicable to certain Unitholders in the Fund. The decision to do so depends on a number of factors, including the size of the investment or the nature of the investment, such as investments by pension funds, insurers or other institutional investors. See “Distribution Policy – Fee Distributions”.

#### ***Fund Costs***

In addition to the applicable management fee, the Fund Costs payable by the Fund are: (i) borrowing and interest costs incurred by the Fund from time to time; (ii) investor meeting costs (as permitted by Canadian securities legislation); (iii) fees and expenses payable to or in connection with the Fund’s IRC; (iv) any costs or expenses associated with litigation for the benefit of the Fund or brought to pursue rights on behalf of the Fund; (v) the costs of complying with any new regulatory or legal requirement imposed on the Fund after its inception date or with any material change to existing governmental and regulatory requirements imposed on the Fund after its inception date; and (vi) any new types of costs, expenses or fees not incurred prior to the Fund’s inception date, including those arising from new government or regulatory requirements.

The Fund also pays all applicable taxes, including without limitation, income taxes, withholding taxes, HST and related taxes. The Fund also pays its portfolio transaction costs, which include costs associated with the purchase and sale of securities and other property, such as brokerage commissions for portfolio trading and related trading fees (including the costs of any derivative transactions), commissions for portfolio trading and related trading fees (including the costs of any derivative transactions), commissions, service charges and research and execution costs, as well as forward agreement and derivative transaction costs.

The Manager may, at its discretion, pay certain Fund Costs. The decision to pay the Fund Costs, or a portion thereof, is reviewed annually and determined at the discretion of the Manager, without notice to Unitholders.

### ***Underlying Fund Fees and Expenses***

When the Fund invests in an underlying fund, the underlying fund may pay a management fee and other expenses in addition to the fees and expenses payable by the Fund. The fees and expenses of the underlying fund will have an impact on the MER of the Fund that invests in such underlying fund, as the Fund is required, in determining its MER, to take into account the expenses incurred by the Fund that are attributable to its investment in the underlying fund. However, the Fund will not pay management fees on the portion of its assets that it invests in the underlying fund that, to a reasonable person, would duplicate a fee payable by the underlying fund for the same service. In addition, the Fund will not pay duplicate sales charges or redemption fees for its purchase or redemption of securities of the underlying fund.

### ***Administration Fee***

The Fund pays an Administration Fee, plus applicable taxes, to the Manager based on the annual rate set forth in the table below and the Series NAV of Series A Units, Series F Units and Series PF Units. This Administration Fee is calculated and accrued daily and paid monthly and is subject to the applicable taxes, such as HST. The expenses paid by the Manager in return for the Administration Fee include, but are not limited to, audit fees, fund accounting costs, transfer agency and recordkeeping costs, custodian costs, administration costs and trustee services relating to a Registered Plan, costs of printing and disseminating prospectuses, annual information forms, fund facts and continuous disclosure materials, legal fees, investor communication costs and regulatory filing fees.

| <b>Annual Administration Fee</b> |                     |
|----------------------------------|---------------------|
| <b>Series A</b>                  | <b>0.20% of NAV</b> |
| <b>Series F</b>                  | <b>0.20% of NAV</b> |
| <b>Series PF</b>                 | <b>0.15% of NAV</b> |

The Manager may, at its discretion, absorb all or a portion of the Administration Fee. The decision to absorb the Administration Fee, or a portion thereof, is reviewed annually and determined at the discretion of the Manager, without notice to Unitholders.

## **FEES AND EXPENSES PAYABLE DIRECTLY BY UNITHOLDERS**

### ***Series O Management and Administration Fee***

Series O Unitholders do not bear any of the management fees within the Fund, but instead pay a separate Series O Management and Administration Fee, plus any applicable taxes, to the Manager directly, at the annual rate set forth in the table below. The Series O Management and Administration Fee is calculated and paid as described below under "Series O Program Fees". In consideration for the management and administration services the Manager provides in respect of Series O Units of the Fund, by placing an order to purchase Series O Units of the Fund, an investor is agreeing to pay the Series O Management and Administration Fee to the Manager as set forth in the table below, which varies based on the average daily NAV of the Series O Units held in the Unitholder's account(s).

| <b>Series O Management and Administration Fee</b> |       |
|---|-------|
| From first C\$200k to under C\$2.5M               | 0.85% |
| On next C\$2.5M to under C\$5M                    | 0.75% |
| On next C\$5M and over                            | 0.65% |

Certain Institutional Investors may negotiate a different Series O Management and Administration Fee with the Manager.

The Manager may change the Series O Management and Administration Fee for the Fund and/or the asset thresholds at any time in its sole discretion, but will not increase the fee or change the asset thresholds in a manner that could result in an existing Unitholder paying a higher fee, unless the Manager has provided the Unitholder with at least 60 days' prior written notice of such change.

### **SERIES O INVESTMENT ADVISORY SERVICES FEE**

Series O Unitholders agree to pay the Series O Investment Advisory Services Fee to their dealer in consideration for the investment advice and suitability analysis provided by a Unitholder's dealer in respect of a purchase of Series O Units of the Fund. This fee is negotiated between the Unitholder and the dealer. The Investment Advisory Services Fee is subject to applicable taxes and is calculated and paid as described below under "Series O Program Fees".

By placing an order to purchase Series O Units of the Fund, the investor agrees to pay the Series O Investment Advisory Services Fee to the investor's dealer, in an amount that is negotiated between the investor and his, her or its dealer. The Manager will remit the amount of the Investment Advisory Services Fee to the Series O Unitholder's dealer by redeeming Series O Units of the Fund as described below under "Series O Program Fees". However, the Manager will not remit the Series O Investment Advisory Services Fee to the dealer until the Manager has received written confirmation of the amount of the Series O Investment Advisory Services Fee from the dealer.

An investor's dealer is solely responsible for making the recommendation to purchase Series O Units of the Fund and for providing any and all necessary information regarding an investment in the Fund to the investor. If a Unitholder moves his, her or its account(s) holding Series O Units to another dealer, the Unitholder will need to negotiate the Series O Investment Advisory Services Fee with the new dealer. The Manager will remit the Series O Investment Advisory Services Fee to the new dealer at the negotiated rate, effective from the date the Manager receives written confirmation of the amount from the new dealer. The Manager will remit the Series O Investment Advisory Services Fee to the former dealer in the amount accruing up to the date of the transfer at the rate negotiated with the former dealer, all in accordance with the Series O Program Fees calculation described below.

### ***Series O Program Fees***

The Series O Program Fees paid by a Series O Unitholder are calculated based on the average daily Series NAV of the Series O Units held in the Unitholder's accounts at the Valuation Time on a Valuation Date. For the purposes of calculating the Series O Program Fees, the average daily Series NAV of the Series O Units held in the Unitholder's account will be calculated based on a full calendar quarter, even though the Series O Units may not have been held in a Unitholder's account for the full quarter. If such Units have not been held in a Unitholder's account on any day during the quarter, the Series NAV for such Units for such day will be zero. For the purposes of determining the Series O Program Fees payable by the Unitholder, the Series O Units of the Fund held by the Unitholder in all of the Unitholder's accounts shall be aggregated.

The Program Fees and any applicable taxes are paid quarterly in arrears by the redemption of sufficient Series O Units held by the Unitholder between the first (1<sup>st</sup>) and the eighteenth (18<sup>th</sup>) business day of the month following the end of the calendar quarter. When a Unitholder has more than one account holding Series O Units, the Manager will collect payment for the Series O Program Fees and any applicable taxes

by redeeming Series O Units from each such account in proportion to the market value of each account as at the end of the calendar quarter and within each account in proportion to the Series NAV of the Series O Units of the Fund held by the Unitholder in such account as at the end of the calendar quarter.

In the event that a Unitholder moves his, her or its account(s) holding Series O Units to a new dealer, the Manager will redeem sufficient Units from the applicable account(s) either at the time that the Unitholder moves to the new dealer or shortly thereafter to pay any accrued Series O Program Fees and applicable tax(es) owing to the former dealer, prorated to the number of days in the calendar quarter that the former dealer was the dealer of record in respect of such account(s), and remit such amount to the former dealer.

The Series O Program Fees are payable for as long as the Unitholder (or the Unitholder's successor and permitted assign) holds Series O Units of the Fund. The Unitholder should consult with a tax adviser regarding the tax deductibility of the Series O Program Fees.

## **SALES CHARGES**

Under the front-load option, an investor may have to pay up to 6% of the purchase price of the Series A Units purchased. The investor negotiates the sales charges with his, her or its dealer. For Series F, PF and O Units, the Unitholder pays no sales charges.

## **SWITCH FEES**

Dealers may charge a Unitholder a switch fee of up to 2% of the NAV of the Units switched to cover the time and processing costs involved in a switch.

The following switches may result in a switch fee payable to the Unitholder's dealer:

- switches from Units purchased on a front-load basis to Units on a no-load basis;
- switches from Units purchased on a front-load basis to Units on a front-load basis;
- switches from Units purchased on a low-load basis to Units on a low-load basis. A redemption fee will not be charged until the Units are later redeemed. The redemption fee will be based on the date and original cost of the low-load Units purchased before the switch; and
- switches from Units purchased on a deferred sales charge basis to Units on a deferred sales charge basis. A redemption fee will not be charged until the Units are later redeemed. The redemption fee will be based on the date and original cost of the deferred sales charge Units purchased before the switch.

When a dealer charges a switch fee on a switch, it will result in the redemption of a sufficient number of Units being switched to pay the switch fee.

The following switches will not result in a switch fee payable to the Unitholder's dealer:

- switches from Series F securities of one Franklin Templeton Mutual Fund to Series F securities of another Franklin Templeton Mutual Fund;
- switches from Series PF securities of one Franklin Templeton Mutual Fund to Series PF securities of another Franklin Templeton Mutual Fund;
- automatic switches from Series F Units of the Fund into Series A Units of the Fund;
- automatic switches from Series PF Units of the Fund into Series F Units of the Fund; and
- automatic switches from Series O Units of the Fund into Series A Units of the Fund.

Any other types of switches may result in additional fees, such as redemption fees or sales charges.

### **Redemption Fees**

Deferred sales charge option: A Unitholder pays up to 6% of the original cost of the Series A Units if the Unitholder redeems such Units within six years, as follows:

| <u>If redeemed during:</u> | <u>Unitholder pays:</u> |
|----------------------------|-------------------------|
| Year 1                     | 6.0%                    |
| Year 2                     | 5.5%                    |
| Year 3                     | 5.0%                    |
| Year 4                     | 4.5%                    |
| Year 5                     | 4.0%                    |
| Year 6                     | 3.0%                    |
| After year 6               | Nil                     |

Low-load option: A Unitholder pays up to 3% of the original cost of the Series A Units if the Unitholder redeems such Units within three years, as follows:

| <u>If redeemed during:</u> | <u>Unitholder pays:</u> |
|----------------------------|-------------------------|
| Year 1                     | 3.0%                    |
| Year 2                     | 2.5%                    |
| Year 3                     | 2.0%                    |
| After year 3               | Nil                     |

### **Other Charges**

A Unitholder's bank or other financial institution will charge a fee should any cheque be dishonoured because of insufficient funds in the Unitholder's account.

### **ANNUAL RETURNS AND MANAGEMENT EXPENSE RATIO AND TRADING EXPENSE RATIO**

The following chart provides the annual returns, the MER and TER for each Series of the Fund from its inception to December 31, 2017.

| <b>Series A</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
|---------------------|-------|------|------|------|------|
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 2.42% | N/A  | N/A  | N/A  | N/A  |
| TER (%)***          | 0.17% | N/A  | N/A  | N/A  | N/A  |

  

| <b>Series F</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
|---------------------|-------|------|------|------|------|
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 1.30% | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |

| <b>Series PF</b>    | 2017  | 2016 | 2015 | 2014 | 2013 |
|---------------------|-------|------|------|------|------|
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | 0.99% | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | 0.17% | N/A  | N/A  | N/A  | N/A  |
| <b>Series O</b>     | 2017  | 2016 | 2015 | 2014 | 2013 |
| Annual Returns (%)* | N/A   | N/A  | N/A  | N/A  | N/A  |
| MER (%)**           | N/A   | N/A  | N/A  | N/A  | N/A  |
| TER(%)***           | N/A   | N/A  | N/A  | N/A  | N/A  |

\* Investment performance has not been disclosed for the stated period since the Fund was not a reporting issuer for at least the last 12 consecutive months.

\*\* “MER” means management expense ratio based on management fees, administration fees and operating expenses (excluding commissions and other portfolio transaction costs) expressed as an annualized percentage of daily average net asset value.

\*\*\* “TER” means trading expense ratio and represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value.

## **RISK FACTORS**

A prospective investor should reach a decision to invest in the Fund after careful consideration with his, her or its advisor as to the suitability of the Fund in light of its investment objective and the information set out in this prospectus. The Manager does not make any recommendation as to the suitability of the Fund for investment by any person.

The value of an investment in the Fund is not guaranteed. Unlike bank accounts or guaranteed investment certificates, the Units are not covered by the Canada Deposit Insurance Corporation or any other government deposit insurer.

Under exceptional circumstances, a Unitholder’s right to redeem Units may be suspended. See “Redemption of Units – Suspending a Unitholder’s Right to Redeem”.

The Fund is for investors willing to accept low to medium investment risk for the part of their portfolio invested in the Fund. However, the Fund could be used in a portfolio whose overall investment risk may be higher.

For an existing fund, the Manager would base the investment risk level on the fund's historical volatility as measured by the 10-year standard deviation of the returns of the fund. Since the Fund has been in existence for less than a year and has limited performance history, the Manager has based the investment risk level of the Fund on its available return history and, for the remainder of the 10-year period prior to the Fund’s

inception, the standard deviation of the returns of the Fund's risk benchmark. The Fund's risk benchmark is the Custom Franklin Target Return Index and is a blended index composed of the MSCI ACWI Total Return Index (60%), the FTSE TMX Canada Government Bond Index (30%), the Bloomberg Barclays Global Aggregate Bond Index (5%) and the FTSE TMX Canadian Treasury Bill 91-Day Index (5%).

The Manager reviews the risk rating of the Fund on an annual basis and when there is a material change to the Fund. A full description of the methodology the Manager uses to determine the risk rating of the Fund is available on request and at no cost by calling toll-free 1-800-387-0830, by contacting the Manager at [service@franklintempleton.ca](mailto:service@franklintempleton.ca) or by writing to Franklin Templeton Investments Corp., 5000 Yonge Street, Suite 900, Toronto, Ontario M2N 0A7. In addition to the considerations set out elsewhere in this prospectus, the following are certain considerations relating to an investment in Units that prospective investors should consider before purchasing Units. Depending upon the nature of its investments, these risks also apply to the underlying funds.

### ***Equity Risk***

The value of all funds that invest in equity and equity-related securities fluctuate daily. Prices of equities can be influenced and affected by many micro and macro factors such as economic, political, market, and issuer specific changes. Such changes may adversely affect the value of the equities, which can go up and down, regardless of company-specific performance. Additionally, different industries, financial markets, and securities can react differently to these changes. Such fluctuations of the Fund's value are often exacerbated in the short-term as well. The risk that one or more companies in the Fund's portfolio will fall, or fail to rise, can adversely affect the overall portfolio performance in any given period and when the Fund invests in equities it could incur significant losses.

### ***Interest Rate Risk***

The interest rate on a bond is set when it is issued. When interest rates fall, the price of existing bonds will rise because existing bonds pay higher rates than new bonds, and are therefore worth more. On the other hand, when interest rates rise, the price of existing bonds will fall. The value of bonds will be affected by changes in interest rates. The value of debt securities that pay a floating or variable rate of interest are generally less price sensitive to interest rate changes. Convertible securities also carry interest rate risk. These securities provide a fixed income stream, so their value varies inversely with interest rates, just like bond prices. However, because they can be converted into common shares, convertible securities are less affected by interest rate fluctuations than bonds.

### ***Credit Risk***

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due. Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields. Generally, government securities are considered to be the safest in terms of credit risk, while corporate debt, especially those with poorer credit ratings, have the highest credit risk. Changes in the financial condition of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer (particularly a sovereign or supranational issuer), are all factors that may have an adverse impact on an issuer's credit quality and security values. Related to credit risk is the risk of downgrade by a rating agency. Rating agencies such as Standard & Poor's, Moody's and Fitch, among others, provide ratings for a wide array of fixed income securities (corporate, sovereign, or supranational) which are based on their creditworthiness. The agencies may change their ratings from time to time due to financial, economic, political, or other factors, which, if the change represents a downgrade, can adversely impact the value of the affected securities. Although the market for emerging country debt is currently reasonably liquid, this position would alter if a substantial reduction in the number of investors in this market were to occur. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value or liquidity of such assets.

## ***Sovereign Debt Risk***

Sovereign debt securities are subject to various risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a governmental entity may be unwilling or unable to pay interest and repay principal on its sovereign debt, or otherwise meet its obligations when due because of cash flow problems, insufficient foreign reserves, the relative size of the debt service burden to the economy as a whole, the government's policy towards principal international lenders such as the International Monetary Fund, or the political considerations to which the government may be subject.

Sovereign debtors also may be dependent on expected disbursements from other foreign governments or multinational agencies and the country's access to, or balance of, trade. If a sovereign debtor defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. Restructuring may include obtaining additional credit to finance outstanding obligations, reduction and rescheduling of payments of interest and principal, or negotiation of new or amended credit and security agreements. Unlike most corporate debt restructurings, the fees and expenses of financial and legal advisers to the creditors in connection with a restructuring may be borne by the holders of the sovereign debt securities instead of the sovereign entity itself. Some sovereign debtors have in the past been able to restructure their debt payments without the approval of some or all debt holders or to declare moratoria on payments, and similar occurrences may happen in the future.

In the event of a default on sovereign debt, the Fund may have limited legal recourse against the defaulting government entity. As a sovereign entity, the issuing government may be immune from lawsuits in the event of its failure or refusal to pay the obligations when due, and any rights the Fund may have may be restricted pursuant to the terms of applicable treaties with such sovereign entity. If a sovereign entity defaults, it may request additional time in which to pay or for further loans. There may be no legal process for collecting sovereign debt that a government does not pay or such legal process may be relatively more expensive, nor are there bankruptcy proceedings by which the Fund may collect, in whole or in part, on debt issued by a sovereign entity. In certain cases, remedies must be pursued in the courts located in the country of the defaulting sovereign entity itself, which may further limit the Fund's ability to obtain recourse.

The Fund may invest in sovereign debt issued by governments or government-related entities from countries referred to as emerging markets or frontier markets, which bear additional risks compared to more developed markets due to such factors as greater political and economic uncertainties, currency fluctuations, repatriation restrictions or capital controls.

## ***Liquidity Risk***

Liquidity risk takes two forms: asset side liquidity risk and liability side liquidity risk. Asset side liquidity risk refers to the inability of the Fund to sell a security or position at its quoted price or market value due to such factors as a sudden change in the perceived value or credit worthiness of the position, or due to adverse market conditions generally. Liability side liquidity risk refers to the inability of the Fund to meet a redemption request, due to the inability of the Fund to sell securities or positions in order to raise sufficient cash to meet the redemption request. Reduced liquidity due to these factors may have an adverse impact on the NAV of the Fund.

