

# Franklin Templeton Alternative Funds

**PROSPECTUS**  
draft

*SOCIÉTÉ D'INVESTISSEMENT*

*À CAPITAL VARIABLE*

**INCORPORATED IN THE GRAND DUCHY OF LUXEMBOURG**

**10.10.2022**

**Franklin Templeton Alternative Funds**  
*Société d'investissement à capital variable*  
Registered office: 8A, rue Albert Borschette, L-1246 Luxembourg  
Grand Duchy of Luxembourg  
R.C.S. Luxembourg: B236840

**OFFER**

of separate classes of shares of no par value of Franklin Templeton Alternative Funds (the "Company"), each linked to one of the following sub-funds (the "Funds") of the Company, at the published offer price for the Shares of the relevant Fund:

1. FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND
2. FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND
3. FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND
4. FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND
5. FRANKLIN K2 ELECTRON GLOBAL UCITS FUND
6. FRANKLIN K2 MARKET NEUTRAL UCITS FUND
7. FRANKLIN K2 EMSO EMERGING MARKETS UCITS FUND
8. FRANKLIN K2 ATHENA RISK PREMIA UCITS FUND
9. FRANKLIN K2 CAT BOND UCITS FUND
10. FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND

## **FRANKLIN TEMPLETON ALTERNATIVE FUNDS – IMPORTANT INFORMATION**

If you are in any doubt about the contents of this prospectus (the "Prospectus"), you should consult your bank, stockbroker, solicitor, accountant or other financial advisor. No one is authorised to give any information other than that contained in this Prospectus or in any of the documents referred to herein.

### **The Company**

The Company is incorporated in Luxembourg under the laws of the Grand Duchy of Luxembourg as a *société anonyme* and qualifies as a *société d'investissement à capital variable* ("SICAV").

The Company is registered on the official list of undertakings for collective investment in transferable securities pursuant to Part I of the Luxembourg law of 17 December 2010 relating to undertakings for collective investment, as may be amended from time to time (the "Law of 17 December 2010"). The Company qualifies as an Undertaking for Collective Investment in Transferable Securities ("UCITS") under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009, as amended.

The Company has appointed Franklin Templeton International Services S.à r.l., *société à responsabilité limitée* with its registered office at 8A, rue Albert Borschette, L-1246 Luxembourg, Grand Duchy of Luxembourg as its management company (the "Management Company") to provide investment management, administration and marketing services to the Company with the possibility to delegate part or all of such services to third parties.

The Company has obtained or will obtain recognition for marketing its Shares in some European countries (in addition to the Grand Duchy of Luxembourg). The registration of the Shares of the Company in these jurisdictions does not require any authority to approve or disapprove the adequacy or accuracy of this Prospectus or the securities portfolios held by the Company. Any statement to the contrary is unauthorised and unlawful.

Facilities to Investors according to article 92(1) b) to f) of Directive 2009/65/EC (as amended by Directive (EU) 2019/1160) are available at <https://www.eifs.lu/franklintempleton> for certain EEA countries.

The distribution of this Prospectus and the offering of the Shares may be restricted in certain other jurisdictions. It is the responsibility of any persons wishing to make an application for Shares pursuant to this Prospectus to inform themselves of and to observe all applicable laws and regulations of any relevant jurisdictions. Attention of Investors is also drawn to the fixed amount which may be levied on transactions by Distributors, local paying agents and Correspondent Banks established in certain jurisdictions such as Italy. Prospective subscribers for Shares should make themselves aware of the legal requirements with respect to such application and of any applicable taxes in the countries of their respective citizenship, residence or domicile.

The Company may apply for registration of the Shares in various other legal jurisdictions worldwide.

The Company does not have any debentures, loans, borrowings or indebtedness in the nature of liabilities under acceptances or acceptance credits, mortgage hire purchase commitments, guarantees or other material contingent liabilities.

The Company is not registered in the United States of America under the Investment Company Act of 1940. The Shares of the Company have not been registered in the United States of America under the Securities Act of 1933. The Shares made available under this offer may not be directly or indirectly offered or sold in the United States of America or any of its territories or possessions or areas subject to its jurisdiction or to or for the benefit of residents thereof, unless pursuant to an exemption from registration requirements available under US law, any applicable statute, rule or interpretation. US Persons are not eligible to invest in the Company. Prospective Investors shall be required to declare that they are not a US Person and are not applying for Shares on behalf of any US Person. In the absence of written notice to the Company to the contrary, if a prospective investor provides a non-US address on the application form for investment in the Company, this will be deemed to be a representation and warranty from such investor that he/she/it is not a US Person and that such investor will continue to be a non-US Person unless and until the Company is otherwise notified of a change in the investor's US Person status.

The term "US Person" shall mean any person that is a United States person within the meaning of Regulation S under the United States Securities Act of 1933 or as defined by the US Commodity Futures Trading Commission for this purpose, as the definition of such term may be changed from time to time by legislation, rules, regulations or judicial or administrative agency interpretations.

The Company is not registered in any provincial or territorial jurisdiction in Canada and Shares of the Company have not been qualified for sale in any Canadian jurisdiction under applicable securities laws. The Shares made available under this offer may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof, unless such Canadian resident is, and will remain at all times during their investment, a "permitted client" as that term is defined in Canadian securities legislation. Prospective Investors may be required to declare that they are not a Canadian resident and are not applying for Shares on behalf of any Canadian residents. If an Investor becomes a Canadian resident after purchasing Shares of the Company, the Investor will not be able to purchase any additional Shares of the Company.

This Prospectus relates to Funds which are not subject to any form of regulation or approval by the Dubai Financial Services Authority ("DFSA") and is not directed to "retail clients" as defined by the DFSA (except for public distribution of funds through intermediaries in accordance with applicable laws). The DFSA has no responsibility for reviewing or verifying this Prospectus or other documents in connection with the Funds. Accordingly, the DFSA has not approved this Prospectus or any other associated documents nor taken any steps to verify the information set out in this Prospectus, and has no responsibility for it. The offering of the Shares may be subject to restrictions on their resale. Prospective purchasers should conduct their own due diligence on the Shares and should consult an authorised financial advisers if they do not understand the contents of this Prospectus.

Statements made in this Prospectus are based on the laws and practice currently in force in the Grand Duchy of Luxembourg, and are subject to changes in those laws and practice.

This Prospectus does not constitute an offer to anyone or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so.

The price of Shares in the Company and the income from them may go down as well as up and an Investor may not get back the amount invested. Attention of Investors is more specifically drawn to the fact that investment by the Company, as defined hereafter, may trigger specific risks, as more fully described under section "Risk Considerations".

The most recent audited annual and unaudited semi-annual reports of the Company, which are available free of charge and upon request at the registered office of the Company and the Management Company, form an integral part of this Prospectus.

Investors desiring to receive further information regarding the Company (including the procedures relating to complaints handling, the strategy followed for the exercise of the voting rights of the Company, the policy for placing orders to deal on behalf of the Company with other entities, the best execution policy as well as the arrangements relating to the fee, commission or non-monetary benefit in relation with the investment management and administration of the Company) or wishing to make a complaint about the operation of the Company should contact the Management Company client service department, 8A, rue Albert Borschette, L-1246 Luxembourg or their local servicing office.

The Company and the Management Company draw the Investors' attention to the fact that any Investor will only be able to fully exercise her/his Investor's rights directly against the Company, notably the right to participate in general meetings of the Shareholders, if the Investor is registered himself and in his own name in the register of Shareholders of the Company.

If an Investor invests in the Company through an intermediary investing in the Company in his own name but on behalf of the Investor, it may not always be possible for the Investor to exercise certain Shareholder rights directly against the Company. Investors are advised to take advice on their rights. The Management Company, acting as principal distributor of the Company (the "Principal Distributor"), will also organise and oversee the marketing and distribution of the Shares. The Principal Distributor may engage sub-distributors, intermediaries, brokers and/or professional investors (who may be affiliates of Franklin Templeton Investments and who may receive part of the annual management charge).

Moreover, the Management Company decided that, when required by the relevant legal, regulatory and/or tax environment applicable to some particular countries where the Shares of the Company are or will be offered, the duties of organising and overseeing the marketing and distribution of Shares, or the distribution of Shares itself, currently dedicated on a worldwide basis to the Principal Distributor, may be allocated to such other entities (who may be affiliates of Franklin Templeton Investments) directly appointed by the Management Company from time to time.

Subject to the provisions of the agreements in place with the Management Company, such other parties may in turn engage sub-distributors, intermediaries, brokers and/or professional investors (who may be affiliates of Franklin Templeton Investments). Notwithstanding the foregoing, the Management Company will also monitor the appointment and activities of the sub-distributors, intermediaries, brokers and/or professional investors as part of its activity as Principal Distributor.

Distributors, sub-distributors, intermediaries and Brokers/Dealers engaged in the activity of marketing and distributing the Shares shall abide by and enforce all the terms of this Prospectus including, where applicable, the terms of any mandatory provisions of Luxembourg laws and regulations relating to the distribution of the Shares. They shall also abide by the terms of any laws and regulations applicable to them in the country where their activity takes place, including, in particular, any relevant requirements to identify and know their clients. They must not act in any way that would be damaging or onerous on the Company and/or the Management Company in particular by submitting the Company and/or the Management Company to regulatory, fiscal or reporting information it would otherwise not have been subject to. They must not hold themselves out as representing the Company.

For the avoidance of doubt, Investors buying Shares or investing through such other parties (or through sub-distributors, intermediaries, brokers/dealers and/or professional investors appointed by such other parties) will not be charged additional fees and expenses by the Company or the Management Company.

Whenever applicable, all references in this Prospectus relating to the Principal Distributor should therefore also read as references to such other parties appointed by the Management Company.

The Directors of the Company, whose names appear in section "Administrative Information", are responsible for the information contained in this Prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Board of Directors accepts responsibility accordingly.

#### **Board of Directors' Powers**

The Board of Directors is responsible for the Company's management and administration and has delegated its day-to-day management and administration to the Management Company in accordance with the Articles and the Management Company services agreement.

The Board of Directors is responsible for the overall investment policy, objectives and management of the Company and its Funds. The Board of Directors may authorise the creation of additional Funds in the future with different investment objectives, subject to the amendment of this Prospectus.

The Board of Directors may decide to offer or issue in any Fund any of the existing Share Classes, which terms and conditions are more fully described in the section "Share Classes", including Alternative Currency Classes, Hedged Share Classes as well as Share Classes with different dividend policies. Investors will be informed of the issue of such Shares upon publication of the Net Asset Value per Share of such Share Class as described in the section "Publication of Share Prices".

If the total value of the Shares of any Fund is at any time below USD 100 million, or the equivalent thereof in the currency of the relevant Fund, or if a change in the economic or political situation relating to the Fund concerned would justify such liquidation or if it is required

by the interests of the Shareholders of the Fund concerned, the Board of Directors may decide to redeem all the Shares outstanding of such Fund. Notice of such redemption will be sent to the registered Investors by mail. The price at which Shares will be redeemed will be based on the Net Asset Value per Share of such Fund determined upon realisation of all assets attributable to such Fund. Further details are provided in Appendix D.

The Board of Directors reserves the right at any time, without notice, to discontinue the issue or sale of Shares pursuant to this Prospectus.

Shares offered or in issue in the various Funds, Classes and currencies are more fully described in the section "Share Classes".

The assets of each Fund are exclusively available to satisfy the rights of Shareholders and of creditors, which have arisen in connection with the creation, operation or liquidation of that Fund. For the purpose of the relations as between Shareholders, each Fund will be deemed to be a separate entity.

The determination of the prices of Shares of each Fund may be suspended during a period when trading on a relevant stock exchange is substantially restricted or when other specified circumstances exist which make it impracticable to dispose of or value any of the Company's investments (see Appendix D). No Share may be issued, redeemed or switched during a period of suspension. A notice of any suspension shall be published, if appropriate, in such newspapers as the Board of Directors and/or the Management Company may from time to time determine.

The distribution of this Prospectus in some jurisdictions may require the translation of this Prospectus into the languages specified by the regulatory authorities of those jurisdictions. In case of inconsistency between the translated and the English version of this Prospectus, the English version shall prevail.

The Prospectus shall be kept up-to-date and shall be made available on the Internet site: [www.franklintempleton.lu](http://www.franklintempleton.lu) and may be found on the Internet site of Franklin Templeton Investments' Distributors and can be obtained free of charge and upon request at the registered office of the Company and the Management Company.

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## **DEFINITIONS**

<b>"Accumulation Share"</b>	a Share which accumulates the income attributable to a Share so that it is reflected in the increased value of that Share
<b>"Administrative Agent"</b>	J.P. Morgan Bank SE, Luxembourg Branch, to whom the Management Company has delegated some of the administrative agency services in relation to the Company
<b>"Alternative Currency Class"</b>	a Share Class in an alternative currency to the base currency of the Fund
<b>"Alternative Fund"</b>	an Alternative Fund's assets are allocated across alternative strategies which generally relate to investments in non-traditional asset classes or non-traditional investment strategies, including long short equity, event driven, relative value, and global macro
<b>"Annual General Meeting"</b>	the annual general meeting of the Shareholders of the Company
<b>"Articles"</b>	the articles of incorporation of the Company as amended from time to time
<b>"Board of Directors"</b>	the board of directors of the Company
<b>"Broker/Dealer"</b>	financial intermediary or advisor
<b>"Business Day"</b>	a day on which the banks in the relevant jurisdiction(s) are normally open for business
<b>"Commitment Approach"</b>	an approach for measuring risk or "Global Exposure" that factors in the market risk of the investments held in a UCITS sub-fund, including risk associated with any financial derivatives instruments held by converting the financial derivatives into equivalent positions in the underlying assets of those derivatives (sometimes referred to as "notional exposure"), after netting and hedging arrangements where the market value of underlying security positions may be offset by other commitments related to the same underlying positions. Global Exposure using the Commitment Approach is expressed as an absolute percentage of total net assets. Under Luxembourg Law, Global Exposure related solely to financial derivatives may not exceed 100% of total net assets, and Global Exposure overall (including market risk associated with the sub-funds' underlying investments, which by definition make up 100% of total net assets) may not exceed 200% of total net assets (excluding the 10% that a UCITS may borrow on a temporary basis for short-term liquidity)
<b>"Company"</b>	Franklin Templeton Alternative Funds
<b>"Contract Note"</b>	see sub-section "Contract Note" under section Investor General Information
<b>"Correspondent Bank"</b>	a bank that, in its own country, handles the business on behalf of a bank located in another country
<b>"CSSF"</b>	Commission de Surveillance du Secteur Financier – The regulatory and supervisory authority of the Company in Luxembourg
<b>"Data Protection Officer"</b>	a person appointed by the Management Company as a data protection officer in accordance with the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC
<b>"Dealing Cut-Off Time"</b>	the time prior to which a transaction instruction must be received in order for the transaction to be processed at the current day's NAV as further described in Appendix A of this Prospectus

<b>"Dealing Day"</b>	any Valuation Day which is also a Business Day, except for Franklin K2 Cat Bond UCITS Fund for which the Dealing Day will be the Valuation Day falling on the second and on the fourth Friday (or the next Business Day) of each month and on the last Business Day of the month. Dealing Day restrictions in any jurisdiction may be obtained upon request
<b>"Depositary"</b>	J.P. Morgan SE, Luxembourg Branch, a Luxembourg-based bank, has been appointed by the Company as the Company's depositary bank
<b>"Directors"</b>	the members of the Board of Directors
<b>"Distributor"</b>	an entity or person duly appointed by the Management Company, acting as Principal Distributor, to distribute or arrange for the distribution of Shares
<b>"Distribution Share"</b>	a Share which normally distributes its investment income
<b>"EMU"</b>	Economic and Monetary Union
<b>"ESTR"</b>	Euro Short-Term Rate
<b>"EU"</b>	European Union
<b>"EUR" or "Euro"</b>	Refers to the official currency of the Eurozone
<b>"Expected Level of Leverage"</b>	Funds which measure Global Exposure using a Value-at-Risk (VaR) approach disclose their Expected Level of Leverage. The Expected Level of Leverage is not a regulatory limit and should be used for indicative purposes only. The level of leverage in the Fund may be higher or lower than this expected level at any time as long as the Fund remains in line with its risk profile and complies with its relative VaR limit. The annual report will provide the actual level of leverage over the past period and additional explanations on this figure. The leverage is a measure of the aggregate derivative usage and therefore does not take into account other physical assets directly held in the portfolio of the relevant Funds. The Expected Level of Leverage is measured as the Sum of Notionals (see definition for Sum of Notionals)
<b>"FATCA"</b>	Foreign Account Tax Compliance Act
<b>"FFI"</b>	a Foreign Financial Institution as defined in FATCA
<b>"Fixed Income Fund"</b>	a Fixed Income Fund's assets are mainly or solely invested in or exposed to debt securities (including, but not limited to, bonds) which pay a fixed or variable rate of interest and which may be issued by companies, national or local governments and/or international organisations which are supported by several governments (such as the World Bank). Fixed Income Funds may invest globally or focus on a geographic region or country and may invest in bonds issued by different types of issuer or focus on just one (such as governments)
<b>"Franklin Templeton Investments"</b>	FRI and its subsidiaries and affiliates worldwide
<b>"FRI"</b>	Franklin Resources Inc., One Franklin Parkway, San Mateo, California, a holding company for various subsidiaries that, together, are referred to as Franklin Templeton Investments
<b>"Fund"</b>	a distinct pool of assets and liabilities within the Company, distinguished mainly by its specific investment policy and objective as created from time to time
<b>"Global Exposure"</b>	refers to a measure of the risk exposure for a UCITS sub-fund that factors in the market risk exposure of underlying investments, as well as the incremental market risk exposure and implied leverage associated with financial derivative instruments if and where held in the portfolio. Under Luxembourg regulation, UCITS are required to measure such risk exposure using either a "Commitment



	Approach" or a "Value-at-Risk (VaR) Approach" – see separate definitions for these terms
<b>"Holding"</b>	Shares held in a single Share Class within the Investor Portfolio
<b>"Institutional Investor"</b>	as defined from time to time by the guidelines or recommendations of the competent Luxembourg financial supervisory authority within the meaning of article 174 of the Law of 17 December 2010. Please refer to "Share Classes" section for the list of qualifying Institutional Investors
<b>"Investment Fund(s)"</b>	a UCITS or other UCI in which the Funds may invest, as determined in the investment restrictions described in Appendix B
<b>"Investment Manager(s)"</b>	the company(ies) appointed by the Management Company and which provide(s) day-to-day management in respect of the investment and re-investment of the assets of the Funds
<b>"Investor"</b>	a purchaser of Shares in the Company either directly or through a Nominee structure
<b>"Investor Portfolio" or sometimes referred to as "Portfolio"</b>	a portfolio of Holdings in the name of the registered Investor(s)
<b>"Investor Portfolio Number"</b>	personal number attributed to an Investor Portfolio upon acceptance of an application
<b>"ISIN Code"</b>	International Securities Identification Number that uniquely identifies a Fund / Share Class
<b>"KIID"</b>	a Key Investor Information Document within the meaning of article 159 of the Law of 17 December 2010
<b>"Law of 17 December 2010"</b>	Luxembourg Law of 17 December 2010 relating to undertakings for collective investment, as may be amended from time to time
<b>"Mainly"</b>	please refer to the "primarily" definition below
<b>"Management Company"</b>	Franklin Templeton International Services S.à r.l. or, where relevant, the members of the Management Company's board of managers
<b>"Net Asset Value per Share" or "NAV"</b>	the value per Share of any Class of Share determined in accordance with the relevant provisions described under the heading "Determination of Net Asset Value of Shares" as set out in Appendix D
<b>"Nominee"</b>	an institution which purchases and holds Shares in its own name and on behalf of an Investor
<b>"OECD"</b>	Organisation for Economic Cooperation and Development
<b>"Primarily", "principally" or "mainly"</b>	when a Fund investment policy states that investments will be made "primarily", "principally" or "mainly" in a particular type of security or in a particular country, region or industry, it generally means that at least two-thirds of this Fund's net assets (without taking into account ancillary liquid assets) shall be invested into such security, country, region or industry
<b>"Principal Distributor"</b>	the Management Company acting as principal distributor of the Company
<b>"RMB"</b>	the official currency of Mainland China – to be read as a reference to onshore Renminbi (CNY) and/or offshore Renminbi (CNH) as the context requires
<b>"REIT"</b>	An entity that is dedicated to owning, and in most cases, managing, real estate. This may include, but is not limited to, real estate in the residential (apartments), commercial (shopping centres, offices) and industrial (factories, warehouses)

	sectors. Certain REITs may also engage in real estate financing transactions and other real estate development activities. The legal structure of a REIT, its investment restrictions and the regulatory and taxation regimes to which it is subject will differ depending on the jurisdiction in which it is established. Investment in REITs will be allowed if they qualify as transferable securities. A closed-ended REIT, the units of which are listed on a regulated market is classified as a transferable security listed on a regulated market thereby qualifying as an eligible investment for a UCITS under the Luxembourg law
"repurchase agreements"	forward transactions at the maturity of which the Company (seller) has the obligation to repurchase the assets sold and the counterparty (buyer) the obligation to return the assets purchased under the transactions.
"reverse repurchase agreements"	forward transactions at the maturity of which the counterparty (seller) has the obligation to repurchase the asset sold and the Company (buyer) the obligation to return the assets purchased under the transactions
"securities lending"	a transaction whereby securities are transferred on a temporary basis from a lender to a borrower with the latter obliged to return the securities either on demand or at the end of a specific period.
"SFDR"	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
"SICAV"	<i>Société d'Investissement à Capital Variable</i>
"Share"	a Share of any Share Class in the capital of the Company
"Share Class"	a class of Shares with a specific fee structure, currency of denomination or other specific feature
"Shareholder"	a holder of Shares in the Company
"Sum of Notionals"	<p>a measure of the level of leverage as calculated by taking the sum of notionals of all financial derivative contracts entered into by the Fund expressed as a percentage of the Fund's Net Asset Value. The Global Exposure to the underlying investments (i.e. the 100% of Global Exposure represented by actual net assets) is not included in the calculation, only the incremental Global Exposure from the financial derivative contracts being taken into account for the purpose of calculation of the Sum of Notionals</p> <p>This methodology does not:</p> <ul style="list-style-type: none"> <li>- make a distinction between financial derivative instruments that are used for investment or hedging purposes. As a result, strategies that aim to reduce risk will contribute to an increased level of leverage for the Fund.</li> <li>- allow the netting of derivative positions. As a result, derivative roll-overs and strategies relying on a combination of long and short positions may contribute to a large increase of the level of leverage when they do not increase or only cause a moderate increase of the overall Fund risk.</li> <li>- take into account the derivative underlying assets' volatility or make a distinction between short-dated &amp; long-dated assets.</li> <li>- consider the delta for option contracts, so there is no adjustment for the likelihood that any option contract will be exercised. As a result, a Fund that has out of the money option contracts that are not likely to be exercised will appear to have the same leverage as a Fund with comparable figures for sum of notionals where the option contracts are in the money and are likely to be exercised, even though the potential leveraging effect of out of the money options tends to increase as the price of the underlying asset approaches the</li> </ul>

strike price, then tends to dissipate as the price of the underlying rises further and the contract goes deep into the money.

