Item 1 Cover Page

FRANKLIN TEMPLETON PORTFOLIO ADVISORS, INC.

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INVESTMENT ADVISER REGISTRATION

FORM ADV PART 2A: FIRM BROCHURE

*This brochure provides information about the qualifications and business practices of Franklin Templeton Portfolio Advisors, Inc. If you have any questions about the contents of this brochure, please contact FTPA Account Services at (800) 822-8464 (option 2) or via email at **FTPAServices@franklintempleton.com**. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

*Additional information about Franklin Templeton Portfolio Advisors, Inc. also is available on the SEC's website at **www.adviserinfo.sec.gov**.*

ANY REFERENCE TO FRANKLIN TEMPLETON PORTFOLIO ADVISORS, INC. AS BEING A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

September 30, 2014

Item 2 Material Changes

Material changes made on or after the date of the last annual update of the Adviser's brochure on September 30, 2013 are summarized below:

Item 4: Advisory Business – Update regarding parent company Franklin Resources, Inc.'s deregistration as a bank holding company with the Board of Governors of the Federal Reserve System. Assets under management ("AUM") updated as of September 30, 2014. Disclosure added that AUM reported in Item 4 may differ from Regulatory Assets Under Management ("RAUM") disclosed in Item 5.F of Adviser's Form ADV Part 2A due to specific instructions for RAUM.

Item 5: Fees and Expenses – Standard fee schedule updated. Disclosure added that Adviser's affiliate Templeton Investment Counsel, LLC currently serves as sub-adviser with respect to Global Equity, International Equity and the equity portion of World Balanced mandates.

Item 7: Types of Clients – Added disclosure with respect to Separate Account clients regarding use and provision of client information and confidentiality clauses in investment management agreements.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss – Removed investment risk disclosure relating to Bank Holding Company Act status.

Item 10: Other Financial Industry Activities and Affiliations – Detail added regarding related broker-dealer's introducing broker registration with CFTC. Inapplicable disclosure referring to Adviser's status as an exempt commodity trading advisor removed. Removed disclosure regarding bank holding company regulation of Franklin Resources, Inc.

Clients may request a copy of the current version of our brochure at no cost by contacting FTPA Account Services at (800) 822-8464 (option 2) or via email at ***FTPAServices@franklintempleton.com***.

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Item 4 Advisory Business

INTRODUCTION TO FRANKLIN TEMPLETON PORTFOLIO ADVISORS, INC.

Franklin Templeton Portfolio Advisors, Inc. (the "Adviser" or "we"), is a California corporation formed on February 23, 1978 and based in San Mateo, California. The Adviser is a wholly-owned subsidiary of Franklin Resources, Inc. ("Franklin Resources"), a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments,® a global investment management organization offering investment services under the Franklin,® Templeton,® Mutual Series,® Bissett,® Fiduciary Trust,™ Darby,® Balanced Equity Management™ and K2® brand names. Franklin Templeton Investments, through current and predecessor subsidiaries, has been engaged in the investment management and related services business since 1947.

In September 2014, Franklin Resources deregistered as a bank holding company with the Board of Governors of the Federal Reserve System after limiting the operations of two of its subsidiaries to trust and fiduciary activities. The common stock of Franklin Resources is traded on the New York Stock Exchange ("NYSE") under the ticker symbol "BEN," and is included in the Standard & Poor's 500 Index.

ADVISORY SERVICES

The Adviser provides investment advisory services to a number of individual and institutional separate account clients and in connection with third-party separately managed accounts ("SMA"), unified managed account ("UMA") or other "wrap fee" programs (collectively, "SMA Programs"). Where Franklin Templeton Investments participates in U.S-based SMA programs, the Adviser serves as the contracting adviser. The Adviser may provide investment advisory services directly to clients and sponsors of SMA Programs ("Sponsors"). Additionally, with respect to certain investment mandates, the Adviser from time to time hires one or more of its affiliated advisers to serve as sub-advisers in such SMA Programs. The Adviser provides continuous and regular supervisory services for any accounts for which it has delegated management services to an affiliated adviser. The SMA and UMA programs in which the Adviser and its affiliated sub-advisers currently participate are identified under Item 5 of the Adviser's Form ADV, Part 1A.

The services offered by the Adviser and its affiliated sub-advisers are described more fully below. The terms under which the investment advisory services are provided to clients are set forth in the relevant investment management agreement, investment guidelines and objectives, or other written instructions.

The Adviser and its affiliated sub-advisers provide investment management services pursuant to agreements in effect governing each of the accounts that it manages. Investment management services include services to accounts with full investment discretion, and to accounts with no investment discretion. Accounts for which the Adviser and its affiliated sub-advisers do not have investment discretion may or may not include the authority to trade for the account. The management fee on an account varies with the types of services provided for the account, among other things.

With respect to the accounts for which the Adviser and its affiliated sub-advisers provide discretionary investment management services, the portfolio managers will perform investment research and determine which securities the accounts will purchase, hold or sell. In addition, the portfolio managers may take all appropriate steps to implement such decisions, including arranging for the selection of brokers and dealers and the execution and settlement of trades in accordance with detailed criteria set forth in the management agreement for each account, internal policies, the policies of a program Sponsor, where applicable, and applicable law and practice.

Individual and Institutional Separate Accounts

An individual or institutional separate account client typically consults with the Adviser at the outset of the adviser-client relationship to establish customized investment guidelines applicable

to the Adviser's management of the client's account, and such guidelines may vary significantly among institutional accounts with the same investment objective.

The Adviser offers equity, fixed-income and balanced advice to individuals and institutions. With respect to fixed income securities, the Adviser provides investment advisory services directly through its Franklin Separately Managed Accounts operating division. The Adviser first assesses the appropriate maturity and duration structure under current market conditions, then performs market research and credit analysis and evaluates the differences in creditworthiness, liquidity and value among similar securities. With respect to equity securities, the Adviser's affiliated advisers use a "bottom-up" approach, which includes analysis of a company's balance sheet, revenues, cash flow and long-term prospects as well as general industry sectors and economic trends. The above security selection and analysis processes are performed in accordance with the stated investment objectives of the client. Clients are typically provided with account performance statements on a quarterly basis, unless requested more frequently.

Prior to accepting a client's funds for investment, the Adviser will review the client's investment objectives and other information obtained from the client that provides Adviser and its affiliated sub-advisers with direction and a framework within which to manage the client's account. The Adviser and its affiliated sub-advisers supervise and direct the investment of the assets under their management, subject to such limitations as the client may impose by written notice.

Please see Item 16 ("Investment Discretion") for details of the circumstances in which clients may place limitations on the Adviser's discretionary authority.

SMA Programs

The Adviser and its affiliated sub-advisers may require a minimum account size for their investment strategies, which may vary among SMA programs. In most SMA programs, the program's sponsor (the "Sponsor") is responsible for establishing the financial circumstances, investment objectives and investment restrictions applicable to each client, often through a client profile (the "Profile") and discussions between the client and the Sponsor's personnel. Each client typically completes a Profile in addition to executing a program contract with the Sponsor. The Adviser and its affiliated sub-advisers will undertake to provide advice pursuant to the terms of an investment management agreement executed with the Sponsor.

In some SMA programs (often referred to as "Dual Contract SMA Programs"), clients also may be required to execute a separate agreement directly with the Adviser or the Adviser may be made a party to the client/Sponsor agreement. The client's program agreement with the Sponsor generally establishes the services to be provided to the client by or on behalf of the Sponsor, which may include, among other things: (i) manager selection; (ii) trade execution for transactions executed through the Sponsor, often without a transaction-specific commission or charge; (iii) custodial services; (iv) periodic monitoring of investment managers; and (v) performance reporting. Please see "Separately Managed Account Brokerage Transactions" section in Item 12 for further discussion.

Clients generally are charged by the Sponsor quarterly a comprehensive or wrap fee based upon a percentage of the value of the assets under management to cover such services. The wrap fee often, but not always, includes the advisory fees charged by the Adviser through the program. Where the services provided by the Adviser are included in the wrap fee, the Sponsor generally collects the wrap fee from the client and remits the advisory fee to the Adviser. In Dual Contract SMA Programs, the Adviser's fee typically is paid directly by the client pursuant to a separate agreement between the Adviser and the client. Where the Adviser hires an affiliated sub-adviser, the Adviser pays a portion of its fee to the affiliated sub-adviser, and clients are not charged any additional fees. Please see Item 5 ("Fees and Compensation") for further explanation.

An SMA program client typically selects (in its program agreement) an investment strategy for the Adviser (or its affiliated sub-advisers) to utilize in connection with its management of the client's account. SMA program accounts following the same investment strategy typically hold to a large extent the same or similar securities. In addition, since the comprehensive or wrap fee covers trades executed through the Sponsor, the Adviser and its affiliated sub-advisers may frequently effect transactions for SMA program accounts with the program's designated broker-dealer, whereas the Adviser and its affiliated sub-advisers usually effect equity transactions for

institutional accounts with a variety of broker-dealers. Please see Item 12 ("Brokerage Practices") for more information.

The Adviser and its affiliated sub-advisers may also provide non-discretionary investment management services, through SMA Programs typically known as Unified Managed Account ("UMA") programs or otherwise, generally providing ongoing investment recommendations in the form of one or more "model" portfolios. The SMA Sponsor or an "overlay" manager, rather than the Adviser or its affiliated sub-advisers, makes the investment decision and executes trades on behalf of its underlying clients, and is the investment adviser for accounts of such underlying clients. The assets under such UMA programs are included under the "Non-Discretionary" category below. The Adviser and its affiliated sub-advisers have adopted policies and procedures designed to ensure that any non-discretionary investment advice is communicated to SMA Sponsors and/or clients on a timely basis so that trades can be executed for both discretionary and non-discretionary clients in a fair manner. Please see "Separately Managed Account Brokerage Transactions" under Item 12 ("Brokerage Practices") for more information.

Potential or actual conflicts of interest may arise in the allocation of investment opportunities among the Adviser's accounts. Some of these are discussed in more detail in Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading").

SERVICES OF AFFILIATES

Franklin Templeton Investments operates its investment management business through the Adviser, as well as through multiple affiliates of the Adviser, some of which are registered with non-U.S. regulatory authorities and some of which are registered with multiple regulatory authorities. The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment research and advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client in or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements, "dual hatting" arrangements, or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement. Please see Item 10 ("Other Financial Industry Activities and Affiliations") for more details.

ASSETS UNDER MANAGEMENT

Adviser provides management services or continuous and regular supervisory services for the accounts that it manages. As part of these overall services, the Adviser provides one or more of the following: (i) management services as an adviser to an account; (ii) management services as a sub-adviser to an affiliated adviser managing or supervising an account; (iii) management services under delegated authority by an affiliated adviser; (iv) continuous and regular supervisory services for an account for which it has delegated management services to an affiliated adviser; (v) management services as a co-manager to an account for which an affiliated adviser also provides management services; or (vi) non-discretionary management services, typically under a UMA or similar program. Assets under management described in this item may include all of these types of accounts, and may include accounts and assets that an affiliated adviser is also reporting on its Form ADV.

As of September 30, 2014, the Adviser managed the following amounts on a discretionary and non-discretionary basis:

	U.S. Dollar Amount
Discretionary	**$ 4,862,442,341.70**
Non-Discretionary*	**$ 315,956,124.68**
Total**	**$ 5,178,398,466.38**

***** Non-discretionary assets under management described in this item may include accounts and assets for which the Adviser has neither discretionary authority nor responsibility for arranging or effecting the purchase or sale of recommendations provided to and accepted by the client. Any accounts and assets for which the Adviser provides solely asset allocation recommendations without continuous and regular monitoring of holdings within the client's portfolio are not included in this item.

**May differ from assets under management disclosed in Item 5.F of Adviser's Form ADV Part 1A due to specific calculation instructions for Regulatory Assets Under Management.

Item 5 Fees and Compensation

ADVISORY FEES

Investment management fees are generally calculated under contractual arrangements with each account as a percentage of the market value of assets under management. Annual rates vary by investment objective and type of services provided. Fee arrangements for separate accounts vary by client, and are based on a number of different factors, including investment mandate, services performed, and account/relationship size. To the extent permitted under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), the Adviser may negotiate and charge performance fees, as well as asset based fees. In addition, fees may be fixed, fixed plus performance or performance only.

Please refer to Item 6 ("Performance-Based Fees and Side-by-Side Management") for additional discussion of performance based fees.

The Adviser is not generally required to provide notice to, or obtain the consent of, one client when waiving, reducing or varying fees or modifying other contractual terms with any other client. However, some separate account clients may from time to time seek to negotiate most favored nation ("MFN") clauses in their investment management agreements with the Adviser. These clauses may require the Adviser to notify the MFN client if the Adviser subsequently enters into an investment management agreement with another separate account client that offers more favorable pricing or other contractual terms than those currently offered to the MFN client. An MFN clause will typically require that the Adviser notify the MFN client of the more favorable terms so that the MFN client can elect to either adopt or reject them or, usually when the MFN relates only to fees, may require that any more favorable fee terms be extended automatically to the MFN client. The applicability of an MFN clause will typically depend on the degree of similarity between separate account clients, such as the type of client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy (and therefore the relevant investment adviser) selected by each client. The Adviser has sole discretion over whether or not to grant any MFN clause in all circumstances.

As discussed in more detail in Item 4 ("Advisory Business - Separately Managed Accounts"), the Adviser may participate as an investment manager in SMA Programs sponsored by various firms ("Sponsors"). The Sponsor's Program Brochure generally contains information on minimum account sizes and fees payable to the Sponsor and participating investment managers, such as the Adviser. Accordingly, the Adviser's minimum account size and fees may vary from program to program or within a single program based on, among other things, the investment strategies offered by the Adviser. The Adviser's fees for managing SMA program accounts may be less than the fees it receives for managing similar accounts outside of an SMA program. However, SMA Program clients should be aware that the total fees and expenses associated with an SMA program may exceed those which might be available if the services were acquired separately. SMA Program clients should contact their SMA Program Sponsor for more information on the fees payable to the Adviser in connection with such program.

With respect to the SMAs advised under the wrap fee programs, the Adviser receives an annualized fee from the wrap-fee Sponsors, typically paid quarterly, based on the value of the assets in the clients' accounts.

From time to time, some SMA Sponsors may from time to time seek to negotiate MFN clauses in their agreements with the Adviser requiring Adviser to notify the Sponsor if the Adviser subsequently enters into arrangement with another SMA Sponsor that offers more favorable pricing or other contractual terms than those currently offered through the MFN Sponsor's SMA program. As with MFN clients, such clauses may require notification or automatic extension of more favorable fee terms to the MFN Sponsor's program, and will typically depend on the degree of similarity between the SMA programs, such as the type of client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy.

FEES SCHEDULES

Generally, the Adviser's fee schedules for separate accounts are set out below (normally calculated as a percentage of the value of assets under management, and typically calculated monthly or quarterly, or as agreed with each client). Fees can vary from the fee schedules below and may be negotiated based upon factors that include, but are not limited to: (i) the amount and/or composition of the assets in the client's account, (ii) the number of accounts and/or total amount of assets that the client has with the Adviser and/or the program Sponsor, (iii) the range and extent of services provided to the client, and (iv) whether the client is an employee of the Adviser or the program Sponsor. Moreover, fees, minimum account sizes and other account requirements may vary as a result of prior policies and the date of the relevant account opened, or if account assets are custodied at firms other than the Sponsor. The Adviser may, from time to time, agree to a lower effective rate for clients, or clients of certain financial advisors, that place large amounts of assets under the Adviser's management, or that agree to place specified levels of assets under the Adviser's management by specified future dates.

Types of Mandates	**Standard Investment Advisory Fee**
Global Equity[1] International Equity[1] World Balanced[1]	75 bps to 30 bps
Intermediate Fixed Income Intermediate Municipal Fixed Limited Maturity Municipal Fixed	35 bps to 25 bps
Small Cap Growth[2]	90 bps to 75 bps

TIMING AND PAYMENT OF ADVISORY FEES

The timing of fee payments will be negotiated with each client or SMA Sponsor. Asset-based fees generally are paid monthly or quarterly and are calculated on a percentage of the value of the account's net assets.

The Adviser's investment management agreements with clients and Sponsors generally do not have termination dates. Rather, investment management agreements typically may be terminated by the Adviser or the client or Sponsor with advance notice, as set forth in the relevant investment management agreement and may include automatic renewal provisions.

In a limited number of situations, clients may arrange to pay fees in advance. In the event of the termination of a relationship, unearned fees, if any, paid in advance will be refunded to the client. To the extent fees have been earned but not yet billed, such fees will be pro-rated and paid by the client upon termination. In certain cases (*e.g.*, separate accounts with performance based

[1] Adviser's affiliate, Templeton Investment Counsel, LLC, currently serves as sub-adviser with respect to Global Equity, International Equity and the equity portion of World Balanced mandates.
[2] Adviser's affiliate, Franklin Advisers, Inc., currently serves as discretionary sub-adviser with respect to the Small Cap Growth Mandate.

fees), fees may continue to be paid after termination of the relationship in accordance with the investment management agreement.

The advisory agreements generally may be terminated at any time by either party by giving advance written notice of such termination to the other party. Management fees paid in advance will be prorated to the date of termination specified in the notice of termination, and any unearned portion of the fee will be refunded to the client.

Fees generally are calculated and paid on a monthly or quarterly basis. Although separate account clients typically elect to pay fees by authorizing their custodian to pay the Adviser out of their account assets pursuant to a pre-agreed fee schedule, some clients request the Adviser to bill them directly for fees incurred. If the Adviser manages multiple accounts for a client (or group of related clients), the assets of these accounts may be aggregated for purposes of taking advantage of available breakpoint fee reductions.

OTHER FEES AND EXPENSES

In addition to the fees described above, clients of the Adviser may bear other costs associated with investments or accounts including but not limited to: (i) custodial charges, brokerage fees, commissions and related costs; (ii) interest expenses; (iii) taxes, duties and other governmental charges; (iv) transfer and registration fees or similar expenses; (v) costs associated with foreign exchange transactions; (vi) other portfolio expenses; and (vii) costs, expenses and fees (including investment advisory and other fees charged by the investment advisers of funds in which the client's account invest) associated with products or services that may be necessary or incidental to such investments or accounts. With respect to such services (which may include, but are not limited to, custodial, securities lending, brokerage, futures, banking, consulting or third-party advisory services) each client will be required to establish business relationships with relevant service providers or other counterparties based on the client's own credit standing. The Adviser will not have any obligation to allow its credit to be used in connection with the establishment of such relationships, nor is it expected that such service providers or counterparties will consider or rely on the Adviser's credit in evaluating the client's creditworthiness.

Clients will generally incur brokerage and other transaction costs. See Item 12 ("Brokerage Practices") for discussion on brokerage.

SMA program clients also may be subject to fees, expenses and charges in addition to the Sponsor's comprehensive or wrap fee (*e.g.*, commissions on transactions executed by a broker-dealer other than the Sponsor or the program's designated broker-dealer(s), expenses with respect to investments in pooled vehicles, dealer mark-ups or mark-downs on principal transactions, and certain costs or charges imposed by the Sponsor or a third-party, such as odd-lot differentials, exchange fees and transfer taxes mandated by law).

The Adviser may, on behalf of certain clients, invest in pooled or collective investment vehicles, including mutual funds and exchange traded funds. Subject to applicable law and regulation and the terms of applicable agreements, such clients may bear the costs and expenses charged by such investment vehicles to their shareholders, such as management and administrative fees, in addition to the Adviser's management fees or any wrap fee under a separately managed account program. In some cases it may be appropriate for the Adviser to invest a portion of a client's separate account assets in funds for which the Adviser or its affiliate serves as investment adviser or sub-adviser ("Affiliated Funds"). This may be appropriate where, for example, the Affiliated Fund provides a more efficient and cost-effective way to diversify an account. Assets of separate accounts invested in Affiliated Funds are not subject to the advisory fee otherwise applicable to the account. Rather, those assets are subject to the fund fees and charges applicable to all shareholders in the fund, as set forth in the fund's current prospectus. As a result, the Adviser or its affiliates will indirectly receive advisory fees paid by those clients as shareholders of an Affiliated Fund. Accordingly, the Adviser may have a conflict of interest to the extent that it recommends investments in one of the Affiliated Funds rather than in unaffiliated mutual funds or other securities because the Adviser or its affiliates receive investment advisory fees from the Affiliated Funds but not from unaffiliated mutual funds or other investments (although any investments in unaffiliated mutual funds or other investments would be subject to the Adviser's applicable advisory fee).

Item 6 Performance-Based Fees and Side-By-Side Management

The Adviser may provide advice to one or more separate account clients that are charged performance-based fees. Some portfolio managers may manage both accounts that are charged a performance fee and accounts that are charged another type of fee, such as separate accounts that are charged an asset based fee and pooled investment vehicles with a performance fee in which employees or associates of the Adviser or an affiliate may participate as investors.

The management of multiple accounts may also give rise to potential conflicts of interest if the accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple accounts. The Adviser seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. For example separate accounts managed by a portfolio manager are typically managed using the same or similar investment strategies that are used in connection with the other accounts he or she manages. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. Separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest.

However, securities selected for one account may outperform the securities selected for another account. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for several accounts, a single account may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible accounts. The Adviser seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among accounts. Please refer to Item 12 (“Brokerage Practices”) for more details.

The structure of a portfolio manager’s compensation may give rise to potential conflicts of interest. A portfolio manager’s base pay and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be an indirect relationship between a portfolio manager’s marketing or sales efforts and his or her bonus.

Cross trades are another area that may present potential conflicts of interest in that they may be viewed as favoring one client over another. For example, an adviser receiving performance-based compensation could be perceived as effecting cross trades that it anticipates may increase in value from one account to another merely to increase the compensation it receives from the performance-based account. The reverse is true with respect to securities expected to decrease in value. In that case, an adviser may be perceived to cross-trade such securities from one account to another to minimize the effect of those securities on the performance-based compensation. The Adviser has implemented inter-account transaction procedures to address these potential conflicts of interest by, among other things, requiring pre-clearance of all cross-trades.

The Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. The Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest may exist with respect to the aggregation and allocation of client transactions. For example, with respect to the allocations of aggregated trades, an adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee to that adviser.

The Adviser has implemented trade aggregation and allocation procedures (the “Allocation Procedures”) designed to address these potential conflicts of interest. The Allocation Procedures provide that aggregation of trades should be utilized whenever possible (subject to certain enumerated exceptions), and require that an average price be used for multiple executions of a particular security through the same broker on the same terms on the same day. The Allocation Procedures describe the allocation methodologies to be applied, and permissible exceptions from standard allocation methods that must be pre-approved by a designated trading desk compliance

officer. Please see Item 12 (“Brokerage Practices”) for further discussion of allocation of investment opportunities.

The Allocation Procedures provide that all associated costs of an aggregated transaction will be shared on a proportionate basis by participating accounts. Previous allocations are reviewed periodically to consider whether any account was systematically disadvantaged due to bunched transactions and whether the order was appropriate for each of the participating accounts. Examination of the aggregation of orders and the allocation of securities is undertaken periodically to determine whether the Adviser considered the best interests of each client during the process.

Advisers to investment accounts may have a different valuation process for those accounts than certain funds they or their affiliates advise. Consequently, a fund and an investment account that hold the same security may value that security differently. Different valuations of the same security could lead to questions about whether an adviser acted appropriately. For example, an adviser could be perceived as placing a higher valuation on a security held in an investment account merely to increase its performance-based compensation from that account.

To address this conflict, the Adviser must document an explanation for any differences in the valuation of securities held by both a fund and an investment account managed by the Adviser and/or its affiliates. The explanation provided must be reviewed and approved by the Valuation and Liquidity Oversight Committee (“VLOC”), which was formed to provide oversight and administration of the policies and procedures governing the fair valuation and liquidity determination of securities held in Franklin Templeton portfolios. Key participants of the VLOC include individuals across Franklin Templeton Investments from legal, compliance, trading, investment operations, fund accounting, global risk management and global portfolio services. SMA Program accounts are generally subject to the valuation procedures of the SMA Program Sponsors.

Item 7 Types of Clients

As discussed in Item 4 (“Advisory Business”), the Adviser’s investment management services are offered to individuals and institutional investors through separate account management and discretionary and non-discretionary advisory programs. The Adviser’s minimum account size for fixed income, balanced and equity (non-wrap fee) accounts is generally $1,000,000. In general, the minimum wrap fee account size for municipal accounts is $250,000; for taxable fixed income and equity accounts it is $100,000. In some cases, account minimums may be negotiated or waived at the Adviser’s discretion.

SEPARATELY MANAGED ACCOUNTS

As discussed in Item 4 (“Advisory Services – Separately Managed Accounts”), the Adviser participates as an investment manager in SMA programs sponsored by various firms.

INSTITUTIONAL SEPARATE ACCOUNTS

The Adviser generally provides investment management services to institutional separate account clients in accordance with the investment guidelines and restrictions that are provided by the client, developed in consultation with the client, or in accordance with the mandate selected by the client at the outset of the adviser-client relationship.

The Adviser provides a broad array of investment management services to institutional clients, which may include, from time to time, foundations, endowment funds and government and corporate defined contribution and pension plans. Each client's guidelines are tailored to reflect its particular investment needs with respect to interest rate exposure, sector allocation, and credit quality.

Use and Provision of Client Information and Confidentiality Clauses in Investment Management Agreements

The Adviser may include a Separate Account client’s name in a representative or sample client list prepared by the Adviser with the client’s consent.

The Adviser is not generally required to provide notice to, or obtain the consent of, any client for use or disclosure of client account information to third parties, provided such use does not disclose the client's name. This may include information relating to Adviser's investment experience with respect to an account or an account's performance, composite and representative account performance presentations, marketing materials, attribution and research analyses, statistical and data compilations, or similar materials.

In certain circumstances, the Adviser may disclose information to third parties that includes a client's name, account number or other account information (including non-public information) if this is required (i) in connection with the performance of its services under the respective investment management agreement (including, but not limited to, providing trading and other account information to brokers and third party administrators, and the preparation and printing of client account statements and reports by third parties), or (ii) by law or regulatory authority, including but not limited to any subpoena, administrative, regulatory or judicial demand or court order, or (iii) by the bylaws or equivalent governing documents of any issuer in which the account is invested. While the Adviser is not generally required to provide notice or obtain consent in these situations, certain clients may request advance notice of a regulatory request, to the extent permitted by applicable law or regulation.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

The investment strategies that the Adviser offers accommodate a variety of investment goals, and risk tolerance. In seeking to achieve such objectives, each portfolio emphasizes different strategies and invests in different types of securities. The Adviser does not typically seek to recommend a particular type of security to individual clients.

Portfolios seeking income generally focus on one or more of the following securities: taxable and tax-exempt money market instruments; tax-exempt municipal bonds; and fixed-income debt securities of corporations, of the U.S. government and its sponsored agencies and instrumentalities, such as the Government National Mortgage Association, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, or of the various states in the United States.

Equity investment strategies (offered through the Adviser's affiliated sub-advisers) may include some that are considered value-oriented, others that are considered growth-oriented, and some that use a combination of growth and value characteristics, generally identified as blend or core products. Value investing focuses on identifying companies that the research analysts and portfolio managers believe are undervalued based on a number of different factors, usually put in the context of historical ratios such as price-to-earnings or price-to-book value; however, the portfolio managers also consider the future earnings potential of each individual company on a multi-year basis. Growth investing focuses on identifying companies that the research analysts and portfolio managers believe have sustainable growth characteristics, meeting criteria for sustainable growth potential, quality and valuation. In this effort, the key variables the portfolio managers examine include: market opportunity (overall size and growth); competitive positioning of the company; assessment of management (strength, breadth, depth and integrity) and execution of plans; and the general financial strength and profitability of the enterprise, to determine whether the growth and quality aspects are properly reflected in the current share price. Paramount to all of the different equity strategies is the incorporation of independent, fundamental research through a collaborative in-house group of investment professionals. The sub-advisers' approach, across the variety of equity strategies, emphasizes bottom-up stock selection within a disciplined portfolio construction process, and is complemented by an ongoing assessment of risk at both the security and portfolio levels.