Certain securities are illiquid due to a limited trading market, financial weakness of the issuer, legal or contractual restrictions on resale or transfer, or that are otherwise illiquid in the sense that they cannot be sold within seven days at approximately the price at which the Fund values them. Securities that are illiquid involve greater risk than securities with more liquid markets. Market quotations for such securities may be volatile and/or subject to large spreads between bid and ask prices. Illiquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event.

### ***Market Risk***

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions that are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in, or otherwise benefit from, the advance. Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

### ***Foreign Currency Risk***

The value of securities issued in foreign currencies, or of securities that pay income in foreign currencies, is affected by changes in the value of the Canadian dollar relative to those currencies. As a result, currency fluctuations may indirectly adversely affect the value of a Fund's investments and, in turn, may also affect the value of Units held by a Unitholder. For example, if the U.S. dollar rises relative to the Canadian dollar, U.S. shares will be worth more in Canadian dollars. On the other hand, if the U.S. dollar falls, U.S. shares will be worth less in Canadian dollars.

### ***Underlying Funds Risk***

The Fund's performance is directly impacted by the performance of any underlying funds held by it. The ability of the Fund to achieve its investment objectives is directly related to, in part, the ability of the underlying funds to meet their investment objectives. Investing in underlying funds may be more costly to the Fund than if the Fund had invested directly in the underlying securities. Unitholders will indirectly bear the fees and expenses (including management and advisory fees and other expenses) of the underlying funds. As the Fund's allocations among underlying funds may change from time to time, or to the extent that the expense ratios of the underlying funds change, the expenses borne by the Fund may increase or decrease. In addition, the determination of net asset value per security of any particular underlying fund held by the Fund may be suspended. If this event were to happen, it could impede the ability of the Fund to meet a redemption request. The Fund's investments in underlying funds may subject the Fund to additional risks than if the Fund would have invested directly in the securities held by the underlying funds. An underlying fund that is an ETF may trade at a premium or discount to its net asset value, as securities of an ETF are bought and sold based on exchanges on market values and not at the ETF's net asset value. One underlying fund may buy the same securities that another underlying fund sells. If this happens, a Unitholder in the Fund would indirectly bear the costs of these transactions without accomplishing the intended investment purpose. Also, the Fund and/or the underlying funds may hold common portfolio securities, thereby reducing the diversification benefits to the Fund.

### ***Asset Allocation Risk***

The Fund may allocate its assets among underlying funds with the goal of optimizing its asset class, investment style, geographic and market capitalization allocation. There can be no guarantee that the Fund will allocate its assets successfully. Similarly, there can be no guarantee against losses resulting from the Fund's asset allocation.

### ***Derivatives Risk***

The performance of derivative instruments depends largely on the performance of an underlying currency, security, index or other reference asset, and such instruments often have risks similar to the underlying

instrument, in addition to other risks. The Fund will enter into the Forwards and currency hedging derivative instruments and may notionally use options, futures, options on futures, and forward contracts on currencies, securities, indices, interest rates or other reference assets for hedging, efficient portfolio management and/or investment purposes. Derivative instruments involve costs and can create economic leverage in the Fund's portfolio, which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial actual or notional investment. In the case of futures transactions, the amount of the initial margin is small relative to the value of the futures contract, so that transactions are "leveraged" or "geared". A relatively small market movement will have a proportionately larger impact, which may work for or against the Fund. The placing of certain orders that are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders.

Transactions in options may also carry a high degree of risk. Selling ("**writing**" or "**granting**") an option generally entails considerably greater risk than purchasing options. Although the premium notionally received by the Fund is fixed, the Fund may sustain a loss well in excess of that amount. The Fund will also be exposed to the risk of the purchaser exercising the option and the Fund will be obliged either to notionally settle the option in cash or to notionally acquire or deliver the underlying investment. If the option is "covered" by the Fund notionally holding a corresponding position in the underlying investment or a future on another option, the risk may be reduced. The risk of loss to the Fund for a swap transaction on a net basis depends on which party is obliged to notionally pay the net amount to the other party. If the counterparty is notionally obliged to pay the net amount to the Fund, the risk of loss to the Fund is the loss of the entire amount that the Fund is notionally entitled to receive; if the Fund is notionally obliged to pay the net amount, the Fund's risk of loss is limited to the net amount notionally due. See also "Risk Factors – Swap Agreements Risk".

Certain derivatives have the potential for a high degree of leverage regardless of the size of the initial investment. The use of leverage may cause the Fund to actually or notionally liquidate portfolio positions to satisfy its obligations or to meet asset segregation requirements when it may not be advantageous to do so. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. Their successful use will usually depend on the Sub-Advisor's and the Sub-Sub-Advisor's ability to accurately forecast movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, the Fund may not achieve the anticipated benefits of the transaction, and it may realize losses, which could be significant. If the Sub-Advisor or a Sub-Sub-Advisor are not successful in using such derivative instruments, the Fund's performance may be worse than if such derivative instruments were not used at all. To the extent that the Fund uses derivative instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of the underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all.

The Fund may actually and notionally engage in transactions involving derivative instruments that trade on exchanges or that may be privately negotiated and trade over-the-counter and not on an exchange. Exchange-traded derivatives include futures, options, options on futures, and warrants. Examples of over-the-counter derivative instruments include currency forwards, interest rate swaps, credit default swaps, total return swaps or contracts for differences. Use of such over-the-counter instruments could result in a loss if the counterparty to the transaction (with respect to forward currency contracts and other derivatives instruments) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Collateral is employed for many over-the-counter derivative transactions; it needs to be pledged to the counterparty if the Fund has an actual or notional net loss on a given transaction and the Fund may actually or notionally hold collateral pledged by the counterparty to the Fund if the Fund has a net gain on a given transaction. The value of the collateral may fluctuate, however, and it may be difficult to sell, so there are no assurances that the value of collateral held will be sufficient to cover the amount owed to the Fund or will not be absorbed by other outstanding

obligations of the counterparty. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the over-the-counter markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that the Fund is unable to actually or notionally close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The Fund may also be required to actually or notionally take or make delivery of an underlying instrument that the Sub-Advisor or a Sub-Sub-Advisor would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Fund may intend to use derivative strategies in the Notional Baskets on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the Sub-Sub-Advisors elect not to do so due to availability, cost or other factors.

Under recent financial reforms, certain types of derivatives (i.e., certain swaps) are, and others eventually are expected to be, required to be cleared through a central counterparty. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to over-the-counter swaps, but it does not eliminate those risks completely. With cleared swaps, there is also a risk of notional loss by the Fund of its initial and variation margin deposits in the event of bankruptcy of the futures commission merchant, an individual or organization that both (i) solicits or accepts offers to buy or sell futures contracts, options on futures, off exchange foreign exchange contracts or swaps and (ii) accepts money or other assets from customers to support such orders with which the Fund has a notional open position in a swap contract. With cleared swaps, the Fund may not be able to obtain as favourable terms as it would be able to negotiate for a bilateral, uncleared swap. In addition, central counterparties and futures commission merchants generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement.

The regulation of cleared and uncleared swaps, as well as other derivatives, is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, regulators and exchanges in many jurisdictions are authorized to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading. It is not possible to predict fully the effects of current or future regulation. New requirements, even if not directly applicable to the Fund, may increase the cost of the Fund's direct and notional investments and cost of doing business, which could adversely affect investors. The use of derivative strategies may also have a tax impact on the Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the Sub-Advisor and the Sub-Sub-Advisors to use derivatives when they wish to do so.

### ***Counterparty Risk***

Counterparty risk is the risk to each party of a contract that the counterparty will fail to perform its contractual obligations and/or to respect its commitments under the term of such contract, whether due to insolvency, bankruptcy or other cause. When over-the-counter or other bilateral contracts are entered into, such as derivative instruments or repurchase agreements, security lending, etc., the Fund may find itself exposed to risks arising from the solvency of its counterparties and from their inability to respect the conditions of these contracts.

### ***Credit-Linked Securities Risk***

Credit-linked securities are debt securities that represent an interest in a pool of, or are otherwise collateralized by one or more corporate debt obligations or credit default swaps incorporating debt or bank loan obligations. Such debt obligations may represent the obligations of one or more corporate issuers. The value of a credit-linked security will typically increase or decrease with any change in value of the underlying debt obligations, if any, held by the issuer and the credit default swap. A Fund that invests in credit-linked securities has the right to receive periodic interest payments from the issuer of the credit-linked security

(usually the seller of the underlying credit default swap(s)) at an agreed-upon interest rate, and a return of principal at the maturity date.

A fund that invests in credit-linked securities bears the risk of loss of its principal investment, and the periodic interest payments expected to be received for the duration of its investment in the credit-linked security, in the event that one or more of the debt obligations underlying the credit default swaps go into default or otherwise become non-performing. Upon the occurrence of such a credit event (including bankruptcy, failure to timely pay interest or principal, or a restructuring), the Fund will generally reduce the principal balance of the related credit-linked security by the Fund's pro rata interest in the par amount of the defaulted underlying debt obligation in exchange for the actual value of the defaulted underlying obligation or the defaulted underlying obligation itself, resulting in a loss of a portion of the Fund's investment. Thereafter, interest on the credit-linked security will accrue on a smaller principal balance and a smaller principal balance will be returned at maturity. To the extent a credit-linked security represents an interest in underlying obligations of a single corporate or other issuer, a credit event with respect to such issuer presents greater risk of loss to a fund than if the credit-linked security represented an interest in underlying obligations of multiple issuers.

In addition, the Fund bears the risk that the issuer of the credit-linked security will default or become bankrupt. In such an event, the Fund may have difficulty being repaid, or fail to be repaid, the principal amount of its investment and the remaining periodic interest payments thereon. An investment in credit-linked securities also involves reliance on the counterparty to the credit default swap entered into with the issuer of the credit-linked security to make periodic payments to the issuer under the terms of the swap. Any delay or cessation in the making of such payments may be expected in certain instances to result in delays or reductions in payments to the Fund as an investor in such credit-linked securities. Additionally, credit-linked securities are typically structured as limited recourse obligations of the issuer of such securities such that the securities issued will usually be obligations solely of the issuer and will not be obligations or responsibilities of any other person. Most credit-linked securities are structured as US Rule 144A securities so that they may be freely traded among institutional buyers. The Fund will generally only purchase credit-linked securities, which are determined to be liquid in the opinion of the Portfolio Manager and Sub-Advisor. However, the market for credit-linked securities may suddenly become illiquid. The other parties to the transaction may be the only investors with sufficient understanding of the derivative to be interested in bidding for it. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for credit-linked securities. In certain cases, a market price for a credit-linked security may not be available or may not be reliable, and the Fund could experience difficulty in notionally selling such security at a price the Portfolio Manager and Sub-Advisor believes is fair.

The value of a credit-linked security will typically increase or decrease with any change in value of the underlying debt obligations, if any, held by the issuer and the credit default swap. Further, in cases where the credit-linked security is structured such that the payments to a fund are based on amounts received in respect of, or the value of performance of, any underlying debt obligations specified in the terms of the relevant credit default swap, fluctuations in the value of such obligation may affect the value of the credit-linked security.

### ***Swap Agreements Risk***

The Fund may enter into interest rate, index and currency exchange rate swap agreements for the purposes of attempting to obtain a particular desired return at a lower cost to the Fund than if the Fund had invested directly in an instrument that yielded that desired return. Swap agreements are two-party contracts entered into primarily by institutional investors for periods ranging from a few days to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differential in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount", i.e. the return on or increase in value of a particular US dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index. The "notional amount" of the swap agreement is only a fictitious basis on which to calculate the obligations which the

parties to a swap agreement have agreed to exchange. The Fund's obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "**net amount**"). Whether the Fund's use of swap agreements will be successful in furthering its investment objective will depend on the ability of the Portfolio Manager and Sub-Advisor to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two-party contracts and because they may have terms of greater than seven (7) calendar days, swap agreements may be considered to be illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty.

### ***Target Risk***

There can be no guarantee that the Fund will achieve its return target, nor that it will remain within its volatility range. All investment performance is inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Manager. In considering the return target and volatility range, prospective investors should bear in mind that such targeted performance and volatility is not a guarantee, projection or prediction and is not indicative of future results of the Fund. Actual gross returns in any given year may be lower than the return target, and actual volatility may be higher than the volatility range. Even if the return target is met, actual returns to investors will be lower due to expenses, taxes and other factors. In addition, the return target and volatility range may be adjusted at the discretion of the Manager without notice to investors in light of available investment opportunities and/or changing market conditions. The Manager believes that the return target and volatility range for the Fund are reasonable based on a combination of factors, including the Fund's investment team's general experience, the availability of leverage and financing at expected costs and other terms, and its assessment of prevailing market conditions and investment opportunities. There are, however, numerous assumptions that factor into the return target and volatility range that may not be consistent with future market conditions and that may significantly affect actual investment results. Such assumptions include, but are not limited to (i) the Manager's ability to adequately assess the risk and return of potential investments, (ii) the availability of suitable investment opportunities in various asset classes, and (iii) various measurements and parameters relating to the Manager's expected outlook for certain global and local economies and markets. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in calculating the return target and volatility range have been stated or fully considered. Prospective investors reviewing the return target and volatility range contained herein must make their own determination as to the reasonableness of the assumptions and the reliability of the return target and volatility range. Actual results and events may differ significantly from the assumptions and estimates on which the return target and volatility range are based.

### ***Portfolio Turnover Risk***

The Portfolio Manager and/or the Sub-Advisor may sell a security or enter into or close out of a derivative position when it believes it is appropriate to do so, regardless of how long the Fund has held the instrument. These activities increase the Fund's actual and notional portfolio turnover and may increase the Fund's transaction costs.

### ***Emerging Markets Risk***

In emerging market countries, securities markets may be smaller than in more developed countries, making it more difficult to sell securities in order to take profits or avoid losses. Companies in these markets may have limited product lines, markets or resources, making it difficult to measure the value of the company. Political instability and possible corruption, as well as lower standards of regulation for business practices increase the possibility of fraud and other legal problems. The value of emerging market securities may rise and fall substantially.

### ***Low-Rated or Non-Investment Grade Securities Risk***

Some investments offer a better return than others because they carry higher risk. They may have a credit rating below investment grade or be unrated. These investments may be hard to value because market quotations are unavailable, and they may be less liquid than higher-grade investments. They have the potential for substantial loss as well as gain, as will the Fund if it buys these investments or invests in underlying funds that hold these low-rated securities.

### ***Structured Notes Risk***

Structured notes, such as credit-linked notes, equity-linked notes and similar notes, involve a counterparty structuring a note whose value is intended to move in line with the underlying security specified in the note. Unlike financial derivative instruments, cash is transferred from the buyer to the seller of the note. Investment in these instruments may cause a loss if the value of the underlying security decreases. There is also a risk that the note issuer will default. Additional risks result from the fact that the documentation of such notes programmes tends to be highly customised. The liquidity of a structured note can be less than that for the underlying security, a regular bond or debt instrument and this may adversely affect either the ability to sell the position or the price at which such a sale is transacted.

### ***Convertible Securities Risk***

A convertible security is generally a debt obligation, preferred stock or other security that pays interest or dividends and may be converted by the holder within a specified period of time into common stock. The value of convertible securities may rise and fall with the market value of the underlying stock or, like a debt security, vary with changes in interest rates and the credit quality of the issuer. A convertible security tends to perform more like a stock when the underlying stock price is high relative to the conversion price (because more of the security's value resides in the option to convert) and more like a debt security when the underlying stock price is low relative to the conversion price (because the option to convert is less valuable). Because its value can be influenced by many different factors, a convertible security is not as sensitive to interest rate changes as a similar non-convertible debt security, and generally has less potential for gain or loss than the underlying stock.

### ***Defaulted Debt Securities Risk***

The Fund may invest in debt securities on which the issuer is not currently making interest payments (defaulted debt securities). The Fund may buy defaulted debt securities if, in the opinion of the Portfolio Manager and/or the Sub-Advisor, it appears likely that the issuer may resume interest payments or other advantageous developments appear likely in the near future. These securities may become illiquid.

The risk of loss due to default may also be considerably greater with lower-quality securities because they are generally unsecured and are often subordinated to other creditors of the issuer. If the issuer of a security in the Fund's portfolio defaults, the Fund may have unrealized losses on the security, which may lower the Fund's Series NAV per Unit. Defaulted securities tend to lose much of their value before they default. Thus, the Fund's Series NAV per Unit may be adversely affected before an issuer defaults. In addition, the Fund may incur additional expenses if it must try to recover principal or interest payments on a defaulted security. Included among the issuers of debt securities or obligations in which the Fund may invest are entities organised and operated solely for the purpose of restructuring the investment characteristics of various securities or obligations. These entities may be organized by investment banking firms, which receive fees in connection with establishing each entity and arranging for the placement of its securities.

### ***Short Selling Risk***

The Fund may engage in short selling. A short sale is where the Fund borrows securities from a lender and sells them in the open market ("**short sale**"). The Fund must repurchase the securities at a later date in order to return them to the lender. In the interim, the proceeds from the short sale are deposited with the

lender and the Fund pays interest to the lender on the borrowed securities. If the value of the securities declines between the time of the initial short sale and the time it repurchases and returns the securities, the Fund makes a profit for the difference (less any interest paid by the Fund to the lender). However, a rise in the price of the borrowed securities will result in a loss to the Fund. There are risks associated with short selling, namely that the borrowed securities will rise in value or not decline enough to cover the Fund's borrowing costs. The Fund may also experience difficulties in repurchasing the borrowed securities if a liquid market for the securities does not exist. In addition, the lender from whom the Fund has borrowed securities may become bankrupt, causing the Fund to lose the collateral it deposited with the lender.

### ***Securities Lending Risk***

Securities lending involves lending portfolio securities held by the Fund to qualified borrowers who have posted collateral for a fee and a set period of time. In lending its securities, the Fund is subject to the risk that the borrower may not fulfill its obligations leaving the Fund holding collateral worth less than the securities it has lent, resulting in a loss to the Fund. To limit this risk, a Fund must hold collateral worth no less than 102% of the value of the loaned securities and the amount of collateral is adjusted daily to ensure this level is maintained; the collateral may only consist of cash, qualified securities or securities that can be immediately converted into identical securities to those that have been loaned; the Fund cannot lend more than 50% of the total value of its assets through securities lending or repurchase transactions; and the Fund's total exposure to any one borrower in securities, derivative transactions and securities lending must be less than 10% of the total value of the Fund's assets.

### ***Distressed Securities Risk***

Investment in distressed securities (i.e. that have a Standard & Poor's notation below CCC long-term rating or equivalent) may cause additional risks for the Fund. Such securities are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and principal or maintain other terms of the offer documents over any long period of time. They are generally unsecured and may be subordinated to other outstanding securities and creditors of the issuer. Whilst such issues are likely to have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposure to adverse economic conditions. Therefore, the Fund may lose its entire investment, may be required to accept cash or securities with a value less than its original investment and/or may be required to accept payment over an extended period of time. Recovery of interest and principal may involve additional cost for the Fund. Under such circumstances, the returns generated from the Fund's investments may not compensate the shareholders adequately for the risks assumed.