<b>"SOFR"</b>	Secured Overnight Financing Rate
<b>"SONIA"</b>	Sterling Over Night Index Average
<b>"Taxonomy Regulation"</b>	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, as may be amended from time to time
<b>"Third Party Payment"</b>	payments received from, or made by/to, a party other than the registered Investor
<b>"UCI" or "other UCI"</b>	Undertaking for Collective Investment within the meaning of Article 1, paragraph (2), point a) and b) of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009, as amended
<b>"UCITS"</b>	Undertaking for Collective Investment in Transferable Securities authorised according to Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009, as amended
<b>"UCITS Directive"</b>	means Directive 2009/65/EC on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as amended by Directive 2014/91/EU
<b>"USA" or "US"</b>	United States of America
<b>"USD"</b>	refers to the United States Dollar, which is also the reference currency of the Company
<b>"Valuation Day" or "Pricing Day"</b>	any day on which the New York Stock Exchange ("NYSE") is open or any full day on which banks in Luxembourg are open for normal business (other than during a suspension of normal dealing)
<b>"Value-at-Risk (VaR) approach"</b>	an approach for measuring risk or "Global Exposure" based on Value-at-Risk or VaR, which is a measure of the maximum potential loss that can arise at a given confidence level over a specific time period under normal market conditions. VaR may be expressed in absolute terms as a currency amount specific to a portfolio, or as a percentage when the currency amount is divided by total net assets. VaR may also be expressed in relative terms, where the VaR of the Fund (expressed in percentage terms) is divided by the VaR of its relevant benchmark (also expressed in percentage terms), generating a ratio known as relative VaR. Under Luxembourg Law absolute VaR limits are currently 20% of total net assets and relative VaR limits are currently twice or 200% of the benchmark VaR

All references herein to time are to Central European time (CET) unless otherwise indicated.

Words implying the singular shall, where the context permits, include the plural and vice versa.

## ADMINISTRATIVE INFORMATION

### BOARD OF DIRECTORS OF THE COMPANY

#### **CHAIRMAN:**

##### **Caroline Carroll**

Director  
FRANKLIN TEMPLETON INVESTMENT MANAGEMENT LIMITED  
Cannon Place  
78 Cannon Street  
London EC4N 6HL  
United Kingdom

#### **DIRECTORS:**

##### **A. Craig Blair**

Conducting Officer  
FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L.  
8A, rue Albert Borschette  
L-1246 Luxembourg  
Grand Duchy of Luxembourg

##### **William Jackson**

Director  
FRANKLIN TEMPLETON INVESTMENT MANAGEMENT LIMITED  
5 Morrison Street  
Edinburgh EH3 8BH, Scotland  
United Kingdom

##### **Hans-J. Wisser**

Independent Director  
Kälberstücksweg 37  
61350 Bad Homburg  
Germany

### MANAGEMENT COMPANY

#### **FRANKLIN TEMPLETON INTERNATIONAL SERVICES S.À R.L.**

8A, rue Albert Borschette  
L-1246 Luxembourg  
Grand Duchy of Luxembourg

### BOARD OF MANAGERS OF THE MANAGEMENT COMPANY

##### **A. Craig Blair**

Conducting Officer  
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75013 Paris  
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## **FUND INFORMATION, OBJECTIVES AND INVESTMENT POLICIES**

The Company aims to provide Investors with alternative investment solutions that invest in a wide range of transferable securities and other eligible assets on a worldwide basis and featuring a diverse array of investment objectives including capital growth and income. The overall objective of the Company is to assist investors to better construct portfolio solutions that meet their investment goals and outcomes, including achieving superior risk adjusted returns.

As more fully disclosed in Appendix D, a Fund shall be solely liable for its own assets and liabilities.

Each Fund may invest in "when-issued" securities, lend its portfolio securities and borrow money, all within the limits of the Company's investment restrictions (as more fully described in Appendix B).

Further, subject to the limits set forth in the investment restrictions, the Company may with respect to each Fund, invest in financial derivative instruments for the purpose of efficient portfolio management and/or to hedge against market or currency risks.

In addition, the Company may also seek to protect and enhance the asset value of its different Funds through hedging strategies consistent with the Funds' investment objectives by utilising, for example, currency options, forward contracts and futures contracts.

When a Fund investment policy states that investments will be made "primarily", "principally" or "mainly" in a particular type of security, or in a particular country, region or industry, it generally means that at least two-thirds of this Fund's net assets (without taking into account ancillary liquid assets) shall be invested into such security, country, region or industry.

Each Fund may hold significant amounts of cash or cash equivalents as alternative strategies may invest a significant portion of their assets in financial derivative instruments. The Fund may also hold cash or cash equivalents when the Investment Manager believes they offer more attractive opportunities or as a temporary defensive measure in response to adverse market, economic, political, or other conditions, or to meet liquidity, redemption, and short-term investing needs. In exceptional market circumstances and on a temporary basis only, 100% of any Fund's net assets may be invested in liquid assets, with due regard to the principle of risk spreading. Such assets may be kept in the form of cash deposits, time deposits or in money market instruments.

Where the Fund uses total return swaps, the underlying consists of instruments in which the Fund may invest according to its Investment Objective and Investment Policy. In particular, total return swaps may be used to gain long and short exposure on equity and equity related securities, fixed and floating rate securities and commodity indices.

The Management Company has implemented a policy in respect of the integration of sustainability risks in its investment decision making-process. The Management Company and/or Investment Manager(s) integrate sustainability risks and opportunities into their research, analysis and investment decision-making processes.

Sustainability risk, as further described in the "Risk Considerations" section, means an environmental, social, or governance event or condition, that, if it occurs, could potentially or actually cause a material negative impact on the value of a Fund's investment. Sustainability risks can either represent a risk of their own or have an impact on other risks and may contribute significantly to risks, such as market risks, operational risks, liquidity risks or counterparty risks.

Sustainability risks are important elements to consider in order to enhance long-term risk adjusted returns for investors and determine specific Fund's strategy risks and opportunities. All Funds of the Company do currently integrate sustainability risk in their investment decision-making process. Integration of sustainability risk may vary depending on the Fund's strategy, assets and/or portfolio composition. The Management Company and/or relevant Investment Managers make use of specific methodologies and databases into which environmental, social, and governance (ESG) data from external research companies, as well as own research results, are incorporated. Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

To the extent that a sustainability risk occurs, or occurs in a manner that is not anticipated by the Management Company and/or the relevant Investment Manager/Investment Manager's models, there may be a sudden, material negative impact on the value of an investment, and hence on the Net Asset Value of the Fund. Except where sustainability risk is not deemed relevant for a particular Fund, in which case further explanation can be found in the Fund's specific section, such negative impact may result in an entire loss of value of the relevant investment(s) and may have an equivalent negative impact on the Net Asset Value of the Fund.

The Taxonomy Regulation is limited in its application on an initial basis to only two of the six environmental objectives – climate change mitigation and climate change adaptation, as defined under the Taxonomy Regulation.

Unless otherwise stated in a Fund's specific information sub-section below, the investments underlying a Fund do not take into account the EU criteria for environmentally sustainable economic activities, including enabling or transitional activities, within the meaning of the Taxonomy Regulation.

The investment objectives and policies described below are binding on the Management Company and the Investment Manager(s) of the Funds.



## FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

USD

### Investment Objectives

The Fund's investment objective is to achieve total return over a full market cycle through a combination of current income, capital preservation and capital appreciation.

### Investment Policy

The Fund seeks to achieve its investment objective by principally investing in a diversified portfolio of credit-related transferable securities and financial derivative instruments by allocating its net assets through structured credit strategies.

Structured credit strategies are designed to profit from trading in structured credit and other related securities. Investments include residential mortgage credit, commercial mortgage credit, REITs, collateralized loan obligations, non-traditional asset-backed securities, and interest-rate sensitive securities. The Investment Manager attempts to take advantage of pricing inefficiencies in specific securities through both primary and secondary markets and may employ both fundamental and technical analysis in identifying mispricing. The Fund uses models and trading systems to support investment in many of its targeted sectors. These models and trading systems, along with other proprietary and non-proprietary analytic tools, allow evaluating many investment opportunities based on fundamental performance projections and statistical analysis, based on past performance of structured product collateral and relative value trades.

The Fund intends to invest in a wide range of credit-related transferable securities of any credit rating, financial derivative instruments and other eligible securities with no predetermined asset allocations, which asset allocation may change over time based on market conditions and the Investment Manager's strategic and tactical asset allocation views. For example, the Investment Manager may use the analytical tools described above to compute the projected return on several potential investments in a wide variety of scenarios, and then choose the investment with the highest scenario-weighted projected return. The Fund will accordingly invest significantly into legacy securities. Although it is not Investment Manager's primary objective, the Fund may invest to an unlimited extent in non-investment grade, low-rated and/or unrated securities. The Fund may also invest up to 10% of its net assets in distressed securities. For the purpose of this investment policy, distressed securities should be construed as (i) including defaulting debt securities and (ii) securities of companies that the Investment Manager determines (pursuant to models and trading systems referred above operated in normal market circumstances) to be or about to be, involved in reorganisations, financial restructurings, bankruptcy, or liquidations.

The Fund's invested portfolio may therefore include, but not be limited to, asset-backed securities, mortgage-related securities and structured products such as commercial and residential mortgage-backed securities (including sub-prime mortgage-backed securities and current loss-taking tranches of collateralised mortgage obligations and mortgage-backed securities), collateralised mortgage obligations and collateralized debt and loan obligations (primarily senior and mezzanine tranches), US government and agency securities, government and supranational debt securities, corporate bonds, floating and fixed debt securities and financial derivative instruments with similar economic characteristics.

The Fund utilises financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on regulated markets or over-the-counter, and may include, inter alia, (i) futures contracts, including futures based on equity, equity index, fixed income securities, interest rate and currency futures and options thereon; (ii) swaps, including currency, index, interest rate, total return swaps related to equity and/or fixed income as well as credit default swaps and options thereon; (iii) options, including call options and put options on indices, individual securities or currencies; and (iv) currency forward contracts. Use of financial derivative instruments may result in negative exposure in a specific asset class, yield curve/duration or currency. Where the Fund uses total return swaps, the underlying consists of instruments in which the Fund may invest according to its Investment Objectives and Investment Policy. In particular, total return swaps may be used to gain long and short exposure on equity and equity related securities, fixed and floating rate securities and commodity indices.

The Fund may also invest in securities, cash-settled structured products or exchange traded notes where the security is linked to or derives its value from another security, index or currencies of any country.

The Fund may gain long and/or synthetic short exposure to a wide range of asset classes, including equities, fixed income and currencies. Long positions benefit from an increase in the price of the underlying instrument or asset class, while short positions benefit from a decrease in that price. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments.

The Fund may also make distribution from capital, net realised and net unrealised capital gains as well as income gross of expenses. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors seeking:

- capital appreciation by investing in a wide range of eligible securities and financial derivative instruments related to asset-backed and mortgage-backed credit sectors
- invest for the medium to long term

The Fund is only intended for institutional, professional and sophisticated Investors.

A sophisticated Investor means an Investor who:

- understands the Fund's strategy, characteristics and risks in order to make an informed decision; and
- has knowledge of or investment experience in, financial products that use complex derivatives and/or derivative strategies (such as this Fund) and financial markets generally.

**Risk considerations**

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Counterparty risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Prepayment risk
- Real Estate Securities risk
- Securitisation risk
- Swap Agreements risk
- Dividend Policy risk

**Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund is not expected to exceed 100% under ordinary circumstances. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

**Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Ellington Global Asset Management, L.L.C., which acts as sub-investment manager.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The Fund's investment objective is to seek capital appreciation. The Fund aims to produce superior investment returns with controlled volatility throughout various market cycles.

### Investment Policy

The Fund seeks to achieve its investment objective by principally investing in a diversified portfolio of equity and equity-related securities focused on large and mid-capitalisation companies of different sectors and located anywhere in the world (but predominantly in United States), through long-short equity strategies. Such strategies generally seek to produce returns from investments in the global equity markets by taking long and synthetic short positions in stocks and common stock indices. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments. These strategies are generally focused on risk-adjusted returns and capitalise on the Investment Manager's views and outlooks for specific equity markets, regions, sectors and securities.

The Fund employs a fundamental, bottom-up research process to search for individual securities believed to possess superior risk-return characteristics and which meet valuation criteria.

The Fund utilises financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on regulated markets or over-the-counter, and may include, but are not limited to, contracts for difference, forward contracts on financial instruments such as currencies, swaps, including equity, and index and total return swaps related to equity instruments.

### Exposure to total return swaps

The expected level of exposure that could be subject to total return swaps generally amounts to 100% of the Fund's net assets, subject to a maximum of 150%.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking:

- For capital appreciation through investing in equity and equity-linked derivatives, long and short, of companies worldwide but based primarily in the US
- To invest for the medium to long term

### Risk Considerations

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Counterparty risk
- Derivative Instruments risk
- Equity risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Swap Agreements risk

### Global Exposure

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount to 175%. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

### Investment Manager(s)

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Chilton Investment Company, which acts as sub-investment manager.

### Fees Disclosures

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The Fund's investment objective is to achieve attractive risk-adjusted returns over time with relatively low drawdowns compared to and low correlations with the broader equity markets.

### Investment Policy

The Fund invests primarily in the securities of companies involved in mergers, acquisitions, transfers of assets, tender offers, exchange offers, recapitalisations, divestitures, spin-offs, capital structure restructurings, reorganisations, and liquidations, and may participate in such transactions. The investment objective will be primarily achieved by investing in publicly disclosed transactions in an effort to capture a "spread" between the value of a security post the announcement of a transaction and at its consummation.

The Fund intends to invest in a wide range of transferable securities, financial derivative instruments and other eligible securities. Such securities may include, but are not limited to, equity and equity-related securities (which may include common stocks, preferred stocks and convertible securities) and debt securities. Debt securities which may be acquired by the Fund shall include all varieties of fixed and floating-rate income securities of any maturity or credit rating (including investment grade, non-investment grade, low-rated, unrated securities and/or securities in default) of corporate and/or sovereign issuers primarily in North America and Europe, and may include, inter alia, high yield ("junk") bonds and distressed debt securities (securities of companies that are, or are about to be, involved in reorganisations, financial restructurings, bankruptcy, or liquidations). The Fund may engage in active and frequent trading as part of its investment strategies. Investments in defaulted debt securities would, under normal market conditions, typically represent no more than 5% of the Fund's net assets.

The Fund may also, in accordance with the investment restrictions, invest up to 5% of its net assets in special purpose acquisition companies (SPACs) provided that the contemplated SPACs qualify as transferable securities under paragraphs (1) or (2) a) of Article 41 of the Law of 17 December 2010.

The Fund utilises financial derivative instruments for investment purposes, hedging, and efficient portfolio management. These financial derivative instruments may be traded on regulated markets or over-the-counter, and may include, inter alia, (i) swaps, including equity, index, total return swaps related to equity, fixed income as well as credit default swaps; (ii) options, including call options and put options on individual securities or indices; (iii) currency forward contracts; and (iv) futures contracts, including futures based on equity or fixed income securities and indices, contracts for differences, interest rate futures and currency futures and options thereon. Use of financial derivative instruments may result in negative exposure in a specific asset, asset class, yield curve/duration or currency.

For the avoidance of doubt, the Fund will not acquire, in accordance with article 48 of the Law of 17 December 2010, any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.

### Exposure to total return swaps

The expected level of notional exposure that could be subject to total return swaps amounts to 40% of the Fund's net assets, subject to a maximum of 300%.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking to:

- achieve capital appreciation by investing in a wide range of equity, debt and financial derivative instruments benefiting primarily from merger arbitrage and related strategies
- invest for the long term

### Risk Considerations

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Convertible and Hybrid Securities risk
- Counterparty risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Distressed Securities risk
- Equity risk
- Foreign Currency risk
- Hedged Strategies risk
- High- Yield Investment risk
- Liquidity risk
- Market risk
- Portfolio Turnover risk
- Restructuring Companies risk
- SPACs risk
- Swap Agreements risk

**Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount to 300%. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

**Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Bardin Hill Arbitrage UCITS Management LP, which acts as sub-investment manager.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

USD

### Investment Objectives

The Fund's investment objective is to provide long-term capital appreciation.

### Investment Policy

The Fund seeks to achieve its investment objective by investing primarily in equity and equity-related securities of companies that derive a major portion of revenues or anticipated revenues from the information technology, communication services, and consumer discretionary sectors worldwide. The Fund will generally invest in securities with market capitalizations in excess of \$500 million.

The Fund may, at times, be concentrated in one or more sub-sectors. The Fund may also have significant exposure outside of the US, including Emerging Markets.

The Fund may take long and/or synthetic short positions in a wide range of asset classes, including equities, fixed income (debt and interest rate instruments, credit instruments, convertible securities) currencies, American depositary receipts, exchange-traded funds and real estate related securities. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments.

The Fund utilises financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on regulated markets or over-the-counter, and may include, inter alia, (i) futures contracts, including futures based on equity or fixed income securities and indices, interest rate futures and currency futures and options thereon; (ii) swaps, including equity, currency, interest rate, index, total return swaps related to equity and/or fixed income as well as credit default swaps and options thereon; (iii) options, including call options and put options on indices, individual securities or currencies; and (iv) currency forward contracts. Use of financial derivative instruments may result in negative exposure in a specific asset class, yield curve/duration or currency.

Since the investment objective is more likely to be achieved through an investment policy that is flexible and adaptable, the Fund may also invest up to 5% in convertible and non-convertible preferred debt securities.

The Fund also may invest directly up to 10% of its net assets in units of UCI such as UCITS, Exchange Traded Funds ("ETF") as well as other UCIs.

### Exposure to total return swaps

The expected level of exposure that could be subject to total return swaps amounts to 175% of the Fund's net assets, subject to a maximum of 225%.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking to:

- long-term capital appreciation by investing in equity securities
- a growth investment in the technology sector in the US and around the world
- invest for the medium to long term

### Risk considerations

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Counterparty risk
- Concentration risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Emerging Market risk
- Equity risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Swap Agreements risk

### Global Exposure

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount to 250%. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

### Investment Manager(s)

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Wellington Management Company, which acts as sub-investment manager.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 ELECTRON GLOBAL UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The Fund's investment objective is to seek to achieve an absolute return.

### Investment Policy

The Fund seeks to achieve its investment objective by investing primarily in equity and equity-related securities of companies active in the infrastructure and global utility sector. Companies are of any market capitalisation and can be located in North America, Europe, Asia-Pacific and to a lesser extent Latin America (including emerging markets). For the Fund's investment purpose, the utility sector includes, but is not limited to, electric, gas and water utilities and independent power companies, as well as utility service and fuel providers, utility equipment manufacturers (including, but not limited to, renewable and energy technology companies) and related sectors.

The Fund may take long and/or synthetic short positions in relation to these equity securities. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments. Long positions benefit from an increase in the price of the underlying instrument or asset class, while short positions benefit from a decrease in that price.

The Fund utilises financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on regulated markets or over-the-counter, and may include, inter alia, (i) futures contracts, including futures based on equity securities and indices, and currency futures, currency index futures and options thereon; (ii) swaps, including equity, index, currency, total return swaps related to equity and options thereon; (iii) options, including call options (both exchange traded options and/or over-the-counter), on indices, individual securities; (iv) contract for differences; and (v) currency forward contracts. Use of financial derivative instruments may result in negative exposure in a specific asset class, yield curve/duration or currency.

The Fund may also invest up to 10% of its net assets in units of UCITS, Exchange Traded Funds ("ETF") and other UCIs. The Fund may invest in securities, cash-settled structured products or exchange traded notes where the security is linked to or derives its value from another security, index or currencies of any country.

Alongside traditional financial analysis, the Fund incorporates Environmental Social and Governance ("ESG") factors into the investment process, with a focus on environmental factors. The Investment Manager applies a rating methodology to the whole portfolio which is binding for the portfolio construction in order to maintain a portfolio ESG rating higher than the one of the Fund's investment universe. The E, S and G factors taken into account by the Investment Manager are the following:

- Environmental: policy/oversight, resources, and pollution/waste;
- Social: human capital, corporate responsibility, data privacy and security, customer product and safety; and
- Governance: board, ownership, compensation structure, corporate behavior.

The Fund assigns an E, S and G score to each security which, when combined according to their weighting (50% for the E pillar, 10% for the S and 40% for the G), allow to establish an overall ESG score. The scoring process is a combination of multiple sources which can be either external, or internal (i) if the securities are non-rated by third-party data sources or (ii), on an ancillary basis, if the Investment Manager disagrees with the methodology used by a third-party data provider to generate the ESG score. The scores range from 0 to 10, with 10 being the highest achievable score and two thirds of the Fund's securities have to be assigned a score higher than 6.0 on a long exposure weighted basis.

The Fund will not invest in companies that derive more than 10% of their revenue from traditional oil and gas segments and in companies the power generation of which exceeds 50% from thermal coal and excludes any security that has an MSCI ESG rating equal or below CCC. Securities with an MSCI ESG rating equal to B are considered by the Fund provided that the Investment Manager expects a sustainability improvement within 12 months as from the date of purchase.