INVESTMENT STRATEGIES

Significant strategies offered by the Adviser include:

FIXED INCOME TAX-FREE MANDATES

Franklin Separately Managed Accounts, a division of the Adviser, offers tax-free fixed income mandates comprised primarily of high quality intermediate term municipal bonds. Using a bottom-

up, income-focused strategy, the Adviser seeks to offer capital preservation and appreciation, along with a high level of current tax- free income. Franklin Separately Managed Account conducts both top-down and bottom-up analysis to select bonds through a disciplined investment process while adhering to client specific goals and objectives. From a top-down standpoint, the Adviser incorporates the broad political and economic themes from the Franklin Fixed Income Policy Committee ("FIPC") affecting the fixed income markets to help optimize the portfolio building process. The Franklin Separately Managed Accounts municipal bond portfolio management team then reviews specific factors likely to affect the municipal bond market. From a bottom-up standpoint, credit analysis is performed by the members of Franklin Separately Managed Account's municipal bond team in conjunction with the Franklin Templeton Fixed Income Group's municipal bond department. Based on these research results, managers construct portfolios that seek to maximize tax-free income while managing risk independent of interest rate movements. The Adviser does not manage portfolios in anticipation of interest rate movements. Rather, focus is on maximizing tax-exempt income by investing in high-quality intermediate maturity bonds where the Adviser believes the best balance of risk and reward exist. Once constructed, portfolios are then monitored on a periodic basis by the municipal bond team to ensure investments are consistent with investment guidelines and client restrictions.

FIXED INCOME TAXABLE MANDATES

Franklin Separately Managed Accounts' taxable mandates invest in high quality bonds, seeking to take advantage of relative valuation differences between asset classes, sectors, issuers and individual bond issues, with the objective of producing a high level of current income and generating total return opportunities. In choosing investments, the intermediate fixed income team follows a disciplined, client-specific process that includes using proprietary, relative value analysis to make top-down allocation decisions among U.S. Treasury securities, U.S. agency securities and corporate bonds based on the guidance provided by the FIPC. Portfolio managers and analysts then perform bottom-up, fundamental research that emphasizes credit quality and liquidity. Portfolios are constructed targeting benchmark neutral duration seeking to add value primarily through asset allocation and security selection. Further, each client account is evaluated for risk tolerance, income and liquidity needs, maturity date and sector restrictions.

The Adviser's investment process begins with the regular FIPC meeting, where senior fixed income and equity professionals from across the organization gather to discuss macroeconomic conditions, market events and relative value across sectors, markets and currencies. Sector teams representing the major fixed income markets provide bottom-up views on events and valuations within each sector. Utilizing this information, the policy committee formulates a general framework to guide fixed income portfolio positioning.

EQUITY MANDATES

Through its affiliated sub-advisers, the Adviser offers a broad range of equity strategies that vary according to investment style, market capitalization and geography. The portfolio managers and analysts apply a disciplined, bottom-up approach to selecting stocks. The portfolio managers employ a team approach to managing the portfolio, which includes a team approach to buy and sell decisions. Franklin Separately Managed Accounts offers certain mandates sub-advised by affiliated entities, and may leverage the investment management, trading and research resources of its affiliates, including the Franklin Equity Group.

Templeton Separately Managed Accounts, also a division of the Adviser, offers equity mandates sub-advised by affiliated entities, leveraging the investment management, trading, and research resources of the Templeton Global Equity Group. The strategies are managed in accordance with Templeton's investment philosophy and approach, which are based on three tenets: value, patience, and bottom-up stock selection. Combining time-proven fundamental analysis with original research, portfolio managers look for companies that meet their criteria of quality and valuation. Based on these research results, portfolio managers construct individual portfolios within established parameters for diversification. Portfolio managers review portfolios to assess sector and industry risk exposure in response to changing market conditions. The highly disciplined selling strategy is designed to pursue capital appreciation opportunities. A stock may be sold when the price reaches an established target, the company's fundamentals deteriorate,

the downside risk is greater than the upside potential or if the stock displays relative weakness versus its industry group or the overall market.

INVESTMENT RISKS

Particular investment strategies or investments in different types of securities or other investments involve specific risks that clients should be prepared to bear. The risks involved for different client accounts will vary based on each client's investment strategy and the type of securities or other investments held in the client's account. The following are descriptions of a number of the material risks related to the significant investment strategies used by the Adviser. Not all possible risks are described below.

Market – The market value of securities managed by the Adviser will go up and down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise. The market value of securities may also go up or down due to factors that affect an individual issuer or particular sector. When markets perform well, there can be no assurance that individual stocks will benefit from the advance.

Stock prices tend to go up and down more dramatically than those of other types of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by a portfolio managed by the Adviser.

Equity Securities – Equity securities represent a proportionate share of the ownership of a company; their value is based on the success of the company's business and the value of its assets, as well as general market conditions. The purchaser of an equity security typically receives an ownership interest in the company as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares.

Debt Securities - In general, a debt security represents a loan of money to the issuer by the purchaser of the security. A debt security typically has a fixed payment schedule that obligates the issuer to pay interest to the lender and to return the lender's money over a certain time period. Debt securities are all generally subject to interest rate, credit, income and prepayment risks and, like all investments, are subject to liquidity and market risks to varying degrees depending upon the specific terms and type of security. The Adviser attempts to reduce credit and market risk through diversification and ongoing credit analysis of each issuer, as well as by monitoring economic developments, but there can be no assurance that it will be successful at doing so.

Credit – An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's or a government's credit rating may affect a security's value. While some securities are backed by the full faith and credit of the U.S. government or other issuing government, guarantees of principal and interest do not apply to market values or yields. Substantial losses may be incurred on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the Adviser or the rating agencies than such securities actually do.

Prepayment – An issuer of debt securities may make unscheduled payments of principal, which means the holder of those debt securities loses anticipated interest. Prepayments generally increase when interest rates fall.

Interest Rate – When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. Interest rate changes on the whole are influenced by a number of factors including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. In general, securities with longer maturities are more sensitive to these interest rate changes.

Non-U.S. Securities – Investing in non-U.S. securities typically involves more risks than investing in U.S. securities, and includes risks associated with: (i) political and economic developments –

the political, economic and social structures of some countries may be less stable and more volatile than those in the United States, (ii) trading practices – government supervision and regulation of non-U.S. security and currency markets, trading systems and brokers may be less than in the United States, (iii) availability of information – non-U.S. issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers, (iv) limited markets – the securities of certain non-U.S. issuers may be less liquid (harder to sell) and more volatile, (v) and currency exchange rate fluctuations and policies. Although not typically subject to currency exchange rate risk, depositary receipts may be subject to the same risks as non-U.S. securities generally. The risks of investments outside the United States may be greater in developing countries or emerging market countries.

Developing Market Countries – The Adviser may make investments in emerging market countries. These investments are subject to all of the risks of investing in non-U.S. securities generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

Smaller and Midsize Companies – Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

Non-Diversification – Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities issued by or representing a small number of issuers. As a result, the portfolio's performance may depend on the performance of a smaller number of issuers.

State and U.S. Territories – Certain accounts advised by the Adviser may invest predominantly in state-specific municipal securities, in which case events in that specific state are likely to affect the account's investments and its performance. These events may include economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to municipal issuers of that state.

Concentration – Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, industry or asset class. A portfolio concentrating in a single state or jurisdiction is subject to greater risk of adverse economic, political or social conditions and regulatory changes than a portfolio with broader geographical diversification.

Liquidity – Liquidity risk exists when the market for particular securities or types of securities are or become relatively illiquid so that it is or becomes more difficult to sell the security at the price at which the security was valued. Illiquidity may result from political, economic or issuer-specific events; changes in a specific market's size or structure, including the number of participants; or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets. Market quotations for illiquid securities may be volatile and/or subject to large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event. To the extent that a significant portion of an issuer's outstanding securities is held, greater liquidity risk will exist than if the issuer's securities were more widely held.

Growth Style Investing – Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Prices of these companies' securities may be more volatile than other securities, particularly over the short term.

Value Style Investing – A value stock may not increase in price as anticipated by the Adviser if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the Adviser believes will increase the price of the security do not occur.

Management – The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

Item 9 Disciplinary Information

On February 4, 2004, Franklin Private Client Group, Inc. ("FPCGI") (now known as Franklin Templeton Portfolio Advisors, Inc., the Adviser) and several other affiliated entities were named as respondents in an administrative complaint filed by the Massachusetts Securities Division (the "Division") related to one market timer's activities in certain Franklin Templeton Investments mutual funds. FPCGI, however, did not manage mutual funds; rather, FPCGI specialized in separately managed accounts and the issues under review by the Division did not pertain to such accounts.

On September 20, 2004, two of the respondents named in the administrative complaint reached a settlement with the Division, resolving the administrative complaint in its entirety, including as to respondents named in the administrative complaint that were not parties to the settlement, such as FPCGI.

Item 10 Other Financial Industry Activities and Affiliations

The Adviser is a wholly-owned subsidiary of Franklin Resources, a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments.

The Adviser may have business arrangements with related persons/companies that are material to the Adviser's advisory business or to its clients. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between the Adviser and a client. Please see Item 4 ("Advisory Business") for additional information on services of affiliates.

Recognized conflicts of interest are discussed in Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading") below.

The Adviser has arrangements with one or more of the following types of related persons that may be considered material to its advisory business or to its clients.

RELATED BROKER-DEALERS

One or more of the Adviser's management persons are registered with the Financial Industry Regulatory Authority ("FINRA") as a registered representative of an affiliated broker-dealer of the Adviser.

The Adviser is under common control with Franklin/Templeton Distributors, Inc. ("FTDI"), Franklin Templeton Financial Services Corp. ("FTFSC") and Templeton/Franklin Investment Services, Inc. ("TFIS"), all of which are registered broker-dealers.

FTDI is registered with the SEC as a broker-dealer and is a member of FINRA. FTDI's primary business is underwriter and distributor for the U.S. Registered Funds. Most of its distribution activities occur through independent third-party broker-dealers, who have the primary day-to-day direct contact with shareholders. FTDI is also the underwriter of the Franklin Templeton 529 College Savings Plan and the NJBEST 529 College Savings Plan ("529 Plans"). In addition, FTDI acts as program manager and distributor for the two 529 Plans, which are municipal fund

securities. As a result, FTDI is registered as a municipal securities dealer, subject to regulation by the Municipal Securities Rulemaking Board. In certain instances, shareholders bypass a third-party broker-dealer and establish unsolicited accounts directly with FTDI, who becomes the broker-dealer of record by default. FTDI does not make recommendations to purchase or sell fund shares to retail investors.

Underwriting and distribution fees are earned primarily by distributing our funds pursuant to distribution agreements between FTDI and the funds. Under each distribution agreement, the fund's shares are offered and sold on a continuous basis and certain costs associated with underwriting and distributing the fund's shares may be incurred, including the costs of developing and producing sales literature, shareholder reports and prospectuses.

FTFSC is registered with the SEC and FINRA as a broker-dealer. In addition, FTFSC is registered with the Commodity Futures Trading Commission ("CFTC") as an introducing broker and is a member of the National Futures Association ("NFA"). FTFS, in conjunction with other FTI investment advisory affiliates, provides the broker-dealer platform to offer pooled investment vehicles that are exempt from registration under the Investment Company Act of 1940 Act (the "Private Funds"). As such, FTFS personnel are also associated with Franklin Templeton Investments ("FTI") investment advisers so that they may utilize the FTFS broker-dealer platform when offering private placement and mutual fund securities products to their clients.

TFIS is registered with the SEC as a broker-dealer. TFIS offers private placement and mutual fund products. Many of TFIS' registered associated persons are also dually registered with FTDI to support joint program initiatives, such as marketing U.S. mutual fund products. TFIS also has some dually registered associated persons with FTFS.

RELATED INVESTMENT ADVISERS

The Adviser may enter into a sub advisory arrangement with, or may refer a client to, an investment adviser affiliate capable of meeting the client's specific investment needs. The Adviser is affiliated with other registered investment advisers which are under common control with the Adviser, and the Adviser may share certain portfolio management personnel and investment research with such affiliated investment advisers. In certain cases, the Adviser may hire one or more of its affiliated advisers to serve as a discretionary sub-adviser in certain SMA Programs.

The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client in or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS SUMMARY

The Adviser has adopted (a) a code of ethics pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 of the Investment Company Act of 1940 (the "Code of Ethics") and (b) a policy statement on insider trading (the "Insider Trading Policy"). A brief description of the main provisions of the Code of Ethics and the Insider Trading Policy follows.

A. The Code of Ethics

The Code of Ethics states that the interests of the Adviser's clients are paramount and come before any of its Covered Employees (as defined below). All Covered Employees are required to conduct themselves in a lawful, honest and ethical manner, in their business practices and to maintain an environment that fosters fairness, respect and integrity.

Covered Employees are the Adviser's partners, officers, directors (or other persons occupying a similar status or performing similar functions), and employees, as well as any other person who provides advice on behalf of the Adviser and are subject to the supervision and control of the Adviser. The personal investing activities of Covered Employees must be conducted in a manner that avoids actual or potential conflicts of interest with the clients of the Adviser. Covered Employees are required to use their positions with the Adviser and any investment opportunities they learn of because of their positions with the Adviser in a manner consistent with their fiduciary duties to use such opportunities and information for the benefit of the Adviser's clients and applicable laws, rules and regulations. In addition, the Code of Ethics states that information concerning the security holdings and financial circumstances of the Adviser's clients is confidential and Covered Employees are required to safeguard this information.

Access Persons, a subset of Covered Employees, are required to provide certain periodic reports on their personal securities transactions and holdings. Access Persons are those persons who have access to non-public information regarding the securities transactions of the Adviser's funds or clients; are involved in making securities recommendations to clients; have access to recommendations that are non-public; or have access to non-public information regarding the portfolio holdings of funds for which a Franklin Templeton Investments investment adviser ("FTI Adviser") serves as an investment adviser or a sub-adviser or any fund whose investment adviser or principal underwriter controls an FTI Adviser, is controlled by an FTI Adviser or is under common control with an FTI Adviser. The Adviser's Access Persons must obtain pre-clearance from the Code of Ethics Department before buying or selling any security (other than those not requiring pre-clearance under the Code of Ethics). The Code of Ethics also requires pre-clearance before investing in a private investment or purchasing securities in a limited offering. The Code of Ethics prohibits Access Persons from investing in initial public offerings except for investments in Franklin Templeton closed-end funds, which require pre-approval from the Code of Ethics Administration Department.

To avoid actual or potential conflicts of interest with the Adviser's clients, certain transactions and practices are prohibited by the Code of Ethics and the Insider Trading Policy. These include: front-running, scalping, trading parallel to a client, trading against a client, using proprietary information for personal transactions, market timing, and short selling Franklin Resources stock and the securities of Franklin Templeton closed-end funds.

The Code of Ethics requires prompt internal reporting of suspected and actual violations of the Code of Ethics and the Insider Trading Policy. In addition, violations of the Code of Ethics and the Insider Trading Policy are referred to the Director of Global Compliance and/or the Chief Compliance Officer as well as the relevant management personnel.

B. The Insider Trading Policy

No Covered Employee or Access Person may trade while in possession of material, non-public information or communicate material non-public information to others.

Information is considered material if there is a substantial likelihood that a reasonable investor would consider the information to be important in making his or her investment decision, or if it is reasonably certain to have a substantial effect on the price of the company's securities. Information is non-public until it has been effectively communicated to the marketplace. If the information has been obtained from someone who is betraying an obligation not to share the information (*e.g.*, a company insider), that information is very likely to be non-public.

The Adviser has implemented a substantial set of trading procedures designed to avoid violation of the Policy.

Copies of the Code of Ethics and the Insider Trading Policy are available to any client or prospective client upon request.

POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

Participation or Interest in Client Transactions

The Adviser or its affiliates may from time to time recommend to clients or buy or sell for client accounts, securities in which the Adviser or its affiliates have a material financial interest. Such financial interests may include the contribution by the Adviser or an affiliate of seed capital to a

fund it manages, or an actual investment by the Adviser or an affiliate in the fund or in third party vehicles in which it or a related person has a financial interest. The Adviser or its related persons may also purchase or sell for themselves securities or other investments which one or more advisory clients own, previously owned, or may own in the future.

The Adviser is not itself a general partner of any limited partnership, but one or more of its affiliates may serve as a manager, general partner or trustee or in a similar capacity, of a partnership, trust or other collective investment vehicle in which clients are solicited to invest. These entities generally invest in stocks and/or fixed income securities of domestic and/or foreign companies or in other funds that invest in such securities or in other partnerships, trusts or other investment vehicles that generally are engaged in the business of investing in, purchasing, selling, developing or re-developing commercial and residential real estate properties and interests.

There may arise potential or actual conflicts of interest in (i) the allocation of investment opportunities among the Adviser's clients, (ii) the investment by clients in entities in which the Adviser or its related persons have a financial interest, and (iii) investments by the Adviser or its employees for their personal accounts.

The Adviser and/or its affiliates manage numerous funds and accounts. The Adviser may give advice and take action with respect to one account it manages, or for its own account, that may differ from action taken by the Adviser on behalf any of the other accounts it manages. This gives rise to certain potential conflicts of interest, as discussed below.

The Adviser's management of its clients may benefit members of the Adviser and its affiliates. For example, the Adviser's clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which a member of the Adviser, or the Adviser's other clients, or the Adviser's affiliate, for itself or its clients, has an equity, debt, or other interest.

The advisory contracts entered into by the Adviser with each client do not entitle clients to obtain the benefit of any particular investment opportunities developed by the Adviser or its officers or employees in which the Adviser, acting in good faith, does not cause such client to invest. The Adviser has total discretion to allocate investment opportunities among its clients subject only to each account's respective investment guidelines and the Adviser's duty to act in good faith.

Similarly, with respect to a particular account, the Adviser is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that the Adviser and "access persons", as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. The Adviser is not obligated to refrain from investing in securities held by any accounts it manages.

Allocations to any account in which the interests of the Adviser, its officers, directors, employees or affiliates collectively exceed 5% of the account's economic value shall be made in accordance with the procedures and policies adopted by Franklin Templeton Investments designed to ensure that buy and sell opportunities are allocated fairly among clients (the "Equity Trade Allocation Policy and Procedures").

These accounts may be deemed affiliated persons of the Adviser by reason of the collective 5% or greater ownership interest of the Adviser's insiders and the Adviser's mutual fund clients if any. Transactions for and allocations to these accounts must also be given special scrutiny because of the inherent conflict of interest involved. All exceptions to standard allocation/rotation procedures involving such affiliated accounts must be documented.

If securities traded for affiliated accounts are also the subject of trading activity (i) by an Adviser's advised mutual fund, or (ii) by other non-mutual fund client accounts, the securities traded for the affiliated accounts should generally be aggregated for trading with the Adviser's advised mutual fund or other non-mutual fund client accounts.

Similarly, the policies and procedures relating to trade allocation for fixed income securities (the "Fixed Income Allocation of Investment Opportunities Policy and Procedures") have been adopted by Franklin Templeton Investments to ensure that buy and sell investment opportunities are allocated fairly and equitably among clients. Because of the different fee structures and investment involvement, the Adviser or its affiliates may be viewed as having a reason to favor the performance of one account over another. In order to prevent any potential or actual conflicts

of interests in the course of making allocations of fixed income investment opportunities, the portfolio managers of the Adviser may consider several factors listed in the Fixed Income Allocation of Investment Opportunities Policy and Procedures or allocate investment opportunities pursuant to alternative methodologies, provided such investment opportunities result in an equitable treatment of all clients over time, are consistently applied and the reason for using the allocation method is documented.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the Adviser has adopted a Code of Ethics which they believe contains provisions reasonably necessary to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the Code of Ethics addresses all individual conduct that could result in conflicts of interest. The Adviser has adopted certain additional compliance procedures that are designed to address these and other types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

OTHER POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

The Adviser, where appropriate and in accordance with applicable laws, may purchase on behalf of the Adviser's clients, or recommend to the Adviser's clients that they purchase, shares of U.S. Registered Funds or other pooled investment vehicles for which the Adviser or its affiliate serves as investment adviser or sub-adviser collectively ("Affiliated Funds"), or invest their assets in other portfolios managed by the Adviser or an affiliate ("Affiliated Accounts").

The Adviser faces potential conflicts when allocating the assets of its clients to one or more Affiliated Funds or Affiliated Accounts. For example, in hindsight and despite intent or innocent purpose, circumstances could be construed that such allocation conferred a benefit upon the Affiliated Fund, Affiliated Account or an adviser to the detriment of the Adviser's client or Private Fund, or vice versa.

As a shareholder in a pooled investment vehicle, a client of the Adviser will pay a proportionate share of the vehicle's fees and expenses. Investment by a client in an Affiliated Fund means that the Adviser may, directly or indirectly, receive, subject to applicable laws, advisory (or other) fees from the Affiliated Fund in addition to any other fees it receives from the Adviser's client for managing the client's separate account. Similarly, the Adviser's clients who invest through a separate account managed by another related adviser are subject to advisory fees charged in connection therewith. The Adviser's clients should notify the Adviser if they do not want their separate account assets to be invested in Affiliated Funds, and the Adviser's clients may invest directly in certain Affiliated Funds or other U.S. Registered Funds outside of their separate accounts without paying additional separate account management fees to the Adviser.

The separate account management fees paid by certain retirement accounts (including those subject to the Employee Retirement Income Security Act of 1974 ("ERISA")) that invest in U.S. Registered Funds from which the Adviser or its affiliate receives compensation ("Affiliated Registered Funds") will, in order to avoid duplication of fees, exclude account assets invested in such Affiliated Registered Funds to the extent required by law when calculating the Adviser's separate account management fees. Accordingly, the assets of such accounts invested in Affiliated Registered Funds will pay their pro rata share of such applicable Affiliated Registered Fund fees, to the extent not prohibited by law. Alternatively, the Adviser, at its sole discretion, may (but, except as necessary in accordance with applicable law, is not required to) elect to waive all or a portion of its separate account investment management fee or provide a credit representing the respective account's pro rata share of fees paid with respect to any assets of a client invested in shares of any such U.S. Registered Funds or other pooled investment vehicles, or separately managed accounts of another related adviser.

In certain circumstances, the Adviser may conclude that that it is appropriate to sell securities held in one client account to another client account. Consistent with its fiduciary duty to each client (including the duty to seek best execution), the Adviser may (but is not required to) effect purchases and sales between clients or clients of affiliates ("cross trades") if the Adviser believes such transactions are appropriate based on each client's investment objectives, subject to applicable law and regulation. The Adviser will not receive compensation (other than its normal advisory fee for managing the account), directly or indirectly, for effecting a cross trade between

advisory clients, and accordingly will not be deemed to have acted as a broker with respect to such transactions. The Adviser seeks to assure that the price paid or proceeds received by clients in a cross trade is fair and appropriate, which may be based on independent dealer quotes or information obtained from recognized pricing services. Since, in such cross trades, the Adviser will represent both the selling client and the buying client, the Adviser may have a perceived conflict of interest. Clients, therefore, should consider the possible costs or disadvantages of this potential conflict versus the potential benefit of obtaining reduced transaction or execution costs that may be obtained from such cross trades. Any cross trades effected with respect to U.S. Registered Fund clients would be accomplished in compliance with Rule 17a-7 of the 1940 Act.

Potential restrictions on Investment Adviser Activity

From time to time, the Adviser may be restricted from purchasing or selling securities on behalf of its Clients because of regulatory and legal requirements applicable to the Adviser, its affiliates or its clients (as determined by the Adviser in its sole discretion) and/or its internal policies including those designed to comply with, limit the applicability of, or otherwise relate to such requirements.

There may be periods when the Adviser may not initiate or recommend certain types of transactions, or may otherwise restrict or limit their advice with respect to securities or instruments issued by or related to companies for which the Adviser is performing advisory or other services. For example, if the Adviser is provided with material non-public information with respect to a potential portfolio company as described in under the heading “The Insider Trading Policy” above.

In certain circumstances where the Adviser invests in securities issued by companies that operate in certain regulated industries or in certain emerging or international markets, or are subject to corporate or regulatory ownership restrictions, there may be limits on the aggregate amount invested by the Adviser including those that may not be exceeded without the grant of a license or other regulatory or corporate consent as well as limits on any investment by the Adviser in certain securities due to the Adviser’s internal policies. As a result, the Adviser on behalf of its clients may limit purchases, sell existing investments, or otherwise restrict or limit the exercise of rights (including voting rights) when the Adviser, in its sole discretion, deem it appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds or investment restrictions.

In those circumstances where ownership thresholds or limitations must be observed, the Adviser seeks to equitably allocate limited investment opportunities among its clients, taking into consideration benchmark weight and investment strategy. When the Adviser’s ownership in certain securities nears an applicable threshold, the Adviser may limit purchases in such securities to the issuer's weighting in the applicable benchmark used by the Adviser to manage the Adviser’s client account. If the Adviser’s clients’ holdings of an issuer exceed an applicable threshold and the Adviser is unable to obtain relief to enable the continued holding of such investments, it may be necessary to sell down these positions to meet the applicable limitations, possibly during deteriorating market conditions.

Please see further discussion of allocation of investment opportunities under Item 12 (Brokerage Practices).

In addition to the foregoing, other ownership thresholds may trigger reporting requirements to governmental and regulatory authorities, and such reports may entail the disclosure of the identity of the Adviser’s client or its intended strategy with respect to such security or asset.

The Adviser’s services are not exclusive to any of its clients, and the Adviser is free to render, and does render, similar or other services to other persons and entities. The Adviser and its related persons may give advice or take action with respect to a client account, or for its or their own account, that may differ from the advice given or action taken by the Adviser for another account.

The Adviser has no obligation to provide the same investment advice or purchase or sell the same securities for each account it manages. In general, the Adviser has discretion to determine whether a particular security is an appropriate investment for each account under management, based on the account’s investment objectives, investment restrictions and trading strategies. Accounts with investment restrictions that preclude investing in new, unseasoned or small

capitalization issuers will generally not participate in initial public offerings ("IPOs") or private equity transactions, including those that are expected to trade at a premium in the secondary market. Even an account that is permitted to make such investments may not participate if doing so would be inconsistent with its investment practices. In addition, accounts with a specific mandate may receive first priority for securities falling within that mandate. As a result, certain accounts managed by the Adviser or its affiliates may have greater opportunities to invest in private equity transactions or IPOs. In the event that an IPO or private equity transaction is oversubscribed, securities will be allocated among eligible accounts according to procedures designed to provide equitable treatment to all such accounts. Subject to the above, allocation is done for each account on a pro-rata basis.

Political Contributions

It is the policy of the Adviser to not make, and to prohibit its employees from making on behalf of the Adviser, any political contributions for the purpose of influencing an existing or potential client, a public official or his or her agency. However, employees may make personal political contributions in accordance with the requirements and restrictions of applicable law and the Adviser's policies. To help ensure compliance with SEC rules, and the many state and local pay-to-play rules, all of the Adviser's employees must pre-clear and obtain prior approval from the legal and compliance departments before they make any contributions (*i.e.*, any monetary contribution or contribution of goods or services) to a political candidate, government official, political party or political action committee.

Item 12 Brokerage Practices

SELECTION CRITERIA FOR BROKERS AND DEALERS

In effecting portfolio transactions, the Adviser 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 Adviser's clients.

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

- Technology
- Transparency of order routing
- Effectiveness of algorithms for order routing
- 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
- Trade aggregation 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
- Financial condition of broker

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions is 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.