### ***Real Estate Securities Risk***

The Fund may invest in real estate securities, securities linked to real estate indices or a basket of real estate-related securities, or real estate investment trusts ("**REITs**"). Real estate values rise and fall in response to a variety of factors, including local, regional and national economic conditions, interest rates and tax considerations. When economic growth is slow, demand for property decreases and prices may decline. Property values may decrease because of overbuilding, increases in property taxes and operating expenses, changes in zoning laws, environmental regulations or hazards, uninsured casualty or condemnation losses, or general decline in neighbourhood values. Securities linked to a real estate index or basket of real estate-related securities may take the form of a structured note whose value is intended to move in line with the underlying index (or indices) or real estate-related securities basket specified in the note. Such notes involve assuming risk associated with the counterparty that is packaging the note. Such notes depend on the solvency of the issuer for the life of the note. There is no guarantee that such notes will perform as intended in line with the underlying index (indices) or basket of securities. The liquidity of such notes may also be limited, depending on the creditworthiness of the issuer of the note as well as the nature of the underlying indices or basket of securities. Equity REITs may be affected by any changes in the value of the properties owned and other factors, and their prices tend to go up and down. A REIT's performance depends on the types and locations of the properties it owns and on how well it manages those properties. A decline in rental income may occur because of extended vacancies, increased

competition from other properties, tenants' failure to pay a rent or poor management. A REIT's performance also depends on the company's ability to finance property purchases and renovations and manage its cash flows. Since REITs typically are invested in a limited number of projects or in a particular market segment, they are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments.

### ***Commodities Related Exposure Risk***

The Fund's exposure to investments in commodities-related instruments presents unique risks. Investing in commodities-related instruments, including trading in commodities indices and financial derivative instruments related to commodities, is speculative and can be extremely volatile. Market prices of commodities may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated or unrealized); weather; agriculture; trade; domestic and foreign political and economic events and policies; diseases; pestilence; technological developments; and monetary and other governmental policies, action and inaction. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity. Certain commodities are used primarily in one industry, and fluctuations in levels of activity in (or the availability of alternative resources to) one industry may have a disproportionate effect on global demand for a particular commodity. Moreover, recent growth in industrial production and gross domestic product has made some developing countries oversized users of commodities and has increased the extent to which certain commodities prices are influenced by those markets.

### ***Cyber Security Risk***

As the use of technology has become more prevalent in the course of business, the Fund has become potentially more susceptible to operational risks through breaches in cyber security. A breach in cyber security refers to both intentional and unintentional events that may cause the Fund to lose proprietary information, suffer data corruption, or lose operational capacity. This in turn could cause the Fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss. Cyber security breaches may involve unauthorized access to the Fund's digital information systems (e.g., through "hacking" or malicious software coding), but may also result from outside attacks such as denial-of-service attacks (i.e., efforts to make network services unavailable to intended users). In addition, cyber security breaches of the Fund's third party service providers (e.g., Custodian, Portfolio Manager, Securities Lending Agent and Sub-Advisor) or issuers that the Fund invests in can also subject the Fund to many of the same risks associated with direct cyber security breaches. Like with operational risk in general, the Manager has established risk management systems designed to reduce the risks associated with cyber security. However, there is no guarantee that such efforts will succeed, especially since the Manager does not directly control the cyber security systems of issuers or third party service providers.

### ***Taxation Risk***

The Fund will be subject to certain tax risks generally applicable to Canadian investment funds, including the following.

The Fund is expected to qualify at all material times as a mutual fund trust under the Tax Act. If the Fund ceases to qualify as a mutual fund trust under the Tax Act, the income tax considerations described under the heading "Income Tax Considerations" could be materially and adversely different in some respects.

There can be no assurance that the CRA will agree with the tax treatment adopted by the Fund in filing its tax return. The CRA could reassess the Fund on a basis that results in tax being payable by the Fund or in an increase in the taxable component of distributions considered to have been paid to Unitholders. A reassessment by the CRA may result in the Fund being liable for unremitted withholding tax on prior

distributions to non-resident Unitholders. Such liability may reduce the NAV of, or trading prices of, Units of the Fund.

## **DISTRIBUTION POLICY**

### ***Distributions***

The Fund will make a distribution of any income and capital gains annually. However, the Fund also may make distributions of income, capital gains or capital at any other time the Manager considers appropriate. Distributions on Units held in a Registered Plan are automatically reinvested in additional Units of the Fund. Distributions on Units held outside a Registered Plan are automatically reinvested in additional Units of the Fund, unless the Unitholder provides the Manager with a written request that the Unitholder wishes to receive them in cash.

The Fund distributes a sufficient amount of its net income and net realized capital gains to Unitholders for each taxation year so that the Fund will not be liable for ordinary income tax. Any reinvestment of distributions will occur at the applicable Series NAV thereof without payment of sales charges.

The Manager reserves the right to adjust the amount or frequency of distributions of the Fund if the Manager considers it appropriate, without notice.

The Manager provides each Unitholder of the Fund with an annual statement and, in the case of taxable Unitholders, tax slips showing income distributions, capital gains distributions, ordinary dividends, capital gains dividends and, if applicable, capital distributed to such Unitholder. These annual statements, together with the confirmation that the Unitholder received on a purchase of or reinvestment of distributions of Units of the Fund, should be retained by the Unitholder, so that the Unitholder may accurately compute, for tax purposes, any gain or loss on a redemption of Units, or report distributions received. The Unitholder may also use this information to calculate the adjusted cost base of the Units.

The tax treatment to Unitholders of distributions is discussed under the heading "Income Tax Considerations".

### ***Fee Distributions***

From time to time, the Manager may agree to arrange for the management fees of the Fund to be reduced in respect of a particular Unitholder's investment in the Fund. The Manager's decision to do so depends on a number of factors, including the size of the investment or the nature of the investment, such as investments by pension funds, insurers or other institutional investors. If the Manager reduces the management fee, the Fund pays a management fee distribution to the Unitholder.

Any management fee reduction is in the sole and absolute discretion of the Manager. At all times, the Manager is entitled to charge the Fund the maximum rate of fees, as set out in this prospectus. The Manager may reduce the rate of any fee reduction or cancel any fee reduction at any time.

## **PURCHASES OF UNITS**

### ***Continuous Distribution***

Units of the Fund will be offered on a continuous basis commencing on or about May 15, 2017. There is no maximum number of Units that may be issued.

### ***Initial Investment in the Fund***

The Manager has made a “seed capital” investment in the Fund of \$3,000,000 and will have Units of the Fund available to be issued to the public immediately upon obtaining receipt for this prospectus.

The Manager has obtained an exemption from the restrictions relating to the “seed capital” investment in a mutual fund governed by NI 81-104 to relieve the Manager from the requirement to provide seed capital of \$50,000 and not issue Units to the public until subscriptions aggregating not less than \$500,000 have been received and accepted by the Fund from investors other than the Manager, the Portfolio Manager, any sponsor of the Fund or the directors, officers or shareholders of any of the foregoing. This exemption permits the Manager to maintain an investment of \$150,000 in Units of the Fund and thereafter issue Units to the public. The Manager will be permitted to redeem its initial investment in the Fund once subscriptions aggregating not less than \$500,000 have been received and accepted by the Fund from investors other than the Manager, the Portfolio Manager, any sponsor of the Fund or the directors, officers or shareholders of any of the foregoing.

### ***Series of Units***

This prospectus qualifies the issuance of Units of four series of the Fund: Series A, Series F, Series PF and Series O Units. Each series of Units is intended for different types of investors and investors must meet eligibility criteria established by the Manager from time to time in order to hold certain series of Units of the Fund. The Series NAV per Unit of each series will not be the same because of the different fees and expenses allocated to each series of Units.

Certain series of Units of the Fund are available for purchase under different purchase options. An investor’s choice of purchase option will require payment of different fees and will affect the amount of compensation the investor’s dealer will receive.

### ***Series A Units***

Series A Units are available to all investors, subject to certain minimum investment requirements. They are available for purchase under three different purchase options. See “Purchases of Units – How to Buy Units of the Fund”.

### ***Series F Units***

Series F Units are available to the following types of investors as determined by the Manager in its discretion:

- investors who participate in dealer-sponsored “fee-for-service” or wrap programs and who pay their advisor an hourly fee or annual asset-based fee rather than commissions on each transaction;
- investors whose dealer is FTC Investor Services Inc. or who purchase, sell or hold their securities through a discount brokerage account; and
- any other investors for whom the Manager does not incur distribution costs.

Investors wishing to purchase Series F Units must also meet the minimum investment requirements.

Series F Units are only available to investors with less than \$100,000 invested in securities of all Franklin Templeton Mutual Funds held in Related Accounts. On a monthly basis, the Manager will automatically switch Series F Unitholders with \$100,000 or more invested in securities of all Franklin Templeton Mutual Funds held in Related Accounts to Series PF securities of the same mutual fund, including the Fund.

Series F Units are designed for investors participating in programs that do not require the Manager to incur distribution costs in the form of trailing commissions to dealers. Participation in Series F is only available with the Manager's prior consent and the consent of the dealer.

Series F Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series F Units. Instead of paying sales charges, investors buying Series F Units pay fees to their dealer for investment advice and other services. The Manager does not pay any commission to dealers in respect of Series F Units, so lower management fees can be charged.

If a Unitholder ceases to be eligible to hold Series PF Units, the Manager may redesignate such Series PF Units as Series F Units of the Fund.

### ***Series PF Units***

Series PF Units are available to the following types of investors as determined by the Manager in its discretion:

- investors who participate in dealer-sponsored "fee-for-service" or wrap programs and who pay their advisor an hourly fee or annual asset-based fee rather than commissions on each transaction;
- investors who purchase through a discretionary managed account; and
- any other investors for whom the Manager does not incur distribution costs.

Investors wishing to purchase Series PF Units must also meet the minimum investment requirements.

Series PF Units are available to investors who have in total invested a minimum of \$100,000 in securities of Franklin Templeton Mutual Funds within one month from initial purchase of Series PF or PFT securities, held in Related Accounts. The investment minimum for Series PF may be waived for purchases made by investors who purchase through a discretionary managed account. On a monthly basis, the Manager will automatically switch Series F Unitholders with \$100,000 or more invested in securities of all Franklin Templeton Mutual Funds held in Related Accounts to Series PF securities of the same mutual fund, including the Fund.

Series PF Units are designed for investors participating in programs that do not require the Manager to incur distribution costs in the form of trailing commissions to dealers. Participation in Series PF is only available with the Manager's prior consent and the consent of the dealer.

Series PF Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series PF Units. Instead of paying sales charges, investors buying Series PF Units pay fees to their dealer for investment advice and other services. The Manager does not pay any commission to dealers in respect of Series PF Units, so lower management fees can be charged.

If a Unitholder ceases to be eligible to hold Series PF Units, the Manager may redesignate such Series PF Units as Series F Units of the Fund.

### ***Series O Units***

Series O Units are only available to the following types of investors, as determined by the Manager in its discretion:

- investors who have in total invested a minimum of \$200,000 in Franklin Templeton Mutual Funds within one month from initial purchase of Series O or OT securities, held in Related Accounts. The investment minimum may be waived for purchases made by investors who purchase through a discretionary managed account;

- mutual funds managed by the Manager or by a third party that use a fund on fund structure, provided the third party fund manager has entered into an agreement with the Manager; and
- counterparties to derivatives contracts entered into by the Fund.

Series O Unitholders do not bear any of the management fees within the Fund, but instead pay a separate Series O Management and Administration Fee to the Manager and the Series O Investment Advisory Services Fee to the Unitholder's dealer. The Series O Investment Advisory Services Fee is remitted by the Manager to the Unitholder's dealer by redeeming Series O Units held in the Unitholder's account.

Series O Units are sold only on a no-load basis, which means that no sales charges are payable on the purchase of Series O Units.

If a Unitholder's account ceases to be eligible to hold Series O Units, the Manager may redesignate such Units as Series A Units of the Fund under the front-load option.

### ***How to Buy Units of the Fund***

An investor can buy Units of the Fund through a dealer. The investor must be of the age of majority in the province or territory in which the investor lives to buy Units in the Fund. An investor may hold Units in trust for a minor. Units may not be purchased by nor transferred to US Persons, as defined in Regulation S under the United States Securities Act of 1933, as amended.

### ***Purchase Price***

When a Unitholder buys Units in the Fund, the price paid is the applicable Series NAV per Unit. Each series of Units of the Fund has a separate Series NAV. In general, the Series NAV is calculated by:

- taking that series' proportionate share of the assets of the Fund; and
- subtracting that series' proportionate share of the liabilities of the Fund.

The Series NAV per Unit for each Unit in each series is calculated by dividing the Series NAV by the total number of outstanding Units of that series. See "Calculation of Net Asset Value".

If the Manager receives a purchase order before the Valuation Time on a Valuation Date, the Manager will process such order based on the applicable Series NAV per Unit calculated on that Valuation Date. If the Manager receives an investor's order after the Valuation Time on a Valuation Date, the Manager will process such order based on the applicable Series NAV per Unit calculated on the next Valuation Date.

### ***Choosing a Purchase Option***

Certain series of Units of the Fund are available for purchase under different purchase options. The purchase option determines the amount of the fee and when this fee is paid. An investor's choice of purchase option will require payment of different fees and will affect the amount of compensation the investor's dealer will receive. Not all dealers may make all series or all purchase options available. See "Fees and Expenses" and "Relationship Between the Fund and Dealers".

Series A Units are available to all investors, subject to certain minimum investment requirements, and are available for purchase under three different purchase options:

- **Front-load option.** The investor and dealer negotiate the fee, which may be up to 6% of the cost of the Units. The investor pays this fee to the dealer when the investor buys the Units.
- **Deferred sales charge option.** The investor does not pay a fee when the Units are purchased. However, if the investor redeems the Units within six years of buying them, the investor will pay a redemption fee that starts at 6% of the original cost and declines over time.

- **Low-load option.** The investor does not pay a fee when the Units are purchased. However, if the investor redeems the Units within three years of buying them, the investor will pay a redemption fee that starts at 3% of their original cost and declines over time.

A Unitholder of Series A Units that purchased under the deferred sales charge option or the low-load option may redeem some of these Units without paying a fee, even if they have been held for less than three years, in the case of low-low sales charge Units, or less than six years, in the case of deferred sales charge Units.

There are no sales charges for the purchase of Series F, Series PF or Series O Units.

### ***Minimum Initial Investment***

The minimum amount for an initial investment in the Fund is as follows: (i) \$500 for an initial investment in Series A or Series F Units; (ii) \$100,000 held in Related Accounts for an initial investment in Series PF Units; and (iii) \$200,000 held in Related Accounts for an initial investment in Series O Units. The Series F and Series O investment minimums may be waived by the Manager for purchases made by investors who purchase through a discretionary managed account. Each additional investment in Series A or Series F Units must be at least \$100. Additional investments in Series PF or Series O Units are not subject to an investment minimum. In addition to the investment minimums for Series F, Series PF and Series O, an investor must also continue to qualify to hold Series F, Series PF and Series O after the initial purchase.

See “Redemption of Units – Redemption Fees – Automatic Redemption” for more information on the minimum balance that must be maintained for investments in other series of Units of the Fund and the consequences of failing to maintain such minimum.

### ***Processing of Purchase Orders***

If an investor would like to buy Units of the Fund, the investor must contact his, her or its dealer. The dealer will:

- deliver the investor’s order to the Manager with the investor’s payment in full, or
- place an order with the Manager electronically, or by phone or fax, with payment to follow.

The investor must pay the dealer when the investor buys Units of the Fund. The dealer must pay the Manager within three business days of delivering or placing an investor’s order.

If a dealer places a purchase order electronically and the Manager does not receive payment for the Units within the period listed above, the Manager will redeem the Units on the next business day. Pursuant to securities regulations, if the proceeds are:

- greater than the amount owed, the Fund keeps the difference;
- less than the amount owed, the dealer will owe the difference to the Fund. The dealer may be entitled to recover any losses from the investor.

The Manager can accept or reject a purchase order within one business day of receiving it. If the Manager rejects a purchase order, any money sent with such order will be returned to the investor without interest.

## **REDEMPTION OF UNITS**

### ***How to Redeem Units of the Fund***

A Unitholder may redeem his, her or its Units on a Valuation Date. To redeem Units, a Unitholder should contact his, her or its advisor or dealer, who may ask the Unitholder to complete a redemption request form.

On redemption, the Manager will pay the Unitholder the applicable Series NAV per Unit for the Units redeemed, less any applicable redemption fees. See “Fees and Expenses” and “Redemption of Units – Redemption Fees”. If the Manager receives the redemption request before the Valuation Time on a Valuation Date, the Manager will calculate the redemption value as of that Valuation Date. If the Manager receives a Unitholder’s redemption request after the Valuation Time on a Valuation Date or on a day that is not a Valuation Date, the Manager will calculate the redemption value as of the next Valuation Date.

Redemption orders must be in writing and accompanied by any outstanding unit certificate and such redemption order (and certificate, if applicable) must be signature guaranteed by a bank, trust company, dealer or other institution that is satisfactory to the Manager. In some cases, the Manager may also request additional documentation.

Unitholders should consult their advisors or dealers with respect to the documentation required.

### ***Redemption Fees***

When a Unitholder redeems Series A Units, the Unitholder may be charged redemption fees. The amount of those fees depends on the purchase option chosen by the Unitholder when the Units were purchased.

The Manager will pay the proceeds of a redemption request within three business days of receiving all of the required documents or instructions. The Manager will deduct any applicable redemption fees and withholding tax from such payment.

### ***Deferred Sales Charge and Low-Load Options***

When a Unitholder redeems Series A Units bought under the deferred sales charge option within six years of buying such Series A Units, the Unitholder pays a fee. The fee is a percentage of what the Unitholder paid for the Series A Units, and it declines over the period that the Unitholder holds the Series A Units. See the redemption fee schedule under “Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

When a Unitholder redeems Series A Units bought under the low-load option within three years of buying them, the Unitholder pays a fee. The fee is a percentage of what the Unitholder paid for the Series A Units, and it declines over the period that the Unitholder holds the Series A Units. See the redemption fee schedule under “Fees and Expenses – Fees and Expenses Payable Directly by Unitholders”.

If a Unitholder has chosen the deferred sales charge or the low-load options for Series A Units and then switches into another series of Units of the Fund or into another Franklin Templeton Mutual Fund, the redemption fee for the new securities will generally be based on the original purchase date and cost before the switch.

There is no redemption fee for Series F, Series PF or Series O Units. In addition, there is no redemption fee for Units received from reinvested distributions.

### ***Order of Redemption***

Series A Units bought under the deferred sales charge or the low-load options are redeemed in the following order:

- Units issued through distribution/ dividend reinvestment plans;
- free redemption entitlement Units (only applicable to low-load sales charge and deferred sales charge Units that remain subject to a redemption fee);
- matured Units; and
- Units in the order that they were purchased starting with the earliest purchase.

### **10% Free Redemption Entitlement**

A Unitholder can redeem Series A Units that would otherwise be subject to a redemption fee without paying such fee, even if the Series A Units have been held for less than three years, in the case of low-load Units, or less than six years, in the case of deferred sales charge Units.