The ESG scores of the securities are monitored and updated on at least a quarterly basis. If the ESG score of a security is downgraded to an MSCI ESG rating of CCC, the security will be sold. For the securities with an MSCI rating of B, the Investment Manager will monitor on an ongoing basis the ESG progression of the security.

### Exposure to total return swaps

The expected level of exposure that could be subject to total return swaps (funded and unfunded) amounts to 30% of the Fund's net assets, subject to a maximum of 50%.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking to:

- invest in a Fund compliant with article 8 of the SFDR
- capital appreciation by investing in equity securities in the utility and infrastructure sector
- invest for the medium to long term

### Taxonomy Regulation

In line with its ESG methodology, the Fund promotes environmental characteristics but does not commit to making environmentally sustainable investments as defined in the Taxonomy Regulation.

### Risk Considerations



The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Concentration risk
- Counterparty risk
- Derivative Instruments risk
- Emerging Markets risk
- Equity risk
- Europe and Eurozone risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Swap Agreements risk

**Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount up to 200%. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with the financial derivative instruments that can be used pursuant to the Fund's investment policy above but does not include the underlying investments of the Fund which make up 100% of total net assets.

**Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Electron Capital Partners, which acts as sub-investment manager.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 MARKET NEUTRAL UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The Fund's investment objective is to seek capital appreciation with lower volatility relative to the broad equity markets.

### Investment Policy

The Fund seeks to achieve its investment objective by allocating its net assets across multiple non-traditional or "alternative" strategies, including but not limited to, some or all of the following strategies: Long Short Equity, Event Driven, Global Macro and Structured Credit each of which are described as follows:

- *Long Short Equity Strategies* – Long Short Equity Strategies generally seek to produce returns from investments in the global equity markets by taking long and short positions in stocks and common stock indices. These strategies are generally focused on risk-adjusted returns and capitalise on the Investment Co-Managers' views and outlooks for specific equity markets, regions, sectors and securities. Examples of long short equity strategies include (i) growth focused strategies, (ii) value focused strategies, (iii) market-neutral strategies (e.g., maintaining net exposures between 20% short and 20% long), and (iv) sector-focused strategies (e.g., technology, healthcare, financials).
- *Event Driven Strategies* – Event Driven Strategies generally imply investment in securities of companies undergoing corporate events. These strategies are generally focused on analysing the impact of the company-specific or transaction-specific event on security valuations. Examples of such company-specific or transaction-specific events include mergers, acquisitions, transfers of assets, tender offers, exchange offers, recapitalisations, liquidations, divestitures, spin-offs, equity restructurings and reorganisations. For the avoidance of doubt, the Fund will not acquire, in accordance with article 48 of the Law of 17 December 2010, any shares carrying voting rights which would enable it to exercise significant influence over the management of an issuing body.
- *Global Macro Strategies* – Global Macro Strategies generally focus on macro-economic (economy-wide phenomena such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels) opportunities across numerous markets and investments. Investments may be long or short and are based on the relative value or direction of a market, a currency, an interest rate, a commodity or any macroeconomic variable. Examples of Global Macro Strategies include discretionary (seeking to profit by tactically investing across different asset classes, markets, and investment opportunities through a combination of fundamental market analysis and quantitative modeling) and systematic (seeking to profit by utilising quantitative models to identify investment opportunities across different asset classes and markets in order to construct a portfolio of investments) macro strategies.
- *Structured Credit Strategies* – Structured Credit Strategies are designed to profit from trading in structured credit and other related securities. Investments include residential mortgage credit, commercial mortgage credit, REITS, collateralized loan obligations, non-traditional asset-backed securities, and interest-rate sensitive securities, such as non-agency senior subprime residential mortgage-backed securities. Investment Co-Managers attempt to take advantage of pricing inefficiencies in specific securities through both primary and secondary markets and may employ both fundamental and technical analysis in identifying mispricing. These strategies typically feature long positions in individual securities and short positions in index products, which are intended to hedge out some portion of the broad market risk.

The Fund intends to invest in a wide range of transferable securities, financial derivative instruments and other eligible securities. Such securities may include, but are not limited to, equity and equity-related securities (which may include common stocks, preferred stocks, participatory notes, equity related certificates and convertible securities) and debt securities (which may include bonds, notes and debentures).

The Fund's invested portfolio may include, but not limited to, asset-backed securities, mortgage-related securities and structured products (limited to maximum 30% of its net assets for structured products) such as commercial and residential mortgage-backed securities, collateralised mortgage obligations and collateralized debt and loan obligations (primarily senior and mezzanine tranches), US government and agency securities, government and supranational debt securities, corporate bonds, emerging market debt securities, preferred securities, as well as convertible, floating and fixed debt securities and financial derivative instruments with similar economic characteristics.

The Fund invests in equity and equity-related securities of companies located anywhere and of any capitalisation size. Debt securities which may be acquired by the Fund shall include all varieties of fixed and floating-rate income securities of any maturity or credit rating (including investment grade, non-investment grade, low-rated, unrated securities and/or securities in default) of corporate and/or sovereign issuers worldwide, and may include, inter alia, high yield ("junk") bonds and distressed debt securities (securities of companies that are, or are about to be, involved in reorganisations, financial restructurings, or bankruptcy). The aggregate investments in distressed and defaulted securities will not exceed 10% of the net assets of the Fund. The Fund may engage in active and frequent trading as part of its investment strategies.

The Fund utilises financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on regulated markets or over-the-counter, and may include, inter alia, (i) futures contracts, including futures based on equity or fixed income securities and indices, contracts for difference, interest rate futures and currency futures and options thereon; (ii) swaps, including equity, currency, interest rate, total return swaps related to equity, fixed income and/or commodities as well as credit default swaps and options thereon; (iii) options, including call options and put options on indices, individual securities or currencies; and (iv) currency forward contracts. Use of financial derivative instruments may result in negative exposure in a specific asset class, yield curve/duration or currency. Use of financial derivative instruments such as interest rate futures and total return swaps on commodity indices may also contribute to a material increase in the level of leverage of the Fund, as further detailed in section "Global Exposure" below.

The Fund may take long and/or synthetic short positions in a wide range of asset classes, including equities, fixed income and currencies, among others. Long positions benefit from an increase in the price of the underlying instrument or asset class, while short positions

benefit from a decrease in that price. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments.

The Fund may also seek exposure to commodities through the use of financial derivative instruments on commodity indices.

The Fund may also invest up to 10% of its net assets in units of UCITS and other UCIs.

#### **Exposure to total return swaps**

The expected level of exposure that could be subject to total return swaps (funded and unfunded) amounts to 175% of the Fund's net assets, subject to a maximum of 250%.

#### **Investor Profile**

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking to:

- capital appreciation by investing in a wide range of eligible securities and financial derivative instruments benefiting from several "alternative" strategies; and
- invest for the medium to long term.

The Fund is only intended for institutional, professional and sophisticated Investors.

A sophisticated Investor means an Investor who:

- understands the Fund's strategy, characteristics and risks in order to make an informed decision; and
- has knowledge of or investment experience in, financial products that use complex derivatives and/or derivative strategies (such as this Fund) and financial markets generally.

#### **Risk Considerations**

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Commodities Related Exposure risk
- Convertible and Hybrid Securities risk
- Counterparty risk
- Credit risk
- Credit-Linked Securities risk
- Debt Securities risk
- Derivative Instruments risk
- Equity risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Portfolio Turnover risk
- Securitisation risk
- Swap Agreements risk

#### **Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund, calculated using the sum of notionals methodology, could amount to 450%.

The Expected Level of Leverage is an estimated upper range and may be subject to higher leverage levels. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

#### **Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Fund aims to achieve its investment objectives through the selection of various investment co-managers (the "Investment Co-Managers") by the Investment Manager (K2/D&S Management Co., L.L.C.). Generally, such Investment Co-Managers, each of which uses an alternative investment strategy to invest its portion, may not be affiliated with Franklin Templeton Investments. The Investment Manager may also take part in managing the assets of the Fund in addition to selecting and allocating to Investment Co-Managers. The Fund's overall performance will be the result of the performance of the different strategies involved and the portion of the Fund's net assets assigned to such strategies.

The Investment Manager will be responsible for the selection and appointment of the Investment Co-Managers in respect of the Fund to delegate all or part of the day-to-day conduct of its investment management responsibilities and investment advisory services in respect of some or all of the assets of the Fund. The Investment Manager shall allocate the assets of the Fund between the Investment Co-Managers in such proportions as it shall, at its discretion, determine suitable to achieve the Fund's objective.

The Investment Manager will further be responsible for the monitoring of the risk management framework implemented at the level of each Investment Co-Manager. The Investment Manager will also monitor the performance of the Investment Co-Managers in respect of the Fund in order to assess the need, if any, to make changes/replacements. The Investment Manager may appoint or replace Investment Co-Managers in respect of the Fund at any time in accordance with any applicable regulations or notice periods.

The Investment Co-Managers may be replaced without prior notice to the Shareholders. The list of the Investment Co-Managers having acted for the Fund during the period under review is disclosed in the semi-annual and annual reports of the Company. The list of Investment Co-Managers effectively managing the Fund shall be made available upon request and free of charge at the registered office of the Company.

The Investment Co-Managers will be remunerated by the Investment Manager out of the investment management fee received from the Management Company.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 EMSO EMERGING MARKETS UCITS FUND

### Asset Class

Alternative Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The investment objective of the Fund is to generate capital growth through strategic investment exposure, both long and short, primarily to debt securities of sovereign and corporate obligors and currencies, including derivatives related thereto, all principally in emerging markets.

### Investment Policy

The Fund strives to achieve its investment objective by investing primarily in securities consisting of a wide variety of debt instruments of issuers in emerging markets and financial derivative instruments thereon.

Debt instruments may be fixed or floating rate above or below Investment Grade and include, but are not limited to: (i) government securities; (ii) debt obligations issued or guaranteed by supranational organisations (such as The World Bank and the European Investment Bank); (iii) debt obligations issued or guaranteed by quasi government entities; (iv) corporate debt securities; (v) credit linked notes; and (vi) convertible bonds (which may embed financial derivative instruments and/or leverage). For the avoidance of doubt, securities listed at (i) to (v) above shall not embed financial derivative instruments and/or leverage. The Fund may invest in below Investment Grade debt instruments and income producing securities without limitation, except for distressed and defaulted securities for which investments will, in aggregate, not exceed 20% of the Fund's net assets. The Fund may invest up to 10% of its net assets in Mainland China through the Bond Connect or directly (also referred to as CIBM direct).

The Fund may also invest, for investment and hedging purposes, in exchange traded and/or over-the counter ("OTC") financial derivative instruments in the form of options, swaps (including interest rate, and inflation linked swaps, total return swaps related to fixed income or currency as well as credit default swaps), forwards, currency forward or cross forwards, futures contracts (including futures on equity indices and government securities) and contracts for difference providing the Fund with exposure to the securities set out above, equities, eligible indices comprised of equities and equity related securities. While the Fund will typically gain exposure to currencies via currency forwards it may also invest directly in currencies of emerging markets countries, in order to allow the Fund to benefit from perceived mispricing of such currencies against the base currency of the Fund.

The Investment Manager generally takes long positions in securities that the Investment Manager has identified as undervalued. Long positions may be achieved by investing directly in the relevant securities or indirectly, through investment in financial derivative instruments. The Investment Manager generally takes short positions in securities that the Investment Manager has identified as overvalued. Short positions may only be achieved synthetically through investment in financial derivative instruments such as swaps and contracts for difference. The Fund may be net long or net short at any one time.

In addition, up to 5% of the net assets of the Fund may be invested in certain equities or equity indices, either directly or indirectly through financial derivative instruments.

The Fund may also, pending investment, reinvestment, or if this is considered appropriate to the investment objective, invest in cash, cash equivalents and money market instruments (including, but not limited to, cash deposits, commercial paper and certificates of deposit). The Fund may also invest up to 5% of its net assets in units of undertaking for collective investments such as UCITS, Exchange Traded Funds ("ETF") as well as other UCIs.

### Exposure to total return swaps

The expected level of exposure that could be subject to total return swaps generally amounts to 10% of the Fund's net assets, subject to a maximum of 20%.

### Investor Profile

Considering the investment objectives, as stated above, the Fund may appeal to Investors looking to achieve:

- Capital appreciation by investing in securities consisting of a wide variety of debt instruments of issuers in emerging markets
- Invest for the medium to long term

### Risk Considerations

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Chinese Market risk
- Class Hedging risk
- Convertible and Hybrid Securities risk
- Counterparty risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Distressed Securities risk
- Emerging Market risk
- Foreign Currency risk
- Hedged Strategies risk
- High- Yield Investment risk
- Liquidity risk
- Market risk

- Portfolio Turnover risk
- Restructuring Companies risk
- Swap Agreements risk

#### **Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount to 250%. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

#### **Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to Emso Asset management Limited, which acts as sub-investment manager.

#### **Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## FRANKLIN K2 ATHENA RISK PREMIA UCITS FUND

### Asset Class

Multi-Asset Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The investment objective of the Fund is to seek to achieve long-term capital appreciation with lower volatility relative to the broader equity markets and substantially less correlation to traditional asset classes over a full market cycle.

The Fund seeks to achieve its investment objective by pursuing various risk premia strategies, which for these purposes the Investment Manager considers to be systematic strategies that seek to profit from persistent behavioral and/or structural anomalies or other factors and which are developed by the Investment Manager and/or its affiliates or which are sourced from third-party broker-dealers.

### Investment Policy

Although the Investment Manager also expects to execute discretionary trades on an ancillary basis, it intends to focus the Fund in systematic trading strategies, which trade financial instruments based on quantitative analysis of price and fundamental data. The Fund may trade the financial markets on a global basis focusing on markets that are expected to provide sufficient liquidity.

Risk premia investing seeks to access investable systematic strategies that have low correlation to traditional beta investments. These risk premia strategies are designed to be liquid, transparent and cost-effective and potentially offer an alternative source of return to complement a traditional asset class range.

The Investment Manager has developed a proprietary investment process that is designed to identify sources of risk premia through the use of internally constructed algorithms and algorithms developed by third parties. The investment process will consider securities based on a set of criteria, including liquidity, volatility, drawdown, correlation, and other risk considerations. The Investment Manager will seek to leverage its relationships with broker-dealers to obtain optimal execution for securities selected for the Fund's portfolio. The Investment Manager's process includes research, design, testing, negotiation and execution of investment strategies. The Investment Manager's research objectives are to identify, define and analyze differentiated sources of returns, their persistence, and the liquidity constraints related to such sources of returns. Subsequently, the Investment Manager constructs solutions, which seek to isolate such sources efficiently and cost-effectively to harvest the premia embedded in such sources. The Investment Manager intends to construct a portfolio of risk premia strategies seeking diversification across sources of premia, styles, instruments and asset classes.

Examples of risk premia strategies which may be pursued by the Fund include, but are not limited to:

- *Trend.* Trend strategies favor investments that have outperformed in the past over those that have underperformed, seeking to capture the tendency that an asset's recent relative performance will continue in the near future. Investment opportunities may be identified, for example, by analyzing simple price momentum or assessing forward-looking information included in the forecasts of industry analysts.
- *Carry.* An asset's "carry" is its expected return assuming market conditions, including its price, remain unchanged. Carry strategies favor investments with higher yields, seeking to capture the tendency for higher-yielding assets to provide higher returns than lower-yielding assets.
- *Value.* Value strategies favor investments that appear cheap over those that appear expensive based on fundamental or technical measures. They seek to capture the tendency for relatively cheap assets to outperform relatively expensive assets through the mean reversion of such assets to fair value.
- *Defensive.* Defensive strategies favor investments with low-risk characteristics, seeking to capture the tendency for lower risk and higher-quality assets to generate higher risk-adjusted returns than higher risk and lower-quality assets. Measures used to identify investment opportunities may include, for example, return on equity, earnings variability, cash return on assets and leverage.
- *Flow.* Flow strategies attempt to take advantage of structural inefficiencies permeating multiple asset classes. These frequently depend on observed tendencies of multiple market participants to allocate to a set of instruments on a preset basis.

Strategies pursued by the Fund will predominantly utilise total return swaps and futures to harvest premium from the markets. Specifically, total return swaps will be referencing individual indexes as underliers. Such indexes may represent investment strategies, whose underliers can be single stocks, FX forwards, futures and other instruments.

The Fund intends to get exposure to a wide range of transferable securities, financial derivative instruments as well as other eligible securities and currencies. Such securities may include, but are not limited to, equity, fixed income and FX by investing in a broad range of financial instruments, including, but not limited to, equity and equity-related securities (which may include common stocks, preferred stocks, participatory notes, equity related certificates and convertible securities of companies located anywhere in the world and of mid-to large- capitalization size) and debt securities (which may include all varieties of fixed and floating-rate income securities (traditional fixed income securities and green bonds) of any maturity or quality of sovereign issuers worldwide). Exposure to such securities may be achieved directly or through the use of financial derivative instruments on eligible financial indices, futures, forwards, options, swaps, foreign exchange, exchange-traded funds ("ETFs"), bonds, stocks and other listed and over-the-counter ("OTC") instruments.

**The Investment Manager may decide to invest all of the Fund's net assets in debt obligations issued or guaranteed by any EU Member State, its local authorities, or public international bodies of which one or more EU Member States are members, by**

**any other State of the OECD, by Singapore or any member state of the G20, in accordance with the applicable risk diversification requirements contained in Appendix B "Investment Restrictions.**

The Fund uses financial derivative instruments (either dealt on Regulated Markets or OTC) for investment purposes. These financial derivative instruments may include, inter alia, (i) forwards and futures contracts, including those based on equity, equity index, equity ETFs, fixed income securities, interest rate and currency and options thereon; and (ii) swaps, including currency, index, interest rate, total return swaps on equity, fixed income and currency (and/or related indices) as well as credit default swaps, contract for difference swap and options thereon. The underlying assets and investment strategies of the total return swaps into which the Fund may invest consist of instruments in which the Fund may invest according to its investment objective and investment policy. In particular, total return swaps may be used to gain long and short exposure on equity, equity related securities, rates, forwards and credit related securities. Use of financial derivative instruments may result in negative exposure in a specific asset class, yield curve/duration or currency.

#### **Exposure to total return swaps**

The expected level of exposure that could be subject to total return swaps (unfunded) amounts to 600% of the Fund's net assets, subject to a maximum of 1100%.

#### **Investor Profile**

Considering the investment objectives, as stated above, the Fund may appeal to Investors seeking:

- long-term capital appreciation by investing in a wide range of eligible securities and financial derivative instruments benefiting from various risk premia strategies; and
- invest for the medium to long term.

#### **Risk Considerations**

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Counterparty risk
- Credit-Linked Securities risk
- Commodities Related
- Exposure risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Emerging Markets risk
- Foreign Currency risk
- Liquidity risk
- Market risk
- Model risk
- Substantial leverage risk
- Swap Agreements risk

#### **Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

When calculated on an unadjusted notional basis, in line with current regulations, expected leverage would primarily be derived from exposure to interest rate derivatives. The expected level of leverage may range from 200% to 1,100%.

The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

The level of leverage may be higher when entering into a strategy requiring higher leverage due to the nature of targeted assets (i.e. short term instruments). Higher leverage may not entail higher risk exposure.

#### **Investment Manager(s)**

K2/D&S Management Co., L.L.C.

#### **Fees Disclosures**

Please refer to Appendix E for a full description of the fees.



## FRANKLIN K2 CAT BOND UCITS FUND

### Asset Class

Fixed Income Fund

### Base Currency

US dollar (USD)

### Investment Objectives

The Fund's investment objective is to seek to generate attractive risk-adjusted returns over time with limited correlation to other asset classes through investment in a portfolio of natural catastrophe bonds. The Investment Manager seeks to achieve the Fund's investment objective through a systematic, proprietary rules-based process. Return is sought from a managed composition of the portfolio based on a set of rules that narrows the universe of catastrophe bonds through a screening and scoring process.

### Investment Policy

Catastrophe bonds are an example of insurance securitization in which risk-linked securities transfer a specific set of risks (generally catastrophe and natural disaster risks such as hurricanes, earthquakes, tornadoes, windstorms or other natural or weather-related events) from an issuer or sponsor to investors. In this way, investors in risk-linked securities (e.g., the Fund) take on the risks of a specified catastrophe in exchange for rates of return on investment. Should a qualifying catastrophe or event occur, the investors will lose the principal invested and the issuer or sponsor (often an insurance or reinsurance company) will retain that principal to cover its losses.

One of the key elements of any catastrophe bonds is the terms under which the return of principal and interest is impacted by the occurrence of a natural catastrophe event, resulting in the bond experiencing a loss. Such terms are generally referred to as "triggers". Catastrophe bonds utilize triggers with defined parameters which have to be met for the bond to start bearing losses. When the specific conditions of a trigger are met, a catastrophe bond investor may lose all or a portion of its investment. Triggers can be structured in many ways, from sliding scale of actual losses experienced by the issuer or sponsor (indemnity) to a trigger which is activated when industry-wide losses from an event hit a certain point (industry loss trigger) to an index of weather or disaster conditions which means actual catastrophe conditions above certain severity trigger a loss (parametric index trigger).

A catastrophe bond can be structured to provide per-occurrence coverage (exposure to a single major loss event) or to provide aggregate coverage (exposure to multiple events over the course of each annual risk period).

Some catastrophe bonds are subject to a multiple loss approach and so are only triggered (or portions of the bonds are triggered) by second and subsequent events. This means that sponsors can, for example, issue a bond that will only be triggered by a second landfalling hurricane to hit a certain geographical location.

Appropriate diversification of insurance risks (i.e., the insurance risk of the Fund may not exceed 20% of its Net Asset Value per geographic peril, except for the possibility to have one insurance risk of maximum 35% of its Net Asset Value for one specific geographic peril) will be ensured through the monitoring of the Expected Loss Contribution and the Probable Maximum Loss which are well-established measures in the reinsurance industry.