When appropriate under its discretionary authority, consistent with its duty to obtain best execution, and in conformance with the Adviser's client commission policy described below, the Adviser may consider the receipt of research and brokerage products and services from broker-dealers when directing brokerage transactions for client accounts.

For most transactions in equity securities, the amount of commissions paid is negotiated between the Adviser's trading department and the broker executing the transaction. The Adviser may also place orders to buy and sell equity securities where the broker is acting on a principal rather than agency basis if the Adviser's traders believe that trading on a principal basis is likely to provide best execution.

When buying or selling fixed income securities in dealer markets, Adviser will generally deal directly with market makers in the securities. On these transactions, Adviser typically will effect trades on a net basis, and will not pay the market maker any commission, commission equivalent or markup/markdown other than the spread. Usually, the market maker profits from the spread, that is, the difference between the price paid (or received) by Adviser and the price received (or paid) by the market maker in trades with other broker-dealers or other customers. In some instances, a broker-dealer who also serves as custodian for an account may assess a ticket charge for executing the transaction or a trade away charge for settling a transaction executed by a different broker.

Adviser may also effect transactions that are placed pursuant to a negotiated agreement with a counterparty/futures commission merchant, including but not limited to swaps, futures, forwards, options and repurchase agreements. Due to the fact that certain instruments are traded pursuant to a private agreement with a counterparty (which must be in place prior to effecting a transaction), such as swaps, futures, options, forwards and certain other instruments and the fact that the Adviser will have a limited universe of counterparties from which to choose, the standard for best execution may vary with the type of security or instrument involved in a particular transaction.

The Adviser endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. However, the Adviser will not select broker-dealers solely on the basis of purported or posted commission rates nor generally seek in advance competitive bidding for the most favorable commission rate applicable to any particular portfolio transaction. Although the Adviser generally seeks competitive commission rates, it does not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker-dealer involved and would thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

POLICY ON USE OF CLIENT COMMISSIONS ("CLIENT COMMISSION POLICY")

When appropriate under its discretionary authority and consistent with its duty to seek best execution, the Adviser or a related person (hereinafter in this section, "the Adviser") may direct brokerage transactions for client accounts to broker-dealers who provide the Adviser with research and/or brokerage products and services. The brokerage commissions from client transactions that are used to pay for research or brokerage services in addition to basic execution services are referred to here as client commissions or sometimes as soft dollars.

Broker-dealers typically provide a bundle of services including research and execution of transactions. The research provided can be either proprietary (created and provided by the executing broker-dealer, 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-dealer). To the extent permitted by applicable law, the Adviser 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 Adviser by allowing the Adviser to supplement its own research and analysis and also gain access to specialists with expertise on certain companies, industries, areas of the economy, and market factors. The Adviser believes that such research benefits clients.

The Adviser becomes eligible for client commission credits by sending trading and paying trade commissions to broker-dealers ("CCA broker-dealers") who both execute the trades and provide the Adviser with research and other brokerage products and services, including in the following forms: (1) research reports generated by the broker-dealer, (2) conferences with representatives of issuers, and/or (3) client commission credits that can be used to obtain research reports or services from others. The portion of any trade commission attributable to the client commission research or other brokerage products and services cannot be identified at an individual account level.

The list of CCA broker-dealers includes the following, and is subject to change periodically:

Bank of America/Merrill Lynch
Barclays Capital Inc.
BMO Capital Markets
CIBC World Markets
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Goldman Sachs & Co.
Instinet LLC
Investment Technology Group (ITG)
Jefferies and Company Inc.
JP Morgan Securities Inc.
Knight Equity Markets LP
Liquidnet
Morgan Stanley & Co. Inc.
RBC
Scotia Capital
TDSecurities
UBS Securities LLC
Weeden & Co. LP

The U.S. federal securities laws provide a safe harbor which allows an investment adviser to pay for research and brokerage services with the client commission dollars generated by client account transactions. The Adviser currently acquires only the types of products or services that qualify for the safe harbor in Section 28(e) of the U.S. Securities Exchange Act of 1934. If the Adviser manages an account that is subject to the laws of any country outside the United States, the Adviser may also be subject to additional requirements, restrictions or prohibitions in paying for research and brokerage with the client commission dollars generated by client account transactions. In determining whether a service or product qualifies as research or brokerage, the Adviser evaluates whether the service or product provides lawful and appropriate assistance to the Adviser in carrying out its investment decision-making responsibilities.

Research and brokerage 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;
- software that provides analyses of securities portfolios;
- statistical trade analysis;
- 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.

Services may also include access to information providers who are part of what may be referred to as an "expert network". Firms providing such a service may facilitate consultations between researchers, including a variety of investment professionals, and people with knowledge or expertise in a particular field or industry, such as doctors, academics and consultants. Such services supplement the Adviser's own analyses and may be particularly helpful in understanding sectors of the market that may be highly complex or very technical in nature.

If a product or service obtained by the Adviser provides both research and non-research benefits, The Adviser will generally treat the product or service as a mixed use item and will pay for the non-research portion with cash from its own resources rather than client commissions. When acquiring a product or service with mixed use, the Adviser will allocate the cost of the product between client commissions and cash 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 cash will not always be a precise calculation, the Adviser 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 cash.

The determination and evaluation of the reasonableness of the brokerage commission rate paid in connection with portfolio transactions are based to a large degree on the professional opinions 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 commission rates being paid by other investors of comparable size and type. The Adviser may select broker-dealers based on its assessment of their ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer may benefit client accounts. Accordingly, broker-dealers selected by the Adviser may be paid a commission rate for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if the Adviser determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or the Adviser's overall duty to its discretionary accounts.

It is not ordinarily possible to place an exact dollar value on the special execution or on the research services the Adviser receives from dealers effecting transactions in portfolio securities. The allocation of commissions generated by client transactions in order to obtain additional research services permits the Adviser to supplement its own research and analysis activities and to receive the views and information of individuals and research staffs from many securities firms. As long as it is lawful and appropriate to do so, the Adviser and its affiliates may use this research and data in their investment advisory capacities with other clients.

While the Adviser may negotiate commission rates and prices with certain broker-dealers with the expectation that such broker-dealers will be providing brokerage or research services, the Adviser will not enter into any agreement or understanding with any broker-dealer that would obligate the Adviser to direct a specific amount of brokerage transactions or commissions in return for such services. Such research services, however, may be considered as a factor in determining the amount of commissions to be allocated to a specific broker. As a result, the Adviser may have an incentive to select or recommend a broker based on the Adviser's interest in receiving research

or other products or services, rather than on a client's interest in receiving most favorable commission rate. Also, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services. If the Adviser does not meet the amount required to obtain a particular desired product, it may direct accumulated research commissions as part of a client commission arrangement with an executing broker to pay the research provider or the Adviser may pay cash to make up the difference.

In connection with the purchase of securities in certain fixed-price offerings, the Adviser may designate that a portion of the selling concession be paid to a broker-dealer that provides research services to the Adviser.

Research obtained with client commissions may not always be utilized by the Adviser for the specific account that generated the client commissions. The Adviser does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives assists the Adviser in fulfilling its overall duty to its clients. Research/services obtained with client commissions generated by the Adviser's clients may be shared with the Adviser's advisory affiliates. Similarly, the Adviser's client accounts may benefit from research/services obtained with client commissions generated by client accounts of other advisers within Franklin Templeton Investments.

To the extent consistent with its duty to seek best execution, the Adviser may direct trades to a broker-dealer with the instruction that the broker-dealer execute the transaction and that another broker-dealer 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 or SEC guidance. This type of commission sharing arrangement permits the Adviser 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 Adviser receives research or other services.

SEPARATELY MANAGED ACCOUNT BROKERAGE TRANSACTIONS

The Adviser and its affiliated sub-advisers may provide investment management services through a wrap fee or separately managed account ("SMA") program. It is typically the case that the all-inclusive SMA fee charged to clients by the broker-dealer sponsor of the SMA program ("Sponsor") covers execution charges only when transactions are executed through the SMA Sponsor. Clients will be responsible for, in addition to the SMA fee, any and all commissions, commission equivalents, markup/markdown charges, and fees charged by the executing broker-dealer, and any trade away fees charged by the SMA Sponsor, on transactions with broker-dealers other than the SMA Sponsor. Trades for SMA accounts may be processed such that any commissions, commission equivalents, markup/markdown charges, and other fees charged by an executing broker-dealer other than the SMA Sponsor may be reflected in the total net price for the trade (as opposed to broken out separately for non-SMA orders) to provide a means to compensate the broker-dealer for its services in executing the trade. In this circumstance, these other fees may not be separately identified on the trade confirmations the client or the SMA Sponsor receives.

The Adviser and its affiliated sub-advisers will consider such SMA arrangements in the process of attempting to secure the best combination of price and intermediary value given the strategies and objectives of the client, or best execution. This can be a highly subjective determination because of the inherent difficulties in measuring and assessing execution quality and best execution, especially in SMA programs. Although traders seek best execution for each trade, the Adviser and its affiliated sub-advisers may only be able to assess execution quality by evaluating the process and trade data over a period of time, rather than on a trade-by-trade basis. Due to the circumstances in SMA programs, there could be disparities between execution price and/or quality relative to other accounts managed by Adviser and its affiliated sub-advisers.

The Adviser and its affiliated sub-advisers may determine that, despite the SMA fee only covering execution charges through the SMA Sponsor, best execution under the circumstances favors placing trades through broker-dealers other than the SMA Sponsor. Trading with broker-dealers other than the SMA Sponsor may be more likely in, but not limited to, circumstances where:

- the Adviser or its affiliated sub-advisers execute the transaction through an electronic execution management system ("EMS") or similar system that facilitates block orders among clients and that may provide certain trading advantages, including enhanced execution, speed and anonymity;
- the Adviser or its affiliated sub-advisers determine that value is maximized for its clients by the quality of brokerage and research services received and the quality of the execution of the transaction through a broker-dealer other than the SMA Sponsor, notwithstanding any charges and commission costs in addition to the SMA fee; and/or
- trading is done in less liquid, inefficient or unique markets, such as small capitalization, international or municipal securities markets, or where the Adviser or its affiliated sub-advisers are able to avail themselves of an automated system to purchase ordinary shares of international companies and convert them into American Depository Receipts (ADRs).

Orders for trades executed through broker-dealers other than the SMA Sponsor may be aggregated or batched for execution in accordance with established procedures. Generally, for each account, such batched transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for such account. However, as discussed above, in such cases clients may be responsible for, in addition to the SMA fee, any and all commissions, commission equivalents, markup/markdown charges, trade-away fees and other fees on such trades, whether broken out separately or reflected in the total net price for the trade.

The Adviser or its affiliated sub-advisers may determine that best execution under the circumstances for SMA accounts favors placing such transactions with the SMA Sponsor. Transactions executed through the SMA Sponsor may be more likely in, but not limited to circumstances where:

- the Adviser or its affiliated sub-advisers reasonably believes that the total cost to the client, including any trade away fees, may erode any more favorable execution possibly attainable through another broker-dealer;
- the SMA Sponsor has electronic trading and portfolio management systems that cannot readily accommodate or reflect trades through other broker-dealers, requiring manual processes that may lead to increased processing and reporting errors, or the SMA Sponsor otherwise restricts trading through other broker-dealers; and/or
- the Adviser or its affiliated sub-advisers do not or are unable to execute the transaction through an EMS or similar system that facilitates block orders among clients.

Transactions executed through the SMA Sponsor may not be combined or batched for execution purposes with orders for the same securities for other accounts managed by the Adviser or its affiliated sub-advisers through other broker-dealers. Such transactions may be placed according to an alternating sequence or rotation system. As a result, prices may vary among clients, and the first accounts to trade may or may not receive a more favorable price than later-traded accounts.

Alternatively, transactions executed through the SMA Sponsor may be placed at the end of other trading activity for a particular security. This method may be used where the Adviser or its affiliated sub-advisers determine that it may produce the best execution under the circumstances for the broadest segment of clients (typically measured by assets and/or number of accounts), or that a rotation system is otherwise not feasible based on practical, execution quality or other considerations. In these circumstances, transactions executed through the SMA Sponsor may be subject to price movements (particularly for large orders or orders in more thinly traded securities) that may result in clients receiving a price that is less favorable than the price obtained for other orders. Clients may therefore pay higher net prices or receive lower net prices than would be the case if the Adviser or its affiliated sub-advisers were placing transactions without regard to the SMA arrangements or restrictions.

The Adviser and its affiliated sub-advisers may also provide non-discretionary investment management services, usually through SMA Programs typically known as Unified Managed Account ("UMA") programs or otherwise, where the Adviser or its affiliated sub-advisers generally provide ongoing investment recommendations in the form of one or more "model" portfolios, and

the SMA Sponsor or its designee, rather than the Adviser or its affiliated sub-advisers, makes the investment decision and executes trades on behalf of its underlying clients. The SMA Sponsor or its designee, and not the Adviser or its affiliated sub-advisers, is the investment adviser for accounts of clients of such programs.

The Adviser and its affiliated sub-advisers have adopted policies and procedures designed to help ensure that any non-discretionary investment advice is communicated to SMA Sponsors and/or clients on a timely basis so that trades can be executed for both discretionary and non-discretionary clients in a fair manner. The Adviser and its affiliated sub-advisers frequently may communicate updates to model portfolios at the end of trading activity for a particular security. This method may be used where the Adviser or its affiliated sub-adviser considers the impact that the recommendation will likely have on the market and determines that this method may produce the best execution under the circumstances for the broadest segment of clients, or that a rotation system is otherwise not feasible based on practical, execution quality or other considerations. In these circumstances, transactions executed by the SMA Sponsor for its clients may be subject to price movements (particularly for large orders or orders in more thinly traded securities) that may result in the SMA Sponsor's clients receiving a price that is less favorable than the price obtained by the Adviser or its affiliated sub-advisers for advisory clients.

Alternatively, where it is deemed not to have a material impact on the trading execution for advisory clients, the Adviser and its affiliated sub-advisers may communicate updates to its model portfolios as part of their alternating sequence or rotation system. As a result, prices may vary among clients and SMA programs, and the first accounts to trade may or may not receive a more favorable price than later-traded accounts.

THE STATEMENT OF BEST EXECUTION PROCEDURES

The Adviser has adopted policies and procedures incorporating statements of best execution with respect to equity investments (the "Best Execution Statement") to provide guidance in situations where the Adviser may consider the receipt of research and statistical services from broker-dealers, or other client commission arrangements, when directing brokerage transactions for client accounts. The Best Execution Statement is designed to ensure (i) execution services meet the quality standards established by the Adviser's trading team and are consistent with established policies, (ii) provide the broadest flexibility in selecting which broker-dealers may provide best execution, (iii) continual evaluation of the execution capabilities of, and the quality of execution services received from, broker-dealers effecting portfolio transactions for Adviser's clients, and (iv) the identification and resolution of potential conflicts of interest.

Pursuant to the Best Execution Statement, the trading team at each global location will use multiple evaluation criteria to help determine which brokers have provided the highest quality execution services over the recent time period. An evaluation form comprised of various factors considered relevant to the trading process, as may be revised from time to time, is typically used for this purpose. An average of each team's evaluations or rankings will then be used to determine the broker's appropriate overall rank both within each global location and in the broker universe of the global trading department ("Global Trading"). On a quarterly basis, the Equity Global Best Execution Committee ("GBEC"), comprised of senior members of Global Trading, conducts further detailed reviews of the trades executed by members of Global Trading. Minutes of the meetings of the GBEC are presented regularly to the Equity Global Trading Oversight Committee ("GTOC"), which is comprised of senior management personnel, including senior representatives from the portfolio management, trading, legal and global compliance departments.

As part of the oversight of the brokerage allocation process, the GTOC meets semi-annually to review brokerage allocations and the stated reasons for selecting certain broker-dealers. The GTOC reviews historical broker dealer transaction history to attempt to confirm that the principles of the Adviser's stated best execution procedures are being applied based on information obtained internally and externally. Internal information may include trade execution, trade volume and trade count data. External information may include independent data sources that rank brokers on trade execution and quality of service.

There are potentially many factors to be considered in making broker selections. It is the responsibility of the traders to make determination within Global Trading's brokerage universe to provide the best execution for any particular transactions based on their knowledge and experience, which generally override any predetermined notion for choice of brokers. In our view, "best execution" is a process of attempting to secure the best combination of price and intermediary value given the strategies and objectives of the Adviser's client accounts from the inception to the completion of the order with the focus toward maximizing value for our clients. Moreover, there is not a single rule that is strictly applied to guide the traders in selecting a particular broker for each and every trade. For example, the commission rate is only one factor that the traders need to consider in evaluating which broker can provide the best overall execution for a particular trade or trades and a higher commission may be outweighed by other considerations relevant to the quality of the execution received.

Transactions in fixed income securities typically do not generate commissions, and there are other practical limitations on the universe of appropriate dealers in fixed income securities. However, the Fixed Income GTOC meets regularly to ensure that fixed income transactions executed by the Adviser meet the standards of best execution identified in the statement of best execution for fixed income transactions (the "Fixed Income Best Execution Statement"), which is intended to reflect the same fiduciary principles incorporated into the Best Execution Statement while addressing the special considerations applicable to executing transactions in fixed income investments.

To the extent consistent with its duty to seek best execution, the Adviser may effect transactions through broker-dealers that also may refer private account clients to the Adviser or an affiliate. To the extent that these referrals result in an increase in assets under management, the Adviser or its affiliates may benefit. Therefore, a potential conflict may exist that the Adviser could have an incentive to select or recommend a broker-dealer for trading based on its interest in receiving client referrals rather than in receiving most favorable execution for clients. In order to manage this potential conflict of interest, the Adviser does not enter into agreements with, or make commitments to, any broker-dealer that would bind the Adviser to compensate that broker-dealer through increase brokerage transactions for client referrals or sales efforts; nor will the Adviser use step-out transactions or similar arrangements to compensate selling brokers for their sales efforts. In addition, the Adviser's U.S. Registered Funds have adopted procedures pursuant to Rule 12b-1(h) under the 1940 Act (as set forth in the policy entitled, "Prohibition on the Use of Brokerage Commissions to Finance Distribution") which provide that neither the funds nor the Adviser may direct brokerage in recognition of the sale of fund shares. Consistent with those procedures, the Adviser does not consider the sale of mutual fund shares in selecting broker-dealers to execute portfolio transactions. However, whether or not a particular broker or dealer sells shares of the Adviser's mutual funds neither qualifies nor disqualifies such broker or dealer to execute transactions for those mutual funds.

FOREIGN EXCHANGE TRANSACTIONS

Some clients require transactions in currencies other than the base currency of their account to permit the purchase or sale of foreign securities and to repatriate the proceeds of such trades (as well as related dividends, interest payments or tax reclaims) back to the base currency of the account. Typically, these foreign exchange ("FX") transactions will be conducted either by the client's custodian bank as part of the FX transaction services offered to its custody clients or by the client's investment adviser through a third party broker. In some cases, a client may require that its custodian bank execute all FX transactions for its account or particular markets may be restricted meaning that FX transactions in those currencies can only be executed by the client's custodian bank.

Generally, FX transactions related to portfolio trades in unrestricted markets are performed by the Adviser for its clients. FX transactions related to portfolio trades in restricted markets, and for income repatriation, are generally the responsibility of the respective client's custodian bank.

For certain accounts, the Adviser may be responsible for the repatriation of income (including, for some of these accounts, the decision whether to repatriate the income or leave in local currency based on investment outlook) and for arranging FX transactions in one or more restricted

markets. The Adviser will typically perform the income repatriation for these accounts in unrestricted markets and the client's custodian bank will generally carry out FX transactions and repatriation (through a sub-custodian bank domiciled in the foreign country) in restricted markets.

Whether a market is considered to be restricted will depend on a number of factors, including country specific statutory documentation requirements, structural risks, operational constraints, and convertibility issues. The Adviser's list of unrestricted markets may also change over time and may be different depending on the type of transaction. The Adviser may consult with third parties, including broker-dealers and custodians in making a good faith determination on whether a market is considered restricted. The Adviser does not have the ability to control any FX transactions performed by the client's custodian bank and assumes no responsibility for the execution or oversight of FX transactions conducted by the client's custodian bank.

With respect to accounts for which FX transactions are performed by the client's custodian bank, the Adviser does not monitor the execution quality of the FX transactions performed by the client's custodian bank. In exceptional circumstances, the Adviser may agree with a client to monitor certain FX activity performed by the client's custodian bank for that account. In doing so, the Adviser may rely on information provided by a third party industry vendor on the same basis as disclosed above.

CLIENT-DIRECTED BROKERAGE TRANSACTIONS

The Adviser does not routinely recommend, request or require that a client directs brokerage to any specific broker-dealers. In selecting brokers through whom portfolio transactions will be executed, the Adviser's first responsibility will be to comply with any client instructions specifying the use of a particular broker.

Clients may limit the Adviser's discretionary authority and may occasionally direct the Adviser to use a particular broker-dealer to execute portfolio transactions for its account. Such direction may include expense reimbursement and commission recapture arrangements, where the Adviser is informed by a client that certain broker-dealers will rebate a certain portion of an account's brokerage commissions (or spreads on fixed income or principal trades) directly to the account, or apply the amount to an account's expenses.

When a client directs the use of a particular broker-dealer (including expense reimbursement and commission recapture arrangements), the Adviser may not be in a position to freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution. In addition, transactions for a client that directs brokerage may not be combined or batched for execution purposes with orders for the same securities for other accounts managed by the Adviser and may be placed at the end of batched trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if the Adviser were empowered to negotiate commission rates or spreads freely, or to select brokers or dealers based solely on best execution considerations. Therefore, in instances where a client directs the Adviser to use a particular broker to execute trades, the Adviser may not be able to obtain best execution for such client-directed trades.

BATCHED TRANSACTION POLICY

The Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. The Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest exist with respect to the aggregation and allocation of client transactions. For example, with respect to the allocations of aggregated trades, an adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee to the adviser.

There may be instances where purchase or sale orders, or both, are placed simultaneously on behalf of the Adviser's advised accounts and by accounts advised by adviser affiliates. Orders for such securities may be aggregated or batched for execution in accordance with established procedures. Generally, for each account, such batched transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for such account. Generally, all accounts that are batched will participate on a pro-rata, relative order size, percentage, or other objective basis. Orders may be batched to facilitate best execution, as well as for the purpose of negotiating more favorable brokerage commissions beneficial to all accounts. Alternatively, trades may be placed according to an alternating sequence or rotation system. Trades placed through directed brokerage arrangements that cannot be batched may be executed after discretionary trades. The Adviser may also batch orders for clients that permit client commission arrangements with clients that do not permit such arrangements. In such cases, the Adviser batches such orders to obtain best execution and does not seek a research credit for the portion of the trade that is executed for clients that do not permit such arrangements.

Where the client has directed the Adviser to use a specific broker-dealer, the Adviser may not be able to combine or batch client's orders for purposes of execution with orders of the same securities for other accounts managed by the Adviser; and, therefore, the Adviser may not be able to obtain best execution for the client. In addition, certain foreign markets may require trades to be executed on an account by account basis. As portfolio transactions in such markets cannot be batched, prices may vary among accounts.

Additionally, the Adviser may, subject to internal policies and procedures, batch trades of clients in the separately managed account ("SMA") programs of certain broker-dealers, or who otherwise direct trades to such broker-dealers, with other trades by the Adviser or its affiliates through such broker-dealers.

ALLOCATION IN IPOs AND SECONDARY OFFERINGS

From time to time, the Adviser may wish to participate in initial public offerings ("IPOs"), secondary offerings, or acquire other stocks for an account that are experiencing unusual trading activity and may only be available in limited quantities at the desired price. In determining which accounts may participate in such special situations, the Adviser may take into account the investment emphasis or focus of individual accounts on particular industries or geographic areas provided the approach used is consistently applied and results in a generally equitable treatment of all accounts over time. The Adviser has implemented equity trade allocation procedures designed to provide that all clients over time receive a fair opportunity to participate in such special situations. Additional care and caution is exercised if one of the accounts participating in a limited investment opportunity is an affiliated account, including specific compliance approval when affiliated accounts are participating in an IPO or secondary offer.

Generally, requested indications of interest in IPOs are submitted to the underwriter by each adviser group to increase the opportunity of gaining additional shares. Allocation of the awarded shares is then done for each account per adviser on a pro-rata basis. For IPOs and offerings that are priced after the close of business on a given trading day, preliminary allocations are prepared and a final allocation is prepared on the following business day when the price and size of allocation are known. Any adjustments or reallocations made in this circumstance require special approval.

Investments in IPOs and secondary offerings are typically not permissible investments for clients in separately managed account ("SMA") and unified managed account ("UMA") programs.

Item 13 Review of Accounts

The Adviser manages investment portfolios for each of its clients. Generally, the portfolios under the Adviser's management are reviewed by one or more portfolio managers who are responsible to their respective Chief Investment Officer, either directly or indirectly. Such review may be made with respect to its clients' investment objectives and policies, limitations on the types of instruments in which each of its clients may invest and concentration of investments in particular industries or types of issues. There is no general rule regarding the number of accounts assigned to a portfolio manager.

The frequency, depth, and nature of reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written investment management agreement or by the mandate selected by the client and the particular needs of each client.

Written reports of portfolio breakdown, transactions and performance are provided to clients no less frequently than quarterly. Additional trade reports may be available upon request.

Item 14 Client Referrals and Other Compensation

The Adviser or a related person may enter into referral fee arrangements to compensate affiliated and non-affiliated persons for referring or otherwise recommending its investment advisory services to potential clients. To the extent required, such arrangements would be entered into in accordance with Rule 206(4)-3 under the Advisers Act and other applicable law. The compensation paid may consist of a cash payment computed as a flat fee, a percentage of the Adviser's advisory fee, or some other method of computation agreed upon between the parties. To the extent allowed under applicable law, the Adviser's Code of Ethics and the policies and procedures (including the Anti-Corruption Policy) of the Adviser, its affiliates, and/or a particular broker/dealer, the Adviser or a related person may (i) pay broker-dealer sponsors for training seminars, conferences and other educational events, (ii) pay travel and lodging expenses relating to financial advisers' attendance at the Adviser's due diligence meetings, (iii) give certain business-related gifts or gratuities, and/or pay reasonable expenses relating to meals and/or entertainment, for financial advisers, and (iv) make a contribution in connection with a charitable event or to a charitable organization sponsored, organized or supported by a broker-dealer or its representatives, on behalf of such broker-dealer or its representatives, or to which such broker-dealer or its affiliates provides professional services.

Item 15 Custody

The Adviser generally does not have custody of its clients' assets. However, because certain institutional clients may authorize the Adviser to receive its advisory fees out of the assets in such clients' accounts by sending invoices to the respective custodians of those accounts, the Adviser may be deemed by the SEC to have custody of the assets in those accounts. These clients will generally receive account statements directly from their third-party custodians for the accounts and should carefully review these statements. Such clients should contact the Adviser immediately if they do not receive account statements from their custodian on at least a quarterly basis. In addition to account statements delivered by their third-party custodians, the Adviser may provide clients with separate reports or account statements providing information about the account. Clients should compare these carefully to the account statements received from the custodian. If clients discover any discrepancy between the account statement provided by the Adviser and the account statement provided by the custodian, then they should contact the Adviser and their custodian immediately.

Funds or securities of a small number of clients of the Adviser, or for which the Adviser serves as a discretionary sub-adviser, are held by Fiduciary Trust Company International, ("FTCI") a bank affiliate of the Adviser which is a Qualified Custodian for the purposes of the Advisers Act. An adviser that provides investment advice to one or more clients whose funds or securities are held by a bank affiliate of the Adviser is typically deemed by the SEC to have custody of those assets under the Advisers Act and subject to a number of additional requirements to demonstrate that sufficient safeguards are in place to protect client assets. However, in situations where the Adviser can demonstrate that it is operationally independent from its affiliated custodian, the Advisers Act provides that the Adviser may determine that the additional requirements are not necessary because structural and organizational safeguards already exist to protect client assets to an equal extent. The Adviser has made a determination that it is operationally independent from FTCI with respect to its clients whose funds and securities are held by FTCI.