If a Unitholder purchased Series A Units under the deferred sales charge or the low-load options, each year the Unitholder can generally redeem the following at no charge:

- up to 10% of the NAV of Series A Units the Unitholder held on December 31 of the previous calendar year; plus
- up to 10% of the NAV of Series A Units the Unitholder purchased during the current calendar year prior to the date of redemption; less
- cash distributions paid during the previous calendar year and the value of reinvested Units redeemed during the current calendar year.

A Unitholder can transfer any unused portion of the free redemption entitlement if the Unitholder switches deferred sales charge Units from the Fund to Franklin Templeton Mutual Fund (or vice versa), or if the Unitholder switches low-load Units from the Fund to another Franklin Templeton Mutual Fund (or vice versa), adjusted, in each case, for the Series NAV of the new securities.

A Unitholder cannot carry forward the unused free redemption entitlement to the next year. The Manager may cancel or change this free redemption entitlement at any time in its sole discretion.

### **Front-End option**

A Unitholder does not pay a fee for redeeming Units bought under the front-end option.

### **Series F, Series PF and Series O Units**

A Unitholder does not pay a fee for redeeming Series F, Series PF or Series O Units.

### **Short-Term Trading**

Excessive trading can harm a mutual fund's performance, operations and all securityholders by increasing trading and other costs, and interfering with the efficient management of a mutual fund's portfolio.

The Manager performs ongoing monitoring of trading in securities of the Fund in order to identify investor trading patterns that may suggest short-term trading activity. An investor will be considered to be engaging in short-term trading in the following circumstances:

- the investor requests a redemption/purchase of the Fund within two weeks of an earlier purchase/redemption of the Fund;
- the investor redeems or switches securities out of the Fund more than twice within a rolling 90 day period; or
- the investor engages in trades that appear to follow a market timing pattern that may adversely affect the Fund.

In determining whether a trade or trading pattern is inappropriate, the Manager considers all relevant factors including good faith changes in investor circumstances or intentions, the nature of the Fund involved, and the investor's past trading pattern, and the Manager may conduct discussions with the investor or the investor's dealer. If the Manager identifies a pattern of short-term trading, the Manager will seek to reject

or restrict further trading as described below in greater detail, if in the Manager's judgment such trading may adversely affect the Fund.

If the Manager, in its sole discretion, reasonably determines that a Unitholder's pattern of trading may adversely affect the Fund, the Manager reserves the right, without prior notice, to:

- temporarily or permanently reject further trading in the Fund; and/or
- restrict the amount, number or frequency of any future trades in the Fund.

### **Fair Value Pricing**

The Manager has procedures to determine the fair value of individual securities for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. See "Calculation of Net Asset Value".

### **How the Manager Processes Redemption Requests**

If the Manager does not receive all of the required documentation to complete a redemption order, the Manager will contact the Unitholder's dealer. If the dealer placed a Unitholder's redemption order electronically and upon contacting the dealer, the Manager is advised that the Unitholder or the Unitholder's dealer is unable to provide the Manager with the required documentation, the Manager will immediately repurchase the Units. If the Unitholder or the Unitholder's dealer advise the Manager that the Unitholder is able to provide the Manager with the required documentation but the Unitholder or the Unitholder's dealer fail to provide it to the Manager within ten business days of the Manager receiving the Unitholder's order, the Manager will repurchase the Units. Pursuant to securities regulations, if the Manager repurchases Units and the sale proceeds are:

- greater than the repurchase amount, the Fund keeps the difference; or
- less than the repurchase amount, the Manager pays the Fund the difference and collects the difference from the Unitholder's dealer. The dealer may be entitled to recover any losses from the Unitholder.

The Manager will pay the Unitholder the proceeds of redemption within three business days of receiving a complete redemption order. The Manager will mail the Unitholder a cheque unless the Unitholder tells the Manager to deposit the proceeds to the Unitholder's bank or trust company account by electronic fund transfer ("EFT").

If the Unitholder wishes to receive the proceeds by EFT, the Unitholder must send the Manager a pre-printed void cheque and complete the banking information section of the application at the time of account setup to avoid potential delays on the redemption request. The Manager will keep the banking information on file for future purchases and redemptions.

For a Unitholder's protection, the Manager reserves the right to choose the final method of payment, which may include paying the redemption proceeds to the dealer, in trust for the Unitholder.

### **Automatic Redemption**

If, because of redemptions, the market value of an investment in any series falls below the minimum investment balance requirement listed in the table below, the Manager may redeem or redesignate the Units to another series, after giving the Unitholder 30 days' notice that the balance has fallen below the minimum. The Unitholder may invest additional money during this period if the Unitholder wishes to maintain

the status of the investment. The Manager will not redeem or redesignate the Units if the market value of the Units falls below the minimum investment balance requirements because of a decline in the NAV of the Units. If the Manager redesignates Units on this basis, no switch fee will be charged by the dealer. The table below lists the minimum investment balance requirements for each series and the action the Manager may take if an investment falls below the minimum investment balance requirements:

| <b>Series</b> | <b>Minimum investment balance requirement</b> | <b>Potential consequences if minimum investment balance requirement not met</b> |
|---------------|---|---|
| A, F          | \$500   | Redeem  |
| PF            | \$100,000 invested in Related Accounts        | Redesignate to Series F of the Fund   |
| O             | \$200,000 invested in Related Accounts        | Redesignate to Series A of the Fund   |

Irrespective of the size of an investment in the Fund, the Manager reserves the right to redeem all of the Units held by a Unitholder in the Fund if the Manager believes it is in the best interest of the Fund to do so.

### **Suspending a Unitholder's Right to Redeem**

The securities regulatory authorities allow the Manager to suspend a Unitholder's right to redeem Units:

- if normal trading is suspended on a stock exchange within or outside Canada on which securities or specified derivatives are traded which represent more than 50% by value of the total assets of the Fund or other fund that holds the Fund and if those securities are not traded on any other exchange that represents a reasonably practical alternative for the Fund; or
- with the consent of the **securities regulatory authorities**, if the Fund determines that it is not practical to sell the Fund's securities or fairly determine the value of its net assets.

If the Manager suspends redemption rights after a Unitholder has requested a redemption and before such Unitholder's redemption proceeds have been determined, such Unitholder may either withdraw the redemption request or redeem the Units at the NAV determined after the suspension period ends. The Manager will not accept orders to buy Units of the Fund during any redemption suspension period.

### **How to Switch Units of the Fund**

A Unitholder may, at any time, switch all or part of his, her or its investment in the Fund to a different Franklin Templeton Mutual Fund, provided that the Unitholder is eligible to make the switch. A Unitholder may change between series of the Fund (which is referred to as a "redesignation"), provided that the Unitholder is eligible to purchase the new series, or change between purchase options. It is generally not advisable to make changes between purchase options. The Unitholder, by retaining the original purchase option, will avoid any unnecessary additional charges.

Unitholders must place all switch orders through their advisor or dealer.

### **Switching between the Fund and another Franklin Templeton Mutual Fund**

A Unitholder can switch his, her or its Units of the Fund into securities of the same series or a different series of another Franklin Templeton Mutual Fund, provided that the Unitholder is qualified to purchase the series into which he, she or it is switching. This involves both a redemption of Units of the Fund and a purchase of securities of the other Franklin Templeton Mutual Fund. The redemption is a disposition for tax purposes and will generally result in realizing a capital gain or capital loss. See "Income Tax Considerations".

If the Unitholder switches from Units of the Fund purchased under the deferred sales charge option or the low-load option to new securities of another Franklin Templeton Mutual Fund under the same purchase option, the Unitholder's new securities will generally have the same redemption fee schedule as the Unitholder's original Units.

### ***Redesignation Between Series***

A Unitholder may change his, her or its Units of one series of the Fund into Units of a different series of the Fund if the Unitholder is eligible to purchase the new series. This change is processed as a redesignation and is not considered to be a disposition of Units for tax purposes. The Unitholder will not realize a capital gain or loss upon a redesignation unless Units are redeemed to pay any fees or charges. See "Income Tax Considerations".

### ***Changing Between Purchase Options***

Changes in purchase options may involve a change in the compensation paid to a Unitholder's dealer. For the reasons set out below, it is generally not advisable to make changes between purchase options.

Changes between purchase options will generally be permitted only if the Unitholder provides the Manager with instructions to sell their original Units and buy new Units of the Fund or securities of another Franklin Templeton Mutual Fund under a different purchase option. There may be tax consequences to the Unitholder when making this type of change. If the original Units are subject to a redemption fee or do not have a free redemption amount (as described above), such a change will trigger any applicable redemption fees. In addition, if the Unitholder is changing to any of the deferred sales charge option or the low-load option from a different purchase option, a new redemption fee schedule will be imposed on the new Units.

A change from Units purchased under the deferred sales charge option or the low-load option that are not subject to redemption fees to Units of the Fund or securities of another Franklin Templeton Mutual Fund purchased under the front-load option may result in an increase in the trailing commissions being paid to a Unitholder's dealer, although no incremental charges to the Unitholder, other than any switch fee. See "Redemption of Units – Switch Fees" and "Relationship Between the Fund and Dealers". If the Units are registered in the Unitholder's own name, the Manager generally requires written authorization from the Unitholder through his, her or its dealer. If the Units are registered in the name of a Unitholder's dealer or an intermediary, the Manager generally requires written authorization the Unitholder's dealer or intermediary. The Unitholder's dealer or intermediary will generally be required to make certain disclosures to the Unitholder and to obtain the Unitholder's written consent to a change between purchase options.

### ***Switch Fees***

Dealers may charge Unitholders a switch fee of up to 2% of the amount switched to cover the time and processing costs involved in a switch. The Unitholder and his, her or its advisor or dealer negotiate the switch fee.

The following switches may result in a switch fee payable to the Unitholder's dealer:

- switches from Units purchased on a front-load basis to Units on a no-load basis;
- switches from Units purchased on a front-load basis to Units on a front-load basis;
- switches from Units purchased on a low-load basis to Units on a low-load basis. A redemption fee will not be charged until the Unitholder later redeems the Units. The redemption fee will be based on the date and original cost of the low-load Units purchased before the switch; and
- switches from Units purchased on a deferred sales charge basis to Units on a deferred sales charge basis. A redemption fee will not be charged until the Unitholder later redeems the Units.

The redemption fee will be based on the date and original cost of the deferred sales charge Units purchased before the switch.

When a dealer charges a switch fee on a switch, it will result in the redemption of a sufficient number of Units being switched to pay the switch fee.

The following switches will not result in a switch fee payable to the Unitholder's dealer:

- switches from Series F securities of one Franklin Templeton Mutual Fund to Series F securities of another Franklin Templeton Mutual Fund;
- switches from Series PF securities of one Franklin Templeton Mutual Fund to Series PF securities of another Franklin Templeton Mutual Fund;
- automatic switches from Series F Units of the Fund into Series A Units of the Fund;
- automatic switches from Series PF Units of the Fund into Series F Units of the Fund; and
- automatic switches from Series O Units of the Fund into Series A Units of the Fund.

Any other types of switches may result in additional fees, such as redemption fees or sales charges.

## INCOME TAX CONSIDERATIONS

In the opinion of Borden Ladner Gervais LLP, the following is a summary of the principal Canadian federal income tax considerations under the Tax Act for the Fund and for a prospective investor in the Fund who is an individual (other than a trust) and who, for the purpose of the Tax Act, is resident in Canada, holds Units of the Fund either directly as capital property or in a Registered Plan, is not affiliated with the Fund and deals at arm's length with the Fund. This summary is based on the current provisions of the Tax Act and regulations thereunder, the Tax Proposals and counsel's understanding of the current published administrative policies and assessing practices of the CRA. This summary does not take into account or anticipate any other changes in law whether by legislative, administrative or judicial action and it does not take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the considerations described below.

**This summary is of a general nature only and is not exhaustive of all possible income tax considerations. Prospective investors should therefore consult their own tax advisers about their individual circumstances.**

This summary is based on the assumption that the Fund will: (i) qualify or be deemed to qualify as a "mutual fund trust" under the Tax Act at all material times; (ii) not be a "SIFT trust" as defined in section 122.1 of the Tax Act at any time; (iii) elect under subsection 39(4) of the Tax Act for the first taxation year in which it has a disposition or short sale of "Canadian securities" as defined in subsection 39(6) of the Tax Act; (iv) not hold 10% or more of the units of any "exempt foreign trust" as described in section 94.2 of the Tax Act; (v) not invest in securities of an issuer that would be treated as a "foreign affiliate" or a "controlled foreign affiliate" of the Fund; and (vi) not enter into any arrangement where the result would be a dividend rental arrangement under the Tax Act. The Manager has advised counsel that it expects this to be the case and that these assumptions are reasonable.

### ***Status of the Investment Fund***

This summary is based on the assumption that the Fund will qualify as a "mutual fund trust" under the Tax Act at all material times. If the Fund were not to so qualify the tax considerations would differ materially from those described below.

The Units of the Fund will be a qualified investment for Registered Plans at any time that the Fund qualifies or is deemed to qualify as a “mutual fund trust” under the Tax Act.

A Unit of the Fund that is a qualified investment may nevertheless be a prohibited investment for a Registered Plan that is a tax-free savings account, registered retirement savings plan, registered retirement income fund, registered disability savings plan or registered education savings plan. Generally, the Units of the Fund will not be a prohibited investment under the Tax Act for such Registered Plan unless the holder/annuitant/subscriber of the Registered Plan (together with non-arm's length persons and partnerships) directly or indirectly holds Units having a fair market value of 10% or more of all the Units of the Fund. However, the Units of the Fund also will not be a prohibited investment under the Tax Act for such a Registered Plan at any time during the first 24 months of existence if the Fund is a “mutual fund trust” under the Tax Act and remains in substantial compliance with the requirements of NI 81-102. In addition, Units of the Fund will not be prohibited investments if the Units are otherwise “excluded property” under the Tax Act. Investors should consult their own tax advisers for advice on whether or not Units would be prohibited investments for their Registered Plans.

In the case of a distribution in specie on the termination of the Fund, the Registered Plan will receive securities. The securities so received may or may not be qualified investments for the Registered Plan and may or may not be prohibited investments for the Registered Plan. Investors should consult their own tax counsel for advice on whether or not such securities would be qualified investments and not prohibited investments for their Registered Plans.

### ***Taxation of the Fund***

The Fund is subject to tax under Part I of the Tax Act on its net income, including net taxable capital gains, as calculated under the Tax Act for a taxation year (after deducting available loss carryforwards) to the extent that it is not paid or payable to Unitholders. The Fund is entitled to a refund (“capital gains refund”) of its tax liability on its net realized capital gains equal to an amount determined by formula under the Tax Act based on the redemption of Units during the year and accrued gains on the Fund's assets. The capital gains refund may be, and in practice is expected to be applied to eliminate, to the extent possible, the maximum amount of the Fund's tax liability in the years that it is available. The Declaration of Trust requires the Fund to distribute a sufficient amount of its net income and net realized capital gains, if any, for each taxation year to Unitholders so that the Fund will not be liable in any taxation year for income tax under Part I of the Tax Act after taking into account any entitlement to a capital gains refund.

The Fund is required to calculate its net income, including net taxable capital gains, in Canadian dollars, for each taxation year according to the rules in the Tax Act. Net income, including net taxable capital gains, is affected by fluctuations in the value of the Canadian dollar relative to foreign currency where amounts of income, expense, cost or proceeds of disposition are denominated in foreign currency. Generally, a gain or loss from a cash-settled option, futures contract, forward contract, total return swap or other derivative instrument is treated as income rather than as a capital gain or loss unless the derivative is used by the Fund as a hedge to limit its gain or loss on a specific capital asset or group of capital assets held by the Fund. In general, a gain or loss from short selling is treated as income rather than as a capital gain or loss; however, a gain or loss from short selling “Canadian securities” as defined in the Tax Act will be treated as a capital gain or loss.

The Fund is generally required to include in the calculation of its income interest as it accrues, dividends when they are received and gains and losses when they are realized. Income that is paid or becomes payable to the Fund by a trust is generally included in the income of the Fund for the taxation year of the Fund that ends in the calendar year in which the trust income was paid or payable. Amounts paid or payable to the Fund by a Canadian-resident trust may have the character of ordinary property income, foreign source income, dividends received from a taxable Canadian corporation, capital gains or returns of capital. Foreign source income received by the Fund is generally received net of any taxes withheld in the foreign jurisdiction. The foreign taxes so withheld are included in the calculation of the Fund's income.

The Tax Act contains rules which may require the Fund to include in income in each taxation year an amount in respect of the holding of an “offshore investment fund property”. The offshore investment fund property rules may apply to the Fund in respect of a holding of, or an interest in, property that is a share of the capital stock of, an interest in, or a debt of, a non-resident entity (other than a controlled foreign affiliate of the Fund, certain trusts or a prescribed non-resident entity) or an interest in or a right or option to acquire any such share, interest or debt. Two additional conditions must be met: (a) the value of such property must reasonably be considered to be derived, directly or indirectly, primarily from portfolio investments in: (i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing; or (ix) any combination of the foregoing (collectively, “Investments Assets”); and (b) it must be reasonable to conclude, having regard to all the circumstances, that one of the main reasons for the Fund acquiring, having or holding the interest in such property was to derive a benefit from portfolio investments in the Investment Assets in such a manner that the taxes, if any, on the income, profits and gains from such Investment Assets for any particular year are significantly less than the tax that would have been applicable under Part I of the Tax Act if the income, profits and gains had been earned directly by the Fund. In making this determination, the Tax Act provides that regard must be had to all of the circumstances, including: (i) the nature, organization and operation of any non-resident entity and the form of, and the terms and conditions governing the taxpayer’s interest in, or connection with, any non-resident entity, (ii) the extent to which any income, profit and gains that may reasonably be considered to be earned or accrued, whether directly or indirectly, for the benefit of any non-resident entity are subject to an income or profits tax that is significantly less than the income tax that would be applicable to such income, profits and gains if they were earned directly by the Fund; and (iii) the extent to which any income, profits and gains of any non-resident entity for any fiscal period are distributed in that or the immediately following fiscal period. If applicable, these rules would generally require the Fund to include in its income for each taxation year in which the Fund owns such offshore investment fund property the amount, if any, by which (i) an imputed return for the taxation year computed on a monthly basis and calculated as the product obtained when the Fund’s “designated cost” (within the meaning of the Tax Act) in such property at the end of a month, is multiplied by 1/12th of the applicable prescribed rate for the period that includes such month plus 2%; exceeds (ii) any dividends or other amounts included in computing the Fund’s income for the year (other than a capital gain) in respect of such property determined without reference to these rules. For these purposes, the designated cost to the Fund of such property at any particular time in a taxation year will generally include, among other things, the initial cost of acquisition of such property to the Fund and the total of all amounts required to be included in computing the Fund’s income as imputed income in respect of such property under these rules for a preceding taxation year. Generally, the prescribed rate for purposes of these computations is the amount determined under the Tax Act on a quarterly basis as the average yield of Government of Canada 90 day treasury bills (rounded to the next highest whole percentage) sold during the first month of the preceding quarter. The Manager has advised counsel that the Fund will invest in shares of FTIF Sub-Funds that do not generally pay dividends. Therefore, the conditions and circumstances described above in respect of the offshore investment fund property rules may be met with respect to such shares. The Manager has advised counsel that it is the Manager’s current intent to apply the notional income inclusion described above with respect to such shares in computing the income of the Fund.