The Expected Loss is the annual probability-weighted average of the reduction in the Fund's portfolio value due to the occurrence of insurance events. Hereby the Probable Maximum Loss represents the reduction in Fund's portfolio value as the 99% Value-at-Risk (VaR) of the maximum annual loss from the occurrence of a single insurance event.

Since the Investment Manager considers that Environmental, Social and Governance (ESG) factors can have a material impact on a company's current and future corporate value, ESG considerations are an integral component of its fundamental investment research and decision process. The Investment Manager employs a binding proprietary ESG methodology on all the catastrophe bonds in which the Fund may invest to determine the investment's profile on relevant environmental, social, and governance issues.

The Fund commits to hold at least 15% of invested assets in catastrophe bonds contributing to one or more of the three positive social and/or environmental outcome areas linked to the following UN SDGs: 1) no poverty, 2) industry, innovation and infrastructure and 3) climate action.

The Fund places the following exclusions on the portfolio:

- Bonds which do not offer appropriate level of transparency, not allowing the Investment Manager to evaluate their environmental, social, and governmental impact are excluded from the Fund's portfolio.
- Bonds which generate their revenue from life and mortgage issuances;
- Bonds which seriously violate the United Nations Global Compact Principles (without positive perspective);
- Bonds issued by sovereign issuers from which have inadequate scoring according to the Freedom House Index<sup>1</sup>.

The Investment Manager has developed a rules-based approach which is designed to provide a sufficient diversification among the sponsors of the target catastrophe bonds (i.e., the exposure of the Fund may not exceed 20% of its Net Asset Value per sponsor, except for the possibility to have one exposure of maximum 35% of its Net Asset Value for one specific sponsor) and exposure to the whole catastrophe bond universe. This universe has grown over the years and is expected to continue to do so going forward. The universe primary geographic area is US related risks across a variety of peril types with a focus on hurricane and earthquake exposures.

The rules-based process utilized by the Investment Manager will include an initial screening phase where certain catastrophe bonds are excluded based on a set of criteria including yield, maturity, ESG and structural considerations. Each bond that remains comprises the investable universe ("Fund's Investable Universe") and will be scored based on multiple factors, which are based, among other things, terms or characteristics of the securities and date, or calculations derived from data, obtained from third-party data, pricing and risk modeling sources. The process may be adaptive over time to possibly include structural changes that occur within the catastrophe bond

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<sup>1</sup> <https://freedomhouse.org/countries/freedom-world/scores>

market.

Each bond within the Fund's Investable Universe will receive a total score that is determined as the sum of the weighted scores of each factor for that bond. The weights are determined through a qualitative process that assesses the relative strength of each factor. Catastrophe bonds that score within the top ranking will be included in the investable portfolio with the portfolio weights determined by the relative scoring of each remaining bond.

While the Investment Manager will implement a rules-based approach, the Investment Manager will periodically review the implementation of its investment strategy and may change the various screens, factors and rules used to implement its investment strategy and to ensure a sufficient diversification among sponsors of catastrophe bonds. To effectively manage cash and the procedures to purchase and sell securities, the underlying portfolio weights may vary from the target portfolio weights during each rebalancing period subject to market limitation.

The mutual catastrophe bonds which the Fund may invest into may be fixed or floating rate above or below Investment Grade and may include, but are not limited to: (i) government securities; (ii) securities issued or guaranteed by supranational organisations (such as The World Bank); (iii) securities issued or guaranteed by quasi government entities; (iv) corporate insurance-linked securities. For the avoidance of doubt, the securities listed above shall not embed financial derivative instruments and/or leverage.

The Fund may use financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments include but are not limited to exchange-based derivatives including futures, options which may be used to gain exposure to or to reduce insurance related risks.

The Fund may invest directly up to 10% of its net assets in units of UCI such as UCITS, Exchange Traded Funds ("ETF") as well as other UCIs. The Investment Manager may also take temporary defensive cash position when it believes the securities trading markets or the economies of countries where the Fund invests are experiencing excessive volatility or prolonged general decline or other adverse conditions. The Fund may also invest in closed-end funds that are listed on a recognized market and offer exposure to insurance or reinsurance risk as permitted by UCITS regulations.

While the investment objective is to invest in cat bonds, in exceptional market conditions or where the Investment Manager has determined there is insufficient investment opportunities, the Fund may hold a significant portion of the portfolio in cash and/or invest a material portion in liquid investments which may comprise of cash, fixed term deposits, closed-end funds and fixed and floating rate instruments.

#### **Investor Profile**

Considering the investment objectives, as stated above, the Fund may appeal to Investors seeking:

- to invest in a Fund compliant with article 8 of the SFDR
- attractive risk-adjusted returns over time by investing in a portfolio of natural catastrophe bonds
- invest for the medium to long term

In addition, the Fund is intended to be offered only to Investors who adequately understand the risks triggered by the Fund's strategy and/or have already investment experience in that respect and have a risk tolerance high enough to absorb potential losses invested following the occurrence of extreme insurance disasters.

#### **Taxonomy Regulation**

In line with its ESG methodology, the Fund promotes environmental, social and governance characteristics. Although the Fund does not commit to make investments in taxonomy-aligned environmentally sustainable activities contributing to climate change mitigation and climate change adaptation objectives, it cannot be excluded that the Fund's underlying investments may incidentally include investments which aim at having a positive impact on the environment through their focus on climate change mitigation and climate change adaptation and which may be but are not necessarily taxonomy-aligned. As at the date of this Prospectus, the Investment Manager expects that the proportion of the Fund's investments in taxonomy-aligned environmentally sustainable activities (including investments in enabling and transitional activities) amounts to [0]%. As information is not yet readily available from investee companies' public disclosures, the proportion is calculated using a combination of information on taxonomy-alignment obtained from investee companies and third-party providers. As soon as data will become more accurate and available, it is expected that the proportion of investments in enabling and transitional activities will grow and that the calculation of the alignment with the Taxonomy Regulation be amended.

Investors should note that the "do no significant harm" principle under Taxonomy Regulation applies only to those investments underlying the Fund that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the Fund which are not in taxonomy-aligned environmentally sustainable activities do not take into account the EU criteria for environmentally sustainable economic activities under the Taxonomy Regulation.

#### **Risk Considerations**

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Catastrophe bonds risk
- Class Hedging risk
- Counterparty risk
- Credit risk
- Debt Securities risk
- Derivative Instruments risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk

- Model risk
- Securitisation risk
- Sustainability risk

### **Global Exposure**

The Commitment Approach is used to calculate the Global Exposure of the Fund.

### **Investment Manager(s)**

K2/D&S Management Co., L.L.C.

### **Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## **FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND<sup>2</sup>**

### **Asset Class**

Alternative Fund

### **Base Currency**

Euro (EUR)

### **Investment Objectives**

The Fund's investment objective is to seek capital appreciation with lower volatility relative to the European equity markets.

### **Investment Policy**

The Fund seeks to achieve its investment objective by principally investing in a diversified portfolio of primarily listed European equity and equity-related securities (which may include common stocks) of companies of any market capitalization and different sectors organized under the laws of, or with their principal activities in Europe and other countries within the pan European time zones, through long-short equity strategies. Such strategies generally seek to produce returns from investments in the equity markets by taking long and synthetic short positions in stocks and common stock indices. Exposure to synthetic short positions shall be effected through the use of financial derivative instruments. These strategies are generally focused on risk-adjusted returns and capitalize on the Investment Manager's views and outlooks for specific equity markets, regions, sectors and securities.

The Investment Manager has developed a proprietary investment process that aims to exploit inefficiencies in the listed equity markets in Europe and other countries located within the pan-European time zones and may employ both fundamental and technical analysis in identifying mispricing. While this proprietary investment process seeks to identify potential investments through the use of internally constructed algorithms and algorithms developed by third parties, each investment decision is taken on a discretionary basis by the Investment Manager.

The Fund uses financial derivative instruments for hedging, efficient portfolio management and investment purposes. These financial derivative instruments may be either dealt on Regulated Markets or over-the-counter, and may include, inter alia, (i) futures contracts, including futures based on equity, equity index, equity ETFs, fixed income securities, interest rate, currency and currency index futures and options thereon; (ii) swaps, including currency, index, interest rate, total return swaps related to equity, fixed income and currency as well as credit default swaps, contract for difference swap and options thereon; (iii) equity, currency and currency index forwards and foreign exchange contracts and (iv) structured notes and equity-linked notes.

The Fund may also invest directly (i) up to 15% in American Depositary Receipts, (ii) up to 10% of its net assets in units of UCI such as UCITS, Exchange Traded Funds ("ETF") as well as other UCIs and (iii) to a limited extent in US Treasury and Agency bonds and notes.

The Fund may hold ancillary liquid assets (i.e., bank deposits at sight, such as cash held in current accounts with a bank accessible at any time) up to 20% of its net assets for treasury purposes. On a temporary basis and if justified by exceptionally unfavorable market conditions, the Fund may, in order to take measures to mitigate risks relative to such exceptional market conditions in the best interests of its shareholders, hold ancillary liquid assets up to 100% of its net assets.

In order to achieve its investment goals and for treasury purposes, the Fund may also invest in bank deposits, money market instruments or money market funds pursuant to the applicable investment restrictions. For defensive purposes, the Fund may invest up to 100% of its net assets in these instruments on a temporary basis.

### **Exposure to total return swaps**

The expected level of gross exposure that could be subject to total return swaps (funded and unfunded) amounts to 300% of the Fund's net assets, subject to a maximum of 499%.

### **Investor Profile**

Considering the investment objectives, as stated above, the Fund may appeal to Investors seeking:

- capital appreciation by investing in a listed equity and equity-linked securities and financial derivative instruments
- invest for the medium to long term

<sup>2</sup> The maximum aggregate subscription capacity of the Fund amounts to USD 300,000,000. Subscriptions or switches into the Fund will therefore no longer be accepted for new or existing Investors once this maximum aggregate subscription capacity is reached, provided that the Board may decide to accept further subscriptions at its discretion.

**Risk Considerations**

The risks listed below are the main risks of the Fund. Investors should be aware that other risks may also be relevant to this Fund from time to time. Please refer to the Section "Risk Considerations" for a full description of these risks.

- Class Hedging risk
- Counterparty risk
- Credit risk
- Derivative Instruments risk
- Equity risk
- Foreign Currency risk
- Hedged Strategies risk
- Liquidity risk
- Market risk
- Model risk
- Structured Notes risk
- Swap Agreements risk

**Global Exposure**

The Value-at-Risk approach (absolute VaR) is used to calculate the Global Exposure of the Fund.

The Expected Level of Leverage for the Fund should amount to 350% under ordinary circumstances. The Expected Level of Leverage is an estimate only and may be subject to higher leverage levels. The leverage calculation method used is the Sum of Notionals. It includes the notional exposure associated with financial derivative instruments but does not include the underlying investments of the Fund which make up 100% of total net assets.

**Investment Manager(s)**

K2/D&S Management Co., L.L.C.

The Investment Manager has delegated, under its responsibility and at its own costs and expenses, the day-to-day management in respect of the investment and re-investment of the net assets of the Fund to ActusRayPartners Limited., which acts as sub-investment manager.

**Fees Disclosures**

Please refer to Appendix E for a full description of the fees.

## **RISK CONSIDERATIONS**

Investors must read this "Risk Considerations" section before investing in any of the Funds.

The value of the Shares will increase as the value of the securities owned by any Fund increases and will decrease as the value of the Fund's investments decreases. In this way, Investors participate in any change in the value of the securities owned by the relevant Fund(s). In addition to the factors that affect the value of any particular security that a Fund owns, the value of the Fund's Shares may also change with movements in the stock and bond markets as a whole.

A Fund may own securities of different types, or from different asset classes (equities, bonds, money market instruments, financial derivative instruments) depending on the Fund's investment objective.

Different investments have different types of investment risk. The Funds also have different kinds of risks, depending on the securities they hold. This "Risk Considerations" section contains explanations of the various types of investment risks that may be applicable to the Funds. Please refer to the section "Fund Information, Objectives and Investment Policies" of this Prospectus for details as to the principal risks applicable to each Fund. Investors should be aware that other risks may also be relevant to the Funds from time to time.

### **General**

This section explains some of the risks that apply to all the Funds. It does not purport to be a complete explanation and other risks may also be relevant from time to time. In particular, the Company's performance may be affected by changes in market and/or economic and political conditions, and in legal, regulatory and tax requirements. No guarantee or representation is made that the investment program will be successful and there can be no assurance that the Fund(s)' investment objective(s) will be attained. Also, past performance is no guide to future performance, and the value of investments may go down as well as up. Changes in rates of exchange between currencies may cause the value of a Fund's investments to diminish or increase.

The Company or any of its Funds may be exposed to risks that are outside of their control – for example legal and regulatory risks from investments in countries with unclear and changing laws or the lack of established or effective avenues for legal redress or as a result of the registration of the Funds in non-EU jurisdictions, the Funds may be subject, without any notice to the shareholders in the Funds concerned, to more restrictive regulatory regimes potentially preventing the Funds from making the fullest possible use of the investment limits. Regulators and self-regulatory organisations and exchanges are authorised to take extraordinary actions in the event of market emergencies. The effect of any future regulatory action on the Company could be substantial and adverse. The Funds may be exposed to the risk of terrorist actions, to the risk that economic and diplomatic sanctions may be in place or imposed on certain States and military action may be commenced. The impact of such events is unclear, but could have a material effect on general economic conditions and market liquidity. Investors are reminded that in certain circumstances their right to redeem Shares may be suspended as further described in Appendix D.

The Company or any of its Funds may be exposed to operational risks, being the risk that operational processes, including those related to the safekeeping of assets, valuation and transaction processing may fail, resulting in losses. Potential causes of failure may arise from human errors, physical and electronic system failures and other business execution risks as well as external events.

### **Chinese Market risk**

Risks associated with the Chinese Market are similar to the "Emerging Markets risk" described below. With the government having a greater control over allocation of resources, the risks that naturally prevail in this type of market is political and legal uncertainty, currency fluctuations and blockage, no government support on reform or nationalisation and expropriation of assets. Such risks can have a negative impact on the performance of the relevant Fund.

The Chinese market is undergoing economic reform, these reforms of decentralisation are unprecedented or experimental and subject to modification which may not always have a positive outcome on the performance of the economy and then the value of securities in the relevant Fund.

Securities traded in the Chinese markets may be subject to a range of reputational risks such as risks borne by companies being subject to cyber abuses, sanctions concerns and negative accusations over labor and human rights, environmental degradation, ties to high-risk countries and entities overseas.

The Chinese economy is also export driven and highly reliant on trade. Adverse changes in the economic conditions of its primary trading partners such as the US, Japan and South Korea would adversely impact the Chinese economy and the relevant Fund investments.

In recent years, political tensions within Hong Kong have risen. Such increased political tensions could have potential impacts on the political and legal structures in Hong Kong. They could also affect investor and business confidence in Hong Kong, which in turn could affect markets and business results.

There are also risk and uncertainties associated with the current Mainland China tax laws, regulations and practice in respect of capital gains realized on the Fund's investment in Mainland China (which may have retrospective effect). Any increased tax liabilities on the Fund may adversely affect the Fund's value.

Funds investing in the Chinese Market may also be subject to other specific risks listed below:

### **China Bond Connect risk**

Bond Connect is a mutual market access scheme allowing overseas investors to trade in bonds circulated on the China Interbank Bond Market (CIBM) through connection between the Mainland and Hong Kong financial infrastructure institutions without quota limitations.

The Northbound Trading link commenced on 3 July 2017 with transactions being made possible through mutual access arrangements in respect of trading, custody and settlement. It involves China Foreign Exchange Trading System, China Central Depository & Clearing Co, Shanghai Clearing House, Hong Kong Exchanges & Clearing plus the Central Moneymarkets Unit (CMU). A delivery versus

payment (DVP) settlement system for transactions through the Bond Connect scheme was implemented in August 2018 thereby reducing settlement risk.

The ultimate foreign eligible investors are the beneficial owners of the relevant CIBM bonds and may exercise their rights against the bond issuer through CMU as the nominee holder. The nominee holder may exercise its creditor rights and bring actions against bond issuers in Chinese courts.

CIBM securities traded via the Bond Connect can be subject to risks including but not limited to risk of default from counterparties, settlement risk, liquidity risk, operational risk, regulatory risks, PRC tax risk and reputational risk.

The Bond Connect encompasses recently developed trading systems. There can be no assurance that those systems will function correctly or will not be subject to further changes or adaptation.

Securities traded through the Bond Connect will also be subject to the risks described under "CIBM direct risk" below.

#### **CIBM direct risk**

Some funds may elect to trade directly on the on-shore China bond market (Chinese Interbank Bond Market or CIBM) as it gives access to a greater range of products and counterparties. The CIBM also allows trading in CNY as opposed to the Bond Connect where trades are executed in CNH.

Trading in the CIBM may bear specific risks where market volatility and potential lack of liquidity may result in prices of certain debt securities fluctuating significantly. Funds investing in such market are therefore subject to liquidity and volatility risks and may suffer losses in trading on-shore China bonds.

To the extent that a Fund transacts in the China interbank bond market in on-shore China, the Fund may also be exposed to risks associated with settlement procedures and default of counterparties. The counterparty which has entered into a transaction with the Fund may default in its obligation to settle the transaction by delivery of the relevant security or by payment for value.

The China interbank bond market is also subject to regulatory risks: the relevant rules and regulations may be subject to change which may have potential retrospective effect. If the relevant mainland Chinese authorities suspend account opening or trading on the CIBM, a Funds' ability to invest in the CIBM will be adversely affected. In such event, a Funds' ability to achieve its investment objective may be negatively affected.

There is no specific written guidance by the Mainland China tax authorities on the treatment of income tax and other tax categories payable in respect of trading in the CIBM by eligible foreign institutional investors via the Bond Connect.

#### **Chinese Short Swing Profit Rule risk**

Under the Mainland China's regulations on disclosure of interest, a Fund may be deemed to be acting in concert with other funds and accounts managed by the Management Company and/or Investment Manager or their respective affiliates and therefore may be subject to the risk that the Fund's holdings may be required to be reported in the aggregate with the holdings of such other funds and accounts should the aggregate holdings trigger the reporting threshold under the Mainland China law, which is currently 5% of the total issued shares of a listed company. This may expose the Fund's holdings to the public and may potentially have an adverse impact on the performance of the Fund.

In addition, subject to the interpretation of Mainland China courts and Mainland China regulators, the operation of the Mainland China short swing profit rule may be applicable to a Fund's investments with the result that where the holdings of the Fund (possibly with the holdings of other investors deemed as concert parties of the Fund) exceed 5% of the total issued shares of a Mainland China listed company, the Fund may not reduce its holdings in such company within six months of the last purchase of shares of such company. If the Fund violates the rule and sells any of its holdings in such company in the six-month period, it may be required by the listed company to return any profits realised from such trading to the listed company. Moreover, under Mainland China civil procedures, the Fund's assets may be frozen to the extent of the claims made by such company. The inability to sell such assets and any obligation to return profits may adversely affect the performance of the Fund.

#### **Class Hedging risk**

The Company may engage in currency hedging transactions with regard to a certain Share Class (the "Hedged Share Class"). Hedging transactions are designed to reduce, as much as possible, the currency risk for investors.

Any financial instruments used to implement such hedging strategies with respect to one or more Classes of a Fund shall be assets and/or liabilities of such Fund as a whole, but will be attributable to the relevant Class(es) and the gains/losses on and the costs of the relevant financial instruments will accrue solely to the relevant Class. Any currency exposure of a Class may not be combined with or offset against that of any other Class of a Fund. The currency exposure of the assets attributable to a Class may not be allocated to other Classes. No intentional leveraging should result from currency hedging transactions of a Class although hedging may exceed 100% for short periods between redemption instructions and execution of the hedge trade.

H4 and H4E Hedged Share Classes are subject to a different hedging model due to currency controls by the monetary authority in Brazil, which is further described under the section "Hedged Share Classes" of this Prospectus.

There is no guarantee that attempts to hedge currency risk will be successful and no hedging strategy can eliminate currency risk entirely. Should a hedging strategy be incomplete or unsuccessful, the value of that Fund's assets and income can remain vulnerable to fluctuations in currency exchange rate movements.

In the case of a net investment flow to or from a Hedged Share Class the hedging may not be adjusted and reflected in the Net Asset Value of the Hedged Share Class until the following or a subsequent Business Day following the Valuation Day on which the instruction was accepted.

Investors should be aware that there may be circumstances in which a hedging transaction may reduce currency gains that would otherwise arise in the valuation of the relevant Fund. The gains/losses on and the costs of such hedging transactions will accrue solely to the relevant Hedged Share Class.

More details as to the rules governing allocation of assets and liabilities at a Class level are contained in Appendix D.

#### **Concentration risk**

Some Funds may have an investment policy which specifically states an intention to maintain a portfolio with holdings in a relatively limited number of issuers or a concentrated allocation to a given economic sector or geographical area. By being less diversified, such Funds may be more volatile than broadly diversified Funds, or may be exposed to greater risk since under performance of one or a few positions, sectors or geographical areas will have a greater impact on the fund's assets. The relevant Funds may be adversely affected as a result of such greater volatility or risk.

#### **Convertible and Hybrid Securities risk**

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

Hybrid securities are those that, like convertible securities described above, combine both debt and equity characteristics. Hybrids may be issued by corporate entities (referred to as corporate hybrids) or by financial institutions (commonly referred as contingent convertible bonds or "CoCos"). Hybrid securities are subordinated instruments that generally fall in the capital structure between equity and other subordinated debt, i.e. such securities will be the most junior securities above equity. Such securities will generally have a long maturity and may even be perpetual in nature. Coupon payments may be discretionary and as such may be cancelled by the issuer at any point, for any reason, and for any length of time. The cancellation of coupon payments may not amount to an event of default. Hybrid securities are callable at pre-determined levels. It cannot be assumed that hybrid securities, including perpetual securities, will be called on the call date. The investor may not receive return of principal on a given call date or on any date.