While this means that the Adviser does not have to undergo an annual surprise examination and verification of those assets by an independent accountant, it must still have FTCI obtain an internal control report from an independent accountant registered and subject to inspection by the Public Accounting Oversight Board attesting to FTCI's controls as a qualified custodian related to safekeeping of client assets.

Item 16 Investment Discretion

With respect to certain accounts, the Adviser has discretionary authority to supervise and direct the investment of the assets under its management, without obtaining prior specific client consent for each transaction. However, this investment discretion is granted by written authority of the client in the investment management agreement between the client and the Adviser and is subject to such limitations as a client may impose by notice in writing. Under its discretionary authority, Adviser may make the following determinations in accordance with the client's investment objectives and limitations, client investment guidelines and restrictions, internal policies and applicable law and practice, without prior consultation or consent before a transaction is effected:

- Which securities to buy or sell;
- The total amount of securities to buy or sell;
- The broker or dealer through whom securities are bought or sold; and/or
- The prices and commission rates at which securities transactions for client accounts are effected.

The Adviser may also provide non-discretionary services to advisory accounts. Advisory accounts for which the Adviser does not have investment discretion may or may not include the authority to trade for the account and are subject to such limitations as a client may impose in writing. With respect to certain accounts for which the Adviser does not have investment discretion or trading authority, the Adviser may delay a recommendation to buy or sell for those accounts if the Adviser believes that the execution of such recommendation could have a material impact on pending trades for accounts for which the Adviser holds investment discretion.

The Adviser may, in its sole discretion, accept one or more categories of social restrictions requested in writing by clients. Unless otherwise agreed to with a client, the Adviser's compliance with such restrictions will be based on good faith efforts and may be satisfied by utilizing a third party service to screen issuers against such restrictions, or, in its sole discretion, other market data services such as Bloomberg and Factset as well as internal research.

Unless the Adviser is specifically directed otherwise either in its investment management agreement with a client or by separate instruction, uninvested cash held by the Adviser's clients generally will be automatically moved or "swept" temporarily into one or more money market mutual funds or other short-term investment vehicles offered by the client's custodian. Generally, sweep arrangements are made between the client and the client's custodian, with the client being responsible for selecting the sweep vehicle. The Adviser's sole responsibility in this regard is to issue standing instructions to the custodian to sweep excess cash in the client's account into the sweep vehicle. In circumstances where the client has not made arrangements with its custodian, the Adviser may consult with the client regarding an appropriate sweep vehicle from those made available by the custodian, with the ultimate decision being made by the client. In exceptional circumstances, the Adviser will make the selection of the appropriate sweep vehicle from those made available by the custodian. However, the Adviser does not actively manage the residual cash in client accounts and will not be responsible for monitoring the sweep vehicle into which such residual cash is swept.

Whether sweep arrangements are made between the client and its custodian or in consultation with the Adviser, any client whose assets are swept into an unaffiliated money market mutual fund or other short-term investment vehicle will continue to pay the Adviser's regular advisory fee plus a management fee to the manager of such fund or short-term investment vehicle on the portion of the account assets invested in the money market mutual fund or short-term investment vehicle.

From time to time, the Adviser may, in its sole discretion, submit a shareholder proposal to the issuer of, or otherwise engage in shareholder activism with respect to, securities presently held in one or more client accounts when the Adviser believes that such shareholder proposal or activism has the potential to enhance the value of such issuer's securities or generally benefit shareholders. The Adviser may also consider such factors including but not limited to costs when considering whether to engage in such activities.

The Adviser may, in its sole discretion, accept the initial funding of client accounts with one or more securities-in-kind ("SIK"). Subject to the terms of the investment management agreement and applicable law, the Adviser will use good faith efforts to liquidate any SIK that the Adviser does not elect to keep as part of such accounts, and shall not be liable for any investment losses or market risk associated with such liquidation.

The investment guidelines applicable to an account are typically based on the account being fully funded and, during funding or transition phases, the Adviser's inability to comply with restrictions related to holding limitations, sector allocations and investment diversification shall not, unless otherwise agreed with a client, be considered a breach of the investment management agreement between the Adviser and the client.

PARTICIPATION IN LEGAL PROCEEDINGS

Unless otherwise specifically agreed with a client, the Adviser shall not be required, or be liable for any failure, to take any action with respect to lawsuits or other legal proceedings involving securities presently or formerly held in a client's account, or involving issuers of such securities or related parties, including but not limited to filing proofs of claim on behalf of a client to participate in any class action settlement or judgment, regulatory recovery fund, or bankruptcy proceedings for which a client may be eligible.

Where the Adviser has specifically agreed with a client to do so, the Adviser, through its delegates (which may include, without limitation, personnel of an affiliate, a law firm, or other claim filing service), uses good faith efforts to file proofs of claim on behalf of the client in class action lawsuit settlements or judgments and regulatory recovery funds pending in the U.S. and Canada, involving issuers of securities presently or formerly held in the client's account, or related parties of such issuers, of which the Adviser learns and for which the client is eligible during the term of the agreements governing the client's account with the Adviser (the "Claim Service"). Infrequently, such U.S. and Canadian class action lawsuits may require investors affirmatively to "opt in" to the class and may subject investors to public identification and to participation in discovery ("Opt-In Actions"). Unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, without undertaking any obligation to do so file any required documentation in any Opt-In Actions.

While the Claim Service is focused on recovery opportunities in the U.S. and Canada (the jurisdictions in which class action lawsuits and regulatory recovery funds predominate), it is possible that, as class action laws in legal systems in jurisdictions outside of the U.S. and Canada continue to evolve, the Adviser may learn of recovery opportunities in those other jurisdictions that similarly require only the filing of a proof of claim or its equivalent to recover, referred to here as "Foreign Actions." The Adviser does not assume any obligation to identify, research, or file proofs of claim in, any Foreign Actions. In the event that the Adviser does learn of Foreign Actions, the Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim for the client in such Foreign Actions. Foreign Actions do not include any other type of collective action outside of the U.S. and Canada, such as representative actions. Those other actions require individual analysis as to whether participation is in an investor's best interest and often require participants to agree to funding agreements or to pay the costs of the litigation directly, to enter into agreements with representative organizations, and to commit to participation in discovery and may require participants to be identified publicly as plaintiffs in the action. The Adviser does not assume any obligation to identify or take any action with respect to such offshore collective or representative actions for its clients.

In connection with the Claim Service, where provided, the Adviser may disclose information about a client's account, whether by including such information in any proofs of claim or otherwise disclosing such information in any related manner. By filing a proof of claim on behalf of a client, the Adviser may waive the client's right to pursue separate litigation with respect to the subject matter of the class action lawsuit or regulatory recovery fund. Where the Adviser does provide the Claim Service, the Adviser may (subject to the agreements governing the client's account), at any time, terminate the Claim Service by giving notice of such termination to the client (by any method the Adviser chooses, including electronic mail), and such service will, if not sooner terminated, automatically terminate upon the termination of the governing agreements.

Further, unless otherwise specifically agreed with a client, the Adviser shall not be required, or be liable for any failure, to participate in any bankruptcy proceedings involving issuers of securities presently or formerly held in a client's account, or related parties of such issuers. Without limiting the foregoing, the Adviser shall not be responsible for filing proofs of claim in bankruptcy proceedings, notifying clients of any applicable deadlines, or participating in any committees of creditors or other stakeholders on behalf of clients.

With respect to the Franklin Templeton Investments U.S.-registered investment companies or other pooled or collective investment vehicles managed by the Adviser's affiliates (collectively, "Funds"), the Adviser's affiliates, on behalf of and in the name of the Funds, use good faith efforts to provide the Claim Service, as described above, during each Fund's existence. In addition, from time to time the Adviser's affiliates may recommend that one or more of the Funds pursue litigation against an issuer or related parties (whether, for example, by opting out of an existing class action lawsuit, participating in a representative action in a foreign jurisdiction, or otherwise). Neither the Adviser nor its affiliates will provide the Adviser's clients notice of, or the opportunity to participate in, any litigation against an issuer or related parties. The Adviser's affiliates or the Funds may also participate in bankruptcy proceedings involving issuers of securities presently or formerly held in the Funds' portfolios, or related parties of such issuers, and join official or ad hoc committees of creditors or other stakeholders.

Item 17 Voting Client Securities

PROXY VOTING POLICIES & PROCEDURE

The Adviser has delegated its administrative duties with respect to voting proxies for client equity securities to the proxy group within Franklin Templeton Companies, LLC (the "Proxy Group"), an affiliate and wholly owned subsidiary of Franklin Resources, the parent company of the Adviser.

All proxies received by the Proxy Group will be voted based upon the Adviser's instructions and/or policies. To assist it in analyzing proxies, the Adviser subscribes to one or more unaffiliated third party corporate governance research services that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services (each a "Research Service"). Although Research Service analyses are thoroughly reviewed and considered in making a final voting decision, the Adviser does not consider recommendations from a Research Service or any other third party to be determinative of the Adviser's ultimate decision. Rather, the Adviser exercises its independent judgment in making voting decisions. The Adviser votes proxies solely in the best interests of the client, the Adviser-managed fund shareholders or, where employee benefit plan assets subject to the Employee Retirement Income Security Act of 1974, as amended, are involved ("ERISA accounts"), in the best interests of plan participants and beneficiaries (collectively "Advisory Clients") unless (i) the power to vote has been specifically retained by the named fiduciary in the documents in which the named fiduciary appointed the investment manager or (ii) the documents otherwise expressly prohibit the investment manager from voting proxies. As a matter of policy, the officers, directors and Access Persons (as defined in the Code of Ethics Summary in Item 11) of the Adviser and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of Advisory Clients. In situations where a material conflict of interest is identified, the Proxy Group may vote consistently with the voting recommendation of a Research Service or send the proxy directly to the relevant Advisory Clients with the Adviser's recommendation regarding the vote for approval.

As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the management of the company in which the equity securities are held. Each issue, however, is considered on its own merits, and the Adviser 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.

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(s) that follows the security and will provide the analyst(s) with the agenda, Research Service analyses, recommendations and any other information provided to the Proxy Group. Except in situations identified as presenting material conflicts of

interest, the Adviser's research analyst(s) and relevant portfolio manager(s) are responsible for making the final voting decision based on their review of the agenda, Research Service analyses, proxy statements, their knowledge of the company and any other information publicly available. In the case of a material conflict of interest, the final voting decision will be made in accordance with the conflict procedures, as described above. Except in cases where the Proxy Group is voting consistently with the voting recommendations of an independent third party service provider, the Proxy Group must obtain voting instructions from the Adviser's research analyst(s), relevant portfolio manager(s), legal counsel and/or an Advisory Client prior to submitting the vote.

The Adviser has adopted general proxy voting guidelines that are reviewed periodically by various members of the Adviser's organization, including portfolio management, legal counsel and the Adviser's officers, and are subject to change. These guidelines cannot provide an exhaustive list of all the issues that may arise nor can the Adviser 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, environmental, social and governance issues, and global corporate governance.

The Proxy Group is fully cognizant of its responsibility to process proxies and maintain proxy records pursuant to SEC rules and regulations, including Rule 206(4)-6 under the Advisers Act. In addition, the Adviser understands its fiduciary duty to vote proxies and that proxy voting decisions may affect the value of shareholdings. Therefore, the Adviser will attempt to process every proxy it receives for all U.S. and non-U.S. securities. However, there may be situations in which the Adviser will not vote a proxy, such as where: (i) proxy ballot was not received from the custodian bank, (ii) a meeting notice was received too late, (iii) there are fees imposed upon the exercise of a vote and the Adviser has determined that such fees outweigh the benefit of voting, (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the Adviser votes a proxy or where the Adviser is prohibited from voting by applicable law or other regulatory or market requirements, including but not limited to, effective powers of attorney, (v) the Adviser held shares on the record date but has sold them prior to the meeting date, (vi) proxy voting service is not offered by the custodian in the market, (vii) the Adviser believes it is not in the best interests of the Advisory Client to vote the proxy for any other reason not enumerated herein, or (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

In some foreign jurisdictions, even if the Adviser uses reasonable efforts to vote a proxy on behalf of its Advisory Clients, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the Adviser does not have sufficient notice; or (c) the exercise by the issuer of its discretion to reject the vote of the Adviser. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the Adviser's votes are not received, or properly tabulated, by an issuer or the issuer's agent.

The Adviser or its affiliates may, on behalf of one or more of the registered investment companies advised by the Adviser or its affiliates, determine to use its best efforts to recall any security on loan where the Adviser or its affiliates (a) learn of a vote on a material event that may affect a security on loan, and (b) determine that it is in the best interests of such registered investment companies to recall the security for voting purposes. The Adviser will not generally make such efforts on behalf of other advisory clients, or notify such clients or their custodians that the Adviser or its affiliates has learned of such a vote.

The Proxy Group is responsible for maintaining the documentation that supports the Adviser's voting decision. Such documentation may include, but is not limited to, any information provided by Research Services and, with respect to any issuer that presents a potential conflict of interest, any board or audit committee memoranda describing the position it has taken. The Proxy Group may use an outside service such as a Research Service to support this recordkeeping function. All records will be retained for at least five years, the first two of which will be on-site at the offices of Franklin Templeton Companies, LLC. Advisory Clients may view the Adviser's complete proxy voting policies and procedures on-line at *www.franklintempleton.com*, request copies of their proxy voting records and the Adviser's complete proxy voting policies and procedures by calling

the Proxy Group at 1-954-527-7678 or send a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. For U.S. investment company products, an annual proxy voting record for the period ending June 30 of each year will be posted to *www.franklintempleton.com* no later than August 31 of each year. In addition, the Proxy Group is responsible for ensuring that the proxy voting policies, procedures and records of the registered investment companies advised by the Adviser are made available as required by law, and is responsible for overseeing the filing of such investment company voting records with the SEC.

Item 18 Financial Information

No relevant information to disclose.

Item 1 Cover Page

TEMPLETON INVESTMENT COUNSEL, LLC

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INVESTMENT ADVISER REGISTRATION

FORM ADV PART 2A: FIRM BROCHURE

This brochure provides information about the qualifications and business practices of Templeton Investment Counsel, LLC. If you have any questions about the contents of this brochure, please contact Global Client Service Support ("GCSS") via email at ***GlobalClientServiceSupportAmericas@franklintempleton.com****. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.*

Additional information about Templeton Investment Counsel, LLC. also is available on the SEC's website at ***www.adviserinfo.sec.gov****.*

ANY REFERENCE TO TEMPLETON INVESTMENT COUNSEL, LLC AS BEING A REGISTERED INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.

September 30, 2014

Item 2 Material Changes

Material changes made on or after the date of the last annual update of the Adviser's brochure on September 30, 2013 are summarized below:

Item 4: Advisory Business – Other-than-annual amendment made June 23, 2014 to add description of separately managed account programs to "Advisory Services" section.

Item 5: Fees and Expenses – Other-than-annual amendment made June 23, 2014 to add information regarding fees and expenses relating to separately managed account programs.

Item 7: Type of Clients - Other-than-annual amendment made June 23, 2014 to add disclosure regarding separately managed account programs. Added disclosure with respect to Separate Account clients regarding use and provision of client information and confidentiality clauses in investment management agreements.

Item 12: Brokerage Practices – Other-than-annual amendment made June 23, 2014 to add disclosure of brokerage transaction practices relating to separately managed account programs.

Item 4: Advisory Business – Update regarding indirect parent company Franklin Resources, Inc.'s deregistration as a bank holding company with the Board of Governors of the Federal Reserve System. Assets under management ("AUM") updated as of September 30, 2014. Disclosure added that AUM reported in Item 4 may differ from Regulatory Assets Under Management ("RAUM") disclosed in Item 5.F of Adviser's Form ADV Part 1A due to specific calculation instructions for RAUM.

Item 5: Fees and Expenses – Standard fee schedule updated.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss – Update to description of significant investment strategies used by the Adviser. Removed investment risk disclosure relating to Bank Holding Company Act status.

Item 10: Other Financial Industry Activities and Affiliations – Detail added regarding related broker-dealer's introducing broker registration with CFTC and that related investment advisers may be serving as commodity trading advisors exempt from CFTC registration. Removed disclosure regarding bank holding company regulation of Franklin Resources, Inc.

Clients may request a copy of the current version of our brochure at no cost by contacting GCSS via email at ***GlobalClientServiceSupportAmericas@franklintempleton.com***.

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Item 4 Advisory Business

INTRODUCTION TO TEMPLETON INVESTMENT COUNSEL, LLC

Templeton Investment Counsel, LLC (the "Adviser" or "we"), is a Delaware limited liability company formed on December 21, 2000 and based in in Fort Lauderdale, Florida. The Adviser is an indirectly-owned subsidiary of Franklin Resources, Inc. ("Franklin Resources"), a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments,® a global investment management organization offering investment services under the Franklin,® Templeton,® Mutual Series,® Bissett,® Fiduciary Trust,™ Darby,® Balanced Equity Management™ and K2® brand names. Franklin Templeton Investments, through current and predecessor subsidiaries, has been engaged in the investment management and related services business since 1947.

In September 2014, Franklin Resources deregistered as a bank holding company with the Board of Governors of the Federal Reserve System after limiting the operations of two of its subsidiaries to trust and fiduciary activities. The common stock of Franklin Resources is traded on the New York Stock Exchange ("NYSE") under the ticker symbol "BEN," and is included in the Standard & Poor's 500 Index.

ADVISORY SERVICES

The Adviser provides investment advisory and portfolio management services under management agreements with investment products in jurisdictions worldwide, which include U.S.- and non-U.S.-registered funds, and unregistered funds (collectively, our "Sponsored Investment Products" or "SIPs"), as well as separate accounts, which may include institutional and high net-worth accounts ("Separate Accounts").

In the United States, the Adviser provides advice to investment companies registered with the U.S. Securities and Exchange Commission ("SEC") pursuant to the Investment Company Act of 1940 (the "1940 Act") (the "U.S. Registered Funds"), pooled investment vehicles that are exempt from registration under the 1940 Act (the "Private Funds"), and Separate Accounts. The Adviser provides sub-advisory services to certain investment products sponsored by other companies ("Sub-Advised Products") which may be sold to the public under the brand names of those other companies or on a co-branded basis. Please see Item 7 ("Types of Clients") for greater detail.

The services offered by the Adviser are described more fully below. The terms on which the Adviser provides investment advisory services to Separate Account clients are set forth in the relevant investment management agreement, investment guidelines and objectives, or other written instructions.

The Adviser provides investment management services pursuant to agreements in effect with each of its SIP, Sub-Advised Product and Separate Account clients. Investment management services include services to managed accounts with full investment discretion, and to advisory accounts with no investment discretion. Advisory accounts for which the Adviser does not have investment discretion may or may not include the authority to trade for the account. The management fee on an account varies with the types of services that the Adviser provides for the account, among other things.

With respect to SIPs, Sub-Advised Products and Separate Accounts for which the Adviser has been appointed to provide discretionary investment management services, the Adviser will either perform or obtain investment research and determine which securities the SIPs, Sub-Advised Products or Separate Accounts will purchase, hold or sell under the supervision and oversight of the funds' boards of directors or trustees, if applicable. In addition, the Adviser may take various steps to implement such decisions, including arranging for the selection of brokers and dealers and the execution and settlement of trades in accordance with applicable criteria set forth in the management agreement for each account, internal policies, and applicable law and practice. With respect to SIPs, Sub-Advised Products and Separate Accounts for which the Adviser has been appointed to provide non-discretionary investment management services, the Adviser will perform or obtain investment research for its clients and make recommendations on securities for the clients to purchase, hold or sell. In such cases, the Adviser may or may not perform trading activities for the products.

The Adviser provides investment advice to Separate Account clients in accordance with the investment objectives, guidelines and restrictions which form part of the mandate selected by the client or are otherwise developed in consultation with the client prior to delivery of advice. Typically, accounts are managed on a fully discretionary basis.

The Adviser considers each prospective Separate Account client on an individual basis. Please see Item 16 ("Investment Discretion") for details of the circumstances in which clients may place limitations on the Adviser's discretionary authority.

Potential or actual conflicts of interest may arise in the allocation of investment opportunities among the Adviser's accounts. Some of these are discussed in more detail in Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading").

SMA Programs

In addition to the advisory services described above, which make up most of its advisory business, the Adviser provides investment advisory services as a sub-adviser to Franklin Templeton Portfolio Advisors, Inc. or its affiliates ("FTPA"), to a limited number of clients in connection with third party broker/dealer separately managed accounts ("SMA"), unified managed account ("UMA") or other wrap fee programs (collectively, "SMA Programs"). The SMA and UMA programs in which the Adviser currently serves as a sub-adviser are identified under Item 5 of the Adviser's Form ADV, Part 1A.

The Adviser or its affiliates may require a minimum account size for the Adviser's investment strategies, which may vary among programs. In most programs, the program's sponsor (the "Sponsor") is responsible for establishing the financial circumstances, investment objectives and investment restrictions applicable to each client, often through a client profile (the "Profile") and discussions between the client and the Sponsor's personnel. Each client typically completes a Profile in addition to executing a program contract with the Sponsor. The Adviser will undertake to provide advice pursuant to the terms of an investment management agreement executed with the Sponsor.

In some programs (often referred to as "Dual Contract SMA Programs"), clients also may be required to execute a separate agreement directly with FTPA, or FTPA may be made a party to the client/Sponsor agreement.

Clients are generally charged by the Sponsor quarterly a comprehensive or wrap fee based upon a percentage of the value of the assets under management to cover such services. The wrap fee often, but not always, includes the advisory fees charged by FTPA, a portion of which is paid to the Adviser, through the program. Where the services provided by FTPA and the Adviser are included in the wrap fee, the Sponsor generally collects the wrap fee from the client and remits the advisory fee to FTPA, who pays a portion to the Adviser. In Dual Contract SMA Programs, FTPA's fee typically is paid directly by the client pursuant to a separate agreement between FTPA and the client, and FTPA pays a portion to the Adviser. Please see Item 5 ("Fees and Compensation") for further explanation.

The Adviser may also provide non-discretionary investment management services as a sub-adviser to FTPA, through UMA programs or otherwise, where the Adviser generally provides ongoing investment recommendations in the form of one or more "model" portfolios, and the Sponsor or an "overlay" manager, rather than FTPA or the Adviser, makes the investment decision and executes trades on behalf of its underlying clients. The Sponsor or overlay manager, and not FTPA or the Adviser, is the investment adviser for accounts of clients of such programs. FTPA and the Adviser have adopted policies and procedures designed to ensure that any non-discretionary investment advice is communicated to sponsors and/or clients on a timely basis so that trades can be executed for both discretionary and non-discretionary clients in a fair manner. Please see "Separately Managed Account Brokerage Transactions" under Item 12 ("Brokerage Practices") for more information.

For additional information on the SMA and UMA programs sub-advised by the Adviser, please refer to the Form ADV Part 2A of Franklin Templeton Portfolio Advisors, Inc.

SERVICES OF AFFILIATES

Franklin Templeton Investments operates its investment management business through the Adviser, as well as through multiple affiliates of the Adviser, some of which are registered with non-U.S. regulatory authorities and some of which are registered with multiple regulatory authorities. The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client in or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement. Please see Item 10 ("Other Financial Industry Activities and Affiliations") for more details.

ASSETS UNDER MANAGEMENT

The Adviser may provide management services or continuous and regular supervisory services for the accounts that it manages. As part of these overall services, the Adviser may provide one or more of the following: (i) management services as an adviser to an account, (ii) management services as a sub-adviser to an affiliated adviser managing or supervising an account, (iii) management services under delegated authority by an affiliated adviser, (iv) continuous and regular supervisory services for an account for which it has delegated management services to an affiliated adviser, (v) management services as a co-manager to an account for which an affiliated adviser also provides management services or (vi) non-discretionary management services, typically under a UMA or similar program. Assets under management described in this item may include all of these types of accounts, and may include accounts and assets that an affiliated adviser is also reporting on its Form ADV.

As of September 30, 2014, the Adviser managed the following amounts on a discretionary and non-discretionary basis:

	U.S. Dollar Amount
Discretionary	**$ 42,604,164,188.14**
Non-Discretionary*	**$ 1,078,824,454.47**
Total**	**$ 43,682,988,642.61**

***** Non-discretionary assets under management described in this item may include accounts and assets for which the Adviser has neither discretionary authority nor responsibility for arranging or effecting the purchase or sale of recommendations provided to and accepted by the client. Any accounts and assets for which the Adviser provides solely asset allocation recommendations without continuous and regular monitoring of holdings within the client's portfolio are not included in this item.

**May differ from Regulatory Assets Under Management ("RAUM") disclosed in Item 5.F. of Adviser's Form ADV Part 1A due to specific calculation instructions for RAUM. With respect to any fund of funds products managed by Adviser, reflects unallocated holdings remaining at the allocator fund level.

Item 5 Fees and Compensation

ADVISORY FEES

Investment management fees are generally calculated under contractual arrangements with the Adviser's SIPs, Sub-Advised Products and Separate Accounts as a percentage of the market value of assets under management. Annual rates vary by investment objective and type of services provided. Fee arrangements for Separate Accounts vary by client, and are based on a number of different factors, including investment mandate, services performed, and account/relationship size. To the extent permitted under the Investment Advisers Act of 1940, as

amended (the “Advisers Act”), the Adviser may negotiate and charge performance fees as well as asset based fees in connection with SIPs, Sub-Advised Products and Separate Accounts. In addition, fees may be fixed, fixed plus performance or performance only.

Please refer to Item 6 (“Performance-Based Fees and Side-by-Side Management”) for additional discussion of performance based fees.

The Adviser is not generally required to provide notice to, or obtain the consent of, one client when waiving, reducing or varying fees or modifying other contractual terms with any other client. However, some Separate Account clients may from time to time seek to negotiate most favored nation (“MFN”) clauses in their investment management agreements with the Adviser. These clauses may require the Adviser to notify the MFN client if the Adviser subsequently enters into an investment management agreement with another Separate Account client that offers more favorable pricing or other contractual terms than those currently offered to the MFN client. Individual investors in the Private Funds may seek to negotiate similar MFN provisions as a condition of their initial investment. An MFN clause will typically require that the Adviser notify the MFN client of the more favorable terms so that the MFN client can elect to either adopt or reject them or, usually when the MFN relates only to fees, may require that any more favorable fee terms be extended automatically to the MFN client. The applicability of an MFN clause will typically depend on the degree of similarity between Separate Account clients, such as the type of client, the scope of investment discretion, reporting and other servicing requirements, the amount of assets under management, the fee structure and the particular investment strategy (and therefore the relevant investment adviser) selected by each client. The Adviser has sole discretion over whether or not to grant any MFN clause in all circumstances.

As discussed in more detail in Item 4 (“Advisory Business - Separately Managed Accounts”), the Adviser may participate as a sub-adviser to Franklin Templeton Portfolio Advisors, Inc. or its affiliates (“FTPA”) in a limited number of SMA Programs sponsored by various firms (“Sponsors”). The Sponsor’s program brochure generally contains information on minimum account sizes and fees payable to the Sponsor and participating investment managers. Accordingly, minimum account size and fees may vary from program to program or within a single program based on, among other things, investment strategy. With respect to the SMAs and UMAs advised under the wrap fee programs, the Adviser receives from FTPA a portion of the annualized fee received by FTPA from the wrap-fee Sponsors, typically paid quarterly, based on the value of the assets in the clients’ accounts.