Gains or losses realized by the Fund on the disposition of securities held as capital property constitute capital gains or capital losses. Securities will generally be considered to be held by the Fund as capital property unless the Fund is considered to be trading or dealing in securities, or otherwise carrying on a business of buying and selling securities, or has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. The Manager has advised counsel that the Fund purchases securities (other than derivative instruments and securities purchased as part of a short sale) with the objective of earning income thereon and takes the position that gains and losses realized on the disposition of those securities are capital gains and capital losses. The adjusted cost base and proceeds of disposition for foreign currency denominated securities are calculated in Canadian dollars based on the conversion rate on the date the securities were purchased and sold, as applicable. Capital gains realized during a taxation year are reduced by capital losses realized during the year. A capital loss realized by the

Fund may be restricted or suspended in certain circumstances and, therefore, may not be available to offset capital gains.

A trust is generally subject to a “loss restriction event” for the purposes of the Tax Act each time a person or partnership becomes a “majority-interest beneficiary” of the trust for the purposes of the Tax Act. Generally, a majority-interest means more than 50% of the fair market value of the trust held by the person or partnership and affiliates. However, no person or partnership will be or become a “majority interest beneficiary” of the Fund if the Fund satisfies certain requirements and qualifies as an “investment fund” under the relevant rules of the Tax Act. No assurance can be given that the Fund will satisfy these requirements. If the Fund experiences a loss restriction event, the taxation year of the Fund will be deemed to end and the Fund will be deemed to realize its capital losses. The Fund may elect to realize capital gains in order to offset its capital losses and non-capital losses, including undeducted losses from prior years. Any undeducted losses will generally expire and may not be deducted by the Fund in future years. The Declaration of Trust provides for the automatic distribution to Unitholders of a sufficient amount of income and capital gains of the Fund for each taxation year (including a taxation year that is deemed to end by virtue of a loss restriction event) so that the Fund will not be liable for ordinary income tax. The Declaration of Trust provides that any such distribution is automatically reinvested in Units of the Fund and the Units of the Fund are immediately consolidated to the pre-distribution NAV.

### ***Taxation of Unitholders (other than Registered Plans)***

#### ***Distributions***

A Unitholder (other than a Registered Plan) is required to include in computing income for tax purposes, the amount of any income and the taxable portion of any capital gains of the Fund that is paid or payable to the Unitholder in the year (including by way of management fee distribution), whether such amounts are paid in cash or reinvested in additional Units. The non-taxable portion of any capital gains of the Fund that is paid or payable to the Unitholder in the year is not included in the Unitholder's income and, provided the Fund makes the appropriate designation on its tax return, does not reduce the adjusted cost base of the Unitholder's Units of the Fund. Any other non-taxable distribution, such as a return of capital, reduces the Unitholder's adjusted cost base. A Unitholder is deemed to realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise become a negative amount and the adjusted cost base is nil immediately thereafter.

The Fund may, and is expected to, designate to the extent permitted by the Tax Act, the portion of the net income of the Fund distributed to Unitholders that may reasonably be considered to consist of: (i) taxable dividends (including eligible dividends) received or considered to be received by the Fund on shares of taxable Canadian corporations; and (ii) net taxable capital gains realized or considered to be realized by the Fund. Any amount so designated is deemed for tax purposes to be received or realized by Unitholders in the year as a taxable dividend and as a taxable capital gain, respectively. The dividend gross-up and tax credit treatment normally applicable to taxable dividends (including eligible dividends) paid by a taxable Canadian corporation applies to amounts designated as taxable dividends. Taxable capital gains so designated are subject to the general rules relating to the taxation of capital gains described below. In addition, the Fund may make designations in respect of its foreign source income so that Unitholders may be able to claim a foreign tax credit (in accordance with and subject to the general limitations under the Tax Act) for foreign taxes, paid (and not deducted) by the Fund. A loss realized by the Fund may not be allocated to, and may not be treated as a loss of, the Unitholders of the Fund.

Unitholders should consult with their own tax advisors regarding the deductibility of Series O Program Fees.

Individuals and certain trusts may be subject to an alternative minimum tax in respect of taxable dividends (including eligible dividends) received or considered to be received from taxable Canadian corporations and realized capital gains.

### ***Tax Implications of the Investment Fund's Distribution Policy***

A portion of the value of a Unit of the Fund may reflect income and capital gains accrued or realized by the Fund before the Unit was acquired by a Unitholder. In particular, this may be the case when Units are acquired shortly before a distribution or in the year the Fund is terminated. The income and taxable portion of capital gains paid or payable to a Unitholder must be included in the calculation of the Unitholder's income in the manner described above, even if it relates to a period before the Unitholder owned the Units.

### ***Disposition of Units***

Generally, a Unitholder (other than a Registered Plan) realizes a capital gain (or loss) on the sale, redemption or other disposition of a Unit to the extent that the proceeds of disposition for the Unit exceed (or are less than) the total of the adjusted cost base to the Unitholder of the Unit and any reasonable costs of disposition. In general, the adjusted cost base of all Units of the Fund held by the Unitholder at a particular time is the total amount paid for all Units of the Fund currently and previously held by the Unitholder (including brokerage commissions paid and the amount of reinvested distributions) less any distributions of capital and less the adjusted cost base of any Units of the Fund previously disposed of by the Unitholder. The adjusted cost base to a Unitholder of one Unit is the average adjusted cost base of all identical Units owned by the Unitholder as capital property at that time.

When a Unitholder redeems Units of the Fund, the Fund may distribute income and capital gains to the Unitholder as partial payment of the redemption price. Any income or capital gains so distributed must be included in the calculation of the Unitholder's income in the manner described above. Any amount so distributed should be deducted from the redemption price for the Units in determining the Unitholder's proceeds of disposition. Unitholders who redeem Units are advised to confirm with the Manager the details of any distributions paid at the time of redemption and are also advised to consult with their own tax advisers.

### ***Taxation of Capital Gains and Capital Losses***

One-half of any capital gain realized by a Unitholder (other than a Registered Plan), and the amount of any net taxable capital gains realized or considered to be realized by Fund and designated by the Fund in respect of the Unitholder, is included in the Unitholder's income as a taxable capital gain. One-half of a capital loss may be deducted from taxable capital gains subject to and in accordance with detailed rules in the Tax Act.

### ***International Information Reporting***

Generally, Unitholders will be required to provide their dealer with information related to their U.S. citizenship or residence for tax purposes and, if applicable, a U.S. federal tax identification number. If a Unitholder does not provide the information or is identified as a U.S. citizen or U.S. resident, details of the Unitholder's investment in the Fund will generally be reported to the CRA, unless the investment is held within a Registered Plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service. In addition, to meet the objectives of the Organization for Economic Co-operation and Development Common Reporting Standard (the "CRS"), dealers will be required under Canadian legislation to identify and report to the CRA information relating to Unitholders in the Fund who are resident in a country outside Canada and the U.S. Such information would be exchanged by the Canada Revenue Agency with the countries where such unitholders are resident if those countries have adopted the CRS Rules.

### ***Taxation of Registered Plans***

A Registered Plan that holds Units of the Fund and the holder/annuitant/subscriber of that Registered Plan will generally not be subject to tax on the value of the Units, income or capital gains distributed by the Fund to the Registered Plan or a gain realized by the Registered Plan on the disposition of the Units (whether payment is received in cash, by reinvestment in additional Units or *in specie*), provided the Units are qualified investments for the Registered Plan and, in the case of certain Registered Plans, not prohibited investments for the Registered Plan.

## **ORGANIZATION AND MANAGEMENT DETAILS OF THE INVESTMENT FUND**

### ***Manager of the Investment Fund***

Franklin Templeton Investments Corp. is the trustee and manager of the Fund. The Manager is a wholly-owned subsidiary of Templeton International, Inc., which is an indirect wholly-owned subsidiary of Franklin Resources, Inc. Franklin Resources, Inc. is a large, diversified financial services organization that, through its operating subsidiaries, provides a variety of management, administrative and distribution services to over 200 mutual and other investment funds. The head office and the registered office of the Fund and the Manager is located at 200 King Street West, Suite 1500, Toronto, Ontario, M5H 3T4. The Manager carries on business under the name Franklin Templeton Investments.

### ***Duties and Services Provided by the Manager***

Pursuant to the Management Agreement, the Manager has been appointed as the investment fund manager of the Fund and has the exclusive authority to manage the business and affairs of the Fund, to make all decisions regarding the business of the Fund and to bind the Fund. The Manager may delegate certain of its powers to its affiliates and to third parties where, in the discretion of the Manager, it would be in the best interests of the Fund to do so.

The Manager is also responsible for providing management, administrative and portfolio advisory and investment management services to the Fund. The Manager's duties include, without limitation:

- calculating net asset values and preparing financial statements;
- calculating and arranging for payment of distributions to investors and commissions to dealers;
- making regulatory and tax filings;
- providing or coordinating all other services required by the Fund; and
- providing office space, facilities and administrative support.

### ***Details of the Management Agreement***

Pursuant to the Management Agreement, the Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances. The Manager will not be liable to the Fund or to any Unitholder for any loss or damage relating to any matter regarding the Fund, except where there has been a failure of the Manager, or any person or company retained by the Manager or the Fund to discharge any of the Manager's responsibilities to the Fund, to exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of the Fund or to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

The Management Agreement may be terminated by the Fund or by the Manager upon 60 days' prior written notice. Any change in the manager of the Fund (other than to an affiliate of the Manager) may be made only with the approval of the Unitholders and, where applicable, in accordance with Canadian securities legislation.

Under the Management Agreement and in consideration of the services provided to the Fund, the Fund pays the Manager management fees in respect of Series A, Series F and Series PF Units of the Fund. The Fund also pays Administration Fees to the Manager in exchange for payment by the Manager of certain of the expenses of the Fund. The Fund does not pay management fees to the Manager in respect of Series O Units. Series O Unitholders pay the Series O Management and Administration Fee directly to the Manager. See "Fees and Expenses".

The management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing similar services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities. See “Conflicts of Interest” below.

**Officers and Directors of the Manager of the Investment Fund**

The name and municipality of residence of each of the directors and executive officers of the Manager, and their principal occupations, are as follows:

| Name and Municipality of Residence     | Position with the Manager                                 | Principal Occupation Within the Preceding Five Years   |
|--|---|--|
| DUANE GREEN<br>Toronto, Ontario        | Director, Chairman, President and Chief Executive Officer | Director, Chairman, President and Chief Executive Officer of the Manager; Director & Chairman of FTC Investor Services Inc.; Director, President & Chief Executive Officer of Fiduciary Trust Company of Canada, Franklin Templeton Corporate Class Ltd. and Templeton Growth Fund, Ltd.; previously, Managing Director, Canada, Senior Vice-President – Head of Institutional Canada & Senior Vice-President, Institutional Services of the Manager.  |
| ANDREW ASHTON<br>San Mateo, California | Director  | Director of the Manager; Managing Director and Head of the America’s Region of Franklin Templeton Investments; Director & Chairman of Fiduciary Trust Company of Canada; Director of Franklin Templeton Corporate Class Ltd. And Templeton Growth Fund, Ltd.; previously, Managing Director and Head of the Global Financial Institutions Group of Franklin Templeton Investments; Chief Executive Officer of Franklin Templeton Investments (ME) Ltd.; Chief Executive Officer and President & Senior Director, Franklin Templeton Global Advisory Services of Franklin Templeton Investment Trust Management Co., Ltd.; and Senior Director - Regional Head of Central Eastern Europe, Middle East and Africa of Franklin Templeton Investments Limited U.A.E. |
| GHION SHEWANGZAW<br>Toronto, Ontario   | Director, Senior Vice-President – Head of Canada TA       | Director, Senior Vice-President – Head of Canada TA of the Manager; previously, Senior Vice-President, Investor and Dealer Services of the Manager.  |

| Name and Municipality of Residence      | Position with the Manager                                | Principal Occupation Within the Preceding Five Years   |
|---|--|--|
| DENNIS TEW<br>Toronto, Ontario          | Head of National Sales, Canada                           | Head of National Sales, Canada of the Manager; Director, President & Chief Executive Officer of FTC Investor Services Inc.; previously, Senior Vice-President, Head of Sales Compliance and Business Operations – North America, Vice-President, Head of Compliance and Business Services – North America and Senior Vice-President & Chief Financial Officer of the Manager; Controller of Templeton Growth Fund, Ltd. & Franklin Templeton Corporate Class Ltd.; Senior Vice-President & Chief Financial Officer of Fiduciary Trust Company of Canada & FTC Investor Services Inc. |
| BRAD BEUTTENMILLER<br>Freelton, Ontario | Senior Associate General Counsel and Corporate Secretary | Senior Associate General Counsel and Corporate Secretary of the Manager; Vice President, Legal and Secretary of Fiduciary Trust Company of Canada; Secretary of Franklin Templeton Corporate Class Ltd., Templeton Growth Fund, Ltd. and FTC Investor Services Inc.; previously, Senior Vice-President & Chief Counsel, Canada of the Manager; Assistant Secretary of Franklin Templeton Corporate Class Ltd. and Templeton Growth Fund Ltd.   |
| WINSTON CHEN<br>Markham, Ontario        | Chief Financial Officer                                  | Chief Financial Officer of the Manager; Vice-President/Controller of Fiduciary Trust Company of Canada and FTC Investor Services Inc.; Controller of Franklin Templeton Corporate Class Ltd. and Templeton Growth Fund, Ltd.; previously, Vice-President, Controller of the Manager.   |
| MICHAEL D'AGROSA<br>Whitby, Ontario     | Chief Compliance Officer, Canada                         | Chief Compliance Officer, Canada and Chief Anti-Money Laundering Officer of the Manager and Fiduciary Trust Company of Canada; Chief Compliance Officer and Chief Anti-Money Laundering Officer of FTC Investor Services Inc.; Chief Compliance Officer of Templeton Global Advisors Limited, Templeton Investment Counsel, LLC and Franklin Templeton Investimentos (Brasil) Ltda.  |

### **Portfolio Manager**

Fiduciary Trust Company of Canada has been retained by the Manager pursuant to the Investment Advisory Agreement to act as Portfolio Manager to the Fund. The Portfolio Manager is a registered portfolio manager and commodity trading manager with its head office located in Toronto, Ontario. The Portfolio Manager is an indirect wholly-owned subsidiary of Franklin Resources, Inc.

Under the Investment Advisory Agreement, the Portfolio Manager is responsible for the management of the investment portfolio, the establishment of investment policies and guidelines and the provision of investment analysis relating to the Fund and has the authority to engage the services of sub-advisors in connection with any investment advice and/or portfolio management services required by the Fund. The Portfolio Manager has retained Franklin Templeton Investment Management Limited to act as Sub-Advisor to the Fund. The Portfolio Manager and the Sub-Advisor will jointly provide advice to the Fund but the Portfolio Manager is responsible for the investment advice that the Sub-Advisor provides to the Fund.

The individual principally responsible for providing advice to the Portfolio Manager in respect of the Fund is as follows:

| Name and Municipality of Residence    | Position with the Portfolio Manager | Principal Occupation Within the Preceding Five Years             |
|---------------------------------------|-------------------------------------|--|
| MICHAEL GREENBERG<br>Toronto, Ontario | Vice-President – Portfolio Manager  | Associated with Franklin Templeton Investments Corp. since 2007. |

### ***Details of the Investment Advisory Agreement***

Under the terms of the Investment Advisory Agreement, the Portfolio Manager is responsible for providing all portfolio management services in respect of the Fund and for ensuring that the trading and investment activities of the Fund are in compliance with the Fund’s investment objective, strategies and restrictions.

In connection with those services, the Portfolio Manager identifies and makes all day-to-day investment decisions relating to the securities and other investments to be included in the portfolio of the Fund and, to the extent necessary, executes portfolio transactions.

The Portfolio Manager is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund, with a view to meeting the investment objectives of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Investment Advisory Agreement provides that, so long as the Portfolio Manager has met its standard of care, it will not be liable for any costs or liabilities arising for any act or omission in the course of, or connected with, rendering services hereunder or for any losses that may be sustained in the purchase, holding or sale of any security by the Fund. The Portfolio Manager will incur liability, however, in cases of bad faith, fraud, wilful misconduct or negligence in the performance of its duties, failure to meet its standard of care, diligence and skill as prescribed by the Investment Advisory Agreement or any reckless disregard by the Portfolio Manager of its obligations and duties under the Investment Advisory Agreement.

The Investment Advisory Agreement may be terminated by either of the Manager or the Portfolio Manager at any time without penalty on 60 days’ prior written notice.

The Portfolio Manager is entitled to receive a fee from the Manager for its services under the Investment Advisory Agreement.

### ***Sub-Advisor***

Franklin Templeton Investment Management Limited has been retained by the Portfolio Manager pursuant to the Sub-Advisory Agreement to act as sub-advisor to the Fund. The Sub-Advisor is an indirect wholly-owned subsidiary of Franklin Resources, Inc. The head office of the Sub-Advisor is located in London, United Kingdom.

It may be difficult to enforce any legal rights against the Sub-Advisor because all or substantially all of its assets are located outside of Canada. The Sub-Advisor is not fully subject to the requirements of Canadian

securities legislation. The Portfolio Manager and the Sub-Advisor will jointly provide advice to the Fund but the Portfolio Manager is responsible for the investment advice that the Sub-Advisor provides to the Fund.

The individual principally responsible for providing advice to the Portfolio Manager in respect of the Fund is as follows:

| Name and Municipality of Residence   | Position with the Sub-Advisor                | Principal Occupation Within the Preceding Five Years |
|--------------------------------------|--|--|
| MATTHIAS HOPPE<br>Frankfurt, Germany | Senior Vice-President –<br>Portfolio Manager | Associated with the Sub-Advisor since 2008.          |

### ***Details of the Sub-Advisory Agreement***

Under the terms of the Sub-Advisory Agreement, the Sub-Advisor is responsible for providing all specified portfolio management services in respect of the Fund and for ensuring that the trading and investment activities of the Fund are in compliance with the Fund's investment objective, strategies and restrictions .

In connection with those services, the Sub-Advisor identifies and makes all day-to-day investment decisions relating to the securities and other investments to be included in the portfolio of the Fund and, to the extent necessary, executes portfolio transactions.

The Sub-Advisor is required to exercise its powers and discharge its duties honestly, in good faith and in the best interests of the Fund, with a view to meeting the investment objectives of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Sub-Advisory Agreement provides that, so long as the Sub-Advisor has met its standard of care, it will not be liable for any costs or liabilities arising from any error of judgment or mistake of law or for any loss suffered by the Fund by reason of the adoption or implementation of any investment strategy or the purchase, sale or retention of any portfolio investment in the Fund. The Sub-Advisor will incur liability, however, in cases of bad faith, fraud, wilful misconduct or negligence in the performance of its duties, failure to meet its standard of care, diligence and skill as prescribed by the Sub-Advisory Agreement or any reckless disregard by the Sub-Advisor of its obligations and duties under the Sub-Advisory Agreement.

The Sub-Advisory Agreement may be terminated by either of the Sub-Advisor or the Portfolio Manager at any time without penalty on 180 days' prior written notice. If the Sub-Advisory Agreement is terminated, the Portfolio Manager may appoint a successor Sub-Advisor to carry out the applicable portfolio management activities in respect of the Fund. Any successor Sub-Advisor may be a third party portfolio manager or it may be an affiliate or associate of the Manager.