Contingent convertible securities issued by financial institutions ("CoCos"), which became popular following the 2008-2009 financial crisis as a way of mitigating the impact of stressed market conditions, have certain additional characteristics not typical of corporate hybrids. For CoCos, conversion is tied to a pre-specified trigger event based on the capital structure of the financial institution and/or to when the regulator deems the bank to be no longer viable. The contingent convertible bond may convert to equity or, alternatively, may be purely loss absorbing and convert to nothing. Trigger levels may differ from one issue to the next and the risk of conversion will depend on the distance of the capital ratio to the trigger level and/or the point at which the regulator deems the issuer no longer viable (i.e. the bonds are "bail-in-able" at the "point of non-viability" or PONV), making it difficult for the Investment Manager and/or Investment Co-Managers of the relevant Fund to anticipate the triggering events that would require the debt to convert into equity or be simply loss absorbing. It may also be difficult for the Investment Manager and/or Investment Co-Manager to assess how the securities will behave upon conversion. Because conversion occurs after a specified event, conversion may occur when the share price of the underlying equity is less than when the bond was issued or purchased. Whereas traditional convertible securities are convertible at the option of the holder and the holder of such bonds will generally convert when the share price is higher than the strike price (i.e. when the issuer is doing well), CoCos tend to convert when the issuer is in crisis and needs additional equity or loss absorption in order to survive. As a result, there is greater potential for capital loss with CoCos compared to conventional convertible securities. The trigger could be activated through a material loss in capital as represented in the numerator or an increase in risk weighted assets (due to a shift to riskier assets) as measured in the denominator. Unlike for corporate hybrids, cancelled coupon payments do not generally accumulate and are instead written off. Holders of CoCos may see their coupons cancelled while the issuer continues to pay dividends on common equity, unlike the case of corporate hybrids which typically have so-called "dividend pusher/stopper clauses" which link the payment of hybrid coupons to equity dividends. CoCos may suffer from capital structure inversion risk, since investors in such securities may suffer loss of capital when equity holders do not in the event the pre-defined trigger is breached before the regulator deems the issuer non-viable (if the regulator declares non-viability before such a breach, the normal creditor hierarchy should apply). The value of CoCos may be subject to a sudden drop in value should the trigger level be reached. A Fund may be required to accept cash or securities with a value less than its original investment or, in the event of instances where the contingent convertible bond is intended to be only loss absorbing, the Fund may lose its entire investment.

#### **Commodities Related Exposure risk**

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

#### **Counterparty risk**

Counterparty risk is the risk to each party of a contract that the counterparty will fail to perform its contractual obligations and/or to respect its commitments under the term of such contract, whether due to insolvency, bankruptcy or other cause.

When over-the-counter (OTC) or other bilateral contracts are entered into (inter alia OTC derivatives, repurchase agreements, security lending, etc.), the Company may find itself exposed to risks arising from the solvency of its counterparties and from their inability to

respect the conditions of these contracts.

### **Credit risk**

Credit risk, a fundamental risk relating to all fixed income securities as well as money market instruments, is the chance that an issuer will fail to make principal and interest payments when due. Issuers with higher credit risk typically offer higher yields for this added risk. Conversely, issuers with lower credit risk typically offer lower yields. Generally, government securities are considered to be the safest in terms of credit risk, while corporate debt, especially those with poorer credit ratings, have the highest credit risk. Changes in the financial condition of an issuer, changes in economic and political conditions in general, or changes in economic and political conditions specific to an issuer (particularly a sovereign or supranational issuer), are all factors that may have an adverse impact on an issuer's credit quality and security values. Related to credit risk is the risk of downgrade by a rating agency. Rating agencies such as Standard & Poor's, Moody's and Fitch, among others, provide ratings for a wide array of fixed income securities (corporate, sovereign, or supranational) which are based on their creditworthiness. The agencies may change their ratings from time to time due to financial, economic, political, or other factors, which, if the change represents a downgrade, can adversely impact the value of the affected securities.

### **Credit-Linked Securities risk**

Credit-linked securities are debt securities that represent an interest in a pool of, or are otherwise collateralised by one or more corporate debt obligations or credit default swaps incorporating debt or bank loan obligations. Such debt obligations may represent the obligations of one or more corporate issuers. A Fund that invests in credit-linked securities has the right to receive periodic interest payments from the issuer of the credit-linked security (usually the seller of the underlying credit default swap(s)) at an agreed-upon interest rate, and a return of principal at the maturity date.

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

In addition, the Fund bears the risk that the issuer of the credit-linked security will default or become bankrupt. In such an event, the Fund may have difficulty being repaid, or fail to be repaid, the principal amount of its investment and the remaining periodic interest payments thereon.

An investment in credit-linked securities also involves reliance on the counterparty to the credit default swap entered into with the issuer of the credit-linked security to make periodic payments to the issuer under the terms of the swap. Any delay or cessation in the making of such payments may be expected in certain instances to result in delays or reductions in payments to the Fund as an investor in such credit-linked securities. Additionally, credit-linked securities are typically structured as limited recourse obligations of the issuer of such securities such that the securities issued will usually be obligations solely of the issuer and will not be obligations or responsibilities of any other person.

Most credit-linked securities are structured as US Rule 144A securities so that they may be freely traded among institutional buyers. A Fund will generally only purchase credit-linked securities, which are determined to be liquid in the opinion of the Investment Manager and/or the Investment Co-Managers. However, the market for credit-linked securities may suddenly become illiquid. The other parties to the transaction may be the only investors with sufficient understanding of the derivative to be interested in bidding for it. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for credit-linked securities. In certain cases, a market price for a credit-linked security may not be available or may not be reliable, and the Fund could experience difficulty in selling such security at a price the Investment Manager and/or the Investment Co-Managers believes is fair.

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

### **Catastrophe Bonds risk**

Insurance linked securities such as catastrophe bonds may incur severe or full losses as a result of insurance events. Catastrophe bonds are an example of insurance linked securities in which a specific set of risks (generally catastrophe and natural disaster risks such as hurricanes, earthquakes, tornadoes, floods, windstorms or other insurance contracts related events) is transferred from an issuer or sponsor to investors. Catastrophe bonds generally exhibit risk and return characteristics that are uncorrelated to those of general financial markets.

The incidence and severity of such catastrophes are inherently unpredictable, and the relevant Fund's losses from such catastrophes could be material. Any climatic or other event which might result in an increase in the likelihood and/or severity of such events (for example, global warming leading to more frequent and violent hurricanes) could have a material adverse effect on the relevant Fund. Although such a Fund's exposure to such events will be diversified in accordance with its investment policies, a single catastrophic event could affect multiple geographic zones and lines of business or the frequency or severity of catastrophic events could exceed expectations, either of which could have a material adverse effect on the relevant Fund's Net Asset Value.

Investors may lose all or a portion of their investment if a natural catastrophe or other insurance event triggers a payment under the underlying risk-transfer agreement that the insurance linked securities relate to

### **Custody risk**

Assets of the Company (including for avoidance of doubt any assets that the Company acquires during securities lending, repurchase or reverse repurchase transactions) are safe kept by the Depository and Investors are exposed to the risk of the Depository not being able



to fully meet its obligation to restate in a short timeframe all of the assets of the Company in the case of bankruptcy of the Depositary. The assets of the Company will be identified in the Depositary's books as belonging to the Company. Securities and debt obligations (including loan assignments and loan participations) held by the Depositary will be segregated from other assets of the Depositary which mitigates but does not exclude the risk of non-restitution in case of bankruptcy. However, no such segregation applies to cash which increases the risk of non-restitution in case of bankruptcy. The Depositary does not keep all the assets of the Company itself but uses a network of sub-custodians which are not part of the same group of companies as the Depositary. Investors are also exposed to the risk of bankruptcy of the sub-custodians. A Fund may invest in markets where custodial and/or settlement systems are not fully developed.

#### **Derivative Instruments risk**

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

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

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

A Fund may engage in transactions involving derivative instruments that trade on exchanges or that may be privately negotiated and trade "over-the-counter" (OTC) and not on an exchange. Exchange-traded derivatives include futures, options, options on futures, and warrants. Examples of OTC derivative instruments include currency forwards, interest rate swaps, credit default swaps, total return swaps or contracts for differences. Use of such OTC instruments could result in a loss if the counterparty to the transaction (with respect to forward currency contracts and other OTC derivatives) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Collateral is employed for many OTC derivative transactions – it needs to be pledged to the counterparty if a Fund has a net loss on a given transaction and a Fund may hold collateral pledged by the counterparty to the Fund if the Fund has a net gain on a given transaction. The value of the collateral may fluctuate, however, and it may be difficult to sell, so there are no assurances that the value of collateral held will be sufficient to cover the amount owed to a Fund or will not be absorbed by other outstanding obligations of the counterparty. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that a Fund is unable to close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. A Fund may also be required to take or make delivery of an underlying instrument that the Investment Manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while a Fund may intend to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the Investment Manager and/or Investment Co-Managers elects not to do so due to availability, cost or other factors.

Financial derivative instruments may be used for, among other purposes, synthetic short selling. According to the Law of 17 December 2010, the short selling of securities or any physical instrument is not permitted. In order to replicate short exposure either for investment purposes or to hedge a long position in the same or a similar asset, synthetic short selling can be accomplished through the use of derivatives. The purchase of credit default swaps (CDS), for example, for a particular issuer without owning a debt obligation of that issuer effectively results in the Fund having a short exposure to that issuer. The Fund may also purchase credit default swaps to hedge an existing position in the same issuer. Purchasing a put option on a stock, debt obligation, or a currency without owning the stock, debt obligation or currency is also effectively going short (and again such a transaction may be entered into for the purpose of hedging an existing position). The only investment at risk in such strategies is the premium paid for the CDS or option, unlike the case of going short actual stocks, bonds or currencies where the full investment in such assets is at risk. Another synthetic short selling strategy is the selling of interest rate futures which will benefit from a rise in interest rates, thereby replicating going short interest rates. Where premium is paid for such synthetic short selling strategies (e.g. for credit default swaps or put options), there is the possibility of losing the entire investment if no credit event occurs (in the case of credit default swaps) or the option expires worthless (because the underlying asset did not fall below the strike price). Where a futures contract is entered into (e.g. selling interest rate futures), the potential loss is governed

by the degree to which interest rates move down instead of up, the conversion factor applied vis-à-vis the basket of eligible securities, the time to delivery, and the notional amount associated with the contract. Additional strategies similar to these may be implemented with similar consequences and potential risks. Risk is mitigated by virtue of daily adjustment of variation margin and/or the maintenance of eligible collateral against the position. There is no assurance that such synthetic short selling strategies as described herein will be as effective in achieving short exposure for investment or hedging purposes as actual short selling strategies.

Under recent financial reforms, certain types of derivatives (i.e., certain swaps) are, and others eventually are expected to be, required to be cleared through a central counterparty. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to OTC swaps, but it does not eliminate those risks completely. With cleared swaps, there is also a risk of loss by a Fund of its initial and variation margin deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. If an FCM does not provide accurate reporting, the Fund is also subject to the risk that the FCM could use the Fund's assets to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. With cleared swaps, a Fund may not be able to obtain as favorable terms as it would be able to negotiate for a bilateral, uncleared swap. In addition, an FCM may unilaterally amend the terms of its agreement with a Fund, which may include the imposition of position limits or additional margin requirements with respect to the Fund's investment in certain types of swaps. Central counterparties and FCMs generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement.

The regulation of cleared and uncleared swaps, as well as other derivatives, is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, regulators and exchanges in many jurisdictions are authorised to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading. It is not possible to predict fully the effects of current or future regulation. New requirements, even if not directly applicable to a Fund, may increase the cost of a Fund's investments and cost of doing business, which could adversely affect investors.

The use of derivative strategies may also have a tax impact on a Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the Investment Manager or Investment Co-Manager to utilise derivatives when it wishes to do so.

#### **Dilution and Swing Pricing risk**

The actual cost of purchasing or selling the underlying investments of a Fund may be different from the carrying value of these investments in the Fund's valuation. The difference may arise due to dealing and other costs (such as taxes) and/or any spread between the buying and selling prices of the underlying investments.

These dilution costs can have an adverse effect on the overall value of a Fund and thus the Net Asset Value per Share may be adjusted in order to avoid disadvantaging the value of investments for existing Shareholders.

#### **Distressed Securities risk**

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

For the purpose of this Prospectus, distressed securities are to be understood as including defaulted securities, and (i) securities that are being rated CCC or below by at least 2 ratings agencies and have a yield to maturity in excess of the 5 year treasuries rate and a credit spread above 1000bps or (ii) unrated securities having a yield to maturity in excess of the 5 year treasuries rate and a credit spread above 1000bps. However, with respect to securities with a credit spread higher than 1000 bps (irrespective of their credit rating), the Investment Manager will proceed to additional analyses and verifications notably based on the evolution of the security's credit spread and the rating provided by other credit agencies in order to assess whether this security should be requalified as a distressed security. This procedure is further described in the Management Company's risk management process.

#### **Distribution risk**

Distribution of dividends, if any, is not guaranteed. Only shareholders whose names are entered on the relevant record date shall be entitled to the distribution declared in respect of the corresponding quarterly, interim or annual accounting period, as the case may be. The net asset value of the relevant Fund will be reduced by the amount of dividend paid.

#### **Dividend Policy risk**

Certain Funds, particularly those that pursue investment strategies seeking to generate income, may have a dividend policy that allows for payment of dividends out of capital as well as from income and net realised and net unrealised capital gains. Where this is done, while it may allow for more income to be distributed, it also amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment. This has the effect of reducing capital and the potential for long-term capital growth as well as increasing any capital losses. Examples of when this may occur include:

- if the securities markets in which the Fund invests were sufficiently declining so that the Fund has incurred net capital losses;
- if dividends are paid gross of fees and expenses such that fees and expenses are paid out of net realised and net unrealised capital gains or initially subscribed capital.

Any distribution of dividends made partially or entirely out of the Fund's capital may reduce capital growth and may result in an immediate reduction of the net asset value per share. See also "Taxation of the Company" section below.

#### **Emerging Markets risk**

All Fund investments in the securities issued by corporations, governments, and government related entities in different nations and denominated in different currencies involve certain risks. These risks are typically increased in developing countries and Emerging Markets. Such risks, which can have adverse effects on portfolio holdings, may include: (i) investment and repatriation restrictions; (ii) currency fluctuations; (iii) the potential for unusual market volatility as compared to more industrialised nations; (iv) government involvement in the private sector; (v) limited investor information and less stringent investor disclosure requirements; (vi) shallow and substantially smaller liquid securities markets than in more industrialised countries, which means a Fund may at times be unable to sell certain securities at desirable prices; (vii) certain local tax law considerations; (viii) limited regulation of the securities markets; (ix) international and regional political and economic developments; (x) possible imposition of exchange controls or other local governmental laws or restrictions; (xi) the increased risk of adverse effects from deflation and inflation; (xii) the possibility of limited legal recourse for the Fund; and (xiii) the custodial and/or the settlement systems may not be fully developed.

Investors in Funds investing in Emerging Markets should in particular be informed that the liquidity of securities issued by corporations and public-law entities in Emerging Markets may be substantially smaller than with comparable securities in industrialised countries.

#### **Equity risk**

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

Additionally some funds may invest in smaller and midsize companies which may involve substantial risks. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

#### **ESG Regulatory Risk**

The regulatory framework with respect to sustainable investments is constantly developing and evolving. The lack of common or harmonised definitions and labels regarding ESG and sustainability criteria or clear guidelines on the required level of disclosure may result in different approaches by asset managers when integrating ESG and sustainability criteria into investment decisions and updating the marketing documentation of an investment vehicle. Therefore, a degree of subjectivity is required and this will mean that a Fund may invest in a security that another asset manager or an investor would not and the level of disclosure in the Company's marketing documentation may be more or less detailed than the disclosure inserted in the marketing documentation of other investment vehicles. Hence, it may be difficult to compare investment vehicles, with ostensibly similar objectives as these investment vehicles will employ different security selection and exclusion criteria. Consequently, the performance profile of otherwise similar investment vehicles may deviate more substantially than might otherwise be expected. This also means that the approach which has been subjectively selected may potentially differ from positions adopted at a later stage at EU level or by national supervisory authorities, which might entail a reputational risk or be considered as involuntary greenwashing.

#### **Europe and Eurozone risk**

Some Funds may invest in Europe and the Eurozone. Mounting sovereign debt burdens (e.g. any sovereigns within the Eurozone, which default on their debts, may be forced to restructure their debts and faced difficulties in obtaining credit or refinancing) and slowing economic growth among European countries, combined with uncertainties in European financial markets, including feared or actual failures in the banking system, the possibility for one or more countries to withdraw from the European Union, including the United Kingdom, which is a significant market in the global economy, and the possible break-up of the Eurozone and Euro currency, may adversely affect interest rates and the prices of both fixed income and equity securities across Europe and potentially other markets as well. These events may increase volatility, liquidity and currency risks associated with investments in Europe. The aforesaid economic and financial difficulties in Europe may spread across Europe and as a result, a single or several European countries may exit the Eurozone or a sovereign within the Eurozone may default on its debts. In any event of the break-up of the Eurozone or Euro currency, the relevant Funds may be exposed to additional operational or performance risks.

While the European governments, the European Central Bank, and other authorities are taking measures (e.g. undertaking economic reforms and imposing austerity measures on citizens) to address the current fiscal conditions, these measures may not have the desired effect and therefore the future stability and growth of Europe is uncertain. The performance and value of the relevant Funds may be adversely affected should there be any adverse credit events (e.g. downgrade of the sovereign credit rating or default or bankruptcy of any Eurozone countries).

#### **Foreign Currency risk**

Since the Company values the portfolio holdings of each of its Funds in either US dollar, Japanese yen or euro, changes in currency exchange rates adverse to those currencies may affect the value of such holdings and each respective Fund's yield thereon.

Since the securities, including cash and cash equivalents, held by a Fund may be denominated in currencies different from its base currency, the Fund may be affected favourably or unfavourably by exchange control regulations or changes in the exchange rates between such reference currency and other currencies. Changes in currency exchange rates may influence the value of a Fund's Shares, and also may affect the value of dividends and interests earned by the Fund and gains and losses realised by said Fund. If the currency in which a security is denominated appreciates against the base currency, the price of the security could increase. Conversely, a decline in the exchange rate of the currency would adversely affect the price of the security.

To the extent that a Fund or any Share Class seeks to use any strategies or instruments to hedge or to protect against currency exchange risk, there is no guarantee that hedging or protection will be achieved. Unless otherwise stated in any Fund's investment policy, there is no requirement that any Fund seeks to hedge or to protect against currency exchange risk in connection with any transaction.

Currency management strategies may substantially change a Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the Investment Manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favourable changes in currency

exchange rates. There is no assurance that the Investment Manager's use of currency management strategies will benefit the Fund 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 the Fund's holdings, further increases the Fund's exposure to foreign investment losses.

Investors should be aware of the fact that the Chinese Renminbi (RMB) is subject to a managed floating exchange rate based on market supply and demand with reference to a basket of currencies. Currently, the RMB is traded in two markets: one in Mainland China, and one outside Mainland China (primarily in Hong Kong). The RMB traded in Mainland China is not freely convertible and is subject to exchange controls and certain requirements by the government of Mainland China. The RMB traded outside Mainland China, on the other hand, is freely tradable. Whilst the RMB is traded freely outside Mainland China, the RMB spot, forward foreign exchange contracts and related instruments reflect the structural complexities of this evolving market. Accordingly, Alternative Currency Classes denominated in RMB may be exposed to greater foreign exchange risks.

#### **Hedged Strategies risk**

The Investment Manager of the Funds may be employing a number of Investment Co-Managers to implement various non-traditional or "alternative" strategies, including strategies characterised as "Long Short Equity", "Event Driven", "Global Macro", "Market Neutral" or "Relative Value", that involve "hedging" or "arbitrage" activities and that are designed to capture value in a non-directional market. These strategies in no respect should be taken to imply, however, that the Fund's investments employed in such strategies will be without risk. Substantial losses may be recognised even on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position can effectively result in the position not being the "hedge" that was intended, resulting in potential losses for the Fund. These strategies involve exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds, or the price spread between different classes of stock for the same underlying firm. Further, many "market neutral" Investment Co-Managers may employ limited directional strategies that expose the assets they manage to certain market risks.

#### **Debt Securities risk**

All Funds that invest in debt securities or money market instruments are subject to interest rate risk, credit risk, default risk and may be exposed to specific risks including but not limited to sovereign risk, high yield securities risk, restructuring risk and risk related to the use of credit ratings.

A fixed income security's value will generally increase in value when interest rates fall and decrease in value when interest rates rise. Fixed income securities with longer-term maturities tend to be more sensitive to interest rate changes than shorter-term securities. Variable rate securities (which include floating-rate debt securities) generally are less sensitive to interest rate changes than fixed rate debt securities.

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

Sovereign debt securities can be subject to risks in addition to those relating to debt securities and foreign securities generally, including, but not limited to, the risk that a governmental entity may be unwilling or unable to pay interest and repay principal on its sovereign debt. There are generally no bankruptcy proceedings for sovereign debt. If a sovereign debtor defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. In the event of a default on sovereign debt, a Fund may have limited legal recourse against the defaulting government entity. Funds may invest in Sovereign Debt issued by governments or government-related entities from countries referred to as Emerging Markets or Frontier Markets, which bear additional risks compared to more developed markets due to such factors as greater political and economic uncertainties, currency fluctuations, repatriation restrictions or capital controls.

Some Funds may invest in higher-yielding securities rated lower than investment grade. High-yield debt securities (including loans) and unrated securities of similar credit quality ("high-yield debt instruments" or "junk bonds") involve greater risk of loss, or delays of interest and principal payments, than higher-quality debt securities. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of higher credit quality. High-yield debt instruments are generally less liquid and their prices fluctuate more than higher-quality securities.

Some Funds may also invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations (including those involving bankruptcy). Such corporate events could be disruptive to the business and management structure of the companies involved, which may expose the Funds to higher investment risk.

The use of credit ratings in evaluating debt securities can involve certain risks, including the risk that the credit rating may not reflect the issuer's current financial condition or events since the security was last rated by a rating agency. Credit ratings may be influenced by conflicts of interest or based on historical data that no longer apply or are accurate. Recently, legislation and regulations to reform rating agencies have been proposed and may adversely impact the Fund's investments or investment process.