FEE SCHEDULES

Generally, the Adviser's standard fee schedules for Separate Account clients are set out below (normally calculated as a percentage of the value of assets under management, and typically calculated monthly or quarterly, or as agreed with each client). In some cases, fees may be negotiated.

Types of Mandates	**Standard Investment Advisory Fee**
Global Equity Non-U.S. Equity Shariah Global Equity	70 bps to 40 bps
Global Small Cap Equity International Small Cap Equity	95 bps to 65 bps
Global Balanced	60 bps to 40 bps
Developed Markets ex U.S	70 bps to 40 bps

The Adviser considers each prospective client on an individual basis. The Adviser generally will not accept management of a new client Separate Account of less than $20 million unless special circumstances are present. Special circumstances include the existence of a related account already managed by the Adviser or an affiliate.

The Adviser currently serves as a sub-adviser to FTPA with respect to certain global equity, international equity and world balanced accounts through certain SMA Programs. The Adviser's fees for advising SMA Program accounts may be less than the fees it receives for advising similar accounts outside of an SMA Program. However, clients should be aware that the total fees and expenses associated with an SMA Program may exceed those which might be available if the services were acquired separately. Clients should contact their SMA Program Sponsor for more information on the fees payable to FTPA and the Adviser in connection with such program.

U.S. REGISTERED FUNDS

With respect to the Adviser's management of U.S. Registered Funds, investors should consult the U.S. Registered Funds' offering documents for specific fee information on those products. The compensation paid by each U.S. Registered Fund is described in its prospectus and statement of additional information. Under the investment management agreements, the funds typically pay their advisers a monthly fee in arrears based upon a percentage of the fund's average daily net assets. Annual fee rates under the various agreements are often reduced as net assets exceed various threshold levels. Annual rates also vary by investment objective and type of services provided. Investment management agreements generally permit advisers to provide investment management services to more than one fund and to other clients as long as the advisers' ability to render services to each of the funds is not impaired, and so long as purchases and sales of portfolio securities for various advised funds are made on an equitable basis.

PRIVATE FUNDS

With respect to Private Funds, each Private Fund's Private Placement Memorandum ("PPM"), subscription agreement and/or other governing document, sets forth the applicable fees and expenses. In certain cases, the Adviser may manage a Separate Account with an investment mandate similar to a Private Fund, in which case the fees charged to such an account (including performance fees) are not necessarily the same as those of the similar Private Fund. Fees disclosed in the offering documents of Private Funds may be negotiated in certain circumstances by individual investors in those Private Funds.

TIMING AND PAYMENT OF ADVISORY FEES

The timing of fee payments will be negotiated with each client or, with respect to the Adviser's SIPs, as set forth in the relevant fund's offering documents or PPM. Asset-based fees generally are paid monthly or quarterly and are calculated on the value of the account's net assets under management or, in the case of certain closed-end funds and Private Funds, committed capital or invested capital.

With respect to certain Private Funds (and similarly managed Separate Accounts), performance fees or other performance based compensation will be generally based on exceeding specified yield or total return benchmarks or "hurdles" or an appropriate index and generally are payable: (i) on a quarterly or annual basis, (ii) in the case of certain other Private Funds (and similarly managed Separate Accounts), at the time of withdrawal or redemption with respect to the amount withdrawn, and/or (iii) as redeemed or as investments are realized and/or capital is distributed. Certain Private Funds charge performance fees based on the relevant Private Funds' net profits without regard to any index or performance hurdle. In some cases, these arrangements may be subject to a cumulative high water mark or other provisions intended to ensure that prior losses are recouped before giving effect to any performance fees. In other cases, certain Private Funds may have periodic or cumulative performance hurdles prior to the Adviser receiving a performance fee. The timing and amount of performance fees are described in the relevant offering documents or PPM. Please see Item 6 ("Performance-Based Fees and Side-by-Side Management") for additional information.

For the most part, the investment management agreements between the Adviser and U.S. Registered Funds must be renewed each year (after an initial two-year term), and must be specifically approved at least annually by a vote of each fund's board of directors or trustees as a whole and separately by the directors/trustees that are not interested persons of such fund under the 1940 Act, or by a vote of the holders of a majority of such fund's outstanding voting securities.

The Adviser's investment management agreements with clients other than U.S. Registered Funds, certain closed-end funds and certain Private Funds, generally do not have termination

dates. Rather, investment management agreements typically may be terminated by the Adviser or the client with advance notice, as set forth in the relevant investment management agreement and may include automatic renewal provisions.

In a limited number of situations, clients may arrange to pay fees in advance. In the event of the termination of a relationship, unearned fees, if any, paid in advance will be refunded to the client. To the extent fees have been earned but not yet billed, such fees will be pro-rated and paid by the client upon termination. In certain cases (*e.g.*, Separate Accounts with performance based fees), fees may continue to be paid after termination of the relationship in accordance with the investment management agreement.

Fees generally are calculated and paid on a monthly or quarterly basis and in arrears, *i.e.,* following the rendering of services (except as separately negotiated or as otherwise disclosed). Although Separate Account clients typically elect to pay fees by authorizing their custodian to pay the Adviser out of their account assets pursuant to a pre-agreed fee schedule, some clients request the Adviser to bill them directly for fees incurred. Separate Accounts generally are subject to a minimum fee, determined by applying the client's fee schedule to the applicable minimum portfolio size. If the Adviser manages multiple accounts for a client (or group of related clients), the assets of these accounts may be aggregated for purposes of taking advantage of available breakpoint fee reductions.

If permitted under the terms of its investment management agreements, the Adviser may, on behalf of certain clients, invest in pooled or collective investment vehicles, including mutual funds. Subject to applicable law and regulation and the terms of applicable agreements, such clients may bear the costs and expenses charged by such investment vehicles to their shareholders, such as management and administrative fees, in addition to the Adviser's management fees.

With respect to accounts for which the Adviser serves as a sub-adviser to FTPA through certain SMA Programs, the timing of fee payments will be negotiated with each client or SMA Sponsor. Asset-based fees generally are paid monthly or quarterly and are calculated on a percentage of the value of the account's net assets.

OTHER FEES AND EXPENSES

In addition to the fees described above, clients of the Adviser may bear other costs associated with investments or accounts including but not limited to: (i) custodial charges, brokerage fees, commissions and related costs, (ii) interest expenses, (iii) taxes, duties and other governmental charges, (iv) transfer and registration fees or similar expenses, (v) costs associated with foreign exchange transactions, (vi) other portfolio expenses, and (vii) costs, expenses and fees (including investment advisory and other fees charged by the investment advisers of funds in which the client's account invest) associated with products or services that may be necessary or incidental to such investments or accounts. With respect to such services (which may include, but are not limited to, custodial, securities lending, brokerage, futures, banking, consulting or third-party advisory services) each client will be required to establish business relationships with relevant service providers or other counterparties based on the client's own credit standing. The Adviser will not have any obligation to allow its credit to be used in connection with the establishment of such relationships, nor is it expected that such service providers or counterparties will consider or rely on the Adviser's credit in evaluating the client's creditworthiness.

Private Funds also generally bear their own operating and other expenses including, but not limited to, in addition to those listed above: (i) sales expenses, (ii) legal expenses, (iii) internal and external accounting, audit and tax preparation expenses, (iv) insurance, and (v) organizational expenses. The Adviser may use a master/feeder structure in certain situations. This structure allows an investment adviser to manage a single portfolio of securities at the "master fund" level and have multiple feeder funds that invest substantially all of their respective assets into the master fund. Individual and institutional shareholders invest in the feeder funds, which may offer a variety of service and distribution options. A management fee may be charged either at the master fund level or the feeder fund level depending on the specific requirements of the master/feeder fund, although, master/feeder funds also involving performance fees or carried interest will typically charge these together with management fees at the master fund level. Administrative, shareholder servicing and custodian fees (when all portfolio securities are held in the master fund) are often waived at the feeder fund level and only charged at the master fund

level, although the feeder funds will indirectly bear their pro-rata share of the expenses of the master fund as an investor in the master fund. Fees and expenses specific to a feeder fund may be charged at the level of that feeder fund.

SMA Program clients also may be subject to fees, expenses and charges in addition to the Sponsor's comprehensive or wrap fee (*e.g.*, commissions on transactions executed by a broker-dealer other than the Sponsor or the program's designated broker-dealer(s), expenses with respect to investments in pooled vehicles, dealer mark-ups or mark-downs on principal transactions, and certain costs or charges imposed by the Sponsor or a third-party, such as odd-lot differentials, exchange fees and transfer taxes mandated by law).

The Adviser, as sub-adviser to FTPA, may, on behalf of certain clients, invest in pooled or collective investment vehicles, including mutual funds and exchange traded funds. Subject to applicable law and regulation and the terms of applicable agreements, such clients may bear the costs and expenses charged by such investment vehicles to their shareholders, such as management and administrative fees, in addition to FTPA's management fees, a portion of which is paid to the Adviser, or any wrap fee under a separately managed account program. In some cases it may be appropriate for the Adviser to invest a portion of a client's Separate Account assets in funds for which the Adviser or its affiliate serves as investment adviser or sub-adviser ("Affiliated Funds"). This may be appropriate where, for example, the Affiliated Fund provides a more efficient and cost-effective way to diversify an account. Assets of Separate Accounts invested in Affiliated Funds are not subject to the advisory fee otherwise applicable to the account. Rather, those assets are subject to the fund fees and charges applicable to all shareholders in the fund, as disclosed in the fund's current prospectus. As a result, the Adviser or its affiliates will indirectly receive advisory fees paid by those clients as shareholders of an Affiliated Fund. Accordingly, the Adviser may have a conflict of interest to the extent that it recommends investments in one of the Affiliated Funds rather than in unaffiliated mutual funds or other securities because the Adviser or its affiliates receive investment advisory fees from the Affiliated Funds but not from unaffiliated mutual funds or other investments (although any investments in unaffiliated mutual funds or other investments would be subject to the advisory fee applicable to the account).

Clients will generally incur brokerage and other transaction costs. See Item 12 ("Brokerage Practices") for discussion on brokerage.

Item 6 Performance-Based Fees and Side-By-Side Management

The Adviser may provide advice to one or more Separate Account clients and one or more Private Funds that are charged performance-based fees. Some portfolio managers may manage both accounts that are charged a performance fee and accounts that are charged another type of fee, such as Separate Accounts that are charged an asset based fee and Private Funds with a performance fee in which employees or associates of the Adviser or an affiliate may participate as limited partners.

Side-by-side management by the Adviser or its supervised persons who provide investment supervisory services to one or more SIPs, Sub-Advised Products and Separate Accounts may raise potential conflicts of interest, including those associated with any differences in fee structures, as well as other pecuniary and investment interests the Adviser or its supervised persons may have in an account managed by the Adviser. U.S. Registered Funds, for example, generally pay management fees based on a fixed percentage of assets under management, whereas Separate Accounts and Private Funds may often have more varied fee structures, including a combination of asset- and performance-based compensation. The prospect of achieving higher compensation from a Private Fund or Separate Account than from a U.S. Registered Fund may provide the Adviser incentive to favor the Private Fund or Separate Account over the U.S. Registered Fund when, for example, placing securities transactions that the Adviser believes could more likely result in favorable performance. Similarly, a significant proprietary investment held by the Adviser or an affiliate in a fund or account, may create an incentive for the Adviser to favor such a fund or account to the detriment of other funds or accounts.

With respect to Private Funds, performance fees may create an incentive for the Adviser to cause such pooled investment vehicles to make investments that are riskier than it would otherwise make. In addition, because the performance fee is calculated on a basis which includes unrealized appreciation of the assets of the funds, any performance fee may be greater than if that fee was based solely on realized gains.

The management of multiple funds and accounts may also give rise to potential conflicts of interest if the funds and accounts have different objectives, benchmarks, time horizons, and fees as the portfolio manager must allocate his or her time and investment ideas across multiple funds and accounts. The Adviser seeks to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. For example, Separate Accounts managed by a portfolio manager are typically managed using the same investment strategies that are used in connection with the funds he or she manages. Accordingly, portfolio holdings, position sizes, and industry and sector exposures tend to be similar across similar portfolios, which may minimize the potential for conflicts of interest. Separate management of the trade execution and valuation functions from the portfolio management process also helps to reduce potential conflicts of interest.

However, securities selected for one fund or account may outperform the securities selected for another fund or account. Moreover, if a portfolio manager identifies a limited investment opportunity that may be suitable for several funds or accounts, a single fund or account may not be able to take full advantage of that opportunity due to an allocation of that opportunity across all eligible funds and other accounts. The Adviser seeks to manage such potential conflicts by using procedures intended to provide a fair allocation of buy and sell opportunities among funds and other accounts. Please refer to Item 12 (“Brokerage Practices”) for more details.

The structure of a portfolio manager’s compensation may give rise to potential conflicts of interest. A portfolio manager’s base salary and bonus tend to increase with additional and more complex responsibilities that include increased assets under management. As such, there may be an indirect relationship between a portfolio manager’s marketing or sales efforts and his or her compensation. Based on product structure, and in limited cases, portfolio managers may also be eligible to receive performance fees.

Varying tax structures may be employed by the Adviser or any of its affiliates with respect to the receipt of management fees, performance fees and/or carried interest including but not limited to tax structures that are intended to provide favorable tax treatment to the Adviser or any of its affiliates, or its or their directors, officers or employees. Such other fees or tax structuring may therefore create conflicts of interest or other incentives with respect to investment funds or accounts.

The Adviser has implemented “Policies and Procedures for Side-By-Side Management of Registered Investment Companies and Investment Accounts” designed to address potential conflicts of interest that may arise when a portfolio manager or different portfolio managers within a single investment adviser or within a single investment group manage both U.S. Registered Funds and other investment accounts or pooled vehicles for other advisory clients.

Cross trades are another area that may present potential conflicts of interest in that they may be viewed as favoring one client over another. For example, an adviser receiving performance-based compensation could be perceived as effecting cross trades that it anticipates may increase in value from a U.S. Registered Fund, with an asset based fee, to an investment account, with a performance fee, merely to increase the performance-based compensation it receives from the investment account. The reverse is true with respect to securities expected to decrease in value. In that case, the Adviser may be perceived to cross-trade such securities from an investment account to a U.S. Registered Fund to minimize the effect of those securities on the performance-based compensation. The Adviser has implemented inter-account transaction procedures to address these potential conflicts of interest by, among other things, requiring pre-clearance of all cross-trades.

The Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. The Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest may exist with respect to the aggregation and allocation of client transactions. For example, with respect to

the allocations of aggregated trades, an adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee to that adviser.

The Adviser has implemented trade aggregation and allocation procedures (the "Allocation Procedures") designed to address these potential conflicts of interest. The Allocation Procedures provide that aggregation of trades should be utilized whenever possible (subject to certain enumerated exceptions), and require that an average price be used for multiple executions of a particular security through the same broker on the same terms on the same day. The Allocation Procedures describe the allocation methodologies to be applied, and permissible exceptions from standard allocation methods that must be pre-approved by a designated trading desk compliance officer. Please see Item 12 ("Brokerage Practices") for further discussion of allocation of investment opportunities.

The Allocation Procedures provide that all associated costs of an aggregated transaction will be shared on a proportionate basis by participating accounts. Previous allocations are reviewed periodically to consider whether any account was systematically disadvantaged due to bunched transactions and whether the order was appropriate for each of the participating accounts. Examination of the aggregation of orders and the allocation of securities is undertaken periodically to determine whether the Adviser considered the best interests of each client during the process.

Advisers to investment accounts may have a different valuation process for those accounts than the U.S. Registered Funds they or their affiliates advise. Consequently, a U.S. Registered Fund and an investment account that hold the same security may value that security differently. Different valuations of the same security could lead to questions about whether an adviser acted appropriately. For example, an adviser could be perceived as placing a higher valuation on a security held in an investment account merely to increase its performance-based compensation from that account.

To address this conflict, the Adviser must document an explanation for any differences in the valuation of securities held by both a U.S. Registered Fund and an investment account managed by the Adviser and/or its affiliates. The explanation provided must be reviewed and approved by the Valuation and Liquidity Oversight Committee ("VLOC"), which was formed to provide oversight and administration of the policies and procedures governing the fair valuation and liquidity determination of securities held in Franklin Templeton Investments portfolios. Key participants of the VLOC include individuals across Franklin Templeton Investments from legal, compliance, trading, investment operations, fund accounting, global risk management and global portfolio services.

With respect to any funds or accounts which invest in privately placed pooled investment vehicles managed by third-parties or other underlying funds sponsored by third-party managers (each a "Fund of Funds"), the Adviser generally relies on pricing information provided by the private fund or the fund's manager or other service provider. While the Adviser expects that such persons will provide appropriate valuations, certain investments may be complex or difficult to value. The Adviser may also perform its own valuation analysis, but generally will not independently assess the accuracy of such valuations.

Item 7 Types of Clients

The Adviser currently provides investment advice to U.S. Registered Funds, Private Funds and pooled investment vehicles that are sold outside the United States (collectively, our "Sponsored Investment Products" or "SIPs"), as well as to separate accounts, which may include institutional and high net-worth accounts ("Separate Accounts"). The Adviser also provides sub-advisory services to certain investment products sponsored by other companies ("Sub-Advised Products") which may be sold to the public under the brand names of those other companies or on a co-branded basis.

SIPs advised by the Adviser are offered globally to retail, institutional, high net-worth and separate account clients, which include individual investors, qualified groups, trustees, tax-deferred (such as IRAs in the United States) or money purchase plans, employee benefit and profit sharing plans, trust companies, bank trust departments and institutional investors. Separate

Accounts may include portfolios managed for corporations, endowments, charitable foundations and pension funds, as well as wealthy individuals and other institutions. The Adviser uses various investment techniques to focus on specific client objectives for these specialized portfolios.

The Adviser generally will not accept management of a new client Separate Account of less than $20 million unless special circumstances are present. Special circumstances include the existence of a related account already managed by the Adviser or an affiliate. Minimum investment requirements for U.S. Registered Funds, Private Funds or other pooled investment vehicles managed by the Adviser are generally set forth in the prospectus or other offering document. In some cases, account minimums may be negotiated or waived at the Adviser's discretion.

U.S. REGISTERED FUNDS

Franklin Templeton Investments' proprietary retail open-end and closed-end investment companies are registered under the Securities Act of 1933 ("Securities Act") and the 1940 Act, and are offered under one of the Franklin Templeton Investments brand names.

These funds consist of various open-end investment companies, including variable insurance funds, serving the institutional and retail market. The Franklin and Templeton management groups advise in addition a smaller number of publicly traded closed-end investment companies and the Franklin management group advises a number of money market funds.

Funds managed by separate management groups may have a common board of directors/board of trustees.

The Adviser also serves as sub-adviser for a variety of Sub-Advised Products.

Certain of the U.S. Registered Funds managed by the Adviser are commodity pools for which the Adviser is the commodity pool operator ("CPO"). As the CPO for these U.S. Registered Funds, the Adviser is exempt from registration as a CPO with the Commodity Futures Trading Commission ("CFTC") and related requirements, pursuant to Rule 4.5 under the Commodity Exchange Act ("CEA") or other provisions under the CEA and the rules of the CFTC.

INSTITUTIONAL SEPARATE ACCOUNTS

The Adviser generally provides investment management services to institutional Separate Account clients in accordance with the investment guidelines and restrictions that are provided by the client, developed in consultation with the client, or in accordance with the mandate selected by the client at the beginning of the adviser-client relationship, which may be amended from time to time when mutually agreed to in writing.

The Adviser provides a broad array of investment management services to institutional clients, which may include, from time to time, foundations, endowment funds and government and corporate defined contribution and pension plans. Each client's guidelines are tailored to reflect their particular investment requirements and criteria including but not limited to interest rate exposure, sector allocation, and credit quality.

As discussed in Item 4 ("Advisory Services – Separately Managed Accounts"), the Adviser participates as a sub-adviser to Franklin Templeton Portfolio Advisors, Inc. or its affiliates ("FTPA") in a limited number of SMA Programs sponsored by various firms.

Use and Provision of Client Information and Confidentiality Clauses in Investment Management Agreements

The Adviser may include a Separate Account client's name in a representative or sample client list prepared by the Adviser with the client's consent.

The Adviser is not generally required to provide notice to, or obtain the consent of, any client for use or disclosure of client account information to third parties, provided such use does not disclose the client's name. This may include information relating to Adviser's investment experience with respect to an account or an account's performance, composite and representative account performance presentations, marketing materials, attribution and research analyses, statistical and data compilations, or similar materials.

In certain circumstances, the Adviser may disclose information to third parties that includes a client's name, account number or other account information (including non-public information) if this is required (i) in connection with the performance of its services under the respective investment management agreement (including, but not limited to, providing trading and other account information to brokers and third party administrators, and the preparation and printing of client account statements and reports by third parties), or (ii) by law or regulatory authority, including but not limited to any subpoena, administrative, regulatory or judicial demand or court order, or (iii) by the bylaws or equivalent governing documents of any issuer in which the account is invested. While the Adviser is not generally required to provide notice or obtain consent in these situations, certain clients may request advance notice of a regulatory request, to the extent permitted by applicable law or regulation.

PRIVATE FUNDS

As a general matter, each Private Fund is managed in accordance with its investment objectives, strategies and guidelines, as described within the Private Fund's PPM, and is not tailored to the individualized needs of any particular investor in the Private Fund (each an "Investor"). In addition, an investment in a Private Fund does not, in and of itself, create an advisory relationship between the Investor and the Adviser. Therefore, Investors must consider whether the Private Fund meets their investment objectives and risk tolerance prior to investing in a Private Fund. Information about each Private Fund can be found in its PPM, which will be available to current and prospective Investors only through a broker-dealer affiliated with the Adviser or another authorized party. In some cases, a Private Fund may be established for the benefit of a single investor, in which case the Private Fund may be tailored to the individualized needs of the investor. Certain non-U.S. affiliates of the Adviser may act as placement agents with respect to the distribution of Private Funds to investors outside the United States While this brochure may be provided to, and include information relevant to investors, it is designed solely to provide information about the Adviser and should not be considered to be an offer of interests in any Private Fund.

Some of the Private Funds advised by the Adviser are organized as limited liability companies or limited partnerships (though some may be structured as real estate investment trusts) under the laws of jurisdictions within the United States (collectively the "U.S. Private Funds") and typically are excepted from the definition of an "investment company" pursuant to Section 3(c)(7) of the 1940 Act. Investors in the U.S. Private Funds are subject to certain eligibility requirements which are set forth in the PPM for each of the U.S. Private Funds.

Private Funds that are organized under the laws of jurisdictions outside of the United States (the "Offshore Funds") are offered outside of the United States to persons who are not "U.S. Persons," as defined under Regulation S of the Securities Act. Additionally, pursuant to Section 7(d) of the 1940 Act and the relevant SEC guidance thereunder, the Offshore Funds may also be offered on a private placement basis to U.S. persons (typically tax-exempt institutions) that are both "accredited investors" as defined under the Securities Act and "qualified purchasers" as defined under the 1940 Act. Additionally, Investors in the Offshore Funds are subject to certain other eligibility requirements, which are set forth in the PPM for each of the Offshore Funds.

Certain Private Funds may operate using "master/feeder" structures, pursuant to which trading operations reside in a "master fund" while investors typically invest through one or more "feeder funds" that, in turn, invest (directly or indirectly) in the master fund.

Private Funds may include, but are not limited to, funds of funds that invest primarily in other affiliated or unaffiliated investment vehicles (each a "Fund of Funds").

OTHER POOLED INVESTMENT VEHICLES

The Adviser's assets under management are also held in funds that are sold outside of the United States, and whose investment objectives vary, but are largely international, global equity and global fixed-income oriented. Together with its affiliates, the Adviser provides investment management services to locally organized funds in various countries outside the United States.

The Adviser provides advisory services to one or more collective investment trusts excepted from the definition of an “investment company” pursuant to Section 3(c)(11) of the 1940 Act.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

The objective of Templeton’s equity strategies is to identify stocks it believes to be significantly undervalued in markets across the globe. The strategies are managed in accordance with Templeton’s investment philosophy and approach, which are based on three tenets: value, patience, and bottom-up stock selection. By combining time-proven fundamental analysis with original research, the investment team searches for companies that meet their criteria of quality and valuation. When choosing equity investments for the strategies, the investment manager applies a bottom-up, value-oriented, long-term approach, focusing on the market price of a company’s securities relative to the investment manager’s evaluation of the company’s long-term earnings, asset value and cash flow potential. Based on these research results, managers construct individual portfolios within established parameters for the mandate as well as diversification. Portfolio managers continually review portfolios to assess sector and industry risk exposure in response to changing market conditions.

Templeton adheres to a strict sell discipline based on the valuation thresholds mentioned above. Stocks are sold if the current security price exceeds the analyst’s estimation of full value; if significantly greater value exists in another similar security; or if a fundamental change occurs at a company to alter the analyst’s forecasts. All holdings are regularly reviewed in an effort to ensure that analyst recommendations are up-to-date and accurately reflect any changes in company fundamentals. In this way, ongoing fundamental research drives all buy and sell decisions.

The Templeton Global Equity Group manages global, regional and single country equity products. The group has a flat management structure and is led by the Chief Investment Officer, who is responsible for all aspects of the Global Equity Group; the Director of Portfolio Management, who coordinates the global portfolio management activities of the group; and the Director of Research, who is responsible for the equity research process. Each manager is supported by the resources of the entire group, with all members of the team contributing research ideas and critical feedback.

INVESTMENT STRATEGIES

Significant strategies used by the Adviser include:

NON-US EQUITY

The Adviser seeks long-term capital appreciation by investing primarily in foreign (non-U.S.) equity securities. When choosing equity investments, the investment manager applies a bottom-up, value-oriented, long-term approach, focusing on the market price of a company’s securities relative to the investment manager’s evaluation of the company’s long-term earnings, asset value and cash flow potential. The investment manager also considers a company’s price/ earnings ratio, profit margins and liquidation value. In selecting securities, the investment manager attempts to identify those companies that offer above-average opportunities for capital appreciation in various countries and industries where economic and political factors, including currency movements, are favorable to capital growth.

GLOBAL EQUITY

The Adviser seeks long-term capital appreciation by investing mainly in the equity securities of companies located anywhere in the world, including emerging markets. When choosing equity investments, the investment manager applies a bottom-up, value-oriented, long-term approach, focusing on the market price of a company’s securities relative to the investment manager’s evaluation of the company’s long-term earnings, asset value and cash flow potential. The investment manager also considers a company’s price/ earnings ratio, profit margins and liquidation value. In selecting securities, the investment manager attempts to identify those companies that offer above-average opportunities for capital appreciation in various countries and industries where economic and political factors, including currency movements, are favorable to capital growth.

GLOBAL SMALL CAP

The Adviser seeks long-term capital appreciation by investing primarily in investments of smaller companies (generally those with market capitalization of less than $2 billion at the time of initial purchase) located anywhere in the world, including emerging markets. When choosing equity investments, the investment manager applies a bottom-up, value-oriented, long-term approach, focusing on the market price of a company's securities relative to the investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The investment manager also considers a company's price/earnings ratio, price/cash flow ratio, profit margins, liquidation value.

NON-US SMALL CAP

The Adviser seeks long-term capital appreciation by investing primarily in investments of smaller companies (generally those with market capitalization of less than $2 billion at the time of initial purchase) located outside the U.S., including emerging markets. When choosing equity investments, the investment manager applies a bottom-up, value-oriented, long-term approach, focusing on the market price of a company's securities relative to the investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential. The investment manager also considers a company's price/earnings ratio, price/cash flow ratio, profit margins, liquidation value.

INVESTMENT RISKS

Particular investment strategies or investments in different types of securities or other investments involve specific risks that clients should be prepared to bear. The risks involved for different client accounts will vary based on each client's investment strategy and the type of securities or other investments held in the client's account. The following are descriptions of a number of the material risks related to the significant investment strategies used by the Adviser. Not all possible risks are described below.