The Sub-Advisor is entitled to receive a fee from the Portfolio Manager for its services under the Sub-Advisory Agreement.

### ***Brokerage Arrangements***

Investment portfolio brokerage transactions for the Fund are arranged by the Portfolio Manager and Sub-Advisor through a large number of brokerage firms.

### ***Selection Criteria for Brokers and Dealers***

In selecting brokers to effect portfolio transactions, the Portfolio Manager and Sub-Advisor will attempt to obtain the best combination of low commission rates relative to the quality of brokerage and research services received with the view towards maximizing value for the clients of the Portfolio Manager and Sub-Advisor.

The single most significant consideration in brokerage selection is the quality of the execution of the transaction. In assessing execution quality, the following factors, among others, may be considered:

- market impact cost/willingness of a broker to work an order;
- order size/liquidity considerations;
- willingness to commit capital;
- ability to get best price;
- knowledge of and access to natural contra side;
- commission rate;
- timeliness and quality of looks and reports on markets;
- ability to handle certain trading styles or strategies;
- knowledge of and access to potential market participants;
- block trading and arbitrage capabilities;
- specialized expertise;
- consistency;
- promptness of execution;
- responsiveness;
- back office capabilities/quality of confirmations and account statements;
- sophistication of trading facilities;
- ability and willingness to correct errors;
- confidentiality;
- trustworthiness/reputation;
- experience/past execution history; and
- financial condition of broker.

When appropriate under its discretionary authority, consistent with its duty to obtain “best execution”, and in compliance with the client commission policy of the Portfolio Manager and Sub-Advisor, the Portfolio Manager and Sub-Advisor may consider the receipt of research and order execution goods and services from brokers when directing brokerage transactions for client accounts.

For most transactions in equity securities, the amount of commissions paid is negotiated between the trading department of the Portfolio Manager or Sub-Advisor and the broker executing the transaction. The Portfolio Manager or Sub-Advisor endeavours to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. However, the Portfolio Manager or Sub-Advisor will not select brokers solely on the basis of purported or “posted” commission rates nor generally seek in advance competitive bidding for the most favourable commission rate applicable to any particular portfolio transaction. Although the Portfolio Manager and Sub-Advisor generally seek competitive commission rates, they do not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and would thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

The Portfolio Manager and Sub-Advisor may place orders to buy and sell equity securities where the broker is acting on a principal rather than agency basis if the Sub-advisor’s traders believe that trading on a principal basis will provide best execution.

The Portfolio Manager and Sub-Advisor may also effect transactions that are placed pursuant to a negotiated agreement with a counterparty, including but not limited to swaps, futures, forwards, options and repurchase agreements. Due to the negotiated nature and limited number of such arrangements, the Portfolio Manager and Sub-Advisor’s ability to achieve and/or demonstrate it has achieved best execution in such transactions may be limited.

To the extent consistent with its duty to seek best execution, the Portfolio Manager and Sub-Advisor may effect transactions through brokers that have or are expected to refer private account clients to the Portfolio

Manager and Sub-Advisor or an affiliate. To the extent that these practices result in an increase in assets under management, the Portfolio Manager and Sub-Advisor or its affiliates will benefit. The Portfolio Manager and Sub-Advisor does not consider the sale of mutual funds in selecting brokers to execute portfolio transactions.

For clients who retain the Portfolio Manager or Sub-Advisor to provide investment management services through a “wrap fee” or separately managed account program of a dealer sponsor, the Portfolio Manager or Sub-Advisor may, subject to its and such brokers policies and procedures, execute trades in securities with such broker sponsor without obtaining client’s consent to principal transactions where the Portfolio Manager or Sub-Advisor determines that such broker did not recommend, select, or play a role in the selection by the Portfolio Manager or Sub-Advisor of such securities.

The Portfolio Manager and Sub-Advisor do not effect portfolio transactions with any related brokers.

### ***Nature of Arrangements for Order Execution and Research Goods and Services***

Brokers typically provide a bundle of services, including research and order execution. The research provided can be either proprietary (created and provided by the executing broker, including tangible research products as well as access to analysts and traders) or third-party (created by a third-party but provided by the executing broker). To the extent permitted by applicable law, the Sub-advisor may use client commissions to obtain both proprietary and third party research as well as certain brokerage products and services. The receipt of research in exchange for client commissions benefits the Portfolio Manager and/or Sub-Advisor by allowing the Portfolio Manager and/or Sub-Advisor to supplement its own analyses and also gain access to specialists with expertise on certain companies, industries, areas of the economy, and market factors. The Portfolio Manager and Sub-Advisor believe that such research benefits their clients.

The Portfolio Manager and/or Sub-Advisor on behalf of its client may obtain research and order execution goods and services by sending trade instructions and paying trade commissions to brokers (“CCA broker-dealers”) who both execute the trades and provide the Sub-advisor with research services in the following forms: (i) research reports generated by the broker-dealer; (ii) conferences with representatives of issuers; and/or (iii) client commission credits that can be used to obtain research reports or services from others. A list of the CCA broker-dealers used in the last year will be available upon request.

If a good or service obtained by the Portfolio Manager or Sub-Advisor provides both research and non-research benefits, the Portfolio Manager or Sub-Advisor will generally treat the product or service as a “mixed use” item and will pay for the non-research portion with hard dollars (i.e., cash from its own resources) rather than client commissions. When acquiring a mixed use item, the Portfolio Manager or Sub-Advisor will allocate the cost of the product between client commissions and hard dollars according to its anticipated use of the product, i.e., how the product or service will be used and by whom. Although the allocation between client commissions and hard dollars will not always be a precise calculation, the Portfolio Manager and Sub-Advisor will make a good faith effort to reasonably allocate such services. To the extent that any such “mixed use” services/products are obtained, records will be prepared detailing the research, services and products obtained and the allocation between the research and non-research portions, including payments made by client commissions and hard dollars.

While the Portfolio Manager and Sub-Advisor may negotiate commission rates and prices with certain brokers with the expectation that such brokers will be providing brokerage or research services, the Portfolio Manager and Sub-Advisor will not enter into any agreement or understanding with any broker that would obligate the Portfolio Manager or Sub-Advisor to direct a specific amount of brokerage transactions or commissions in return for such services. The provision of research services, however, may be considered as a factor in determining the amount of commissions to be allocated to a specific broker. Also, certain brokers may state in advance the amount of brokerage commissions they require for certain services. If the Portfolio Manager or Sub-Advisor does not meet the amount required to obtain a particular desired product, it may direct excess research commissions as part of a client commission arrangement with an executing broker to pay the research provider or the Portfolio Manager or Sub-Advisor may pay hard dollars to make up the difference.

In connection with the purchase of securities in certain fixed-price offerings, the Portfolio Manager and/or Sub-Advisor may designate that a portion of the selling concession be paid to a broker that provides research services to the Portfolio Manager or Sub-Advisor.

To the extent consistent with its duty to seek best execution, the Portfolio Manager and Sub-Advisor may direct trades to a broker with the instruction that the broker-dealer execute the transaction and that another broker or research provider provide client commission products/services, so long as this broker also performs one or more functions that constitute "effecting" a trade, in accordance with applicable regulations. This type of "commission sharing" arrangement permits the Portfolio Manager and Sub-Advisor to use a broker that provides best execution to execute the trade while paying part of the commissions on the trade to another broker from which the Portfolio Manager and/or Sub-Advisor receives research or other services.

### ***Types of Goods and Services***

Research and order execution goods and services acquired with client commissions may include:

- reports, statistical data, publications and other information on the economy, industries, sectors, individual companies or issuers, which may include research provided by proxy voting services;
- software and communications services related to the execution, clearing and settlement of securities transactions;
- quantitative analytical software;
- software that provides analyses of securities portfolios;
- statistical trade analysis;
- accounting and tax law interpretations;
- reports on legal developments affecting portfolio securities;
- registration fees for conferences and seminars;
- consultation with analysts, including research conference calls and access to financial models;
- investment risk analyses, including political and credit risk;
- investment risk measurement systems and software;
- analyses of corporate responsibility issues; and
- market data services, such as those which provide price quotes, last sale prices and trading volumes.

Examples of specific products and services include those provided by Bloomberg, Thomson Reuters, FactSet, Omgeo, MSCI/Barra and Standard and Poor's Indexes.

### ***Determination of Reasonable Benefit***

It is often not possible to place an exact dollar value on the research and order execution goods and services the Portfolio Manager and/or Sub-Advisor receives from brokers effecting transactions in portfolio securities. However, the Portfolio Manager and Sub-Advisor makes a good faith determination that client accounts will receive a reasonable benefit from these goods and services, considering both the use of the goods and services and the amount of commissions paid.

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based to a large degree on the professional opinions and judgments of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type.

Research and order execution goods and services obtained with client commissions may not always be used by the Portfolio Manager or Sub-Advisor for the specific account that generated the client commissions. The Portfolio Manager and Sub-Advisor do not attempt to allocate the relative costs or

benefits of research and order execution goods and services among client accounts because they believe that, in the aggregate, the goods and services they receive assist the Portfolio Manager or Sub-Advisor in fulfilling its overall duty to its clients. Research and order execution goods and services obtained with client commissions generated by the clients of the Portfolio Manager or Sub-Advisor may be shared with the Manager's advisory affiliates. Similarly, the Manager's client accounts may benefit from research and order execution goods and services obtained with client commissions generated by client accounts of other advisers within Franklin Templeton Investments.

### ***Other sales incentives***

The Manager may pay for marketing materials the Manager provides to dealers to help support the sale of the Fund. These materials may include reports and commentaries on the financial markets, securities in general or on the Franklin Templeton Mutual Funds themselves. In addition, the Manager may organize and present educational conferences for dealers to attend or pay the registration costs for dealers to attend conferences hosted by third parties.

The Manager may share with dealers some of the costs they incur in publishing and distributing sales communications for investors, organizing and presenting seminars to educate investors about mutual funds or organizing and presenting conferences or seminars that dealers may attend.

The Manager may pay a fee to dealers and others who we have entered into agreements with to introduce the Manager to clients for its discretionary investment management services.

### **Conflicts of Interest**

Subject to certain exceptions, the management services of the Manager under the Management Agreement are not exclusive and nothing in the Management Agreement prevents the Manager from providing management services to other investment funds and other clients or from engaging in other activities. The portfolio management services of the Portfolio Manager under the Investment Advisory Agreement and of the Sub-Advisor under the Sub-Advisory Agreement are not exclusive and nothing in such agreements prevents the Portfolio Manager or Sub-Advisor from providing portfolio management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

Investments in securities purchased by the Portfolio Manager and/or Sub-Advisor and other investment funds managed by the Manager and advised by the Portfolio Manager and/or Sub-Advisor will be allocated to the Fund and such other investment funds on a *pro rata* basis according to the size of the order and the applicable investment restrictions and policies of the Fund and the other investment funds.

Directors and officers of the Manager must obtain the prior approval of an executive committee member of Franklin Resources, Inc. in order to engage in any outside business activities. One of the activities that requires approval is acting as a director or officer of another company (an "Issuer"). The Fund may invest in an Issuer if this transaction is permitted by law and the Portfolio Manager or Sub-Advisor's trading desk compliance has approved this transaction. This approval will be given only if the Portfolio Manager or Sub-Advisor's trading desk compliance is satisfied that there has been proper resolution of any potential conflicts of interest.

Also see "Relationship Between the Fund and Dealers".

### ***Independent Review Committee***

As required by NI 81-107, the Manager has established an IRC to review all conflicts of interest matters identified and referred to the IRC by the Manager relating to the investment funds managed by the Manager, including the Fund. The IRC reviews and gives its approval or recommendations as to the conflict of interests matters referred to it. A conflict of interest matter is a situation where a reasonable person would

consider the Manager or an entity related to the Manager to have an interest that conflicts with the Manager's ability to act in good faith and in the best interest of the Fund. The IRC is also required to approve certain mergers involving the Fund and any change of the auditor of the Fund.

The IRC must have all independent members. The Manager considers that an individual is independent if the individual is not a director, officer or employee of any of the Manager or an affiliate of the Manager. In addition, the individual must be independent of management and free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the individual's ability to act with the view to the best interest of the Fund.

The members of the IRC are:

Gary Norton (Chair)  
Stuart Douglas  
Bruce Galloway

The IRC has a written charter that sets out its powers, duties and responsibilities. Additionally, pursuant to NI 81-107, the IRC assesses, at least annually, the adequacy and effectiveness of the following:

- the Manager's policies and procedures regarding conflict of interest matters;
- any standing instructions that the IRC gave to the Manager for conflict of interest matters related to the Fund;
- the compliance of the Manager and the Fund with any conditions imposed by the IRC in a recommendation or approval it has provided to the Manager; and
- the independence and compensation of its members, the IRC's effectiveness as a committee and the contribution of each member to the IRC.

The IRC prepares a report for Unitholders, at least annually, of its activities. Such report is made available on the Manager's website at [www.franklintempleton.ca](http://www.franklintempleton.ca) or, at the request of a Unitholder and at no cost, by contacting the Manager at 200 King Street West, Suite 1500, Toronto, Ontario, M5H 3T4, or by sending an e-mail to [service@franklintempleton.ca](mailto:service@franklintempleton.ca).

Each member of the IRC receives an annual retainer of \$30,000 (\$40,000 for the Chair) plus a fixed fee of \$1,500 and expenses for each meeting of the IRC that the member attends. The costs of the IRC are allocated among the investment funds managed by the Manager, including the Fund, in a manner that is considered to be fair and reasonable to the funds.

### **Trustee**

Pursuant to the Declaration of Trust, the Manager is also the trustee of the Fund.

The Trustee may resign upon 90 days' notice to Unitholders and the Manager. If a successor trustee can be found and agrees to accept the appointment, such successor trustee will assume the duties and obligations of the incumbent trustee within the notice period. If a successor trustee cannot be found or is not appointed by investors in accordance with the provisions of the Declaration of Trust, then the Fund will be terminated at the expiry of the notice period.

The Declaration of Trust provides that the Trustee shall act honestly, in good faith and in the best interests of the Fund and shall perform its duties to the standard of care that a reasonably prudent person would exercise in the circumstances. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

At any time during which the Manager is the Trustee, the Manager will receive no fee in respect of the provision of services as Trustee.

### ***Custodian***

J.P. Morgan Bank Canada at its principal offices in Toronto, Ontario, is the Custodian of the assets of the Fund and holds those assets in safekeeping pursuant to the Custodian Agreement, except for cash and other portfolio assets deposited with a counterparty or a futures commission merchant, or indirectly with a clearing corporation, as margin or collateral for derivative transactions. See "Investment Restrictions - Exemptions and Approvals" and "Exemptions and Approvals".

The Custodian has a qualified foreign sub-custodian in each jurisdiction in which the Fund has securities. The Manager may terminate the Custodian Agreement at any time upon 80 days' written notice to the Custodian. The Custodian may terminate the Custodian Agreement at any time upon 80 days' written notice to the Manager.

The Custodian is entitled to receive fees from the Manager as described under "Fees and Expenses" and to be reimbursed for disbursements and expenses that are reasonably incurred by the Custodian in connection with the services of the Custodian under the Custodian Agreement.

### ***Securities Lending Agent***

Prior to the Fund engaging in any securities lending activity, the Manager, on behalf of the Fund, will enter into the Securities Lending Agreement with J.P. Morgan Bank Canada, the Custodian of the Fund. The Securities Lending Agreement will appoint and authorize J.P. Morgan Bank Canada to act as agent for securities lending transactions for the Fund and to execute, in the Fund's name and on its behalf, securities lending agreements with borrowers in accordance with NI 81-102. The Securities Lending Agreement will require that the collateral received by the Fund in a securities lending transaction must generally have a market value of 105%, but never less than 102%, of the value of the securities loaned.

### ***Auditor***

The auditor of the Fund is PricewaterhouseCoopers LLP, Chartered Accountants, PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario M5J 0B2.

### ***Registrar and Transfer Agent***

Franklin Templeton Investments Corp., at its office at 5000 Yonge Street, Suite 900, Toronto, Ontario M2N 0A7, is the registrar and transfer agent for the Units of the Fund.

### ***Promoter***

The Manager has taken the initiative in founding and organizing the Fund and is, accordingly, the promoter of the Fund within the meaning of securities legislation of certain provinces and territories of Canada. The Manager, in its capacity as manager of the Fund, receives compensation from the Fund. See "Fees and Expenses".

## **CALCULATION OF NET ASSET VALUE**

The NAV of the Fund is computed by deducting all expenses or liabilities of the Fund from the value of the assets of the Fund. All expenses or liabilities of the Fund are calculated on an accrual basis. The Manager calculates a separate Series NAV for each series of Units of the Fund.

The Series NAV is based on the value of the proportionate share of the assets of the Fund attributable to the particular series less the liabilities of the Fund attributed only to the particular series. The Series NAV

per Unit of a series is determined by dividing the Series NAV by the total number of Units of that series outstanding at the time.

The Series NAV per Unit of each series is normally determined as at the Valuation Time on a Valuation Date, unless the Manager has declared a suspension of the determination of the Series NAV. See "Redemption of Units". The Series NAV per Unit of each series so determined remains in effect until the time as at which the next determination of Series NAV per Unit is made. The NAV of the Fund is determined and reported in Canadian dollars.