Debt securities are subject to prepayment risk when the issuer can "call" the security, or repay principal, in whole or in part, prior to the security's maturity. When a Fund reinvests the prepayments of principal it receives, it may receive a rate of interest that is lower than the rate on the existing security, potentially lowering the Fund's income, yield and its distributions to shareholders. Securities subject to prepayment may offer less potential for gains during a declining interest rate environment and have greater price volatility. Prepayment risk is greater in periods of falling interest rates.

#### **Legal and regulatory risk**

The Funds must comply with various legal requirements, including requirements imposed by the securities laws and companies laws in various jurisdictions, including the Grand Duchy of Luxembourg.

The interpretation and application of legislative acts can be often contradictory and this may impact the enforceability of the various

agreements and guarantees entered into by the Funds. Legislation could be imposed retrospectively or may be issued in the form of internal regulations not generally available to the public. The interpretation and application of laws and regulations can be often contradictory and uncertain particularly in respect of matters relating to taxation.

Courts may not adhere to the requirements of the law and the relevant contract and it cannot be guaranteed that any recourse or judgment obtained in a foreign court will be enforced in certain jurisdictions where the assets relating to securities held by the Funds are located.

#### **Liquidity risk**

Liquidity risk takes two forms: asset side liquidity risk and liability side liquidity risk. Asset side liquidity risk refers to the inability of a Fund to sell a security or position at its quoted price or market value due to such factors as a sudden change in the perceived value or credit worthiness of the position, or due to adverse market conditions generally. Liability side liquidity risk refers to the inability of a Fund to meet a redemption request, due to the inability of the Fund to sell securities or positions in order to raise sufficient cash to meet the redemption request. Markets where the Fund's securities are traded could also experience such adverse conditions as to cause exchanges to suspend trading activities. Reduced liquidity due to these factors may have an adverse impact on the Net Asset Value of the Fund and, as noted, on the ability of the Fund to meet redemption requests in a timely manner.

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

#### **High-Yield investments risk**

Some Funds may invest in higher-yielding securities rated lower than investment grade. High-yield debt securities (including loans) and unrated securities of similar credit quality ("high-yield debt instruments" or "junk bonds") involve greater risk of a complete loss of the Fund's investment, or delays of interest and principal payments, than higher-quality debt securities. Issuers of high-yield debt instruments are not as strong financially as those issuing securities of higher credit quality. High-yield debt instruments are generally considered predominantly speculative by the applicable rating agencies as these issuers are more likely to encounter financial difficulties and are more vulnerable to changes in the relevant economy, such as a recession or a sustained period of rising interest rates, that could affect their ability to make interest and principal payments when due. If an issuer stops making interest and/or principal payments, payments on the securities may never resume. These instruments may be worthless and the Fund could lose its entire investment.

The prices of high-yield debt instruments fluctuate more than higher-quality securities. Prices are especially sensitive to developments affecting the issuer's business or operations and to changes in the ratings assigned by rating agencies. In addition, the entire high-yield debt market can experience sudden and sharp price swings due to changes in economic conditions, stock market activity, large sustained sales by major investors, a high-profile default, or other factors. Prices of corporate high-yield debt instruments often are closely linked with the company's stock prices and typically rise and fall in response to factors that affect stock prices.

High-yield debt instruments are generally less liquid than higher-quality securities. Many of these securities are not registered for sale with relevant regulatory authorities in the local jurisdiction and/or do not trade frequently. When they do trade, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the Fund's ability to sell securities in response to specific economic events or to meet redemption requests. As a result, high-yield debt instruments generally pose greater illiquidity and valuation risks.

The use of credit ratings in evaluating debt securities can involve certain risks, including the risk that the credit rating may not reflect the issuer's current financial condition or events since the security was last rated by a rating agency. Credit ratings may be influenced by conflicts of interest or based on historical data that no longer apply or are accurate. Recently, legislation and regulations to reform rating agencies have been proposed and may adversely impact the Fund's investments or investment process.

Unrated debt securities determined by the Investment Manager to be of comparable quality to rated securities which the Fund may purchase may pay a higher interest rate than such rated debt securities and be subject to a greater risk of illiquidity or price changes. Less public information is typically available about unrated securities or issuers.

Exposure to the low-rated or high-yield debt may be achieved through synthetic means. For example, the CDX is a credit default swap on a basket of high yield bonds, constituting in effect a high yield bond index. By purchasing such an instrument, the Fund is buying protection (i.e. the ability to get par for the bonds in the event of an unfavourable credit event), allowing the Fund to hedge its exposure or go short the high yield sector. By selling such an instrument short and holding cash against the potential obligation to purchase it, the Fund is selling protection and effectively getting long exposure to the high yield sector more efficiently than purchasing individual bonds. The risks associated with such synthetic instruments are comparable to those of the underlying high yield securities that the instruments are seeking to replicate, in addition to the risk that the synthetic instruments themselves do not perform as intended due to adverse market conditions.

#### **Market risk**

The market values of securities owned by a Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. Unexpected events such as natural or environmental disasters (earthquakes, fires, floods, hurricanes, tsunamis) and other severe weather-related phenomena generally, or widespread disease, including pandemics and epidemics, have been and can be highly disruptive to economies of individual companies, sectors, industries, nations, markets and adversely impacting currencies, interest and inflation rates, credit ratings, investor sentiment, and other factors affecting the value of the Fund's investments. Given the interdependence among global economies and markets, conditions in one country, market, or region are likely to adversely affect markets, issuers, and/or foreign

exchange rates in other countries. These disruptions could prevent the Fund from executing advantageous investment decisions in a timely manner and could negatively impact the Fund's ability to achieve its investment objective.

During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by a Fund will participate in or otherwise benefit from the advance.

#### **Multi-Manager risk**

The Investment Manager of certain Funds may seek to achieve their investment objectives through the careful selection of two or more investment co-managers ("Investment Co-Managers"). The Investment Manager may also take part in managing the assets of such Funds in addition to selecting and allocating to the Investment Co-Managers. The Investment Co-Managers may be affiliates of the Investment Manager or may be completely independent of the Investment Manager, but subject to careful due diligence on the part of the Investment Manager as part of the selection process.

The Franklin K2 Market Neutral Fund in particular intends to achieve its investment objective by allocating its assets across multiple non-traditional or "alternative" strategies including, but not limited to, Long Short Equity, Event Driven, Structured Credit and Global Macro. The Fund intends to use multiple Investment Co-Managers to implement this strategy.

There is the risk that the Investment Co-Managers selected will not effectively implement the intended investment strategy for which the Investment Co-Manager was selected. In addition, the Investment Co-Managers make their investment decisions independently of one another, and as a result may make decisions that conflict with each other. For example, it is possible that an Investment Co-Manager may purchase a security for the Fund at the same time that another Investment Co-Manager sells the same security, resulting in higher expenses without accomplishing any net investment result; or that several Investment Co-Managers purchase the same security at the same time, without aggregating their transactions, resulting in higher expenses. Moreover, the Fund's multi-manager approach may result in the Fund investing a significant percentage of its assets in certain types of securities, which could be beneficial or detrimental to the Fund's performance depending on the performance of those securities and the overall market environment. The Investment Co-Managers may underperform the market generally or underperform other investment managers that could have been selected for the Fund.

#### **Model risk**

The Investment Manager and/or Investment Co-Managers may use modelling systems to implement its investment strategies for a Fund. There is no assurance that the modelling systems are complete or accurate, or representative of future market cycles, nor will they necessarily be beneficial to the Fund even if they are accurate. The investment performance generated by these models may perform differently than anticipated and may negatively affect Fund performance. Human judgment plays a role in building, using, testing, and modifying the financial algorithms and formulas used in these models. Additionally, there is a possibility that the historical data may be imprecise or become stale due to new events or changing circumstances which the models may not promptly detect. Market performance can be affected by non-quantitative factors (for example, market or trading system dysfunctions, investor fear or over-reaction or other emotional considerations) that are not easily integrated into the Investment Manager's risk models. There may also be technical issues with the construction and implementation of quantitative models (for example, software or other technology malfunctions, or programming inaccuracies).

#### **Nominee risk**

The legislative framework in some markets is only beginning to develop the concept of legal/formal ownership and of beneficial ownership or interest in securities. Consequently, the courts in such markets may consider that any nominee or custodian as registered holder of securities would have full ownership thereof and that a beneficial owner may have no rights whatsoever in respect thereof.

Investors' attention is drawn to the fact that any Investor will only be able to fully exercise his Shareholder's rights directly against the Company, if the Investor is registered himself in the Company's Shareholders' register. In cases where an Investor invests in the Company through a Nominee type of intermediary, which invests into the Company in its own name but on behalf of the Investor, it may not always be possible for the Investor to exercise certain Shareholder rights directly against the Company. Investor investing through a Nominee type of intermediary or custodian must notably be aware that in case of discontinuity in the operation of such intermediary or custodian, whether due to insolvency, bankruptcy or other cause, there is a risk of delay in the ability to exercise rights or even loss of rights. Investors are advised to take advice on their rights.

#### **Non-Regulated Markets risk**

Some Funds may invest in securities of issuers in countries whose markets do not qualify as regulated markets due to their economic, legal or regulatory structure, and therefore these Funds may not invest more than 10% of their net assets in such securities.

#### **Performance Fee risk**

The Investment Manager may be entitled to a Performance Fee. Whilst the key objectives of the Performance Fee are to further strengthen the alignment of interest between the Investment Manager and the Investors and to reward outperformance, the Performance Fee may create an incentive for the Investment Manager and its delegates to make riskier investments and trades than they would have done in the absence of a Performance Fee.

On certain sub-funds, the Investment Manager may be entitled to a Performance Fee which will be based on realised and unrealised gains. Investors should be aware that there is an inherent risk that Performance Fees may be paid on unrealised gains which may never ultimately be realised.

#### **Portfolio Turnover risk**

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

#### **Real Estate Securities risk**

Some Funds invest in real estate securities, securities linked to real estate indices or a basket of real estate securities, or real estate investment trusts ("REITs"). Real estate values rise and fall in response to a variety of factors, including local, regional and national economic conditions, interest rates and tax considerations. When economic growth is slow, demand for property decreases and prices

may decline. Property values may decrease because of overbuilding, increases in property taxes and operating expenses, changes in zoning laws, environmental regulations or hazards, uninsured casualty or condemnation losses, or general decline in neighbourhood values.

Securities linked to a real estate index or basket of real estate related securities may take the form of a structured note whose value is intended to move in line with the underlying index (or indices) or real estate related securities basket specified in the note. Such notes involve assuming risk associated with the counterparty that is packaging the note. Such notes depend on the solvency of the issuer for the life of the note. There is no guarantee that such notes will perform as intended in line with the underlying index (indices) or basket of securities. The liquidity of such notes may also be limited, depending on the creditworthiness of the issuer of the note as well as the nature of the underlying indices or basket of securities.

Equity REITs may be affected by any changes in the value of the properties owned and other factors, and their prices tend to go up and down. A REIT's performance depends on the types and locations of the properties it owns and on how well it manages those properties. A decline in rental income may occur because of extended vacancies, increased competition from other properties, tenants' failure to pay a rent or poor management. A REIT's performance also depends on the company's ability to finance property purchases and renovations and manage its cash flows. Since REITs typically are invested in a limited number of projects or in a particular market segment, they are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments.

#### **Reinvestment of Collateral risk**

Following reinvestment of collateral as defined in Appendix B. 3 of this Prospectus "Financial Derivative Instruments", the entirety of the risk considerations set out in this section regarding regular investments apply.

#### **Repurchase and Reverse Repurchase Transactions risk**

The entering by the Company into repurchase or reverse repurchase agreements transactions, as contemplated in Appendix B.4 of this Prospectus "Use of Techniques and Instruments relating to Transferable Securities and Money Market Instruments" involves certain risks and there can be no assurance that the objective sought to be obtained from such use will be achieved.

Investors must notably be aware that (1) in the event of the failure of the counterparty with which cash of a Fund has been placed there is the risk that collateral received may yield less than the cash placed out, whether because of inaccurate pricing of the collateral, adverse market movements, a deterioration in the credit rating of issuers of the collateral, or the illiquidity of the market in which the collateral is traded; that (2) (i) locking cash in transactions of excessive size or duration, (ii) delays in recovering cash placed out, or (iii) difficulty in realising collateral may restrict the ability of the Fund to meet sale requests, security purchases or, more generally, reinvestment; and that (3) repurchase transactions will, as the case may be, further expose a Fund to risks similar to those associated with optional or forward derivative financial instruments, which risks are further described in other sections of the Prospectus.

The counterparties to repurchase agreement transactions are selected following an initial analysis, and subsequent annual review thereafter, of financial statements, company announcements, credit ratings and other market information which includes general market movements. While there are no predetermined legal status, credit rating or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process.

In a reverse repurchase transaction, a Fund could incur a loss if the value of the purchased securities has decreased in value relative to the value of the cash or margin held by the relevant Fund.

#### **Restructuring Companies risk**

Some Funds may also invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations (including those involving bankruptcy) or as to which there exist tender or exchange offers, and may participate in such transactions; they may also purchase indebtedness and participations therein, both secured and unsecured, of debtor companies engaged in reorganisation or financial restructuring. Such investments also involve greater credit risks. The companies involved in reorganisation or financial restructuring tend to have a relatively weak financial position and may also be subject to the risks that the restructuring could be disruptive to the business and management structure of the companies involved, which may expose the Funds to higher investment risk.

#### **Reuse of Collateral and Financial Instruments risk**

In accordance with market standard OTC derivative, securities lending, repurchase or reverse repurchase master agreements, when securities are transferred to the counterparty, the counterparty will obtain, either (i) a full legal title to the securities it receives, under a title transfer collateral arrangement; or (ii) a right to use the securities it receives, under a security collateral arrangement.

As required by Article 15 of the Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) N° 648/2012 (the "SFT Regulation"), the Company will be informed in writing by its counterparties of the risks and consequences that may be involved in either (i) concluding a title transfer collateral arrangement; and (ii) granting a right of use of collateral provided under a security collateral arrangement; as summarized below:

- All rights, including any proprietary rights that the Company may have had, in those financial instruments will be replaced by an unsecured contractual claim for delivery of equivalent financial instruments subject to the terms of the relevant master agreement;

- The counterparty will not hold financial instruments in accordance with client asset rules and any asset protection rights will not apply (for example, the financial instruments will not be segregated from the counterparty's assets and will not be held subject to a trust);

- If the counterparty enters insolvency or defaults under the relevant master agreement the Company's claim against the counterparty for delivery of equivalent financial instruments will not be secured and will be subject to the terms of the relevant master agreement and applicable law and, accordingly, the Company may not receive such equivalent financial instruments or recover the full value of the financial instruments (although the Company's exposure may be reduced to the extent that the counterparty has liabilities to it which

can be set off or netted against or discharged by reference to the counterparty's obligation to deliver equivalent financial instruments to the Company);

- In the event that a resolution authority exercises its powers under any relevant resolution regime in relation to a counterparty, any rights the Company may have to take any action against the counterparty, such as to terminate the relevant master agreement, may be subject to a stay by the relevant resolution authority and:

a. the Company's claim for delivery of equivalent financial instruments may be reduced (in part or in full) or converted into equity; or

b. a transfer of assets or liabilities may result in the Company's claim on the counterparty, or the counterparty's claim on the Company, being transferred to different entities although the Company may be protected to the extent that the exercise of resolution powers is restricted by the availability of set-off or netting rights;

- Subject to the terms of the relevant master agreement, (i) the Company will not be entitled to exercise any voting, consent or similar rights attached to the financial instruments and (ii) the counterparty will have no obligation to inform the Company of any corporate events or actions in relation to those financial instruments;

- If the counterparty is unable to readily obtain equivalent financial instruments to deliver to the Company at the time required, the Company may be unable to fulfil its settlement obligations under any other transaction it has entered into in relation to those financial instruments;

- The Company will not be entitled to receive any dividends, coupon or other payments, interests or rights (including securities or property accruing or offered at any time) payable in relation to those financial instruments, although the Company may be credited with a payment by reference to such dividend, coupon or other payment (a "manufactured payment");

- The tax treatment applicable to (i) financial instruments (and any equivalent financial instruments) that have been transferred or used as collateral and (ii) manufactured payments may differ from the tax treatment in respect of the original dividend, coupon or other payment in relation to those financial instruments.

#### **Securitisation risk**

A securitisation, as defined in the article 2 of Regulation (EU) 2017/2402 of the European Parliament and of the council of 12 December 2017 is a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranching, having all of the following characteristics: (i) payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures; (ii) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; (iii) the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013.

Securitisation encompasses a wide-range of assets including "Asset-backed Securities", "Collateralised Debt Obligations" and "Mortgage-backed Securities".

A Securitisation is composed of multiple tranches, usually spanning from the equity tranche (highest risk) to the senior tranche (the lowest risk). The performance of each tranche is determined by the performance of the underlying assets or "collateral pool".

The collateral pool can encompass securities with different credit qualities, including high-yield securities and junk bonds, and the credit rating of the tranche is not reflective of the quality of the underlying assets.

Mortgage-backed securities differ from conventional debt securities in that principal is paid back over the life of the security rather than at maturity, as the underlying mortgages are subject to unscheduled pre-payments of principal before the security's maturity date due to voluntary prepayments, refinancings or foreclosures on the underlying mortgage loans. To the Fund this means a loss of anticipated interest, and a portion of its principal investment represented by any premium the Fund may have paid over par at the time of purchase. Mortgage pre-payments generally increase when interest rates fall.

Mortgage-backed securities also are subject to extension risk. An unexpected rise in interest rates could reduce the rate of pre-payments on mortgage-backed securities and extend their life. This could cause the price of the mortgage-backed securities to be more sensitive to interest rate changes. Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default.

Collateralised Mortgage Obligations (CMOs) are securities backed by a pool of mortgage pass-through securities or actual mortgage loans that are structured into various tranches with varying maturities and varying priorities in terms of their access to the principal and interest payments from the underlying assets. Such securities will have, depending on the tranches, varying degrees of pre-payment risk and credit risk, depending on their priority in the capital structure. The shorter, more senior tranches will generally be lower risk than the longer dated, more junior tranches.

Mortgage-backed securities may be offered as interest only (IO) or principal only (PO) strips, where only the interest or the principal of the underlying mortgages in the pool is passed on to the security holders. These types of securities are highly sensitive to the pre-payment experience associated with the underlying mortgages and will behave in opposite ways to the same trend in pre-payments. For IO securities, early pre-payments within the pool will mean less than expected interest payments since the mortgages will have terminated, adversely affecting security holders. For PO securities, early pre-payments within the pool will mean quicker repayment of principal than expected, benefiting security holders. Because of the highly sensitive nature of these securities, the possibility of sharp declines in prices is much greater compared to conventional mortgage-backed securities.

Mortgage- and asset-backed securities may be structured as synthetic securities. For example, the CMBX is a credit default swap on a basket of CMBS bonds, constituting in effect a CMBS index. By purchasing such an instrument, the Fund is buying protection (i.e. the ability to get par for the bonds in the event of an unfavourable credit event), allowing the Fund to hedge its exposure or go short the CMBS sector. By selling such an instrument short and holding cash against the potential obligation to purchase it, the Fund is selling protection and effectively getting long exposure to the CMBS sector more quickly and efficiently than purchasing individual bonds. The



risks associated with such synthetic instruments are comparable to those of the underlying ABS or MBS securities that the instruments are seeking to replicate, in addition to the risk that the synthetic instruments themselves do not perform as intended due to adverse market conditions.

Asset-backed securities are very similar to mortgage-backed securities, except that the securities are collateralised by other types of assets besides mortgages, such as credit card receivables, home-equity loans, manufactured homes, automobile loans, student loans, equipment leases, or senior bank loans, among others. Like mortgage-backed securities, asset-backed securities are subject to prepayment and extension risks.

Collateralised Loan/Debt Obligations (CLOs/CDOs) are similar to ABS/MBS type of securities. The main difference being the nature of the collateral pool, which is not constituted of debt securities or mortgages but rather leveraged loans issued by corporates.

In addition to the normal risks associated with debt securities and asset backed securities (e.g., interest rate risk, credit risk and default risk), CDOs and CLOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or quality or go into default or be downgraded; (iii) a Fund may invest in tranches of a CDO or CLO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results.

#### **Securities Lending risk**

The entering by the Company into securities lending transactions, as contemplated in Appendix B.4 of this Prospectus "Use of Techniques and Instruments relating to Transferable Securities and Money Market Instruments" involves certain risks and there can be no assurance that the objective sought to be obtained from such use will be achieved.

Investors must notably be aware that in case of default, bankruptcy or insolvency of the borrower of securities lent by a Fund, there is a risk of delay in recovery (that may restrict the ability of a Fund to meet delivery obligations under security sales or payment obligations arising from sale requests) or even loss of rights in collateral received, which risks are mitigated by a careful creditworthiness analysis of borrowers to determine their degree of risk for said borrowers to become involved in insolvency/bankruptcy proceedings within the timeframe contemplated by the loan. If the borrower of securities lent by a Fund fails to return these securities there is a risk that the collateral received may realise less than the value of the securities lent out, whether due to inaccurate pricing, adverse market movements, a deterioration in the credit rating of issuers of the collateral or the illiquidity on the market in which the collateral is traded.

A Fund may reinvest the cash collateral received from borrowers. There is a risk that the value or return of the reinvested cash collateral may decline below the amount owed to those borrowers, and those losses may exceed the amount earned by the Fund on lending the securities.

#### **SPACs risk**

A Fund may invest directly or indirectly in special purpose acquisition companies (SPACs) or similar special purposes entities which are subject to a variety of risks beyond those associated with other equity securities. A SPAC is a publicly traded company that raises investment capital for the purpose of acquiring or merging with an existing company. SPACs do not have any operating history or ongoing business other than seeking acquisitions, and the value of their securities is particularly dependent on the ability of the SPAC's management to identify a merger target and complete an acquisition. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices. In addition, these securities, which may be traded in the over-the-counter market, may be considered illiquid and/or may be subject to restrictions on resale.