Market – The market value of securities managed by the Adviser will go up and down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise. The market value of securities may also go up or down due to factors that affect an individual issuer or particular sector. When markets perform well, there can be no assurance that individual stocks will benefit from the advance.

Stock prices tend to go up and down more dramatically than those of other types of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by a portfolio managed by the Adviser.

Equity Securities – Equity securities represent a proportionate share of the ownership of a company; their value is based on the success of the company's business and the value of its assets, as well as general market conditions. The purchaser of an equity security typically receives an ownership interest in the company as well as certain voting rights. The owner of an equity security may participate in a company's success through the receipt of dividends, which are distributions of earnings by the company to its owners. Equity security owners may also participate in a company's success or lack of success through increases or decreases in the value of the company's shares.

Non-U.S. Securities – Investing in non-U.S. securities typically involves more risks than investing in U.S. securities, and includes risks associated with: (i) political and economic developments – the political, economic and social structures of some countries may be less stable and more volatile than those in the United States, (ii) trading practices – government supervision and regulation of non-U.S. security and currency markets, trading systems and brokers may be less than in the United States, (iii) availability of information – non-U.S. issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers, (iv) limited markets – the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile, (v) and currency exchange rate fluctuations and policies. Although not typically subject to currency exchange rate risk, depositary receipts may be subject to the same risks as

non-U.S. securities generally. The risks of investments outside the United States may be greater in developing countries or emerging market countries.

Emerging Market Countries – The Adviser may make investments in emerging market countries. These investments are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

Smaller and Midsize Companies – Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

Currency Management Strategies – Currency management strategies may substantially change exposure to currency exchange rates and could result in losses to a fund or account if currencies do not perform as the Adviser expects. In addition, currency management strategies, to the extent that they reduce exposure to currency risks, may also reduce the ability to benefit from favorable changes in currency exchange rates. There is no assurance that the Adviser's use of currency management strategies will benefit a particular fund or account or that they will be, or can be, used at appropriate times. Furthermore, there may not be perfect correlation between the amount of exposure to a particular currency and the amount of securities in the portfolio denominated in that currency. Investing in foreign currencies for purposes of gaining from projected changes in exchange rates, as opposed to hedging currency risks applicable to a portfolio's holdings, further increases the exposure of a fund or account to foreign securities losses.

Non-Diversification – Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities issued by or representing a small number of issuers. As a result, the portfolio's performance may depend on the performance of a smaller number of issuers.

Concentration – Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, industry or asset class. A portfolio concentrating in a single state or jurisdiction is subject to greater risk of adverse economic, political or social conditions and regulatory changes than a fund with broader geographical diversification.

Liquidity – Liquidity risk exists when the markets for particular securities or types of securities are or become relatively illiquid so that it is or becomes more difficult to sell the security at the price at which the security was valued. Illiquidity may result from political, economic or issuer-specific events; changes in a specific market's size or structure, including the number of participants; or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets. Market quotations for illiquid securities may be volatile and/or subject to large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event. To the extent that a significant portion of an issuer's outstanding securities is held, greater liquidity risk will exist than if the issuer's securities were more widely held.

Value Style Investing – A value stock may not increase in price as anticipated by the Adviser if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the Adviser believes will increase the price of the security do not occur.

Management – The investment strategies, techniques and risk analyses employed, while designed to enhance returns, may not produce the desired results. The assessment of a

particular security or assessment of market, interest rate or other trends could be incorrect, which can result in losses.

Derivative Instruments – The performance of derivative instruments depends largely on the performance of an underlying currency, security or index and such derivatives often have risks similar to their underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in a portfolio which may result in significant volatility and cause the fund or account to participate in losses (as well as enable gains) in an amount that exceeds the initial investment. 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 intended benefits may not be realized. If the Adviser is not successful in using such derivative instruments, the performance of a portfolio may be worse than if the Adviser had not used such derivative instruments at all. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. In addition, there is the risk that the other party to the transaction will fail to perform.

Leverage - Particularly with respect to the Private Funds, which are not generally subject to the regulatory restrictions that apply to borrowing by U.S. Registered Funds, the Adviser may cause the funds that it advises to leverage their capital if the Adviser believes it may enable the funds to achieve a higher rate of return. However, the use of leverage means that a decline in value of a fund's investment could result in a substantial loss that would be greater than if the fund were not leveraged. In addition, leveraging by means of borrowing may exaggerate the effect of any increase or decrease in the value of portfolio securities on a fund's net asset value, and money borrowed will be subject to interest and other costs (which may include commitment fees and/or the cost of maintaining minimum average balances), which may or may not exceed the income or gains received from the securities purchased with borrowed funds.

Debt Securities - In general, a debt security represents a loan of money to the issuer by the purchaser of the security. A debt security typically has a fixed payment schedule that obligates the issuer to pay interest to the lender and to return the lender's money over a certain time period. Debt securities are all generally subject to interest rate, credit, income and prepayment risks and, like all investments, are subject to liquidity and market risks to varying degrees depending upon the specific terms and type of security. To the extent applicable, the Adviser attempts to reduce credit and market risk through diversification and ongoing credit analysis of each issuer, as well as by monitoring economic developments, but there can be no assurance that it will be successful at doing so.

Credit – An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer’s financial strength, the market’s perception of the issuer’s financial strength or in a security’s or a government’s credit rating may affect a security’s value. While some securities are backed by the full faith and credit of the U.S. government or other issuing government, guarantees of principal and interest do not apply to market values or yields. Substantial losses may be incurred on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the Adviser or the rating agencies than such securities actually do.

Prepayment – An issuer of debt securities may make unscheduled payments of principal, which means the holder of those debt securities loses anticipated interest. Prepayments generally increase when interest rates fall.

Interest Rate – When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest rates fall. Interest rate changes on the whole are influenced by a number of factors including government policy, monetary policy, inflation expectations, perceptions of risk, and supply and demand of bonds. In general, securities with longer maturities are more sensitive to these interest rate changes.

Item 9 Disciplinary Information

None.

Item 10 Other Financial Industry Activities and Affiliations

The Adviser is a wholly-owned subsidiary of Franklin Resources, a holding company that, together with its various subsidiaries is referred to as Franklin Templeton Investments.

The Adviser may have business arrangements with related persons/companies that are material to the Adviser's advisory business or to its clients. In some cases, these business arrangements may create a potential conflict of interest, or appearance of a conflict of interest between the Adviser and a client. Please see Item 4 ("Advisory Business") for additional information on services of affiliates.

Recognized conflicts of interest are discussed in Item 11 ("Code of Ethics, Participation or Interest in Client Transactions and Personal Trading") below.

The Adviser has arrangements with one or more of the following types of related persons that may be considered material to its advisory business or to its clients.

RELATED BROKER-DEALERS

The Adviser is under common control with Franklin/Templeton Distributors, Inc. ("FTDI"), Franklin Templeton Financial Services Corp. ("FTFSC") and Templeton/Franklin Investment Services, Inc. ("TFIS"), all of which are registered broker-dealers.

FTDI is registered with the SEC as a broker-dealer and is a member of Financial Industry Regulatory Authority ("FINRA"). FTDI's primary business is underwriter and distributor for the U.S. Registered Funds. Most of its distribution activities occur through independent third-party broker-dealers, who have the primary day-to-day direct contact with shareholders. FTDI is also the underwriter of the Franklin Templeton 529 College Savings Plan and the NJBEST 529 College Savings Plan ("529 Plans"). In addition, FTDI acts as program manager and distributor for the two 529 Plans, which are municipal fund securities. As a result, FTDI is registered as a municipal securities dealer, subject to regulation by the Municipal Securities Rulemaking Board. In certain instances, shareholders bypass a third-party broker-dealer and establish unsolicited accounts directly with FTDI, who becomes the broker-dealer of record by default. FTDI does not make recommendations to purchase or sell fund shares to retail investors.

Underwriting and distribution fees are earned primarily by distributing our funds pursuant to distribution agreements between FTDI and the funds. Under each distribution agreement, the fund's shares are offered and sold on a continuous basis and certain costs associated with underwriting and distributing the fund's shares may be incurred.

FTFSC is registered with the SEC as a broker-dealer and is a member of FINRA. In addition, FTFSC is registered with the Commodity Futures Trading Commission ("CFTC") as an introducing broker and is a member of the National Futures Association ("NFA"). FTFSC, in conjunction with other Franklin Templeton Investments investment advisory affiliates, provides the broker-dealer platform to Private Funds. As such, FTFSC personnel are also associated with Franklin Templeton Investments investment advisers so that they may utilize the FTFSC broker-dealer platform when offering private placement and mutual fund securities products to their clients.

TFIS is registered with the SEC as a broker-dealer and is a member of FINRA. TFIS offers private placement and mutual fund products. Many of TFIS' registered associated persons are also dually registered with FTDI to support joint program initiatives, such as marketing U.S. mutual fund products. TFIS also has some dually registered associated persons with FTFSC.

SERVICES TO U.S. REGISTERED FUNDS

The Adviser serves as investment adviser to one or more U.S. Registered Funds.

RELATED INVESTMENT ADVISERS

The Adviser may enter into a sub-advisory arrangement with, or may refer a client to, an investment adviser affiliate capable of meeting the client's specific investment needs. One or more of these affiliated investment advisers may be serving as a commodity trading advisor ("CTA") exempt from registration with the Commodity Futures Trading Commission ("CFTC"). The Adviser is affiliated with

other registered investment advisers which are under common control with the Adviser, and the Adviser may share certain portfolio management personnel and investment research with such affiliated investment advisers. In certain cases, the Adviser may serve as a sub-adviser to Franklin Templeton Portfolio Advisers, Inc. or its affiliates ("FTPA") with respect to certain SMA Programs.

The Adviser may use the services of appropriate personnel of one or more of its affiliates for investment advice, portfolio execution and trading, and client servicing in their local or regional markets or their areas of special expertise, except to the extent restricted by the client or pursuant to its investment management agreement, or inconsistent with applicable law. Arrangements among affiliates take a variety of forms, including delegation arrangements or formal sub-advisory or servicing agreements. In these circumstances, the client with whom the Adviser has executed the Investment management agreement will typically require that the Adviser remains fully responsible for the account from a legal and contractual perspective. No additional fees are charged for the affiliates' services except as set forth in the investment management agreement.

LIMITED PARTNERSHIPS

The Adviser manages a number of Private Funds that are typically structured as U.S. and non-U.S. limited partnerships, limited liability companies or limited companies in order to meet the legal, regulatory and tax demands of clients. The Adviser or an affiliate acts as general partner, managing member, investment manager or otherwise exercises investment discretion with respect to these Private Funds in which clients are solicited to invest.

Entities affiliated with the Adviser may invest in and/or serve as general partner or managing member of a Private Fund and may provide services other than advice (including, but not limited to, administration, organizing and managing the business affairs, executing and reconciling trades, preparing financial statements and providing audit support, preparing tax related schedules or documents, and sales and investor relations support, diligence and valuation services) to such funds, in some cases for a fee separate and apart from the advisory fee. Franklin Templeton Investment's personnel, including employees of the Adviser, may also serve on the board of directors of a Private Fund. A Private Fund may pay or reimburse the Adviser or its affiliates for certain organizational and initial offering expenses related to the Private Fund.

Further information can be found in the PPM for each Private Fund.

CFTC REGISTRATIONS

The derivatives used by the Adviser may include certain financial derivatives deemed by the Commodity Futures Trading Commission ("CFTC") to be "commodity interests," such as futures, options on futures, swaps and certain foreign exchange contracts. The Adviser is not registered with the CFTC as a commodity trading advisor, based on its determination that it may rely on certain exemptions from registration provided by the Commodity Exchange Act ("CEA") and the rules thereunder. The CFTC has not passed upon the availability of these exemptions to the Adviser.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

CODE OF ETHICS SUMMARY

The Adviser has adopted (a) a code of ethics pursuant to Rule 204A-1 under the Advisers Act and Rule 17j-1 of the 1940 Act (the "Code of Ethics") and (b) a policy statement on insider trading (the "Insider Trading Policy"). A brief description of the main provisions of the Code of Ethics and the Insider Trading Policy follows.

A. The Code of Ethics

The Code of Ethics states that the interests of the Adviser's clients are paramount and come before any of its Covered Employees (as defined below). All Covered Employees are required to conduct themselves in a lawful, honest and ethical manner, in their business practices and to maintain an environment that fosters fairness, respect and integrity.

Covered Employees are the Adviser's partners, officers, directors (or other persons occupying a similar status or performing similar functions), and employees, as well as any other person who provides advice on behalf of the Adviser and are subject to the supervision and control of the Adviser. The personal investing activities of Covered Employees must be conducted in a manner that avoids actual or potential conflicts of interest with the clients of the Adviser. Covered Employees are required to use their positions with the Adviser and any investment opportunities they learn of because of their positions with the Adviser in a manner consistent with their fiduciary duties to use such opportunities and information for the benefit of the Adviser's clients and applicable laws, rules and regulations. In addition, the Code of Ethics states that information concerning the security holdings and financial circumstances of the Adviser's clients is confidential and Covered Employees are required to safeguard this information.

Access Persons, a subset of Covered Employees, are required to provide certain periodic reports on their personal securities transactions and holdings. Access Persons are those persons who have access to non-public information regarding the securities transactions of the Adviser's funds or clients; are involved in making securities recommendations to clients; have access to recommendations that are non-public; or have access to non-public information regarding the portfolio holdings of funds for which a Franklin Templeton Investments investment adviser ("FTI Adviser") serves as an investment adviser or a sub-adviser or any fund whose investment adviser or principal underwriter controls an FTI Adviser, is controlled by an FTI Adviser or is under common control with an FTI Adviser. The Adviser's Access Persons must obtain pre-clearance from the Code of Ethics Department before buying or selling any security (other than those not requiring pre-clearance under the Code of Ethics). The Code of Ethics also requires pre-clearance before investing in a private investment or purchasing securities in a limited offering. The Code of Ethics prohibits Access Persons from investing in initial public offerings except for investments in Franklin Templeton closed-end funds, which require pre-approval from the Code of Ethics Administration Department.

To avoid actual or potential conflicts of interest with the Adviser's clients, certain transactions and practices are prohibited by the Code of Ethics and the Insider Trading Policy. These include: front-running, scalping, trading parallel to a client, trading against a client, using proprietary information for personal transactions, market timing, and short selling Franklin Resources stock and the securities of Franklin Templeton closed-end funds.

The Code of Ethics requires prompt internal reporting of suspected and actual violations of the Code of Ethics and the Insider Trading Policy. In addition, violations of the Code of Ethics and the Insider Trading Policy are referred to the Director of Global Compliance and/or the Chief Compliance Officer as well as the relevant management personnel.

B. The Insider Trading Policy

No Covered Employee or Access Person may trade while in possession of material, non-public information or communicate material non-public information to others.

Information is considered material if there is a substantial likelihood that a reasonable investor would consider the information to be important in making his or her investment decision, or if it is reasonably certain to have a substantial effect on the price of the company's securities. Information is non-public until it has been effectively communicated to the marketplace. If the information has been obtained from someone who is betraying an obligation not to share the information (*e.g.*, a company insider), that information is very likely to be non-public.

The Adviser has implemented a substantial set of trading procedures designed to avoid violation of the Policy.

Copies of the Code of Ethics and the Insider Trading Policy are available to any client or prospective client upon request.

POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

Participation or Interest in Client Transactions

The Adviser or its affiliates may from time to time recommend to clients or buy or sell for client accounts, securities in which the Adviser or its affiliates have a material financial interest. Such financial interests may include the contribution by the Adviser or an affiliate of seed capital to a

fund it manages, or an actual investment by the Adviser or an affiliate in the fund or in third party vehicles in which it or a related person has a financial interest. The Adviser or its related persons may also purchase or sell for themselves securities or other investments which one or more advisory clients own, previously owned, or may own in the future.

The Adviser is not itself a general partner of any limited partnership, but one or more of its affiliates may serve as a manager, general partner or trustee or in a similar capacity, of a partnership, trust or other collective investment vehicle in which clients are solicited to invest. These entities generally invest in stocks and/or fixed income securities of domestic and/or foreign companies or in other funds that invest in such securities or in other partnerships, trusts or other investment vehicles that generally are engaged in the business of investing in, purchasing, selling, developing or re-developing commercial and residential real estate properties and interests.

There may arise potential or actual conflicts of interest in (i) the allocation of investment opportunities among the Adviser's clients, (ii) the investment by clients in entities in which the Adviser or its related persons have a financial interest, and (iii) investments by the Adviser or its employees for their personal accounts.

The Adviser and its affiliates manage numerous funds and accounts. The Adviser may give advice and take action with respect to one fund or account it manages, or for its own account, that may differ from action taken by the Adviser on behalf of any of the other funds or accounts it manages. This gives rise to certain potential conflicts of interest, as discussed below.

The Adviser's management of its clients may benefit members of the Adviser and its affiliates. For example, the Adviser's clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which a member of the Adviser, or the Adviser's other clients, or the Adviser's affiliate, for itself or its clients, has an equity, debt, or other interest.

The advisory contracts entered into by the Adviser with each client do not entitle clients to obtain the benefit of any particular investment opportunities developed by the Adviser or its officers or employees in which the Adviser, acting in good faith, does not cause such client to invest. The Adviser has total discretion to allocate investment opportunities among its clients subject only to each account's respective investment guidelines and the Adviser's duty to act in good faith.

Similarly, with respect to a particular fund or account, the Adviser is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that the Adviser and "access persons," as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. The Adviser is not obligated to refrain from investing in securities held by any funds it manages.

Allocations to any account in which the interests of the Adviser, its officers, directors, employees or affiliates collectively exceed 5% of the account's economic value shall be made in accordance with the procedures and policies adopted by Franklin Templeton Investments designed to ensure that buy and sell opportunities are allocated fairly among clients (the "Equity Trade Allocation Policy and Procedures").

These accounts may be deemed affiliated persons of the Adviser by reason of the collective 5% or greater ownership interest of the Adviser's insiders and the Adviser's registered mutual fund clients if any. Transactions for and allocations to these accounts must also be given special scrutiny because of the inherent conflict of interest involved. All exceptions to standard allocation/rotation procedures involving such affiliated accounts are monitored and recorded.

If securities traded for affiliated accounts are also the subject of trading activity (i) by an Adviser's advised mutual fund, or (ii) by other non-mutual fund client accounts, the securities traded for the affiliated accounts should generally be aggregated for trading with the Adviser's advised mutual fund or other non-mutual fund client accounts.

Similarly, the policies and procedures relating to trade allocation for fixed income securities (the "Fixed Income Allocation of Investment Opportunities Policy and Procedures") have been adopted by Franklin Templeton Investments to ensure that buy and sell investment opportunities are allocated fairly and equitably among clients. Because of the different fee structures and investment involvement, the Adviser or its affiliates may be viewed as having a reason to favor the performance of one account over another. In order to prevent any potential or actual conflicts

of interests in the course of making allocations of fixed income investment opportunities, the portfolio managers of the Adviser may consider several factors listed in the Fixed Income Allocation of Investment Opportunities Policy and Procedures or allocate investment opportunities pursuant to alternative methodologies, provided such investment opportunities result in an equitable treatment of all clients over time, are consistently applied and the reason for using the allocation method is documented.

Finally, the management of personal accounts by a portfolio manager may give rise to potential conflicts of interest. While the funds and the Adviser have adopted the Code of Ethics which they believe contains provisions reasonably necessary to prevent a wide range of prohibited activities by portfolio managers and others with respect to their personal trading activities, there can be no assurance that the Code of Ethics addresses all individual conduct that could result in conflicts of interest. The Adviser has adopted certain additional compliance procedures that are designed to address these and other types of conflicts. However, there is no guarantee that such procedures will detect each and every situation where a conflict arises.

OTHER POTENTIAL CONFLICTS RELATING TO ADVISORY ACTIVITIES

The Adviser, where appropriate and in accordance with applicable laws, may purchase on behalf of the Adviser's clients, or recommend to the Adviser's clients that they purchase, shares of U.S. Registered Funds or other pooled investment vehicles (including Private Funds) for which the Adviser serves as investment adviser or sub-adviser collectively ("Affiliated Funds"), or invest their assets in other portfolios managed by the Adviser ("Affiliated Accounts"). In the case of private accounts managed in a similar style, this may take the form of an investment in other Private Funds managed by the Adviser.

The Adviser faces potential conflicts when allocating the assets of a client or Private Fund to one or more Affiliated Funds or Affiliated Accounts. For example, in hindsight and despite intent or innocent purpose, circumstances could be construed that such allocation conferred a benefit upon the Affiliated Fund, Affiliated Account or an adviser to the detriment of the Adviser's client or Private Fund, or vice versa.

As a shareholder in a pooled investment vehicle, a client of the Adviser will pay a proportionate share of the vehicle's fees and expenses. Investment by a client in an Affiliated Fund means that the Adviser may, directly or indirectly, receive, subject to applicable laws, advisory (or other) fees from the Affiliated Fund in addition to any other fees it receives from the Adviser's client for managing the client's Separate Account. Similarly, the Adviser's clients who invest through a separate account managed by another related adviser are subject to advisory fees charged in connection therewith. The Adviser's clients should notify the Adviser if they do not want their Separate Account assets to be invested in Affiliated Funds, and the Adviser's clients may invest directly in certain Affiliated Funds or other U.S. Registered Funds outside of their Separate Accounts without paying additional Separate Account management fees to the Adviser.

The Separate Account management fees paid by certain retirement accounts (including those subject to the Employee Retirement Income Security Act of 1974 ("ERISA")) that invest in U.S. Registered Funds from which the Adviser or its affiliate receives compensation ("Affiliated Registered Funds") will, in order to avoid duplication of fees, exclude account assets invested in such Affiliated Registered Funds to the extent required by law when calculating the Adviser's Separate Account management fees. Accordingly, the assets of such accounts invested in Affiliated Registered Funds will pay their pro rata share of such applicable Affiliated Registered Fund fees, to the extent not prohibited by law. Alternatively, the Adviser, at its sole discretion, may (but, except as necessary in accordance with applicable law, is not required to) elect to waive all or a portion of its Separate Account investment management fee or provide a credit representing the respective account's pro rata share of fees paid with respect to any assets of a client invested in shares of any such U.S. Registered Funds or other pooled investment vehicles, or separately managed accounts of another related adviser.

The Adviser and its affiliates may, to the extent permitted by applicable laws, make payments to financial intermediaries relating to the placement of interests in Private Funds. These payments may be in addition to or in lieu of any placement fees payable by investors in those Private Funds. These payments, which may be significant to the financial intermediary and/or its

representatives, may create an incentive for the financial intermediary to recommend the Private Fund over other products.

Certain Private Funds may be subject to regulations under the BHC Act that may limit or restrict investments in certain companies, or in their underlying funds' investments that invest in funds subject to BHC Act regulations. These restrictions are discussed in each applicable Private Fund's PPM.

The Adviser serves as investment sub-adviser to various investment companies, some of which have an investment goal and strategy similar to that of investment companies for which the Adviser or its affiliates serve as investment adviser. Even when there is similarity in investment goal and strategy, investment performance and portfolio holdings may vary between investment companies, potentially significantly, as a result of, among other things, differences in: inception dates, cash flows, asset allocation, security selection, liquidity, income distribution or income retention, fees, fair value pricing procedures, diversification methodology, use of different foreign exchange rates, use of different pricing vendors, ability to access certain markets due to country registration requirements, legal restrictions or custodial issues, legacy holdings in the fund, availability of applicable trading agreements such as ISDAs, futures agreements or other trading documentation, restrictions placed on the account (including country, industry or environmental and social governance restrictions) and other operational issues that impact the ability of a fund to trade in certain instruments or markets.

In certain circumstances, the Adviser may conclude that that it is appropriate to sell securities held in one client account to another client account. Consistent with its fiduciary duty to each client (including the duty to seek best execution), the Adviser may (but is not required to) effect purchases and sales between clients or clients of affiliates ("cross trades") if the Adviser believes such transactions are appropriate based on each client's investment objectives, subject to applicable law and regulation. The Adviser will not receive compensation (other than its normal advisory fee for managing the account), directly or indirectly, for effecting a cross trade between advisory clients, and accordingly will not be deemed to have acted as a broker with respect to such transactions. The Adviser seeks to assure that the price paid or proceeds received by clients in a cross trade is fair and appropriate, which may be based on independent dealer quotes or information obtained from recognized pricing services. Since, in such cross trades, the Adviser will represent both the selling client and the buying client, the Adviser may have a perceived conflict of interest. Clients, therefore, should consider the possible costs or disadvantages of this potential conflict versus the potential benefit of obtaining reduced transaction or execution costs that may be obtained from such cross trades. Any cross trades effected with respect to U.S. Registered Fund clients would be accomplished in compliance with Rule 17a-7 of the 1940 Act.

Potential restrictions on Investment Adviser Activity

From time to time, the Adviser may be restricted from purchasing or selling securities on behalf of its clients because of regulatory and legal requirements applicable to the Adviser, its affiliates or its clients (as determined by the Adviser in its sole discretion) and/or its internal policies including those designed to comply with, limit the applicability of, or otherwise relate to such requirements.

There may be periods when the Adviser may not initiate or recommend certain types of transactions, or may otherwise restrict or limit their advice with respect to securities or instruments issued by or related to companies for which the Adviser is performing advisory or other services. For example, if the Adviser is provided with material non-public information with respect to a potential portfolio company as described under the heading "The Insider Trading Policy" above such restrictions or limitations will apply.

In certain circumstances where the Adviser invests in securities issued by companies that operate in certain regulated industries or in certain emerging or international markets, or are subject to corporate or regulatory ownership restrictions, there may be limits on the aggregate amount of investment by the Adviser including those that may not be exceeded without the grant of a license or other regulatory or corporate consent as well as limits on any investment by the Adviser in certain securities due to the Adviser's internal policies. As a result, the Adviser on behalf of its clients may limit purchases, sell existing investments, or otherwise restrict or limit the exercise of rights (including voting rights) when the Adviser, in its sole discretion, deem it

appropriate in light of potential regulatory or other restrictions on ownership or other consequences resulting from reaching investment thresholds or investment restrictions.

In those circumstances where ownership thresholds or limitations must be observed, the Adviser seeks to equitably allocate limited investment opportunities among its clients, taking into consideration benchmark weight and investment strategy. When the Adviser's ownership in certain securities nears an applicable threshold, the Adviser may limit purchases in such securities to the issuer's weighting in the applicable benchmark used by the Adviser to manage the Adviser's client account or fund. If the Adviser's clients' holdings of an issuer exceed an applicable threshold and the Adviser is unable to obtain relief to enable the continued holding of such investments, it may be necessary to sell down these positions to meet the applicable limitations, possibly during deteriorating market conditions.

In addition to the foregoing, other ownership thresholds may trigger reporting requirements to governmental and regulatory authorities, and such reports may entail the disclosure of the identity of the Adviser's client or its intended strategy with respect to such security or asset.

The Adviser's services are not exclusive to any of its clients, and the Adviser is free to render, and does render, similar or other services to other persons and entities. The Adviser and its related persons may give advice or take action with respect to a client account, or for its or their own account, that may differ from the advice given or action taken by the Adviser for another account.

The Adviser has no obligation to provide the same investment advice or purchase or sell the same securities for each account it manages. In general, the Adviser has discretion to determine whether a particular security is an appropriate investment for each account under management, based on the account's investment objectives, investment restrictions and trading strategies. Accounts with investment restrictions that preclude investing in new, unseasoned or small capitalization issuers will generally not participate in initial public offerings ("IPOs") or private equity transactions, including those that are expected to trade at a premium in the secondary market. Even an account that is permitted to make such investments may not participate if doing so would be inconsistent with its investment practices. In addition, accounts with a specific mandate may receive first priority for securities falling within that mandate. As a result, certain accounts managed by the Adviser or its affiliates may have greater opportunities to invest in private equity transactions or IPOs. In the event that an IPO or private equity transaction is oversubscribed, securities will be allocated among eligible accounts according to procedures designed to provide equitable treatment to all such accounts. Subject to the above, allocation is done for each account on a pro-rata basis. Please see Item 6 for details of the trade aggregation and allocation policy adopted by the Adviser.