### **Valuation Policies and Procedures of the Investment Fund**

The value of the portfolio securities and other assets of the Fund are determined by applying the following rules:

- (i) the value of any cash or its equivalent on hand, on deposit or on call, bills and demand notes and accounts receivable, prepaid expenses, cash dividends declared and interest accrued and not yet received will be its face amount, unless the Manager determines that another value is more appropriate and such deemed value is approved by the board of directors of the Manager;
- (ii) the value of any security or interest in a security which is listed or dealt in upon a stock exchange will be determined by:
  - (a) in the case of a security traded on the day as of which the NAV is being determined, the closing sale price on the principal exchange on which it is traded;
  - (b) in the case of a security not traded on the day as of which the NAV is being determined because such exchange is closed for business on such day, unless decided otherwise by the board of directors of the Manager, the most recent closing sale price; and
  - (c) in the case of any other security not traded on such exchange on the day as of which the NAV is being determined, a price estimated to be the true value thereof by the Manager on such basis and in such manner as may be approved by the board of directors of the Manager, such price being between the closing ask and bid prices for the security or interest therein as reported by any report in common use or authorized as official by a stock exchange;
- (iii) the value of any security or interest therein which is not listed or dealt in upon any stock exchange will be determined as nearly as may be possible in the manner described in paragraph (ii) above, except that there may be used, for the purpose of determining the sale price or the asked and bid prices, any public quotations in common use which may be available;
- (iv) in the case of any security or property for which no price quotations are available as provided above, the value thereof will be determined from time to time by the Manager on such basis and in such manner as may be approved by the board of directors of the Manager;
- (v) if an asset cannot be valued under the above rules or under any valuation rules set out in securities legislation or if any of the valuation rules adopted by the Manager but not set out in securities legislation are at any time considered by the Manager to be inappropriate in the circumstances then the Manager shall use a valuation that it considers to be fair in the circumstances;
- (vi) where Fund owns securities issued by another investment fund, the securities of the other investment fund are valued at either the price calculated by the manager of the other investment fund for the applicable series of securities of the other investment fund for that Valuation Date in accordance with the constating documents of the other investment fund if such securities are acquired by the Fund from the other investment fund or at their close price or last sale price reported

before the Valuation Time on a Valuation Date if such securities are acquired by the Fund on a public stock exchange;

- (vii) long positions in options, debt-like securities and warrants are valued at the current market value of their positions;
- (viii) where an option is written by the Fund, the premium received by the Fund for the option is reflected as a deferred credit. The deferred credit is valued at an amount equal to the current market value of the option which would have the effect of closing the position. Any difference resulting from revaluation shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in calculating the net asset value of the Fund. The Fund's portfolio securities which are the subject of a written option shall continue to be valued at the current market value as determined by the Manager;
- (ix) foreign currency hedging contracts are valued at their current market value on a Valuation Date, with any difference resulting from revaluation being treated as an unrealized gain or loss on investment;
- (x) the value of a forward contract or swap is the gain or loss on the contract that would be realized if, on that Valuation Date, the position in the forward contract or the swap were to be closed out;
- (xi) the value of a standardized future is: (a) if daily limits imposed by the futures exchange through which the standardized future was issued are not in effect, the gain or loss on the standardized future that would be realized if, on a Valuation Date, the position in the standardized future was closed out; or (b) if daily limits imposed by the futures exchange through which the standardized future was issued are in effect, based on the current market value of the underlying interest of the standardized future;
- (xii) margin paid or deposited on standardized futures or forward contracts is reflected as an account receivable, and margin consisting of assets other than cash is noted as held as margin;
- (xiii) portfolio securities that are quoted in foreign currencies are converted to Canadian dollars using the prevailing rate of exchange as determined by the Manager on the Valuation Date;
- (xiv) portfolio securities, the resale of which are restricted or limited by means of a representation, undertaking or agreement by the Fund or its predecessor in title or by law, are valued at the lesser of: (a) their value based upon reported quotations in common use on a Valuation Date; (b) that percentage of the market value of portfolio securities of the same class or series of a class, the resale of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage of the Fund's acquisition cost of the market value of the securities at the time of acquisition, but taking into account, if appropriate, the amount of time remaining until the restricted securities will cease to be restricted securities; and
- (xv) notwithstanding the forgoing, portfolio securities and other assets for which market quotations are, in the opinion of the Manager, inaccurate, unreliable, not reflective of all available material information or not readily available, are valued at their fair value as determined by the Manager.

If a portfolio security cannot be valued under the forgoing rules or under any other valuation rules adopted under applicable securities laws, or if any rule the Manager has adopted is not set out under applicable securities laws but at any time is considered by the Manager to be inappropriate under the circumstances, then the Manager shall use a valuation that the Manager considers to be fair, reasonable and in the interest of Unitholders. In those circumstances, the Manager would typically review current press releases concerning the portfolio security, discuss an appropriate valuation with other portfolio managers and analysts and consult other industry sources to set an appropriate fair valuation. If at any time the foregoing

rules conflict with the valuation rules required under applicable securities laws, the Manager will follow the valuation rules required under applicable securities laws.

The Declaration of Trust contains details of the liabilities to be included in calculating the NAV for the Units. The liabilities of the Fund include, without limitation, all bills, notes and accounts payable, all management fees and fund costs payable or accrued, all contractual obligations for the payment of money or property, all allowances authorized or approved by the Manager for taxes (if any) or contingencies and all other liabilities of the Fund.

### ***Reporting of Net Asset Value***

Following the Valuation Time on each Valuation Date, the daily NAV of the Fund and the Series NAV per Unit of each series of Units will be available to the public on the Manager's website at [www.franklintempleton.ca](http://www.franklintempleton.ca).

## **ATTRIBUTES OF THE UNITS**

### ***Description of the Units Distributed***

The Fund may issue Units in one or more classes and a class may be issued in one or more series. An unlimited number of Units of each series may be issued.

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any default, obligation or liability of the trust if, when the default occurs or the liability arises: (i) the trust is a reporting issuer under the *Securities Act* (Ontario); and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

### **Certain Provisions of the Units**

Each holder of a whole Unit of the Fund is entitled to one vote per Unit at meetings of Unitholders of the Fund, other than meetings at which the holders of one series of Units of the Fund are entitled to vote separately as a series. Subject to the fee distributions (see "Distribution Policy – Fee Distributions") and the distribution of capital gains to redeeming Unitholders, all Units of each series of the Fund are treated equally with respect to distributions and on any winding up of the Fund based on the relative Series NAV.

All Units are fully paid and non-assessable when issued. Details regarding switching of Units between different series of the Fund and between the Fund and other Franklin Templeton Mutual Funds are found under "Redemption of Units – How to Switch Units of the Fund".

Fractions of Units may be issued. Fractional Units carry the rights and privileges, and are subject to the restrictions and conditions, applicable to whole Units in the proportions which they bear to one Unit; however, the holder of a fractional Unit is not entitled to vote in respect of such fractional Unit.

### **Redemption of Units**

Unitholders of the Fund can redeem all or any of their Units at the then-current Series NAV per Unit of those Units. See "Redemption of Units".

## **Modification of Terms**

The rights and conditions attaching to the Units of the Fund may be modified only in accordance with the provisions attaching to such Units and the provisions of the Declaration of Trust. See “Unitholder Matters – Amendments to the Declaration of Trust”.

## **UNITHOLDER MATTERS**

### **Meetings of Unitholders**

The Fund does not hold regular meetings. Except as otherwise required by law, meetings of Unitholders of the Fund will be held if called by the Trustee upon written notice of not less than 21 days before the meeting.

### **Matters Requiring Unitholder Approval**

Unitholders are entitled to vote on all matters that require securityholder approval under NI 81-102 or under the constating documents of the Fund. Some of these matters are:

- a change to the basis of the calculation of a fee or expense that is charged to the Fund that could result in an increase in charges to the Fund or to its Unitholders, and the entity charging the fee or expense is a non-arm’s length party to the Fund;
- an introduction of a fee or expense to be charged to the Fund or its Unitholders by the Fund or the Manager in connection with holding Units of the Fund that could result in an increase in charges to the Fund or its Unitholders, and the entity charging the fee or expense is a non-arm’s length party to the Fund;
- a change of the Manager, unless the new manager is an affiliate of the Manager;
- a change in the fundamental investment objectives of the Fund;
- a decrease in the frequency of the calculation of the Series NAV of the Units of the Fund; and
- certain material reorganizations of the Fund.

Approval of these matters requires an affirmative vote of Unitholders holding at least a majority of the Units of the Fund present at a meeting called to consider these matters.

### **Amendments to the Declaration of Trust**

The Trustee may amend the Declaration of Trust from time to time, but may not, without the approval of not less than a majority of the votes of Unitholders of the Fund voting at a meeting of Unitholders duly called for such purpose, make any amendment relating to any matter in respect of which NI 81-102 requires a meeting, as set out above, or any amendment that will adversely affect the voting rights of Unitholders.

Each holder of a whole Unit of the Fund is entitled to one vote per Unit at meetings of Unitholders, other than meetings at which the holders of one series of Units of the Fund are entitled to vote separately as a series. The holder of a fractional Unit is not entitled to vote in respect of such fractional Unit.

### **Accounting and Reporting to Unitholders**

The fiscal year end of the Fund is December 31. The Fund will deliver or make available to Unitholders: (i) audited comparative annual financial statements; (ii) unaudited interim financial statements; and

(iii) annual and interim MRFPs. Such documents are incorporated by reference into, and form an integral part of, this prospectus. See “Documents Incorporated by Reference”.

The Manager provides each Unitholder of the Fund with an annual statement and, in the case of taxable Unitholders, tax slips showing income distributions, capital gains distributions, ordinary dividends, capital gains dividends and, if applicable, capital distributed to such Unitholder. These annual statements, together with the confirmation that the Unitholder received on a purchase of or reinvestment of distributions of Units of the Fund, should be retained by the Unitholder, so that the Unitholder may accurately compute, for tax purposes, any gain or loss on a redemption of Units, or report distributions received. The Unitholder may also use this information to calculate the adjusted cost base of the Units. See “Income Tax Considerations”.

The Manager will ensure that the Fund complies with all applicable reporting and administrative requirements. The Manager will also ensure that adequate books and records are kept reflecting the activities of the Fund. The books and records of the Fund will be open for inspection by any Unitholder for any proper purpose at all reasonable times. Notwithstanding the foregoing, a Unitholder shall not have access to any information that, in the opinion of the Manager, should be kept confidential in the interests of the Fund.

### **TERMINATION OF THE FUND**

The Fund may be terminated by the Manager on at least 60 days’ notice to Unitholders of such termination. In addition, in the event that the Trustee becomes incapable of acting or if a vacancy occurs in the office of trustee of the Fund, the Trustee will appoint a successor trustee prior to the date that the Trustee ceases to act as trustee of the Fund. If the Trustee does not appoint a successor trustee prior to such time, the Fund will terminate and the Trustee or, should the Trustee fail to do so, a person appointed by a court with jurisdiction shall wind up the Fund.

If a successor trustee can be found and agrees to accept the appointment, such successor trustee will assume the duties and obligations of the incumbent trustee within the notice period. If a successor trustee cannot be found or is not appointed by Unitholders in accordance with the provisions of the Declaration of Trust, then the Fund will be terminated at the expiry of the notice period.

Upon such termination, the Manager will, to the extent possible, convert the assets of the Fund to cash. After paying or providing for all liabilities and obligations of the Fund and any termination-related expenses payable by the Fund, the net assets of the Fund, comprised of any portfolio securities still held by the Fund, cash and any other assets, shall be distributed *pro rata* among the Unitholders of the Fund.

Subject to the fee distributions and the distribution of capital gains to redeeming Unitholders, all Units of each series of the Fund are treated equally on any termination or winding up of the Fund based on the relative Series NAV. See “Distribution Policy – Fee Distributions”.

The rights of Unitholders to redeem Units described under “Redemption of Units” will cease as and from the date of termination of the Fund.

There is no predetermined level of Series NAV per Unit at which the Fund will be wound up.

### **RELATIONSHIP BETWEEN THE FUND AND DEALERS**

The Manager pays the dealer a sales commission when an investor buys Series A Units under the deferred sales charge or the low-load purchase options. In addition, the Manager pays the dealer (including a

discount broker when Units are purchased through a discount brokerage account) an ongoing trailing commission when the Unitholder holds Series A Units.

The Manager does not pay the dealer a sales commission if an investor buys Series F, Series PF or Series O Units. Series F, Series PF and Series O Unitholders pay a fee to their dealer directly.

### Sales Commission

If an investor buys Series A Units under the front-load option, the commission the investor negotiates (up to 6.0% of the purchase amount) is deducted from the investor's purchase amount and paid by the investor to his, her or its dealer. If an investor buys Series A Units under the deferred sales charge option, the Manager will pay the investor's dealer up to 5.0% of the purchase amount. If an investor buys Series A Units under the low-load option, the Manager will pay the investor's dealer up to 2.5% of the purchase amount.

### Trailing Commission

The Manager may pay a monthly trailing commission to an Unitholder's dealer (including a discount broker when Units are purchased through a discount brokerage account) based upon a percentage of the value of the Series A Units held by an Unitholder. No trailing commission is paid on Series F, Series PF or Series O Units. The Manager may change the terms of the trailing commission program at any time.

The tables below show the sales and trailing commissions payable for Series A Units of the Fund, which depend on the purchase option chosen.

| Front-Load Option    |                                | Deferred Sales Charge Option |                                | Low-Load Option      |                                |
|----------------------|--------------------------------|------------------------------|--------------------------------|----------------------|--------------------------------|
| Sales commission (%) | Annual trailing commission (%) | Sales commission (%)         | Annual trailing commission (%) | Sales commission (%) | Annual trailing commission (%) |
| Up to 6.0% of NAV    | Up to 1.0% of NAV              | Up to 5.0% of NAV            | Up to 0.5% of NAV*             | Up to 2.5% of NAV    | Up to 0.5% of NAV*             |

\* Once Series A Units of the Fund have been held under the deferred sales charge option for more than six years or under the low load option for more than three years, the annual trailing commission will increase to 1.0%.

### Other Sales Incentives

The Manager may from time to time pay for marketing materials provided to dealers to help support the sale of the Franklin Templeton Mutual Funds. These materials may include reports and commentaries on the financial markets, securities in general or on the Franklin Templeton Mutual Funds themselves. In addition, the Manager may organize and present educational conferences for dealers to attend or pay the registration costs for dealers to attend conferences hosted by third parties.

The Manager may share with dealers some of the costs they incur in publishing and distributing sales communications for investors, organizing and presenting seminars to educate investors about mutual funds or organizing and presenting conferences or seminars that dealers may attend.

These activities are in compliance with applicable laws and regulations and any costs incurred by them will be paid by the Manager and not the Fund.

## Equity Interest

Each of the Manager and FTC Investor Services Inc. (in respect of Series F, PF and O Units) is a principal distributor of the Fund and arrange for the sale of Units through dealers across Canada. FTC Investor Services Inc. is an indirect wholly-owned subsidiary of the Manager. The Manager is a wholly-owned subsidiary of Templeton International, Inc., which is an indirect wholly-owned subsidiary of Franklin Resources, Inc.

Canadian securities legislation requires that registered dealers provide to investors full disclosure of certain relationships with issuers that could give rise to conflicts of interest. Disclosure is required where an issuer is a related issuer or connected issuer of registered dealer. The definition of the terms “related issuer” and “connected issuer” can be found in National Instrument 33-105 *Underwriting Conflicts*.

As FTC Investor Services Inc. is an affiliate of the Manager and a principal distributor of the Fund and receives a portion of the management fee as an inter-company service fee of 0.20% in connection with the distribution of Series F, PF and O Units, the Fund may be considered a related issuer or connected issuer of FTC Investor Services Inc. FTC Investor Services Inc. did not participate in the decision to distribute the Units and did not participate in the determination of the terms of the distribution. The proceeds of the distribution will not be applied for the benefit of FTC Investor Services Inc.

## PRINCIPAL HOLDERS OF SECURITIES OF THE INVESTMENT FUND

The following table shows the number of securities of the Fund owned of record or beneficially, directly or indirectly, by each person or company who so owned more than 10% of such securities as of March 20, 2018:

| Name of Investor*                    | Series | Number of Securities Held | Percentage Held |
|--------------------------------------|--------|---------------------------|-----------------|
| Franklin Templeton Investments Corp. | PF     | 250,000.00                | 79.20           |
| Franklin Templeton Investments Corp. | A      | 49,000.00                 | 48.36           |
| Investor A                           | O      | 100,451.62                | 24.10           |
| Investor B                           | F      | 4,944.89                  | 22.83           |
| Investor C                           | O      | 79,760.72                 | 19.14           |
| Investor D                           | F      | 4,034.56                  | 18.63           |
| Investor E                           | F      | 3,054.99                  | 14.11           |

\* To protect the privacy of individual investors, we have omitted the names of the beneficial owners. This information is available on request by contacting us at 1-800-387-0830.

## PROXY VOTING DISCLOSURE FOR PORTFOLIO SECURITIES HELD

The Manager has adopted the proxy voting policies and procedures of the Portfolio Manager and Sub-Advisor with respect to the securities held by the Fund and has delegated the management and administration of the policies to the Portfolio Manager and Sub-Advisor. The Portfolio Manager and Sub-Advisor have delegated their administrative duties with respect to voting proxies to the Proxy Group within Franklin Templeton Companies, LLC (the “Proxy Group”), an affiliate of the Manager and wholly owned subsidiary of Franklin Resources, Inc.

## **Voting Practices**

The Proxy Group is fully cognizant of its responsibility to process proxies and maintain proxy records pursuant to Canadian securities legislation and other applicable rules and regulations. In addition, the Portfolio Manager and Sub-Advisor understand their fiduciary duty to vote proxies and that proxy voting decisions may affect the value of shareholdings. Therefore, the Portfolio Manager and Sub-Advisor will attempt to process every proxy they receive for all domestic and foreign proxies. However, there may be situations in which the Portfolio Manager or Sub-Advisor cannot process proxies, for example, where a meeting notice was received too late, or sell orders preclude the ability to vote. In addition, the Portfolio Manager or Sub-Advisor may abstain from voting under certain circumstances or vote against items such as “Other Business” when the Portfolio Manager or Sub-Advisor is not given adequate information from the company.

## **Summary of Proxy Voting Policies**

The following is a summary of the proxy voting policies of the Portfolio Manager and Sub-Advisor:

As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the company’s management. Each issue, however, is considered on its own merits, and the Portfolio Manager and Sub-Advisor will not support the position of the company’s management in any situation where it deems that the ratification of management’s position would adversely affect the investment merits of owning that company’s shares. In keeping with their fiduciary obligations to their advisory clients, the Portfolio Manager and Sub-Advisor review all proposals, even those that may be considered routine matters.

The Portfolio Manager and Sub-Advisor have adopted general proxy voting guidelines that are reviewed periodically by various members of the organization of the Portfolio Manager and Sub-Advisor, including portfolio management, legal counsel and the officers of the Portfolio Manager and Sub-Advisor, and are subject to change. These guidelines cannot provide an exhaustive list of all the issues that may arise nor can the Sub-Advisor anticipate all future situations. The guidelines cover such agenda items as the election of directors, ratification of auditors, management and director compensation, anti-takeover mechanisms, changes to capital structure, mergers and corporate restructuring, social and corporate policy issues, and global corporate governance. The Portfolio Manager and Sub-Advisor may deviate from the general policies and procedures when they determines that the particular facts and circumstances warrant such deviation to protect the interests of advisory clients.

## **Conflicts of Interest**

The Portfolio Manager and Sub-Advisor vote proxies solely in the interests of the client, Unitholders or, where employee benefit plan assets are involved, in the interests of plan participants and beneficiaries (collectively “advisory clients”). As a matter of policy, the officers, directors and employees of the Portfolio Manager or Sub-Advisor and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of advisory clients. In situations where the Portfolio Manager or Sub-Advisor perceives a material conflict of interest, the Portfolio Manager or Sub-Advisor may: disclose the conflict to the relevant advisory clients; defer to the voting recommendation of the advisory clients, Institutional Shareholder Services, Glass Lewis & Co., LLC, or those of another independent third party provider of proxy services; send the proxy directly to the relevant advisory client for a decision; or take such other action in good faith (in consultation with counsel) that would protect the interests of the advisory clients.

## **Proxy Voting Procedures**

All proxies received by the Proxy Group will be voted based upon the instructions and/or policies of the Portfolio Manager and Sub-Advisor. To assist it in analyzing proxies, the Portfolio Manager and Sub-Advisor subscribe to Institutional Shareholder Services (“ISS”), an unaffiliated third party corporate governance research service that provides in-depth analyses of shareholder meeting agendas, vote recommendations,

record keeping and vote disclosure services. In addition, the Portfolio Manager and Sub-Advisor subscribe to Glass Lewis & Co., LLC (“**Glass Lewis**”), an unaffiliated third party analytical research firm, to receive analyses and vote recommendations on the shareholder meetings of publicly held U.S. companies. Although ISS’ and/or Glass Lewis’ analyses are thoroughly reviewed and considered in making a final voting decision, the Portfolio Manager and Sub-Advisor do not consider recommendations from ISS, Glass Lewis, or any other third party to be determinative of the ultimate decisions of the Portfolio Manager and Sub-Advisor.