#### **Structured Notes risk**

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

#### **Substantial Leverage risk**

While cash borrowing for investment purposes (traditional leverage) is not permitted for UCITS funds, leverage exposure may be obtained through the use of financial derivative instruments, as more fully described under "Derivative Instruments risk". Certain Funds, by the nature of their investment strategy, may employ an unusually high level of leverage achieved through financial derivative instruments regardless of their use, i.e. for investment purposes or for purposes of hedging. As an example, financial derivative instruments used to reduce risk do also contribute to an increase in the level of leverage for a given Fund when expressed in notional terms. Certain financial derivative instruments have the potential for an unusually high degree of leverage regardless of the size of the initial investment. The use of a substantial degree of leverage may cause a Fund to liquidate portfolio positions to satisfy its obligations or to meet asset segregation requirements when it may not be advantageous to do so. As a result, a relatively small price movement in a derivative contract, particularly when such contracts are used to a significant degree in a Fund, may result in substantial losses to a Fund.

#### **Sustainability risk**

The Investment Manager(s) consider that sustainability risks are relevant to the returns of the Funds. The integration of sustainability risks in the investment decision process may have the effect of excluding profitable investments from the investment universe of the Funds and may also cause the Funds to sell investments that will continue to perform well.

Appreciation of sustainability risk is to a degree subjective and there is no guarantee that all investments made by the Funds will reflect beliefs or values of any particular investor on sustainable investments.

A sustainability risk could materialise as the occurrence of an environmental, social or governance event or condition causing material negative impact on the value of one or several investments and thus negatively affecting the returns of the Funds.

Sustainability risks can manifest themselves in different ways, such as but not limited to:

- failure to comply with environmental, social or governance standards resulting in reputational damage, causing fall in demand for products and services, or loss of business opportunities for a company or industry group,
- changes in laws, regulations or industry norms giving rise to possible fines, sanctions or change in consumer behavior affecting a company or an entire industry's prospects for growth and development,
- changes in laws or regulations, may generate higher demand for, and thus undue increase in prices of securities of companies perceived as meeting higher ESG standards. Prices of such securities may become more volatile if perception from market participants about companies adherence to ESG standards changes, and
- changes in laws or regulations, may incentivize companies to provide misleading information about their environmental, social or governance standards or activities.

Commonly considered sustainability risk factors are split into "Environment, Social, and Governance" (ESG), such as but not limited to the following topics:

#### Environment

- Climate mitigation
- Adjustment to climate change
- Protection of biodiversity
- Sustainable use and protection of water and maritime resources
- Transition to a circular economy, avoidance of waste, and recycling
- The avoidance and reduction of environmental pollution
- Protection of healthy ecosystems
- Sustainable land use

#### Social affairs

- Compliance with recognized labor law standards (no child and forced labor, no discrimination)
- Compliance with employment safety and health protection
- Appropriate remuneration, fair working conditions, diversity, and training and development opportunities
- Trade union rights and freedom of assembly
- Guarantee of adequate product safety, including health protection
- Application of the same requirements to entities in the supply chain
- Inclusive projects or consideration of the interests of communities and social minorities

#### Corporate Governance

- Tax honesty
- Anti-corruption measures
- Sustainability management by the board
- Board remuneration based on sustainability criteria
- The facilitation of whistle-blowing
- Employee rights guarantees
- Data protection guarantees

Sustainability risks can lead to a significant deterioration in the financial profile, profitability or reputation of an underlying investment and thus may materially impact its market price or liquidity.

#### Swap Agreements risk

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

Whether the Company's use of swap agreements will be successful in furthering its investment objective will depend on the ability of the Investment Managers and/or Investment Co-Managers to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two-party contracts and because they may have terms of greater than seven (7) calendar days, swap agreements may be considered to be illiquid. Moreover, the Company bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Investment Managers and/or Investment Co-Managers will cause the Company to enter into swap agreements in accordance with the guidelines in Appendix B. The main factor that determines the performance of a swap contract is the movement in the price of the underlying investment, specific interest rates, currencies and other factors used to calculate the payment due by and to the counterparty. If a swap contract requires payment by a Fund, the latter must at all times be able to honour said payment. Moreover, if the counterparty loses its creditworthiness, the value of the swap contract entered into with this counterparty can be expected to fall, entailing potential losses for the Fund.

#### Warrants risk

Investments in and holding of warrants may result in increased volatility of the Net Asset Value of certain Funds, which may make use of warrants, and accordingly are accompanied by a higher degree of risk.

**Investors should understand that all investments involve risk and there can be no guarantee against loss resulting from an investment in any Fund(s), nor can there be any assurance that the Fund(s) investment objective(s) will be attained. Neither the Company, the Management Company, the Investment Manager(s), nor any of their worldwide affiliated entities, guarantee the performance or any future return of the Company or any of its Funds.**

#### **MANAGEMENT COMPANY**

The Board of Directors has appointed Franklin Templeton International Services S.à r.l. as Management Company by a management company services agreement dated August 1, 2019 to be responsible on a day-to-day basis under the supervision of the Board of Directors, for providing administration, marketing, investment management and advice services in respect of all Funds. The Management Company has delegated the investment management services to the Investment Managers.

The Board of Managers of the Management Company has appointed Eric Bedell, A. Craig Blair, John Hosie, Daniel Klingelmeier, Rafal Kwasny, Maxime Lina, Luis Perez, Marc Stoffels and Gregory Surply as conducting persons, responsible for the day-to-day management of the Management Company in accordance with article 102 of the Law of 17 December 2010.

The Management Company was incorporated on 17 May 1991 under the laws of the Grand Duchy of Luxembourg and its articles of incorporation are deposited with the Luxembourg *Registre de Commerce et des Sociétés*. The Management Company is approved as a management company regulated by chapter 15 of the Law of 17 December 2010. The Management Company is part of Franklin Templeton Investments.

The share capital of the Management Company is EUR 4,605,383 and the Management Company will comply at all times with article 102 of the Law of 17 December 2010.

The Management Company may also be appointed to act as management company for other investments funds the list of which will be available, upon request, at the registered office of the Company and of the Management Company.

The Management Company will ensure compliance of the Company with the investment restrictions and oversee the implementation of the Company's strategies and investment policy.

The Management Company will receive periodic reports from the Investment Manager detailing the Funds' performance and analysing their investment. The Management Company will receive similar reports from the other services providers in relation to the services which they provide.

Franklin Templeton International Services S.à r.l. will also act as registrar and transfer, corporate, domiciliary and principal administrative agent of the Company and will therefore be responsible for processing the purchase, selling and switching of Shares, the maintenance of accounting records and all other administrative services as required by the laws of the Grand Duchy of Luxembourg. The Management Company is authorised to delegate and has delegated certain administrative services to third parties as described under section "Administrative Agent" below, subject however to its overall supervision and oversight.

The Management Company shall report to the Board of Directors on a quarterly basis and inform the Board of Directors of any non-compliance of the Company with the investment restrictions.

#### **INVESTMENT MANAGERS**

The Investment Manager(s) mentioned in the section "Administration Information" have been appointed by the Management Company to act as investment managers of the Funds as may other affiliated investment advisory companies within Franklin Templeton Investments and to provide day-to-day management in respect of the investment and re-investment of the net assets of the Funds.

The Investment Manager(s) shall render to the Management Company written reports of the composition of the assets of the Funds under its management as often as the Management Company shall reasonably require.

The Investment Manager(s) and its/their affiliates serve as advisers for a wide variety of public investment mutual funds and private clients in many nations. Franklin Templeton Investments has been investing globally for over 60 years and provides investment management and advisory services to a worldwide client base, including over 24 million shareholder accounts. The Franklin Templeton Investments Managers are indirect wholly owned subsidiary of FRI. Through its subsidiaries, FRI is engaged in various aspects of the financial services industry. Details of the value of assets currently managed by Franklin Templeton Investments can be accessed on <http://www.franklintempleton.lu>.

#### **DEPOSITARY**

J.P. Morgan SE, Luxembourg Branch has been appointed as the Depositary to provide depositary, custodial, settlement and certain other associated services to the Company.

J.P. Morgan SE is a European Company (*Societas Europaea*) organized under the laws of Germany, with registered office at Taunustor 1 (Taunusturm), 60310 Frankfurt am Main, Germany and registered with the commercial register of the local court of Frankfurt. It is a credit institution subject to direct prudential supervision by the European Central Bank (ECB), the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, BaFin) and Deutsche Bundesbank, the German Central Bank and is authorized by the CSSF to act as depositary and fund administrator. J.P. Morgan SE, Luxembourg Branch is registered with the Luxembourg *Registre de Commerce et des Sociétés* under number B255938 and is subject to the supervision of the aforementioned home state supervisory authorities as well as local supervision by the CSSF.

The Depositary will further:

a) ensure that the issue, redemption and cancellation of Shares effected by the Company or on its behalf are carried out in accordance with the Law of 17 December 2010 and the Articles;

- b) ensure that the value per Share of the Company is calculated in accordance with the Law of 17 December 2010 and the Articles;
- c) carry out, or where applicable, cause any subcustodian or other custodial delegate to carry out the instructions of the Company, the Investment Manager(s) unless they conflict with the Law of 17 December 2010 or the Articles;
- d) ensure that in transactions involving the assets of the Company, the consideration is remitted to it within the usual time limits; and
- e) ensure that the income of the Company is applied in accordance with the Articles.

The Depositary may entrust all or part of the assets of the Company that it holds in custody to such subcustodians as may be determined by the Depositary from time to time. Except as provided in applicable laws, the Depositary's liability shall not be affected by the fact that it has entrusted all or part of the assets in its care to a third party.

The Depositary shall assume its functions and responsibilities in accordance with applicable laws as further described in the depositary agreement entered into between the Depositary, the Company and the Management Company.

#### *The Depositary Agreement*

The Company has appointed the Depositary as depositary under a depositary agreement dated August 1, 2019 also entered by the Management Company (the "Depositary Agreement").

The Depositary shall perform all the duties and obligations of a depositary under the UCITS Directive as outlined in the Depositary Agreement.

The Depositary Agreement may be terminated by any party on 90 days' notice in writing. Subject to applicable laws, the Depositary Agreement may also be terminated by the Depositary on 30 days' notice in writing if (i) it is unable to ensure the required level of protection of the Company's investments under the applicable laws because of the investment decisions of the Management Company and / or the Company; or (ii) the Company, or the Management Company on behalf of the Company, wishes to invest or to continue to invest in any jurisdiction notwithstanding the fact that (a) such investment may expose the Company or its assets to material country risk or (b) the Depositary is not able to obtain satisfactory legal advice confirming, among other things, that in the event of an insolvency of a subcustodian or other relevant entity in such jurisdiction, the assets of the Company held locally in custody are unavailable for distribution among, or realisation for the benefit of, creditors of the such subcustodian or other relevant entity.

Before expiration of any such notice period, the Management Company shall propose a new depositary which fulfils the requirements of the UCITS Directive and to which the Company's assets shall be transferred and which shall take over its duties as the Company's depositary from the Depositary. The Company and the Management Company will use best endeavours to find a suitable replacement depositary, and until such replacement is appointed the Depositary shall continue to perform its services under the Depositary Agreement.

The Depositary will be responsible for the safekeeping and ownership verification of the assets of the Company, cash flow monitoring and oversight in accordance with the UCITS Directive. In carrying out its role as depositary, the Depositary shall act independently from the Company and the Management Company and solely in the interest of the Company and its Investors.

The Depositary is liable to the Company or its Investors for the loss of a financial instrument held in custody by the Depositary or any of its delegates. The Depositary shall, however, not be liable if it can prove that the loss has arisen as a result of an external event beyond its reasonable control, the consequences of which would have been unavoidable despite all reasonable efforts to the contrary. The Depositary is also liable to the Company or its Investors for all other losses suffered by them as a result of the Depositary's negligent or intentional failure to properly fulfil its duties in accordance with applicable laws.

#### *Conflicts of Interest*

In carrying out its functions, the Depositary shall act honestly, fairly, professionally, independently and solely in the interest of the Shareholders.

As part of the normal course of global custody business, the Depositary may from time to time have entered into arrangements with other clients, funds or other third parties for the provision of safekeeping and related services. Within a multi-service banking group such as JPMorgan Chase Group, from time to time conflicts may arise between the Depositary and its safekeeping delegates, for example, where an appointed delegate is an affiliated group company and is providing a product or service to a fund and has a financial or business interest in such product or service or where an appointed delegate is an affiliated group company which receives remuneration for other related custodial products or services it provides to the funds, for instance foreign exchange, securities lending, pricing or valuation services. Where a conflict or potential conflict of interest arises, the Depositary will have regard to its obligations to the Company (under applicable laws including Article 25 of the UCITS Directive) and will treat the Company and the other funds for which it acts fairly and such that, so far as is practicable, any contracts with service providers are entered into on terms which are not materially less favourable to the Company than if the conflict or potential conflict had not existed. Such potential conflicts of interest are identified, managed and monitored in various other ways including, without limitation, the hierarchical and functional separation of Depositary's depositary functions from its other potentially conflicting tasks and by the Depositary adhering to its own conflicts of interest policy.

#### *Subcustodians and Other Delegates*

When selecting and appointing a subcustodian or other delegate, the Depositary shall exercise all due skill, care and diligence as required by the UCITS Directive to ensure that it entrusts the Company's assets only to a delegate who may provide an adequate standard of protection.

The current list of subcustodians and other delegates used by the Depositary and sub-delegates that may arise from any delegation is available online at the website: <http://www.franklintempleton.lu>, by selecting "Literature", "Subcustodians" tabs. The latest version of such list may also be obtained by the Investors from the Company upon request.

In addition, up-to-date information regarding the Depositary's duties and of conflicts of interest that may arise as well as of any safekeeping functions delegated by the Depositary, the list of third-party delegates and any conflicts of interest that may arise from such a delegation may also be obtained by the Investors on request at the registered office of the Company.

## **ADMINISTRATIVE AGENT**

J.P. Morgan SE, Luxembourg Branch has also been appointed as the Administrative Agent of the Company to perform some administrative services in relation to the Company under an administration agreement dated 1 August 2019 ("Administration Agreement"). These services include preparing and maintaining books, records, tax, financial reports and calculating the Net Asset Value of the Funds.

The Administration Agreement may be terminated by any party on 180 days' notice in writing.

Under the Administration Agreement, the Administrative Agent will not be liable for any loss or damage suffered by the Company with respect to any matter as to which the Administrative Agent has satisfied its obligation of reasonable care unless the same results from an act of negligence, fraud, wilful default or material breach of the Administration Agreement on the part of the Administrative Agent. The Company has agreed to indemnify the Administrative Agent (and its affiliates and nominees, and their respective directors, officers, employees and agents) against, and hold them harmless from, any liabilities, losses, claims, costs, damages, penalties, fines, obligations, or expenses of any kind whatsoever (including, without limitation, reasonable attorneys', accountants', consultants' or experts' fees and disbursements) that may be imposed on, incurred by or asserted against the Administrative Agent (or its affiliates and nominees, and their respective directors, officers, employees and agents) in connection with or arising out of the Administrative Agent's performance under the Administration Agreement, provided the Administrative Agent (and its affiliates and nominees, and their respective directors, officers, employees and agents) have not acted with negligence or engaged in fraud, material breach of the Administration Agreement or wilful default in connection with the liabilities in question.

## **PUBLICATION OF SHARE PRICES**

The Net Asset Value per Share of each Fund and Share Class is made public at the registered office of the Company and is available at the offices of the Management Company. The Company will arrange for the publication of the Net Asset Value per Share of relevant Funds as required under applicable laws and in such newspapers as the Board of Directors may decide from time to time. This information is also available on the Internet site: <http://www.franklintempleton.lu>. The Company and the Management Company cannot accept any responsibility for any error or delay in publication or for the non-publication of prices.

## **INVESTOR GENERAL INFORMATION**

### **Prior Considerations**

The Company aims to provide investors with a choice of Funds investing in a wide range of transferable securities and other eligible assets on a worldwide basis and featuring a diverse array of investment objectives, including capital growth and income. Investors should give careful consideration to their own personal investment objectives and any local regulatory or tax implications applicable to their circumstances. Investors are recommended to obtain advice from local financial and tax advisors. Further information regarding tax is provided in the sections "Taxation of the Company" and "Taxation of Investors".

Investors should note that the price of Shares and the income from them may go down as well as up and an Investor may not get back the amount invested. Attention of Investors is more specifically drawn to the fact that investment by the Company may trigger specific risks, as more fully described under section "Risk Considerations".

The distribution of this Prospectus and the offering of the Shares may be restricted in certain jurisdictions and some of the Funds may not be available for public distribution in your jurisdictions. It is the responsibility of any persons wishing to make an application for Shares pursuant to this Prospectus to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdictions.

In addition, the Company and/or the Management Company reserves the right to request additional information and/or documentary evidence from Investors if their bank account is located in a country other than their country of residence, which may result in a delay in the processing of purchase and/or any other transaction until relevant and satisfactory information and/or documentary evidence is received.

Investors should refer to the relevant KIID where applicable for ongoing charges and historical performance charts of the Share Classes of the relevant Funds.

### **Issue of Shares**

Shares are made available through the Principal Distributor. The Principal Distributor will, from time to time, enter into contractual agreements with several Distributors, intermediaries, Brokers/Dealers and/or professional investors for the distribution of those Shares.

If circumstances so require, the Board of Directors reserves the right at any time, without notice, to discontinue the issue or sale of Shares pursuant to this Prospectus.

The Company may restrict or prevent the ownership of Shares by any US Person and/or any person, firm or corporate body if in the opinion of the Company such holding may be detrimental to the Company or its Shareholders, may result in a breach of any applicable law or regulations (whether Luxembourg or foreign) or may expose the Company or its Shareholders to liabilities (to include, inter alia, regulatory or tax liabilities and any other tax liabilities that might derive, inter alia, from any breach of FATCA requirements) or any other disadvantages that it or they would not have otherwise incurred or been exposed to. Such persons, firms or corporate bodies (including US Persons and/or persons in breach of FATCA requirements) are herein referred to as "Prohibited Persons".

For such purposes, the Company may:

- 1) decline to issue any Share and decline to register any transfer of a Share, where it appears to it that such registration or transfer would or might result in beneficial ownership of such Share by a Prohibited Person;
- 2) at any time require any person whose name is entered in, or any person seeking to register the transfer of Shares on, the register of Shareholders to furnish it with any representations and warranties or any information, supported by affidavit, which it may consider necessary for the purpose of determining whether or not, to what extent and under which circumstances, beneficial ownership of such Shareholder's Shares rests or will rest in a Prohibited Person, or whether such registration will result in beneficial ownership of such Shares by a Prohibited Person;
- 3) where it appears to the Company that any Prohibited Person, either alone or in conjunction with any other person, is a beneficial owner of Shares or is in breach of its representations and warranties or fails to make such representations and warranties in a timely manner as the Company may require, may compulsorily redeem from any such Shareholder all or part of the Shares held by such Shareholder in the manner more fully described in the Articles; and
- 4) decline to accept the vote of any Prohibited Person at any meeting of shareholders of the Company.

### **Listing of Shares**

Certain eligible Share Classes may be listed on the Luxembourg Stock Exchange and/or on any other recognised stock exchange.

### **Form and Currency of Shares**

All Shares are issued in registered form. Fractional registered shares will be rounded to three (3) decimal places. Any deal order with a stated Share amount with more than three (3) decimal places will be rounded to three (3) decimal places, using conventional rounding to the nearest thousandths place.

The Company and/or the Management Company may offer within a Fund several Alternative Currency Classes as described in Section "Share Classes".

### **Dealing Cut-Off Times**

Dealing Cut-Off Times are detailed in Appendix A. The Company and/or Management Company may permit, if it deems it appropriate, different Dealing Cut-Off Times to be agreed with local distributors or for distribution in jurisdictions where the different time zone so justifies. In such circumstances, the applicable Dealing Cut-Off Time applied must always precede the time when the applicable Net Asset Value is calculated and published. Such different Dealing Cut-Off Times shall be disclosed in the local supplement to this Prospectus, the agreements in place with the local distributors, or other marketing material used in the jurisdictions concerned.

### **Calculation of Share Prices/Net Asset Value**

The prices at which Shares of the relevant Classes can be purchased, sold or switched in each Share Class are calculated on each Valuation Day by reference to the Net Asset Value per Share of the Class concerned and are available on the following Business Day.

Some jurisdictions do not permit Investor transactions to be accepted during local holidays. Details of these arrangements are contained in the locally approved version of this Prospectus.

Details of the calculation of the Net Asset Value are provided in Appendix D. Instructions received in writing by the Management Company in Luxembourg or by a duly authorised distributor, prior to the applicable Dealing Cut-Off Time on any Dealing Day, will be dealt with at the relevant Net Asset Value per Share determined for that Valuation Day.

All deal instructions shall be dealt with on an unknown Net Asset Value basis before the determination of the Net Asset Value per Share for that Valuation Day.

### **Suspension of Dealing and Share Prices/Net Asset Value**

The calculation of the Net Asset Value (and consequently purchases, sales and switches) of any Share of any Fund may be suspended by the Company pursuant to the power reserved to it by its Articles and as described in Appendix D. Instructions made or pending during such suspension may be withdrawn by notice in writing received by the Management Company prior to the end of such suspension. Unless withdrawn, instructions will be considered as if received on the first Valuation Day following the end of the suspension.

### **Fund Liquidations**

If the net assets of any Fund are at any time below USD 100 million, or the equivalent thereof in the currency of the relevant Fund, or if a change in the economic or political situation relating to the Fund concerned would justify such liquidation or if it is required by the interests of the Shareholders of the Fund concerned, the Board of Directors may decide to liquidate such Fund and redeem all outstanding Shares. Notice of such liquidation will be sent to the registered Investors. The price at which Shares will be redeemed will be the Net Asset Value per Share of such Fund determined upon realisation of all assets attributable to such Fund. Further details are provided in Appendix C.

## **Fund Soft Closure**

A Fund, or Share Class, may be closed to new investors or to all new subscriptions or switches in (but not to redemptions, switches out or transfers) if, in the opinion of the Management Company, closing is necessary to protect the interests of existing Shareholders. Without limiting the circumstances where closing may be appropriate, one such circumstance would be where the Fund has reached a size such that the capacity of the market and/or the capacity of the Investment Manager has been reached, and where to permit further inflows would be detrimental to the performance of the Fund. Any Fund, or Share Class, may be closed to new investors or all new subscriptions or switches in without notice to Shareholders.