Political Contributions

It is the policy of the Adviser to not make, and to prohibit its employees from making on behalf of the Adviser, any political contributions for the purpose of influencing an existing or potential client, a public official or his or her agency. However, employees may make personal political contributions in accordance with the requirements and restrictions of applicable law and the Adviser's policies. To help ensure compliance with SEC rules, and many state and local pay-to-play rules, the Adviser's employees subject to those rules must pre-clear and obtain prior approval from the legal and compliance departments before they make any contributions (*i.e.,* any monetary contribution or contribution of goods or services) to a political candidate, government official, political party or political action committee.

Item 12 Brokerage Practices

SELECTION CRITERIA FOR BROKERS AND DEALERS

In effecting portfolio transactions, the Adviser 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 Adviser's clients.

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

- Technology
- Transparency of order routing
- Effectiveness of algorithms for order routing
- 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
- Trade aggregation 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
- Financial condition of broker

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions is 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.

When appropriate under its discretionary authority, consistent with its duty to obtain best execution, and in conformance with the Adviser's client commission policy described below, the Adviser may consider the receipt of research and brokerage products and services from broker-dealers when directing brokerage transactions for client accounts.

For most transactions in equity securities, the amount of commissions paid is negotiated between the Adviser's trading department and the broker executing the transaction. The Adviser may also place orders to buy and sell equity securities where the broker is acting on a principal rather than agency basis if the Adviser's traders believe that trading on a principal basis is likely to provide best execution.

When buying or selling fixed income securities in dealer markets, the Adviser will generally deal directly with market makers in the securities. On these transactions, the Adviser typically will effect trades on a net basis, and will not pay the market maker any commission, commission equivalent or markup/markdown other than the spread. Usually, the market maker profits from the spread, that is, the difference between the price paid (or received) by the Adviser and the price received (or paid) by the market maker in trades with other broker-dealers or other customers. In some instances, a broker-dealer who also serves as custodian for an account may assess a ticket charge for executing the transaction or a trade away charge for settling a transaction executed by a different broker.

The Adviser may also effect transactions that are placed pursuant to a negotiated agreement with a counterparty/futures commission merchant, including but not limited to swaps, futures, forwards, options and repurchase agreements. Due to the fact that certain instruments are traded pursuant to a private agreement with a counterparty (which must be in place prior to effecting a transaction), such as swaps, futures, options, forwards and certain other instruments and the fact that the Adviser will have a limited universe of counterparties from which to choose, the standard

for best execution may vary with the type of security or instrument involved in a particular transaction.

The Adviser endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions to the extent consistent with the interests and policies of its accounts. However, the Adviser will not select broker-dealers solely on the basis of purported or posted commission rates nor generally seek in advance competitive bidding for the most favorable commission rate applicable to any particular portfolio transaction. Although the Adviser generally seeks competitive commission rates, it does not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker-dealer involved and would thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

SEPARATELY MANAGED ACCOUNT BROKERAGE TRANSACTIONS

The Adviser may provide discretionary sub-advisory investment management services to FTPA or its affiliates ("FTPA") through a wrap fee or separately managed account ("SMA") program. It is typically the case that the all-inclusive SMA fee charged to clients by the sponsor of the SMA program, usually a broker-dealer, bank or other financial institution ("Sponsor"), covers execution charges only when transactions are executed through the SMA Sponsor. Clients will be responsible for, in addition to the SMA fee, any and all commissions, commission equivalents, markup/markdown charges, and fees charged by the executing broker-dealer, and any trade away fees charged by the SMA Sponsor, on transactions with broker-dealers other than the SMA Sponsor. Trades for SMA accounts may be processed such that any commissions, commission equivalents, markup/markdown charges, and other fees charged by an executing broker-dealer other than the SMA Sponsor may be reflected in the total net price for the trade (as opposed to broken out separately for non-SMA orders) to provide a means to compensate the broker-dealer for its services in executing the trade. In this circumstance, these other fees may not be separately identified on the trade confirmations the client or the SMA Sponsor receives.

The Adviser, FTPA and/or their trading personnel will consider such SMA arrangements in the process of attempting to secure the best combination of price and intermediary value given the strategies and objectives of the client, or "best execution." This can be a highly subjective determination because of the inherent difficulties in measuring and assessing execution quality and best execution, especially in SMA programs. Although traders seek best execution for each trade, execution quality may only be able to be assessed by evaluating the trading process and trade data over a period of time, rather than on a trade-by-trade basis. Due to the circumstances in SMA programs, there could be disparities between execution price and/or quality relative to other accounts managed by the Adviser or its affiliates.

The Adviser, FTPA and/or their trading personnel may determine that, despite the SMA fee only covering execution charges through the SMA Sponsor, best execution under the circumstances favors placing trades through broker-dealers other than the SMA Sponsor. In this case, orders for trades executed through broker-dealers other than the SMA Sponsor may be aggregated or batched for execution in accordance with established procedures. Generally, for each account, such batched transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for such account. However, as discussed above, in such cases clients may be responsible for, in addition to the SMA fee, any and all commissions, commission equivalents, markup/markdown charges, trade-away fees and other fees on such trades, whether broken out separately or reflected in the total net price for the trade.

The Adviser, FTPA and/or their trading personnel may alternatively determine that best execution under the circumstances for SMA accounts favors placing such transactions with the SMA Sponsor.

Transactions executed through the SMA Sponsor may not be combined or batched for execution purposes with orders for the same securities for other accounts managed by the Adviser or its affiliates through other broker-dealers. Such transactions may be placed according to an alternating sequence or rotation system. As a result, prices may vary among clients, and the first accounts to trade may or may not receive a more favorable price than later-traded accounts.

Alternatively, transactions executed through the SMA Sponsor may be placed at the end of other trading activity for a particular security. This method may be used where the Adviser, FTPA and/or their trading personnel determine that it may produce the best execution under the circumstances for the broadest segment of clients (typically measured by assets and/or number of accounts), or that a rotation system is otherwise not feasible based on practical, execution quality or other considerations. In these circumstances, transactions executed through the SMA Sponsor may be subject to price movements (particularly for large orders or orders in more thinly traded securities) that may result in clients receiving a price that is less favorable than the price obtained for other orders. Clients may therefore pay higher net prices or receive lower net prices than would be the case if transactions were placed without regard to the SMA arrangements or restrictions.

With respect to the model portfolios provided with respect to UMA Programs (more fully described in Item 4), updates to model portfolios may frequently be communicated at the end of trading activity for a particular security. This method may be used where, considering the impact that the recommendation will likely have on the market, this method may produce the best execution under the circumstances for the broadest segment of clients, or where a rotation system is otherwise not feasible based on practical, execution quality or other considerations. In these circumstances, transactions executed by the SMA Sponsor for its clients may be subject to price movements (particularly for large orders or orders in more thinly traded securities) that may result in the SMA Sponsor's clients receiving a price that is less favorable than the price obtained for the Adviser's or its affiliates advisory clients.

Alternatively, where it is deemed not to have a material impact on trading execution for advisory clients, the Adviser, FTPA and/or their trading personnel may communicate updates to model portfolios as part of an alternating sequence or rotation system. As a result, prices may vary among clients and SMA programs, and the first accounts to trade may or may not receive a more favorable price than later-traded accounts.

For additional information on separately managed account brokerage transactions, please refer to the Form ADV Part 2A of Franklin Templeton Portfolio Advisors, Inc.

POLICY ON USE OF CLIENT COMMISSIONS ("CLIENT COMMISSION POLICY")

When appropriate under its discretionary authority and consistent with its duty to seek best execution, the Adviser or a related person (hereinafter in this section, "the Adviser") may direct brokerage transactions for client accounts to broker-dealers who provide the Adviser with research and/or brokerage products and services. The brokerage commissions from client transactions that are used to pay for research or brokerage services in addition to basic execution services are referred to here as client commissions or sometimes known as soft dollars.

Broker-dealers typically provide a bundle of services including research and execution of transactions. The research provided can be either proprietary (created and provided by the executing broker-dealer, 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-dealer). To the extent permitted by applicable law, the Adviser 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 Adviser by allowing the Adviser to supplement its own research and analysis and also gain access to specialists with expertise on certain companies, industries, areas of the economy, and market factors. The Adviser believes that such research benefits clients.

The Adviser becomes eligible for client commission credits by sending trading and paying trade commissions to broker-dealers ("CCA broker-dealers") who both execute the trades and provide the Adviser with research and other brokerage products and services, including in the following forms: (1) research reports generated by the broker-dealer, (2) conferences with representatives of issuers, and/or (3) client commission credits that can be used to obtain research reports or services from others. The portion of any trade commission attributable to the client commission research or other brokerage products and services cannot be identified at an individual account level.

The list of CCA broker-dealers includes the following, and is subject to change periodically:

Bank of America/Merrill Lynch
Barclays Capital Inc.
BMO Capital Markets
CIBC World Markets
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC
Deutsche Bank Securities Inc.
Goldman Sachs & Co.
Instinet LLC
Investment Technology Group (ITG)
Jefferies and Company Inc.
JP Morgan Securities Inc.
Knight Equity Markets LP
Liquidnet
Morgan Stanley & Co. Inc.
RBC
Scotia Capital
TDSecurities
UBS Securities LLC
Weeden & Co. LP

The U.S. federal securities laws provide a safe harbor which allows an investment adviser to pay for research and brokerage services with the client commission dollars generated by client account transactions. Adviser currently acquires only the types of products or services that qualify for the safe harbor in Section 28(e) of the U.S. Securities Exchange Act of 1934. If Adviser manages an account that is subject to the laws of any country outside the United States, Adviser may also be subject to additional requirements, restrictions or prohibitions in paying for research and brokerage with the client commission dollars generated by client account transactions. In determining whether a service or product qualifies as research or brokerage, Adviser evaluates whether the service or product provides lawful and appropriate assistance to Adviser in carrying out its investment decision-making responsibilities.

Research and brokerage 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;
- software that provides analyses of securities portfolios;
- statistical trade analysis;
- 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.

Services may also include access to information providers who are part of what may be referred to as an "expert network". Firms providing such a service may facilitate consultations between researchers, including a variety of investment professionals, and people with knowledge or

expertise in a particular field or industry, such as doctors, academics and consultants. Such services supplement the Adviser's own analyses and may be particularly helpful in understanding sectors of the market that may be highly complex or very technical in nature.

If a product or service obtained by the Adviser provides both research and non-research benefits, the Adviser will generally treat the product or service as a mixed use item and will pay for the non-research portion with cash from its own resources rather than client commissions. When acquiring a product or service with mixed use, the Adviser will allocate the cost of the product between client commissions and cash 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 cash will not always be a precise calculation, the Adviser 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 cash.

The determination and evaluation of the reasonableness of the brokerage commission rate paid in connection with portfolio transactions are based to a large degree on the professional opinions 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 commission rates being paid by other investors of comparable size and type. The Adviser may select broker-dealers based on its assessment of their ability to provide quality executions and its belief that the research, information and other services provided by such broker-dealer may benefit client accounts. Accordingly, broker-dealers selected by the Adviser may be paid a commission rate for effecting portfolio transactions for client accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions if the Adviser determines in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker-dealers, viewed either in terms of a particular transaction or the Adviser's overall duty to its discretionary accounts.

It is not ordinarily possible to place an exact dollar value on the special execution or on the research services the Adviser receives from dealers effecting transactions in portfolio securities. The allocation of commissions generated by client transactions in order to obtain additional research services permits the Adviser to supplement its own research and analysis activities and to receive the views and information of individuals and research staffs from many securities firms. As long as it is lawful and appropriate to do so, the Adviser and its affiliates may use this research and data in their investment advisory capacities with other clients.

While the Adviser may negotiate commission rates and prices with certain broker-dealers with the expectation that such broker-dealers will be providing brokerage or research services, the Adviser will not enter into any agreement or understanding with any broker-dealer that would obligate the Adviser to direct a specific amount of brokerage transactions or commissions in return for such services. Such research services, however, may be considered as a factor in determining the amount of commissions to be allocated to a specific broker. As a result, the Adviser may have an incentive to select or recommend a broker based on the Adviser's interest in receiving research or other products or services, rather than on a client's interest in receiving most favorable commission rate. Also, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services. If the Adviser does not meet the amount required to obtain a particular desired product, it may direct accumulated research commissions as part of a client commission arrangement with an executing broker to pay the research provider or the Adviser may pay cash to make up the difference.

In connection with the purchase of securities in certain fixed-price offerings, the Adviser may designate that a portion of the selling concession be paid to a broker-dealer that provides research services to the Adviser.

Research obtained with client commissions may not always be utilized by the Adviser for the specific account that generated the client commissions. The Adviser does not attempt to allocate the relative costs or benefits of research among client accounts because it believes that, in the aggregate, the research it receives assists the Adviser in fulfilling its overall duty to its clients. Research/services obtained with client commissions generated by the Adviser's clients may be

shared with the Adviser's advisory affiliates. Similarly, the Adviser's client accounts may benefit from research/services obtained with client commissions generated by client accounts of other advisers within Franklin Templeton Investments.

To the extent consistent with its duty to seek best execution, the Adviser may direct trades to a broker-dealer with the instruction that the broker-dealer execute the transaction and that another broker-dealer 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 or SEC guidance. This type of commission sharing arrangement permits the Adviser 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 Adviser receives research or other services.

THE STATEMENT OF BEST EXECUTION PROCEDURES

The Adviser has adopted policies and procedures incorporating statements of best execution with respect to equity investments (the "Best Execution Statement") to provide guidance in situations where the Adviser may consider the receipt of research and statistical services from broker-dealers, or other client commission arrangements, when directing brokerage transactions for client accounts. The Best Execution Statement is designed to ensure (i) execution services meet the quality standards established by the Adviser's trading team and are consistent with established policies, (ii) provide the broadest flexibility in selecting which broker-dealers may provide best execution, (iii) continual evaluation of the execution capabilities of, and the quality of execution services received from, broker-dealers effecting portfolio transactions for the Adviser's clients, and (iv) the identification and resolution of potential conflicts of interest.

Pursuant to the Best Execution Statement, the trading team at each global location will use multiple evaluation criteria to help determine which brokers have provided the highest quality execution services over the recent time period. An evaluation form comprised of various factors considered relevant to the trading process, as may be revised from time to time, is typically used for this purpose. An average of each team's evaluations or rankings will then be used to determine the broker's appropriate overall rank both within each global location and in the broker universe of the global trading department ("Global Trading"). On a quarterly basis, the Equity Global Best Execution Committee ("GBEC"), comprised of senior members of Global Trading, conducts further detailed reviews of the trades executed by members of Global Trading. Minutes of the meetings of the GBEC are presented regularly to the Equity Global Trading Oversight Committee ("GTOC"), which is comprised of senior management personnel, including senior representatives from the portfolio management, trading, legal and global compliance departments.

As part of the oversight of the brokerage allocation process, the GTOC meets semi-annually to review brokerage allocations and the stated reasons for selecting certain broker-dealers. The GTOC reviews historical broker dealer transaction history to attempt to confirm that the principles of the Adviser's stated best execution procedures are being applied based on information obtained internally and externally. Internal information may include trade execution, trade volume and trade count data. External information may include independent data sources that rank brokers on trade execution and quality of service.

There are potentially many factors to be considered in making broker selections. It is the responsibility of the traders to make determination within Global Trading's brokerage universe to provide the best execution for any particular transactions based on their knowledge and experience, which generally override any predetermined notion for choice of brokers. In our view, "best execution" is a process of attempting to secure the best combination of price and intermediary value given the strategies and objectives of the Adviser's client accounts from the inception to the completion of the order with the focus toward maximizing value for our clients. Moreover, there is not a single rule that is strictly applied to guide the traders in selecting a particular broker for each and every trade. For example, the commission rate is only one factor that the traders need to consider in evaluating which broker can provide the best overall execution for a particular trade or trades and a higher commission may be outweighed by other considerations relevant to the quality of the execution received.

Transactions in fixed income securities typically do not generate commissions, and there are other practical limitations on the universe of appropriate dealers in fixed income securities. However, the Fixed Income GTOC meets regularly to ensure that fixed income transactions executed by the Adviser meet the standards of best execution identified in the statement of best execution for fixed income transactions (the "Fixed Income Best Execution Statement"), which is intended to reflect the same fiduciary principles incorporated into the Best Execution Statement while addressing the special considerations applicable to executing transactions in fixed income investments.

To the extent consistent with its duty to seek best execution, the Adviser may effect transactions through broker-dealers that also may refer private account clients to the Adviser or an affiliate. To the extent that these referrals result in an increase in assets under management, the Adviser or its affiliates may benefit. Therefore, a potential conflict may exist that the Adviser could have an incentive to select or recommend a broker-dealer for trading based on its interest in receiving client referrals rather than in receiving most favorable execution for clients. In order to manage this potential conflict of interest, the Adviser does not enter into agreements with, or make commitments to, any broker-dealer that would bind the Adviser to compensate that broker-dealer through increase brokerage transactions for client referrals or sales efforts; nor will the Adviser use step-out transactions or similar arrangements to compensate selling brokers for their sales efforts. In addition, the Adviser's U.S. Registered Funds have adopted procedures pursuant to Rule 12b-1(h) under the 1940 Act (as set forth in the policy entitled, "Prohibition on the Use of Brokerage Commissions to Finance Distribution") which provide that neither the funds nor the Adviser may direct brokerage in recognition of the sale of fund shares. Consistent with those procedures, the Adviser does not consider the sale of mutual fund shares in selecting broker-dealers to execute portfolio transactions. However, whether or not a particular broker or dealer sells shares of the Adviser's mutual funds neither qualifies nor disqualifies such broker or dealer to execute transactions for those mutual funds.

FOREIGN EXCHANGE TRANSACTIONS

Some clients require transactions in currencies other than the base currency of their account to permit the purchase or sale of foreign securities and to repatriate the proceeds of such trades (as well as related dividends, interest payments or tax reclaims) back to the base currency of the account. Typically, these foreign exchange ("FX") transactions will be conducted either by the client's custodian bank as part of the FX transaction services offered to its custody clients or by the client's investment adviser through a third party broker. In some cases, a client may require that its custodian bank execute all FX transactions for its account or particular markets may be restricted meaning that FX transactions in those currencies can only be executed by the client's custodian bank.

Generally, FX transactions related to portfolio trades in unrestricted markets are performed by the Adviser for its clients. FX transactions related to portfolio trades in restricted markets, and for income repatriation, are generally the responsibility of the respective client's custodian bank.

For certain accounts, the Adviser may be responsible for the repatriation of income (including, for some of these accounts, the decision whether to repatriate the income or leave in local currency based on investment outlook) and for arranging FX transactions in one or more restricted markets. The Adviser will typically perform the income repatriation for these accounts in unrestricted markets and the client's custodian bank will generally carry out FX transactions and repatriation (through a sub-custodian bank domiciled in the foreign country) in restricted markets.

Whether a market is considered to be restricted will depend on a number of factors, including country specific statutory documentation requirements, structural risks, operational constraints, and convertibility issues. The Adviser's list of unrestricted markets may also change over time and may be different depending on the type of transaction. The Adviser may consult with third parties, including broker-dealers and custodians in making a good faith determination on whether a market is considered restricted. The Adviser does not have the ability to control any FX transactions performed by the client's custodian bank and assumes no responsibility for the execution or oversight of FX transactions conducted by the client's custodian bank.

For certain Sponsored Investment Products ("SIPs"), including U.S. Registered Funds, where the custodian is appointed by the fund, the Adviser reviews FX activity performed by the respective

custodian. In conducting any review, the Adviser may rely on information provided by a third party industry vendor. Typically, the analysis conducted as part of this review is carried out on a post-trade basis only and seeks to focus on trends over a period of time as an indicator of FX execution quality rather than on individual transactions in a fund's portfolio. However, with respect to accounts for which FX transactions are performed by the client's custodian bank, the Adviser does not monitor the execution quality of the FX transactions performed by the client's custodian bank. In exceptional circumstances, the Adviser may agree with a client to monitor certain FX activity performed by the client's custodian bank for that account. In doing so, the Adviser may rely on information provided by a third party industry vendor on the same basis as disclosed above.

CLIENT-DIRECTED BROKERAGE TRANSACTIONS

The Adviser does not routinely recommend, request or require that a client directs brokerage to any specific broker-dealers. In selecting brokers through whom portfolio transactions will be executed, the Adviser's first responsibility will be to comply with any client instructions specifying the use of a particular broker.

Clients may limit the Adviser's discretionary authority and may occasionally direct the Adviser to use a particular broker-dealer to execute portfolio transactions for its account. Such direction may include expense reimbursement and commission recapture arrangements, where the Adviser is informed by a client that certain broker-dealers will rebate a certain portion of an account's brokerage commissions (or spreads on fixed income or principal trades) directly to the account, or apply the amount to an account's expenses.

When a client directs the use of a particular broker-dealer (including expense reimbursement and commission recapture arrangements), the Adviser may not be in a position to freely negotiate commission rates or spreads, or select broker-dealers on the basis of best price and execution. In addition, transactions for a client that directs brokerage may not be combined or batched for execution purposes with orders for the same securities for other accounts managed by the Adviser and may be placed at the end of batched trading activity for a particular security. Accordingly, directed transactions may be subject to price movements, particularly in volatile markets, that may result in the client receiving a price that is less favorable than the price obtained for the batched order. Under these circumstances, the direction by a client of a particular broker or dealer to execute transactions may result in higher commissions, greater spreads, or less favorable net prices than might be the case if the Adviser were empowered to negotiate commission rates or spreads freely, or to select brokers or dealers based solely on best execution considerations. Therefore, in instances where a client directs the Adviser to use a particular broker to execute trades, the Adviser may not be able to obtain best execution for such client-directed trades.

BATCHED TRANSACTION POLICY

The Adviser may aggregate orders of its clients to effect a larger transaction and thereby reduce transaction costs. The Adviser must then allocate the securities among the participating accounts. Although such bunching of transactions is permissible, potential conflicts of interest exist with respect to the aggregation and allocation of client transactions. For example, with respect to the allocations of aggregated trades, an adviser could be viewed as allocating securities that it anticipates will increase in value to certain favored clients, especially those that pay a performance-based fee to the adviser.

There may be instances where purchase or sale orders, or both, are placed simultaneously on behalf of the Adviser's advised accounts and by accounts advised by the Adviser's affiliates. Orders for such securities may be aggregated or batched for execution in accordance with established procedures. Generally, for each account, such batched transactions are averaged as to price and allocated as to amount in accordance with daily purchase or sale orders actually placed for such account. Generally, all accounts that are batched will participate on a pro-rata, relative order size, percentage, or other objective basis. Orders may be batched to facilitate best execution, as well as for the purpose of negotiating more favorable brokerage commissions beneficial to all accounts. Alternatively, trades may be placed according to an alternating sequence or rotation system. Trades placed through directed brokerage arrangements that cannot be batched may be executed after discretionary trades. The Adviser may also batch

orders for clients that permit client commission arrangements with clients that do not permit such arrangements. In such cases, the Adviser batches such orders to obtain best execution and does not seek a research credit for the portion of the trade that is executed for clients that do not permit such arrangements.

Additionally, the Adviser may, subject to internal policies and procedures, batch trades of clients in the separately managed account programs of certain broker-dealers, or who otherwise direct trades to such broker-dealers, with other trades by the Adviser or its affiliates through such broker-dealers.

Where the client has directed the Adviser to use a specific broker-dealer, the Adviser may not be able to combine or batch client's orders for purposes of execution with orders of the same securities for other accounts managed by the Adviser; and, therefore, the Adviser may not be able to obtain best execution for the client. In addition, certain foreign markets may require trades to be executed on an account by account basis. As portfolio transactions in such markets cannot be batched, prices may vary among accounts.

ALLOCATION IN IPOs AND SECONDARY OFFERINGS

From time to time, the Adviser may wish to participate in initial public offerings ("IPOs"), secondary offerings, or acquire other stocks for an account that are experiencing unusual trading activity and may only be available in limited quantities at the desired price. In determining which accounts may participate in such special situations, the Adviser may take into account the investment emphasis or focus of individual accounts on particular industries or geographic areas provided the approach used is consistently applied and results in a generally equitable treatment of all accounts over time. The Adviser has implemented equity trade allocation procedures designed to provide that all clients over time receive a fair opportunity to participate in such special situations. Additional care and caution is exercised if one of the accounts participating in a limited investment opportunity is an affiliated account, including specific compliance approval when affiliated accounts are participating in an IPO or secondary offer.

Generally, requested indications of interest in IPOs are submitted to the underwriter by each adviser group to increase the opportunity of gaining additional shares. Allocation of the awarded shares is then done for each account per adviser on a pro-rata basis. For IPOs and offerings that are priced after the close of business on a given trading day, preliminary allocations are prepared and a final allocation is prepared on the following business day when the price and size of allocation are known. Any adjustments or reallocations made in this circumstance require special approval.

Item 13 Review of Accounts

The Adviser manages investment portfolios for each of its clients. Generally, the portfolios under the Adviser's management are reviewed by one or more portfolio managers who are responsible to their respective Chief Investment Officer, either directly or indirectly. Such review may be made with respect to the Adviser's clients' investment objectives and policies, limitations on the types of instruments in which each of its clients may invest and concentration of investments in particular industries or types of issues. There is no general rule regarding the number of accounts assigned to a portfolio manager.

The frequency, depth, and nature of reviews are often determined by negotiation with individual clients pursuant to the terms of each client's written investment management agreement or by the mandate selected by the client and the particular needs of each client.

Written reports of portfolio breakdown, transactions and performance are provided to clients no less frequently than quarterly. Additional trade reports may be available upon request.

Item 14 Client Referrals and Other Compensation

The Adviser or a related person may enter into referral fee arrangements to compensate affiliated and non-affiliated persons for referring or otherwise recommending its investment advisory services to potential clients. To the extent required, such arrangements would be entered into in accordance with Rule 206(4)-3 under the Advisers Act and other applicable law. The

compensation paid may consist of a cash payment computed as a flat fee, a percentage of the Adviser's advisory fee, or some other method of computation agreed upon between the parties.

To the extent allowed under applicable law, the Adviser's Code of Ethics and the policies and procedures (including the Anti-Corruption Policy) of the Adviser, its affiliates, and/or a particular broker/dealer, the Adviser or a related person may (i) pay broker-dealer sponsors for training seminars, conferences and other educational events, (ii) pay travel and lodging expenses relating to financial advisers' attendance at the Adviser's due diligence meetings, (iii) give certain business-related gifts or gratuities, and/or pay reasonable expenses relating to meals and/or entertainment, for financial advisers, and (iv) make a contribution in connection with a charitable event or to a charitable organization sponsored, organized or supported by a broker-dealer or its representatives, on behalf of such broker-dealer or its representatives, or to which such broker-dealer or its affiliates provides professional services.

Item 15 Custody

The Adviser generally does not have custody of its clients' assets. However, because certain Separate Account clients may authorize the Adviser to receive its advisory fees out of the assets in such clients' accounts by sending invoices to the respective custodians of those accounts, the Adviser may be deemed by the SEC to have custody of the assets in those accounts. These clients will generally receive account statements directly from their third-party custodians for the accounts and should carefully review these statements. Such clients should contact the Adviser immediately if they do not receive account statements from their custodian on at least a quarterly basis. In addition to account statements delivered by their third-party custodians, the Adviser may provide clients with separate reports or account statements providing information about the account. Clients should compare these carefully to the account statements received from the custodian. If clients discover any discrepancy between the account statement provided by the Adviser and the account statement provided by the custodian, they should contact the Adviser and their custodian immediately.