The Proxy Group is part of the Franklin Templeton Companies, LLC Corporate Legal Department and is overseen by legal counsel. For each shareholder meeting, a member of the Proxy Group will consult with the research analyst that follows the security and will provide the analyst with the meeting notice, agenda, ISS and/or Glass Lewis analyses, recommendations and any other available information. The Portfolio Manager and Sub-Advisor’s research analyst(s) and relevant portfolio manager(s) are responsible for making the final voting decision based on their review of the agenda, ISS and/or Glass Lewis analyses, their knowledge of the company and any other information readily available. The Proxy Group must obtain voting instructions from the Portfolio Manager and Sub-Advisor’s research analyst(s), relevant portfolio manager(s) and/or legal counsel prior to submitting the vote.

The Proxy Group is responsible for maintaining the documentation that supports the Portfolio Manager and Sub-Advisor’s voting position. The Proxy Group is also responsible for maintaining appropriate proxy voting supporting documentation and records. Such records may include, but are not limited to, a copy of all materials returned to the issuer and/or its agent, the documentation described above, listings of proxies voted by issuer and by client, and any other relevant information. The Proxy Group may use an outside service such as ISS to support this function. All files will be retained for at least five years, the first two of which will be on-site. A complete copy of the proxy voting policies and procedures will be available to clients upon request. In addition, the Proxy Group is responsible for ensuring that the proxy voting policies, procedures and records of the Portfolio Manager and Sub-Advisor are made available as required by law and is responsible for overseeing the filing of such policies and procedures with the securities regulatory authorities.

### **Information Requests**

A copy of the policies and procedures that the Fund follows when voting proxies relating to portfolio securities is available on request and at no cost by calling toll-free 1-800-387-0830 or by writing to 5000 Yonge Street, Suite 900, Toronto, Ontario M2N 0A7.

A proxy voting record for the Fund for the most recent period ended June 30 of each year will be available free of charge to any Unitholder upon request at any time after August 31 of that year and can also be found at [www.franklintempleton.ca](http://www.franklintempleton.ca).

### **MATERIAL CONTRACTS**

The following contracts can reasonably be regarded as material to Unitholders:

- (i) Declaration of Trust;
- (ii) Management Agreement;
- (iii) Investment Advisory Agreement; and
- (iv) Custodian Agreement.

Copies of the agreements referred to above may be inspected during business hours at the principal office of the Manager.

## LEGAL AND ADMINISTRATIVE PROCEEDINGS

A motion to authorize a class action proceeding against the Manager and other mutual fund companies was filed in the Quebec Superior Court on October 25, 2004, claiming damages resulting from an alleged breach of fiduciary duty by permitting or failing to prevent certain market timing practices. The claim, as amended, proposed a class of all Quebec residents who held securities in certain mutual funds managed by the Manager between January 1, 2000 and December 31, 2003. Hearings on the class authorization motion for this claim concluded in May 2009. Before the court issued its decision on that motion, in July 2010, the Manager reached an agreement-in-principle with the plaintiffs to resolve the action (as well as the action described below), subject to certain conditions, including authorization of a class for settlement purposes. In September 2010, the court granted plaintiffs' motion for authorization for settlement purposes and, in December 2010, the court approved the settlement.

A statement of claim was filed with the Superior Court of Justice in Ontario on March 9, 2006 commencing a putative class action proceeding against the Manager and other mutual fund companies, claiming that during the period from February 1, 1999 to February 28, 2003, the Manager "permitted and/or participated in and/or failed to prevent or terminate market timing activity" in certain of its mutual funds allegedly in breach of its fiduciary duty. The class certification motion for this claim was heard in December 2009, and denied by the court in January 2010. Plaintiffs filed a notice of appeal of that decision in February 2010, and the Manager reached an agreement-in-principle with the plaintiffs to resolve the action in July 2010. In September 2010, the court granted plaintiffs' motion to certify the relevant class for settlement purposes and, in December 2010, the court approved the settlement.

The Manager and the plaintiffs' agreement to resolve both the Quebec and Ontario actions included the payment by the Manager of \$5,000,000 to certain mutual funds managed by the Manager and specified in the settlement agreement, less (i) any amounts approved by the Quebec and Ontario courts for legal fees and disbursements for Quebec and Ontario plaintiffs' counsel respectively, and (ii) disbursements incurred in connection with the implementation of the settlement.

Shares of the Canadian company, BlackPearl Resources Inc. (the "**Company**"), are held in funds and separate accounts managed by the Manager and are traded in Canada. As the shares of the Company are categorized as Canadian for reporting purposes, the shareholder reporting rules for Canada require that an Alternative Monthly Report ("**AMR**") filed once an initial threshold of 10% is reached /exceeded. On December 8, 2014, an AMR report was filed on a timely basis with Canadian securities regulators. It was subsequently filed with the Company on December 11, 2014. The filing reported holdings at just above 10%.

On December 12, 2014, the Company notified the Manager that there are filing obligations in Sweden due to the Company's additional listing in Sweden. Although the Company is categorized as Canadian and the Manager does not hold any Swedish shares (shares traded in the NASDAQ OMX Stockholm Exchange), Swedish rules require reporting when holdings reach, exceed or fall below any of statutory threshold limits. Thus, Swedish reporting at 5% and 10% was not completed. Once made aware of the obligation to report in Sweden, a notice was promptly sent to the Financial Supervisory Authority of Sweden ("**Swedish FSA**") and the Company on December 16, 2014 with a letter of explanation, at which point the required filing was 11 trade days late.

On April 23, 2015, the Manager received a letter from Swedish FSA of its decision to impose an administrative fee of SEK 300,000 (approximately USD\$36,000) as a result of the late filing. The Manager appealed the administrative fee to the Stockholm Administrative Court on May 15, 2015.

The Stockholm Administrative Court, in its judgment dated January, 28, 2016, dismissed the Manager's appeal of the Swedish FSA administrative fee. The Administrative Court found that the changes in shareholdings were not reported within the stipulated time frame and did not find a reason to reduce the proposed administrative fee. The Manager had until March 8, 2016 to appeal the Administrative Court decision, which it chose not to do. The decision is therefore final on March 8, 2016.

The Fund is not involved in any legal proceedings nor is the Manager aware of existing or pending legal or administrative proceedings involving the Fund.

## **EXPERTS**

Borden Ladner Gervais LLP, legal counsel to the Fund and the Manager, has provided certain legal opinions regarding the principal Canadian federal income tax considerations that apply to an investment in the Units by a Canadian resident individual and by a Registered Plan. See “Income Tax Considerations” and “Income Tax Considerations – Status of the Investment Fund”.

PricewaterhouseCoopers LLP, Chartered Professional Accountants, the auditor of the Fund, has consented to the incorporation by reference of its report on the Fund dated March 23, 2018. PricewaterhouseCoopers LLP has confirmed that it is independent with respect to the Fund within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

## **EXEMPTIONS AND APPROVALS**

### **Investments in Underlying Funds**

All of the Franklin Templeton Mutual Funds have received an exemption from the Canadian securities regulatory authorities to invest up to 10% of their net assets, taken at market value at the time of the investment, in aggregate, in securities of FTIF Sub-Funds. The FTIF Sub-Funds are managed by an affiliate of the Manager and organized under the laws of Luxembourg as a Société d'Investissement à Capital Variable, an open-end investment company. The FTIF Sub-Funds each qualify as a UCITS, an undertaking for investment in transferable securities, and are distributed under a prospectus in several European and other countries. As part of the Fund's investment strategy, investing in the FTIF Sub-Funds gives the Fund greater opportunities for diversification according to asset class, investment style, geography, sector weighting and market capitalization. The FTIF Sub-Funds are not subject to Canadian securities regulation. However, the FTIF Sub-Funds are subject to investment restrictions and practices that are substantially similar to those that govern the Fund in Canada.

### **Exempt from Certain Derivatives Rules**

All of the Franklin Templeton Mutual Funds, other than the money market funds, have received an exemption from the Canadian securities regulatory authorities from certain of the derivatives rules set out in NI 81-102. This exemption permits each of the Franklin Templeton Mutual Funds to:

- enter into interest rate swaps, credit default swaps and, if the transaction is for hedging purposes, currency swaps and forwards that, in each case, have a remaining term to maturity of greater than three years;
- use as cover: (i) bonds, debentures, notes or other evidences of indebtedness that are liquid, provided that they have a remaining term to maturity of 365 days or less and have an approved credit rating; (ii) floating rate evidences of indebtedness that meet certain specified requirements; or (iii) securities of one or more of the money market funds; and
- use as cover, when a Franklin Templeton Mutual Fund holds a long position in a debt-like security that has a component that is a long position in a forward contract or in a standardized future or forward contract or when a Franklin Templeton Mutual Fund is entitled to receive fixed payments under a swap: (i) cash cover in an amount that, together with margin on account for the derivative and the market value of the derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the derivative; (ii) in the case of a debt-like security, standardized future or forward contract, a right or obligation to sell an equivalent quantity of the underlying interest of the future or forward contract and cash cover that, together with margin on account for the position, is not less than the amount, if any, by which the strike price of the future or forward contract exceeds the strike price of the right or obligation to sell the underlying interest or, in the

case of a swap, a right or obligation to enter into an offsetting swap on an equivalent quantity and with an equivalent term and cash cover that, together with margin on account for the position, is not less than the aggregate amount, if any, of the obligations of the Franklin Templeton Mutual Fund under the swap less the obligations of the Franklin Templeton Mutual Fund under such offsetting swap; or (iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to the other assets of the Franklin Templeton Mutual Fund, to enable the Fund to acquire the underlying interest of the future or forward contract or to satisfy its obligations under the swap.

### **Inter-Fund Trades**

All of the Franklin Templeton Mutual Funds have received an exemption from the Canadian securities regulatory authorities to engage in inter-fund trading, which would otherwise be prohibited under various applicable securities legislation. This exemption permits each of the Franklin Templeton Mutual Funds to purchase securities from or sell securities to another investment fund or managed account managed by the Manager or an affiliate of the Manager, subject to certain conditions. The IRC must approve the inter-fund trades involving the Franklin Templeton Mutual Funds in accordance with the approval requirements of NI 81-107.

### **In-Specie Transfers**

All of the Franklin Templeton Mutual Funds have received an exemption from the Canadian securities regulatory authorities to engage in in-specie transfers, which would otherwise be prohibited under various applicable securities legislation. This exemption permits each of the Franklin Templeton Mutual Funds to receive portfolio securities from, or deliver portfolio securities to, a managed account or another investment fund managed by the Manager or an affiliate of the Manager in respect of a purchase or redemption of units or shares of a Franklin Templeton Mutual Fund, subject to certain conditions. The IRC must approve the in-specie transfers involving the Franklin Templeton Mutual Funds in accordance with the approval requirements of NI 81-107.

### **Cleared Swap Transactions**

All of the Franklin Templeton Mutual Funds have received an exemption that allows the Franklin Templeton Mutual Funds to enter into cleared swap transactions without having to comply with the counterparty designated rating requirement, the 10% mark-to-market exposure limitation and certain of the custodial requirements of NI 81-102 provided that, in respect of the deposit of cash and portfolio assets as margin:

- (i) in Canada,
  - (a) the Futures Commission Merchant is a member of a self-regulatory organization that is a participating member of the Canadian Investor Protection Fund; and
  - (b) the amount of margin deposited and maintained with the Futures Commission Merchant does not, when aggregated with the amount of margin already held by the Futures Commission Merchant, exceed 10 percent of the net asset value of the Franklin Templeton Mutual Fund as at the time of the deposit; and
- (ii) outside of Canada,
  - (a) the Futures Commission Merchant is a member of a Clearing Corporation and, as a result is subject to a regulatory audit;
  - (b) the Futures Commission Merchant has a net worth, determined from its most recent audited financial statements that have been made public or from other

publicly available financial information, in excess of the equivalent of \$50 million;  
and

- (c) the amount of margin deposited and maintained with the Futures Commission Merchant does not, when aggregated with the amount of margin already held by the Futures Commission Merchant, exceed 10 percent of the net asset value of the Franklin Templeton Mutual Fund as at the time of deposit.

### **Seed Capital**

The Manager has obtained an exemption from the restriction in NI 81-104 relating to the “seed capital” investment in the Fund so as to relieve the Manager from the requirement to provide seed capital of \$50,000 and not issue Units to the public until subscriptions aggregating not less than \$500,000 have been received and accepted by the Fund from investors other than the Manager, the Portfolio Manager, any sponsor of the Fund or the directors, officers or shareholders of any of the foregoing.

As a result, consistent with the rules regarding seed capital for conventional NI 81-102 mutual funds, the Manager will maintain an investment of \$150,000 in Units of the Fund until subscriptions aggregating not less than \$500,000 have been received and accepted by the Fund from investors other than the Manager, the Portfolio Manager, any sponsor of the Fund or the directors, officers or shareholders of any of the foregoing.

## **OTHER MATERIAL FACTS**

### ***Optional Services***

#### ***Pre-authorized Chequing (PAC) Plan***

An investor can set up a PAC plan with the Manager so that money is automatically withdrawn from the investor’s bank or trust account at regular intervals and invested in the Fund. A PAC Plan can run weekly, twice monthly, monthly, quarterly, semi-annually or annually. Each withdrawal must be at least \$50, although the Manager may, at its discretion, waive the minimum PAC amount. The investor may choose this option when they first buy Units or at any time afterwards. Investors must set up their PAC plan through their advisor or dealer.

PAC plans allow the investor to take advantage of dollar cost averaging. Dollar cost averaging is investing a fixed dollar amount at regular intervals. The investor will buy fewer securities when the price is high and more when the price is low, averaging out the cost of the investor’s investment. The investor’s dealer may offer a similar plan.

The Manager does not charge a fee for setting up a PAC plan other than any applicable sales charge negotiated with the dealer. If Units were purchased under the low-load option or deferred sales charge options, the investor may pay a redemption fee upon redeeming the Units. A PAC Plan may be changed or canceled at any time by writing to the Manager or the dealer. Once all required documentation is received, it may take the Manager up to three business days to process any change or cancellation. If an investor switches all Units from one Franklin Templeton Mutual Fund to another Franklin Templeton Mutual Fund, any PAC plan will continue in the new Franklin Templeton Mutual Fund.

#### ***Systematic Withdrawal Plan (SWP)***

Provided an investor maintains at least \$5,000 invested in the Fund, the investor can set up a SWP with the Manager so that the Manager automatically makes regular payments to the investor. Payments can be made weekly, twice monthly, monthly quarterly, semi-annually or annually. The Manager does this by redeeming Units in the investor’s account. The investor’s dealer may offer a similar plan.

The Manager does not charge a fee for a SWP, other than applicable redemption fees. The investor's redemption fees will depend on the purchase option that applies to the securities redeemed.

An investor may change their SWP instructions or cancel their SWP at any time as long as the Manager receives at least three business days' notice. Most changes must be made through an investor's advisor or dealer.

### ***Account Rebalancing***

An investor can set up account rebalancing with the Manager so that the Manager automatically rebalances the investments in the investor's account. This service permits the investor to establish a target allocation for his, her or its investments within an account. The automatic rebalancing service is available for all Franklin Templeton Mutual Funds, plans and account types, provided that the Manager receives the appropriate authorization.

The investor will tell the Manager the applicable Franklin Templeton Mutual Funds, the target asset mix for each fund selected, the percentage that the investor will allow the actual values of the investor's investments in the funds to differ from the investor's target allocations before a rebalancing occurs (i.e., the "variance percentage"), and the frequency at which the investor wants the rebalancing to occur (monthly, quarterly, semi-annually or annually). The investor's account will be reviewed and, if necessary, rebalanced on the last business day in the calendar period of the frequency selected.

All rebalancing transactions are subject to the rules related to switching as set out in this prospectus or the simplified prospectus of the Franklin Templeton Mutual Funds, unless otherwise indicated. There is no fee for the account rebalancing service and a dealer must not charge a switch fee as a result of any rebalancing.

Before an account is subject to the account rebalancing service, a form must be completed. Investors should contact their advisor or dealer for more details.

### ***Registered Plans***

Generally, the Manager can set up a registered retirement savings plan, registered retirement income fund, any one of the various types of locked-in Registered Plans, registered education savings plan or tax-free savings account for an investor when they invest in the Fund. Investors should contact their adviser or dealer for more details.

See "Income Tax Considerations" for details on holding securities of the Fund in a Registered Plan.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase mutual fund securities within two business days after receipt of a prospectus and any amendment or within 48 hours after the receipt of a confirmation of a purchase of such securities. If the agreement is to purchase such securities under a contractual plan, the time period during which withdrawal may be made may be longer.

In several of the provinces and territories of Canada, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limits prescribed by the securities legislation of the purchaser's province or territory.

The purchaser should refer to the applicable provisions of the securities legislation of the province or territory for the particulars of their rights or consult with a legal adviser.

## DOCUMENTS INCORPORATED BY REFERENCE

During the period in which the Fund is in continuous distribution, additional information is available in:

- (i) the most recently filed annual financial statements of the Fund, if any, together with the accompanying report of the auditor, if any;
- (ii) any interim financial statements of the Fund filed after the most recently filed comparative annual financial statements of the Fund;
- (iii) the most recently filed annual MRFP of the Fund; and
- (iv) any interim MRFP of the Fund filed after that annual MRFP.

These documents are incorporated by reference into the prospectus, which means that they legally form part of this document just as if they were printed as part of this document. A Unitholder can get a copy of these documents upon request and at no cost by calling 1-866-850-8241 (toll-free), 416-364-1163 (Toronto) or by contacting a registered dealer.

These documents are available on the Manager's website at [www.franklintempleton.ca](http://www.franklintempleton.ca) or by contacting the Manager at 1-866-850-8241 (toll-free), 416-364-1163 (Toronto) 1.800.387.0830 or via e-mail at [service@franklintempleton.com](mailto:service@franklintempleton.com).

These documents and other information about the Fund are available on the internet at [www.sedar.com](http://www.sedar.com).

In addition to the documents listed above, any document of the type described above that are filed on behalf of the Fund after the date of this prospectus and before the termination of the distribution of the Fund are deemed to be incorporated by reference into this prospectus.

**CERTIFICATE OF THE FUND, THE TRUSTEE, MANAGER AND PROMOTER**

Dated: April 6, 2018

This prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Northwest Territories, Nunavut, Ontario, Prince Edward Island, Québec, Saskatchewan and Yukon.

**FRANKLIN TEMPLETON INVESTMENTS CORP.  
as Trustee, Manager and Promoter of the Fund**

*"Duane Green"*

\_\_\_\_\_  
Duane Green

President & Chief Executive Officer of  
Franklin Templeton Investments Corp.

*"Winston Chen"*

\_\_\_\_\_  
Winston Chen

Chief Financial Officer of Franklin Templeton  
Investments Corp.

**On behalf of the Board of Directors of Franklin Templeton Investments Corp.**

*"Andrew Ashton"*

\_\_\_\_\_  
Andrew Ashton

Director

*"Ghion Shewangzaw"*

\_\_\_\_\_  
Ghion Shewangzaw

Director