The Adviser may also be deemed to have custody of certain pooled investment vehicles for which it or its related person serves as general partner (or in a comparable position for types of pooled investment vehicles other than limited partnerships). Investors in these pooled investment vehicles for which the Adviser or its related person serves as general partner (or in a comparable position for other types of types of vehicles will receive the fund's annual financial statements in accordance with the Advisers Act. Such investors should review these statements carefully. If investors in these pooled investment vehicles do not receive audited financial statements in a timely manner, then they should contact the Adviser immediately.

To the extent that a pooled investment vehicle for which the Adviser or its related person serves as general partner (or in a comparable position for other types of vehicles) does not provide investors with its annual financial statements as described above, such fund's custodian will deliver to the investor a quarterly statement as required under the Advisers Act.

Item 16 Investment Discretion

Generally, the Adviser has discretionary authority to supervise and direct the investment of the assets under its management, without obtaining prior specific client consent for each transaction. However, this investment discretion is granted by written authority of the client in the investment management agreement between the client and the Adviser and is subject to such limitations as a client may impose by notice in writing. Under its discretionary authority, the Adviser may make the following determinations in accordance with the client's investment objectives and restrictions, internal policies and applicable law and practice, without prior consultation or consent before a transaction is effected:

- Which securities to buy or sell;
- The total amount of securities to buy or sell;
- The broker or dealer through whom securities are bought or sold; and/or
- The prices and commission rates at which securities transactions for client accounts are effected.

The Adviser may also provide non-discretionary services to advisory accounts. Advisory accounts for which the Adviser does not have investment discretion may or may not include the authority to trade for the account and are subject to such limitations as a client may impose in writing. With respect to certain accounts for which the Adviser does not have investment discretion or trading authority, the Adviser may delay a recommendation to buy or sell for those accounts if the Adviser believes that the execution of such recommendation could have a material impact on pending trades for accounts for which the Adviser holds investment discretion.

The Adviser may, in its sole discretion, accept one or more categories of social restrictions requested in writing by clients. Unless otherwise agreed to with a client, the Adviser's compliance with such restrictions will be based on good faith efforts and may be satisfied by utilizing a third party service to screen issuers against such restrictions, or, in its sole discretion, other market data services such as Bloomberg and Factset as well as internal research.

Unless the Adviser is specifically directed otherwise either in its investment management agreement with a client or by separate instruction, uninvested cash held by the Adviser's clients generally will be automatically moved or "swept" temporarily into one or more money market mutual funds or other short-term investment vehicles offered by the client's custodian. Generally, sweep arrangements are made between the client and the client's custodian, with the client being responsible for selecting the sweep vehicle. The Adviser's sole responsibility in this regard is to issue standing instructions to the custodian to sweep excess cash in the client's account into the sweep vehicle. In circumstances where the client has not made arrangements with its custodian, the Adviser may consult with the client regarding an appropriate sweep vehicle from those made available by the custodian, with the ultimate decision being made by the client. In exceptional circumstances, the Adviser will make the selection of the appropriate sweep vehicle from those made available by the custodian. However, the Adviser does not actively manage the residual cash in client accounts and will not be responsible for monitoring the sweep vehicle into which such residual cash is swept.

Whether sweep arrangements are made between the client and its custodian or in consultation with the Adviser, any client whose assets are swept into an unaffiliated money market mutual fund or other short-term investment vehicle will continue to pay the Adviser's regular advisory fee plus a management fee to the manager of such fund or short-term investment vehicle on the portion of the account assets invested in the money market mutual fund or short-term investment vehicle.

From time to time, the Adviser may, in its sole discretion, submit a shareholder proposal to the issuer of, or otherwise engage in shareholder activism with respect to, securities presently held in one or more client accounts (including but not limited to U.S. Registered Funds, Private Funds, pooled vehicles outside of the United States, Separate Accounts or its own account), when the Adviser believes that such shareholder proposal or activism has the potential to enhance the value of such issuer's securities or generally benefit shareholders. The Adviser may also consider such factors including but not limited to costs when considering whether to engage in such activities.

The Adviser may, in its sole discretion, accept the initial funding of client accounts with one or more securities-in-kind ("SIK"). Subject to the terms of the investment management agreement and applicable law, the Adviser will use good faith efforts to liquidate any SIK that the Adviser does not elect to keep as part of such accounts, and shall not be liable for any investment losses or market risk associated with such liquidation.

The investment guidelines applicable to an account are typically based on the account being fully funded and, during funding or transition phases, the Adviser's inability to comply with restrictions related to holding limitations, sector allocations and investment diversification shall not, unless otherwise agreed with a client, be considered a breach of the investment management agreement between the Adviser and the client.

PARTICIPATION IN LEGAL PROCEEDINGS

Funds. With respect to the FTI U.S.-registered investment companies and certain other pooled or collective investment vehicles that the Adviser manages, advises, or sub-advises (collectively, "Funds"), the Adviser, through its delegates (which may include, without limitation, personnel of

an affiliate, a law firm, custodian or other claim filing service), uses good faith efforts to file proofs of claim on behalf of the Funds in class action lawsuit settlements or judgments and regulatory recovery funds pending in the United States and Canada, involving issuers of securities presently or formerly held in the Funds' portfolios, or related parties of such issuers, of which the Adviser learns and for which the Funds are eligible during each Fund's existence (the "Claim Service"). Infrequently, such U.S. and Canadian class action lawsuits may require investors affirmatively to "opt in" to the class and may subject investors to public identification and to participation in discovery ("Opt-In Actions"). The Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim and any other required documentation for the Funds in any Opt-In Actions of which the Adviser learns.

While the Claim Service is focused on recovery opportunities in the United States and Canada (the jurisdictions in which class action lawsuits and regulatory recovery funds predominate), it is possible that, as class action laws in legal systems in jurisdictions outside of the U.S. and Canada continue to evolve, the Adviser may learn of recovery opportunities in those other jurisdictions that similarly require only the filing of a proof of claim or its equivalent to recover, referred to here as "Foreign Actions." The Adviser does not assume any obligation to identify, research, or file proofs of claim in, any such Foreign Actions. In the event that the Adviser does learn of any Foreign Actions, the Adviser has complete discretion to determine, on a case-by-case basis, whether to file proofs of claim for the Funds in such Foreign Actions.

In addition, from time to time, the Adviser may recommend that one or more of the Funds pursue litigation against an issuer or related parties (whether, for example, by opting out of an existing class action lawsuit, participating in a representative action in a foreign jurisdiction, or otherwise). The Adviser or the Funds may also participate in bankruptcy proceedings involving issuers of securities presently or formerly held in the Funds' portfolios, or related parties of such issuers, and join official and ad hoc committees of creditors or other stakeholders. Similarly, the Adviser's affiliates may recommend that the Funds they manage participate in litigation, bankruptcy proceedings or committees of creditors or other stakeholders. Neither the Adviser nor the Adviser's affiliates will provide notice of, or the opportunity to participate in, any litigation against an issuer or related parties to the Adviser's Separate Account/Third Party Fund Clients (defined below).

Separate Account/Third Party Fund Clients. With respect to the separate accounts and the third party registered investment companies and other third party pooled or collective investment vehicles that the Adviser manages, advises or sub-advises on behalf of certain clients (collectively, "Separate Account/Third Party Fund Clients"), unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure to, but may, provide the Claim Service and may, without undertaking any obligation to do so, file proofs of claim in Foreign Actions, and file any required documentation in any Opt-In Actions, as described above. Foreign Actions do not include any other type of collective action outside of the U.S. and Canada, such as representative actions. Those other actions require individual analysis as to whether participation is in an investor's best interest and often require participants to agree to funding agreements or to pay the costs of the litigation directly, to enter into agreements with representative organizations, and to commit to participation in discovery and may require participants to be identified publicly as plaintiffs in the action. The Adviser does not assume any obligation to identify or take any action with respect to such offshore collective or representative actions for its Separate Account/Third Party Fund Clients.

Further, unless otherwise specifically agreed, the Adviser shall not be required, or be liable for any failure, to participate in any bankruptcy proceedings involving issuers of securities presently or formerly held in Separate Account/Third Party Fund Client accounts, or related parties of such issuers. Without limiting the foregoing, the Adviser shall not be responsible for filing proofs of claim in bankruptcy proceedings, notifying Separate Account/Third Party Fund Clients of any applicable deadlines, or participating in any committees of creditors or other stakeholders on behalf of Separate Account/Third Party Fund Clients.

In connection with the Claim Service and the Adviser's involvement in bankruptcy proceedings on behalf of Separate Account/Third Party Fund Clients, where applicable, the Adviser may disclose information about a Separate Account/Third Party Fund Client or the client's account, whether by including such information in any proofs of claim or otherwise disclosing such information in any

related manner. By filing a proof of claim on behalf of a Separate Account/Third Party Fund Client, the Adviser may waive the Separate Account/Third Party Fund Client's right to pursue separate litigation with respect to the subject matter of the class action lawsuit or regulatory recovery fund, or the right to a jury trial in a bankruptcy proceeding, as applicable. Where the Adviser does provide the Claim Service or agrees to participate in bankruptcy proceedings on behalf of Separate Account/Third Party Fund Clients, the Adviser may (subject to the governing investment advisory or management agreement), at any time, terminate provision of such services by giving notice of such termination to the Separate Account/Third Party Fund Client (by any method the Adviser chooses, including electronic mail), and such services will, if not sooner terminated, automatically terminate upon the termination of the governing investment advisory or management agreement.

Item 17 Voting Client Securities

PROXY VOTING POLICIES & PROCEDURE

The Adviser has delegated its administrative duties with respect to voting proxies for client equity securities to the proxy group within Franklin Templeton Companies, LLC (the "Proxy Group"), an affiliate and wholly owned subsidiary of Franklin Resources, the parent company of the Adviser.

All proxies received by the Proxy Group will be voted based upon the Adviser's instructions and/or policies. To assist it in analyzing proxies, the Adviser subscribes to one or more unaffiliated third party corporate governance research services that provides in-depth analyses of shareholder meeting agendas, vote recommendations, recordkeeping and vote disclosure services (each a "Research Service"). Although Research Service analyses are thoroughly reviewed and considered in making a final voting decision, the Adviser does not consider recommendations from a Research Service or any other third party to be determinative of the Adviser's ultimate decision. Rather, the Adviser exercises its independent judgment in making voting decisions. The Adviser votes proxies solely in the best interests of the client, the Adviser-managed fund shareholders or, where employee benefit plan assets subject to the Employee Retirement Income Security Act of 1974, as amended, are involved ("ERISA accounts"), in the best interests of plan participants and beneficiaries (collectively "Advisory Clients") unless (i) the power to vote has been specifically retained by the named fiduciary in the documents in which the named fiduciary appointed the investment manager or (ii) the documents otherwise expressly prohibit the investment manager from voting proxies. As a matter of policy, the officers, directors and Access Persons (as defined in the Code of Ethics Summary in Item 11) of the Adviser and the Proxy Group will not be influenced by outside sources whose interests conflict with the interests of Advisory Clients. In situations where a material conflict of interest is identified, the Proxy Group may vote consistently with the voting recommendation of a Research Service or send the proxy directly to the relevant Advisory Clients with the Adviser's recommendation regarding the vote for approval.

As a matter of practice, the votes with respect to most issues are cast in accordance with the position of the management of the company in which the equity securities are held. Each issue, however, is considered on its own merits, and the Adviser 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.

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(s) that follows the security and will provide the analyst(s) with the agenda, Research Service analyses, recommendations and any other information provided to the Proxy Group. Except in situations identified as presenting material conflicts of interest, the Adviser's research analyst(s) and relevant portfolio manager(s) are responsible for making the final voting decision based on their review of the agenda, Research Service analyses, proxy statements, their knowledge of the company and any other information publicly available. In the case of a material conflict of interest, the final voting decision will be made in accordance with the conflict procedures, as described above. Except in cases where the Proxy Group is voting consistently with the voting recommendations of an independent third party service provider, the

Proxy Group must obtain voting instructions from the Adviser's research analyst(s), relevant portfolio manager(s), legal counsel and/or an Advisory Client prior to submitting the vote.

The Adviser has adopted general proxy voting guidelines that are reviewed periodically by various members of the Adviser's organization, including portfolio management, legal counsel and the Adviser's officers, and are subject to change. These guidelines cannot provide an exhaustive list of all the issues that may arise nor can the Adviser 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, environmental, social and governance issues, and global corporate governance.

The Proxy Group is fully cognizant of its responsibility to process proxies and maintain proxy records pursuant to SEC rules and regulations, including Rule 206(4)-6 under the Advisers Act. In addition, the Adviser understands its fiduciary duty to vote proxies and that proxy voting decisions may affect the value of shareholdings. Therefore, the Adviser will attempt to process every proxy it receives for all U.S. and non-U.S. securities. However, there may be situations in which the Adviser will not vote a proxy, such as where: (i) proxy ballot was not received from the custodian bank, (ii) a meeting notice was received too late, (iii) there are fees imposed upon the exercise of a vote and the Adviser has determined that such fees outweigh the benefit of voting, (iv) there are legal encumbrances to voting, including blocking restrictions in certain markets that preclude the ability to dispose of a security if the Adviser votes a proxy or where the Adviser is prohibited from voting by applicable law or other regulatory or market requirements, including but not limited to, effective powers of attorney, (v) the Adviser held shares on the record date but has sold them prior to the meeting date, (vi) proxy voting service is not offered by the custodian in the market, (vii) the Adviser believes it is not in the best interests of the Advisory Client to vote the proxy for any other reason not enumerated herein, or (viii) a security is subject to a securities lending or similar program that has transferred legal title to the security to another person.

In some foreign jurisdictions, even if the Adviser uses reasonable efforts to vote a proxy on behalf of its Advisory Clients, such vote or proxy may be rejected because of (a) operational or procedural issues experienced by one or more third parties involved in voting proxies in such jurisdictions; (b) changes in the process or agenda for the meeting by the issuer for which the Adviser does not have sufficient notice; or (c) the exercise by the issuer of its discretion to reject the vote of the Adviser. In addition, despite the best efforts of the Proxy Group and its agents, there may be situations where the Adviser's votes are not received, or properly tabulated, by an issuer or the issuer's agent.

The Adviser or its affiliates may, on behalf of one or more of the registered investment companies advised by the Adviser or its affiliates, determine to use its best efforts to recall any security on loan where the Adviser or its affiliates (a) learn of a vote on a material event that may affect a security on loan, and (b) determine that it is in the best interests of such registered investment companies to recall the security for voting purposes. The Adviser will not generally make such efforts on behalf of other advisory clients, or notify such clients or their custodians that the Adviser or its affiliates has learned of such a vote.

The Proxy Group is responsible for maintaining the documentation that supports the Adviser's voting decision. Such documentation may include, but is not limited to, any information provided by Research Services and, with respect to any issuer that presents a potential conflict of interest, any board or audit committee memoranda describing the position it has taken. The Proxy Group may use an outside service such as a Research Service to support this recordkeeping function. All records will be retained for at least five years, the first two of which will be on-site at the offices of Franklin Templeton Companies, LLC. Advisory Clients may view the Adviser's complete proxy voting policies and procedures on-line at *www.franklintempleton.com*, request copies of their proxy voting records and the Adviser's complete proxy voting policies and procedures by calling the Proxy Group at 1-954-527-7678 or send a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. For U.S. investment company products, an annual proxy voting record for the period ending June 30 of each year will be posted to *www.franklintempleton.com* no later than August 31 of each year. In addition, the Proxy Group is responsible for ensuring that the proxy voting policies, procedures and records of

the registered investment companies advised by the Adviser are made available as required by law, and is responsible for overseeing the filing of such investment company voting records with the SEC.

Item 18 Financial Information

No relevant information to disclose.

INVESTMENT ADVISER REGISTRATION

FRANKLIN TEMPLETON INVESTMENTS

Templeton Investment Counsel, LLC
300 Southeast 2nd Street
Ft. Lauderdale, FL 33301
(800) 321-8563 www.franklintempleton.com

FORM ADV-PART 2B: BROCHURE SUPPLEMENT

June 23, 2014

Item 1-Supervised Person

HEATHER WADDELL

This brochure supplement provides information about **Heather Waddell** that supplements Templeton Investment Counsel, LLC's brochure. You should have received a copy of that brochure. Please contact FTPA Services at (800) 822-8464 or via email at **FTPAServices@frk.com** if you did not receive Templeton Investment Counsel, LLC's brochure or if you have any questions about the contents of this supplement.

Item 2-Educational Background and Business Experience

Heather Waddell is a senior vice president and portfolio manager for the Templeton Global Equity Group having joined the Templeton organization in 1996. Ms. Waddell's research responsibilities include consumer electronics, office electronics, global small-capitalization cyclicals and capital goods, and country research coverage of Turkey, Greece, Peru and Colombia. She is a member of the global industrials and information technology sector teams. Ms. Waddell holds a B.A. in economics from the University of California, Santa Cruz and an M.B.A. from the Columbia University Graduate School of Business. She is a member of the South Florida Society of Financial Analysts and a Chartered Financial Analyst (CFA) Charterholder. Ms. Waddell was born in 1969.

Item 3-Disciplinary Information

This section includes details related to certain legal or disciplinary events, which could be material to your evaluation of the supervised person. Examples of these events may include criminal and/or civil actions, administrative proceedings before the SEC or other relevant regulatory agencies, or any proceeding in which the attainment of a professional license or designation was revoked or suspended.

Ms. Waddell does not have any reportable items.

Item 4-Other Business Activities

This section discloses whether or not the supervised person is actively engaged in other investment-related businesses or occupations and details of the compensation received for these activities. In addition, the section describes any non-investment related business or occupation that occupies a substantial portion of the individual's time or provides a substantial source of income.

Although our parent company, Franklin Resources, Inc. is a holding company for a variety of entities, including both registered investment advisers and broker-dealers, our investment professionals are employed by registered investment advisers, and, as such, do not receive commissions, bonuses or other forms of compensation based on the sale of securities or other investment products.

Ms. Waddell does not have any reportable items.

Item 5-Additional Compensation

This section describes any economic benefit received by the supervised person from someone who is not a client for providing advisory services. This does not include regular compensation but would include a bonus based, at least in part, on the number or amount of sales, client referrals or new accounts.

In general, Franklin Templeton Investments seeks to compensate investment professionals for activities that are related to investment performance and not for sales or new business related activities. Compensation generally consists of a base salary and an annual bonus, which includes both a cash and deferred component. Based on product structure, and in limited cases, individuals may also be eligible to receive performance fees.

Ms. Waddell does not have any reportable items.

Item 6-Supervision

This section describes how the supervised person is supervised, including the monitoring of advice provided to clients.

Franklin Templeton Investments professionals, including the supervised person, are typically supervised by a Chief Investment Officer (CIO). The CIO has deep experience in portfolio management and provides marketplace advice and strategic guidance to our investment professionals.

In some situations, an investment professional may report to an immediate supervisor who monitors day-to-day activities, but the CIO has overall accountability for the performance of their respective investment teams. In addition to CIO oversight, the monitoring of investment-related advice occurs through various methods. These may include investment committees and peer review forums where investment performance, advice and decisions are evaluated against an assortment of criteria such as attribution, risk, portfolio compliance, and trading.

Ms. Waddell is supervised by Norman Boersma, President/CIO, who can be reached at (242) 302-3626.

Item 7-Requirements for State-Registered Advisers

Not Applicable.

End of Brochure Supplement for **Heather Waddell**

Glossary of Professional Designations

Designation	Issued By	Description
A Fin - Associate of Financial Services Institute of Australia	Financial Services Institute of Australasia (FINSIA)	Those who hold a relevant Diploma or Graduate Certificate or other recognized industry qualifications and are working in the industry.
ACA - Associate Chartered Accountant	Institute of Chartered Accountants in England & Wales (ICAEW)	It is a three step process that includes completing a recognized academic program, a practical experience program, and a professional competence program. The training usually takes place in the United Kingdom, but the program is available to other countries.
AFSI - Associate, Financial Services Institute	Life Office Management Association (LOMA)	Completion of five course examinations.
AIAF - Italian Financial Analysts Society	The European Federation of Financial Analysts Societies (EFFAS)	It is a training course addressed to junior analysts' (in Italy) endowed of university education which includes twenty specialized courses.
CA (SA) - Chartered Accountant (South Africa)	South African Institute of Chartered Accountants	The South African Institute of Chartered Accountants (SAICA) is the foremost accountancy body in South Africa and one of the leading Institutes in the world. The CA (SA) designation is awarded to individuals who complete specified educational requirements in accountancy and finance, pass a series of qualifying exams and undertake a 3 year qualified learnership program.
CAIA - Chartered Alternative Investment Analyst	Chartered Alternative Investment Analyst Association	The CAIA program is the educational benchmark for the alternative investment industry and the CAIA designation is now recognized globally as the most respected credential in alternative investing. The CAIA designation demonstrates mastery of alternative investment concepts, tools, and practices and promotes adherence to the highest standards of professional conduct.
CEBS - Certified Employee Benefit Specialist	International Foundation of Employee Benefit Plans (IFEBP)	A program that helps individuals develop a comprehensive understanding of employee benefit principles and concepts.
CFA - Chartered Financial Analyst	CFA Institute	It is a three course exam that requires 250 hours of study for each of the three levels and must either meet a requirement of an undergraduate degree and four years of professional experience involving investment decision making, or four years qualified work experience full time (not necessarily investment related).
CFP - Certified Financial Planner	Financial Planning Standards Board (FPSB)	Must meet education, experience and ethics requirements and pay an ongoing certification fee.
CIC - Chartered Investment Counselor	Investment Counsel Association of America (ICAA)	CFA's who work as investment advisors and have at least 5 years of work experience as an investment advisor.
CMA - Chartered Member of the Securities Analysts Association of Japan	The Securities Analysts Association of Japan (SAAJ)	A two part education/examination program, which emphasized securities analysis, and requires three or more years of experience in financial and investment analysis and/or portfolio management.
CPA - Certified Public Accountant	American Institute of Certified Public Accountants (AICPA)	Those in the United States that have passed the Uniform Certified Public Accountant Examination and have met additional state education and experience requirements.
CSC - Canadian Securities Course	Canadian Securities Institute (CSI)	It is the initial course required for becoming licensed to work with the Canadian securities industry as a securities dealer or securities agent. It includes two exams that must be completed within 1 year of registration in the course.

Glossary of Professional Designations (con't)

Designation	Issued By	Description
CPC - Certified Pension Consultant	American Society of Pension Professionals & Actuaries	As the culminating designation for the nonactuary ASPPA (American Society of Pension Professionals & Actuaries) member, the Certified Pension Consultant (CPC) credential is intended as an opportunity for a successful candidate to demonstrate an ability to draw from his or her accumulated retirement plan knowledge and experience. To earn the CPC credential, candidates build upon a foundation of knowledge acquired by passing the examinations required for the QKA and QPA credentials. CPC candidates will demonstrate their knowledge and experience through the completion of specific core and elective online modules as well as a single comprehensive proctored CPC essay examination.
FCA - Fellow Chartered Accountant	Institute of Chartered Accountants in England & Wales (ICAEW)	One either has an ACA or an FCA. An FCA is intended to designate those who have achieved a higher level of professional experience, at least 10 years of membership, complied with the institute's requirements on continuing professional development in the preceding three years and have no outstanding disciplinary charges against them.
FFSI - Fellow Financial Services Institute	Life Office Management Association (LOMA)	Completion of seven LOMA courses and three LOMA professional Achievement credits.
FIAA - Fellow of the Institute of Actuaries of Australia	Institute of Actuaries of Australia (IAA)	A member of the institute must be approved by Council after passing or being exempt from examinations of the institute, satisfying twelve months practical experience in the field and completing a recognized professionalism course.
FRM - Financial Risk Manager	Global Association of Risk Professionals (GARP)	Complete two examinations that cover the major topics in financial risk management as well as meet other requirements.
FSA - Fellow of the Society of Actuaries	Society of Actuaries (SOA)	Includes a plan design, risk classification, ratemaking and valuation in addition to five preliminary exams.
FSI - Fellow of the Securities Institute	Chartered Institute for Securities & Investment (CISI)	Demonstrate the attainment and maintenance of an appropriate level of professional competence.
IMC - Investment Management Certificate	CFA Society of the UK (UKSIP)	Aims to test candidates' basic knowledge of the regulations and practices of financial markets, the categories of securities and the principles of investment management.
MA - Municipal Analyst	National Federation of Municipal Analysts (NFMA) formerly National Association of Securities Dealers (NASD)	Municipal Analysts and municipal portfolio managers who meet the standards as established by the organization and outlined in the By-laws.
Series 63 License	The Financial Industry Regulatory Authority (FINRA)	This exam will entitle an individual with the qualifications necessary to become a limited registered representative who solicits orders for corporate debt and equity securities.
Series 65 License	North American Securities Administrators Association (NASAA)	The Uniform Investment Adviser Law Examination, also called Series 65 exam, was developed by the North American Securities Administrators Association (NASAA) and is administered by the Financial Industry Regulatory Authority (FINRA). This examination is designed to qualify candidates as investment adviser representatives
Series 66 License	North American Securities Administrators Association (NASAA)	Successful Completion is also the successful completion of both the Series 63 and Series 65 Exams. This is needed to qualify for registration as an Investment Advisor Representative.
Series 7 License	The Financial Industry Regulatory Authority (FINRA) formerly National Association of Securities Dealers (NASD)	Formally known as the General Securities Representative Examination for individuals who want to enter the securities industry to sell any type of securities.

FRANKLIN TEMPLETON INVESTMENTS

PRIVACY NOTICE 2015

Franklin Templeton Portfolio Advisors, Inc. is committed to safeguarding information provided to us by our individual clients. This notice is designed to provide you with a summary of the non-public personal information we may collect and maintain about current or former investors; our policy regarding the use of that information; and the measures we take to safeguard the information. Franklin Templeton Portfolio Advisors ("FTPA") does not sell non-public personal information to anyone and only shares it as described in this notice.

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When you become a customer of FTPA, you provide us with your non-public personal information. We collect and use this information to manage your accounts and respond to your requests. The non-public personal information we collect falls into the following categories:

- Information we receive from you on applications or other forms, whether we receive the form in writing or electronically. For example, this information includes your name, address, birth date, tax identification number, investment selection, income, dependent and net worth information.
- Information about your transactions and account history with us or with our affiliates. This category also includes your communications to us concerning your investments and accounts.
- Other general information that we may obtain about you, such as demographic information.

DISCLOSURE POLICY

To better service your accounts and process transactions or services you've requested, we may share non-public personal information with other Franklin Templeton Investments' companies. We will not, however, share your non-public personal information with another Franklin Templeton Investments' company for that entity's marketing purposes without first offering you the opportunity to prevent the sharing.

We do not share non-public personal information with outside parties except as is expressly permitted by law. For example, this includes situations where we need to share information with companies who work on our behalf to service or maintain your accounts or to provide services or process transactions you've requested, when the disclosure is to a party representing you, or when required by law (for example, in response to legal process).

Additionally, except as prohibited by law or contract, we may disclose non-public personal information to companies performing services on our behalf or to other financial institutions with whom we have joint marketing agreements. If this occurs, we will ensure that these companies working on our behalf are under contractual obligations to protect the confidentiality of your information and to use it only to provide the services we've asked them to perform.

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Our employees are required to follow procedures with respect to maintaining the confidentiality of our customers' non-public personal information. Additionally, we maintain physical, electronic and procedural safeguards to protect the information. This includes performing ongoing evaluations of our systems containing customer information and making changes when appropriate.

Protecting the confidentiality of your non-public personal information remains a priority for us, and is one way in which we respond to the trust you have placed in our organization. Please contact your Financial Advisor or Financial Consultant if you have any questions.

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