## **Minimum Investment**

The minimum initial investment in the Shares of each Fund is USD 5,000 (or USD 2,500 in the case of switches) (except for Franklin K2 Ellington Structured Credit UCITS Fund and Franklin K2 Market Neutral UCITS Fund which have a minimum initial investment of USD 10,000 or USD 2,500 in case of switches and for Franklin K2 Cat Bond UCITS Fund which has a minimum of USD 10,000 for initial investments and switches in), USD 5,000,000 for Class I, Class EB<sup>3</sup> and Class EO<sup>4</sup> Shares and USD 500,000 for Class W Shares, or the equivalent in any other freely exchangeable currency, except for investment made by Nominees. Such minimum investment amounts may be waived in whole or in part by the Board of Directors or by the Management Company. Existing holders of Shares in any Fund may add to their Holdings in that Fund provided the minimum increase for any purchase is USD 1,000 or the equivalent in any other freely exchangeable currency.

Any specific minimum initial investment applied in other jurisdictions will be disclosed in the local version of this Prospectus.

The Company and the Management Company reserve the right to reject any application which does not meet the minimum investment requirements. The Company and/or the Management Company may, at any time, decide to compulsorily redeem all Shares from any Shareholder whose holding is less than the minimum holding amount specified above or on application, or who fails to satisfy any other applicable eligibility requirements set out in the Prospectus.

## **Nominee**

Local offering documentation may provide the facility for the Investors to avail of Nominee type of intermediaries, Brokers/Dealers and/or local paying agents. The Nominee name will appear on the register of Shareholders of the Company and the Nominee may effect purchases, switches and sales of Shares on behalf of the Investors.

The Nominee maintains its own records and provides the Investors with individualised information as to their Holdings. Unless otherwise provided by local law, any Investor investing through a Nominee type of intermediary has the right to claim direct title to the Shares purchased on his/her/its behalf by the Nominee.

For the avoidance of doubt, Investors subscribing through such other parties (or through sub-distributors, intermediaries, Brokers/Dealers and/or professional investors appointed by such other parties) will not be charged additional fees and expenses by the Company.

## **Third Party Payments**

Investors are informed that it is the Company's policy not to make payment to or accept payment from a party other than the registered Shareholder.

Investors should note that if their redemption instruction is accompanied by a request to pay the sale proceeds into a bank account, located in a country other than the Investor's country of residence, the Company and/or the Management Company reserves the right to delay the execution of the transaction or the release of the payment proceeds, until additional information or documentary evidence is received that provides additional Investor protection to the satisfaction of the Company and/or the Management Company.

## **Telephone Recording**

The Management Company may use telephone recording procedures to record any conversation. Investors are deemed to consent to the tape-recording of conversations with the Management Company and to the use of such tape recordings by the Management Company and/or the Company and/or the Administrative Agent, as applicable, in legal proceedings or otherwise at their discretion. In addition, some local Franklin Templeton Investments offices may need to record telephone calls and electronic communications for training, monitoring purposes and/or to confirm Investors' instructions. Recordings will be provided upon request (in which case a fee may be charged) for a period of five (5) years from the date of such recording or seven (7) years where specifically required by regulatory authorities.

## **Investor Portfolio**

Investors will be given at least one personal Investor Portfolio Number. Such personal Investor Portfolio Number should be used in all correspondence with the Company or the Management Company. In the event that more than one personal Investor Portfolio Number is attributed to the same Investor, all such personal Investor Portfolio Numbers should be indicated for any request concerning all the Portfolios held by the Investor.

## **Shareholder Notifications**

<sup>3</sup> in aggregate across all Funds, with a minimum of USD 1,000,000 per Fund.

<sup>4</sup> in aggregate across all Funds, with a minimum of USD 1,000,000 per Fund, except for Institutional Investors who entered into an advisory or investment management agreement with K2/D&S Management Co., L.L.C., the Management Company or its affiliates prior to Fund launch. Such investors will not be subject to any minimum investment or subsequent investment amount.

Any relevant notifications or other communications to Shareholders concerning their investment in the Fund (including Contract Notes) may be communicated to a Shareholder via electronic means of communication in accordance with applicable Luxembourg rules, where the Shareholder has consented and provided an e-mail address and/or relevant electronic contact details to the Management Company for such purposes. In addition, and where required by Luxembourg law or the Luxembourg regulator, Shareholders will also be notified in writing or in such other manner as prescribed under Luxembourg law. In particular, Shareholders should refer to the "Meetings and Reports" section.

In electronic communications and dealings, Franklin Templeton will make reasonable efforts to preserve and protect confidentiality of data communicated. Recipients of electronic communications should be aware that the integrity and confidentiality of electronic online communication transiting through the Internet may not be guaranteed due to a multiplicity of factors including, but not limited to, vulnerability of hardware, software, operating system or electronic platform employed by such recipients in their dealings with Franklin Templeton.

#### **Contract Note**

Following the execution of a transaction, a Contract Note will be dispatched to the Investor normally within one (1) Business Day. Investors should promptly check this Contract Note to ensure that each transaction has been accurately recorded in the relevant Investor Portfolio. In the event of identifying a discrepancy Investors should immediately report such discrepancy in writing to the Management Company or their local Franklin Templeton Investments servicing office. If not so reported within fifteen (15) Business Days from the Contract Note date, the transaction will be deemed correct and the Investor will be bound by the terms of the Contract Note.

#### **Personal Theft**

Any correspondence issued by the Company or the Management Company is private and confidential. To safeguard Investors' Holdings, in the case of loss or theft of any correspondence with the Company or the Management Company (or of identity documents/passport), Investors should immediately inform their local Franklin Templeton Investments servicing office.

#### **Data Protection**

All personal data of Investors (the "Personal Data") contained in the application form and all and any further personal data collected in the course of the business relationship with the Company and/or the Management Company may be, subject to applicable local laws and regulations, collected, recorded, stored, adapted, transferred or otherwise processed and used ("processed") by the Company, the Management Company and other companies of Franklin Templeton Investments, including Franklin Resources, Inc. and/or its subsidiaries and associates, the Depositary, the Administrative Agent and any other third parties which provide services to them (including but not limited to printing and mailing services), any of which may be established outside Luxembourg and/or the European Union, including the US and India. Such Personal Data shall be processed for the purposes of account administration, development of business relationships, anti-money laundering and counter-terrorist financing identification, tax identification, where appropriate, for the purpose of compliance with FATCA or similar laws and regulations (e.g., on OECD level). The Company and/or the Management Company, for the purpose of FATCA or other legal compliance, may be required to disclose Personal Data relating to US Persons and/or non-participant FFIs to the Luxembourg tax authorities which may transfer them to the Internal Revenue Service in the US. The Company and members of the Franklin Templeton Investments group may also use Personal Data for other purposes set forth in the Franklin Templeton Privacy and Cookies Notice (the "Privacy Notice").

The Company asks for investors to consent to the use of information on their political opinions, religious or philosophical beliefs which may be revealed by compliance checks against politically exposed persons, for the above purposes. This consent is recorded in the application form.

The Privacy Notice provides, among other, further information on the Company's and Franklin Templeton Investments' use of Personal Data, the types of Personal Data processed, the other purposes for which Personal Data is processed, the list of entities involved in the processing of Personal Data as well as the rights of the data subjects. The Privacy Notice is available on the Internet site: [www.franklintempletonglobal.com/privacy](http://www.franklintempletonglobal.com/privacy) (a paper copy will be made available free of charge upon request). If an Investor wishes to exercise its individual rights, or to raise any question, concern or complaint concerning the Privacy Notice, it may contact the Management Company or alternatively, the Data Protection Officer (Email address: [DataProtectionOfficer@franklintempleton.com](mailto:DataProtectionOfficer@franklintempleton.com)) at Franklin Templeton International Services S.à r.l., 8A, rue Albert Borschette, L 1246 Luxembourg, Grand Duchy of Luxembourg.

Investors' attention is drawn to the fact that the Privacy Notice is subject to change at the sole discretion of the Management Company and/or the Company.

#### **Anti-Money Laundering and Counter-Terrorist Financing Legislation**

Pursuant to the Luxembourg law of 5 April 1993 relating to the financial sector (as amended), Directive 2015/849/EU on the prevention of the use of the financial system for the purposes of money laundering or terrorism financing and the Luxembourg law of 12 November 2004 relating to money laundering and counter terrorist financing (as amended), as well as to the circulars of the Luxembourg supervisory authority, obligations have been imposed on the Company to take measures to prevent the use of investment funds for money laundering and terrorist financing purposes.

Accordingly, the Management Company has established a procedure to identify all its Investors. To meet the Management Company's requirements, Investors should submit any necessary identification documents together with the application form. For private individuals this will be a passport or identity card copy duly certified to be a true copy by an authorised body in their resident country. Legal entities will be required to produce documents such as proof of regulation, membership to a recognised stock exchange, or company articles of incorporation/by-laws or other constitutive documents as applicable. The Management Company is also obliged to identify any beneficial owners of the investment. The requirements apply to both purchases made directly to the Company and indirect purchases received from an intermediary.

The Management Company reserves the right to ask at any time for additional information and documentary evidence, such as source of funds and origin of wealth, as may be required in higher risk scenarios or to comply with any applicable laws and regulations. In case



of delay or failure to provide such information and/or documentary evidence, the Management Company may delay or reject the processing of purchase or sale instructions, or any other transaction. The Management Company may also delay or suspend the payment of dividends until relevant and satisfactory information and/or documentary evidence is received. Neither the Company nor the Management Company have any liability for delays or failure to process deals as a result of the Investor providing no or only incomplete information and/or documentary evidence.

Such information provided to the Management Company is collected and processed for anti-money laundering and counter-terrorist financing compliance purposes.

### Trading Policy

**Market timing/short term trading generally.** The Company discourages short-term or excessive trading, often referred to as "market timing", and intends to seek to restrict or reject such trading or take other action, as described below, if in the judgment of the Company or Management Company such trading may interfere with the efficient management of the portfolio of any Fund, may materially increase the Fund's transaction costs, administrative costs or taxes, or may otherwise be detrimental to the interests of the Company and its Shareholders.

**Market timing consequences.** If information regarding an Investor's activity in the Company or in any other Franklin Templeton Investments funds or non-Franklin Templeton Investments funds is brought to the attention of the Company or the Management Company and based on that information the Company, the Management Company or their agents in their sole discretion conclude that such trading may be detrimental to the Company as described in this Market Timing Trading policy, the Company may temporarily or permanently bar an Investor's future purchases into the Company or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which a Shareholder may request future purchases and sales (including purchases and/or sales by a switch or transfer between the Company and any other Franklin Templeton Investments funds).

In considering an Investor's trading activity, the Company may consider, among other factors, the Investor's trading history both directly and, if known, through financial intermediaries, in the Company, in other Franklin Templeton Investments funds, in non-Franklin Templeton Investments funds, or in accounts under common control or ownership.

**Market timing through financial intermediaries.** Investors are subject to this policy whether they are a direct Shareholder of the Fund or are investing indirectly in the Company through a financial intermediary such as a bank, an insurance company, an investment advisor, or any other Distributor that acts as Nominee for Investors subscribing the Shares in their own name but on behalf of its customers (the Shares being held in an "omnibus holding").

While the Management Company will encourage financial intermediaries to apply the Company's Market Timing Trading policy to their customers who invest indirectly in the Company, the Management Company is limited in its ability to monitor the trading activity or enforce the Company's Market Timing Trading policy with respect to customers of financial intermediaries. For example, should it occur, the Management Company may not be able to detect market timing that may be facilitated by financial intermediaries or made difficult to identify in the omnibus holdings/Nominee accounts used by those intermediaries for aggregated purchases, switches and sales on behalf of all their customers. More specifically, unless the financial intermediaries have the ability to apply the Company's Market Timing Trading policy to their customers through such methods as implementing short-term trading limitations or restrictions, monitoring trading activity for what might be market timing, the Management Company may not be able to determine whether trading by customers of financial intermediaries is contrary to the Company's Market Timing Trading policy.

**Risks from market timers.** Depending on various factors, including the size of the Fund, the amount of assets the Investment Manager typically maintains in cash or cash equivalents and the Euro, Japanese yen or US dollar amount and number and frequency of trades, short-term or excessive trading may interfere with the efficient management of the Fund's portfolio, increase the Fund's transaction costs, administrative costs and taxes and/or impact Fund performance.

In addition, if the nature of the Fund's portfolio holdings expose the Fund to Investors who engage in the type of market timing trading that seeks to take advantage of possible delays between the change in the value of a Fund's portfolio holdings and the reflection of the change in the Net Asset Value of the Fund's Shares, sometimes referred to as "arbitrage market timing", there is the possibility that such trading, under certain circumstances, may dilute the value of Fund Shares if selling Investors receive proceeds (and buying Investors receive Shares) based upon Net Asset Value which do not reflect appropriate fair value prices. Arbitrage market timers may seek to exploit possible delays between the change in the value of a Fund's portfolio holdings and the Net Asset Value of the Fund's Shares in Funds that hold significant investments in foreign securities because certain foreign markets close several hours ahead of the US markets, and in Funds that hold significant investments in small-cap securities, high-yield ("junk") bonds and other types of investments which may not be frequently traded.

The Company and the Management Company are currently using several methods to reduce the risk of market timing. These methods include:

- reviewing Investor activity for excessive trading and
- committing staff to selectively review on a continuing basis recent trading activity in order to identify trading activity that may be contrary to this Market Timing Trading policy.

Though these methods involve judgments that are inherently subjective and involve some selectivity in their application, the Company seeks to make judgments and applications that are consistent with the interests of the Company's Investors. There is no assurance that the Company or its agents will gain access to any or all information necessary to detect market timing in omnibus holdings. While the Company will seek to take actions (directly and with the assistance of financial intermediaries) that will detect market timing, the Company cannot represent that such trading activity can be completely eliminated.

**Revocation of market timing trades.** Transactions placed in violation of the Company's Market Timing Trading policy are not necessarily deemed accepted by the Company and may be cancelled or revoked by the Company or the Management Company on the Valuation Days following receipt by the Management Company.

### Preferential treatment

Side letters may be negotiated with specific Investors when (i) the investment size reaches a certain threshold, whereupon particular financial terms deviating from those currently disclosed in the Prospectus may be agreed; and/or (ii) the Investor is required to perform portfolio analytics, including, but not limited to, risk analysis/asset allocation purposes or is required to disclose non-public information in advance in order to comply with either a regulatory or audit request. The nature and scope of the side letters may vary between Investors but essentially these arrangements mainly consist of (i) particular fee treatments in relation to specific significant investments; or (ii) early disclosure of non-public portfolio information through non-disclosure agreements.

#### Contact Details

Contact details of the Management Company can be found in the section "Administrative Information", on the application form, the Contract Note or the Franklin Templeton Investments Internet site <http://www.franklintempleton.lu>.

#### SHARE CLASSES

##### Share Classes Available

The following Share Classes are or will be issued upon a decision of the Board of Directors.

Share classes	Accumulation	Distribution
Class A	(Acc)	(Mdis) (Qdis) (Bdis) (Ydis)
Class EB		
Class EO		
Class I		
Class J		
Class N		
Class S		
Class W		
Class X		
Class Y		

Unless otherwise stated in the Prospectus, the same terms and conditions apply to the different types of Shares i.e. accumulation (acc), monthly distribution (Mdis), quarterly distribution (Qdis), bi-annually distribution (Bdis) and yearly distribution (Ydis), of the same Share Class.

The difference in the various Share Classes relates to the fee structure and/or the dividend policy applicable to each of them. Shares can be either Distribution or Accumulation Shares. The Board of Directors intends to distribute all of the income attributable to the Distribution Shares. No distribution of dividends shall be made for the Accumulation Shares, however the income attributable will be reflected in the increased value of the Shares. Dividends may be paid monthly, quarterly, bi-annually or annually. Further details are provided in the following sections, as well as in the "Dividend Policy" section.

As of the date of this Prospectus all Share Classes may charge a Performance Fee as further described in section "Performance Fees".

The purchase proceeds of the various Share Classes of a Fund are invested in one common underlying portfolio of investments but the Net Asset Value of each Share Class will be different as a result of differences in the issue price, fee structure and dividend policy.

**Class A Shares** will be primarily offered for subscription to retail investors and will also be available to Institutional Investors.

**Class EB Shares**<sup>56</sup> will be an "early bird" Share Class, which may only be offered to seeding Institutional Investors who invest at Fund launch. Class EB Shares will be closed to subsequent investments on the first to occur of (i) the end of a four (4)-month period after the respective Fund launch date and (ii) the following maximum aggregate amount in subscription has been reached:

Fund name	Maximum aggregate subscription amount USD (or currency equivalent)
FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND	200,000,000
FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND	100,000,000
FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND	100,000,000
FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND	100,000,000
FRANKLIN K2 ELECTRON GLOBAL UCITS FUND	100,000,000
FRANKLIN K2 MARKET NEUTRAL UCITS FUND	N/A
FRANKLIN K2 EMSO EMERGING MARKETS UCITS FUND	100,000,000
FRANKLIN K2 ATHENA RISK PREMIA UCITS FUND	200,000,000

<sup>5</sup> With respect to the Franklin K2 Emso Emerging Markets UCITS Fund, the initial investment in Class EB Shares can occur at any time within a period of four (4) months after the Fund launch date and as long as the EB capacity set out in the table above has not been reached.

<sup>6</sup> Class EB Shares within Franklin K2 Athena Risk Premia UCITS Fund, Franklin K2 Cat Bond UCITS Fund and Franklin K2 ActusRay European Alpha UCITS Fund will be closed to initial and/or subsequent investments on the first to occur of (i) the end of a six (6) month-period after the respective Fund launch date, and (ii) the applicable maximum aggregate amount in subscription has been reached (or such reasonable longer period, as decided by the Board of Directors or the Management Company at their own discretion).

FRANKLIN K2 CAT BOND UCITS FUND	100,000,000
FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND	25,000,000

The Board of Directors or the Management Company may, for each of the Funds referred to above, decide to extend the subsequent investment period referred under i) above for two (2) additional months and/or to -accept seeding Institutional Investors who have provided a firm commitment to invest in the Fund prior to launch date but whose instruction to invest could not be received at Fund launch due to legitimate constraints.

**Class EO Shares**<sup>78</sup> may only be offered to (i) seeding Institutional Investors who invest at Fund launch<sup>9</sup>, or (ii) Institutional Investors who entered into an advisory or investment management agreement with K2/D&S Management Co., L.L.C., the Management Company or its affiliates.

**Class I Shares** may only be offered to Institutional Investors.

**Class J Shares** shall only be offered in limited circumstances by invitation to intermediaries, distributors, platforms and/or Brokers/Dealers, subject to a commitment to raise level of assets under management in excess of USD 50 million (or equivalent in other currency) in Class J Shares of a given Fund and which:

- cannot receive and retain any trail, commission, rebate or other similar fees (referred to as inducements) as a result of applicable local legal and/or regulatory prohibition (in the EU, those prohibitions are at least applicable to discretionary portfolio management and/or the provision of independent advice under MiFID), or
- have separate fee arrangements with their clients for the payment of non-independent advice services further to which it does not receive and retain inducements, or
- perform distribution activities outside of the EU based on a separate fee arrangements with their clients for the provision of investment advice. Separate fee arrangement requirements may be waived for intermediaries in certain non-EU jurisdictions, at the discretion of the Management Company.

**Class N Shares** may be offered for distribution in certain countries and/or through certain sub-distributors, Brokers/Dealers and/or professional investors at the discretion of the Principal Distributor, in which case any local supplement to this Prospectus or marketing material, including that used by the relevant intermediaries, will refer to the possibility and terms to subscribe for Class N Shares.

**Class S Shares** shall only be offered in limited circumstances by invitation to intermediaries, distributors, platforms and/or Brokers/Dealers, subject to (i) a level of assets under management (or commitment to raise level of assets under management) with Franklin Templeton Investments in excess of USD 1 billion (or equivalent in other currency) and/or (ii) a commitment to raise level of assets under management in excess of USD 100 million (or equivalent in other currency) in Class S Shares of a given Fund and which:

- cannot receive and retain any trail, commission, rebate or other similar fees (referred to as inducements) as a result of applicable local legal and/or regulatory prohibition (in the EU, those prohibitions are at least applicable to discretionary portfolio management and/or the provision of independent advice under MiFID); or
- have separate fee arrangements with their clients for the payment of non-independent advice services further to which it does not receive and retain inducements; or
- perform distribution activities outside of the EU based on a separate fee arrangements with their clients for the provision of investment advice. Separate fee arrangement requirements may be waived for intermediaries in certain non-EU jurisdictions, at the discretion of the Management Company.

In addition, Class S Shares may be offered to professional investors and/or other investors meeting one of the aforementioned assets under management threshold.

**Class W Shares** are intended to be offered through intermediaries, distributors, platforms and/or Brokers/Dealers which:

- cannot receive and retain any trail, commission, rebate or other similar fees (referred to as inducements) as a result of applicable local legal and/or regulatory prohibition (in the EU, those prohibitions are at least applicable to discretionary portfolio management and/or the provision of independent advice under MiFID); or
- have separate fee arrangements with their clients for the payment of non-independent advice services further to which it does not receive and retain inducements; or
- perform distribution activities outside of the EU based on a separate fee arrangements with their clients for the provision of investment advice. Separate fee arrangement requirements may be waived for intermediaries in certain non-EU jurisdictions, at the discretion of the Management Company.

**Class X Shares** may only be offered to Institutional Investors, in certain limited circumstances, at the discretion of the Management Company or the Investment Manager and its affiliates.

Class X Shares are, *inter alia*, designed to accommodate an alternative charging structure whereby a fee covering the investment management fees, as contemplated into section " Investment Management Fees", is levied and collected by the Management Company directly from the Investors who are clients of Franklin Templeton Investments and who enter into a specific agreement with the Management Company. These fees will therefore not be payable out of the net assets of the relevant Fund attributable to Class X Shares.

Class X Shares will however bear their pro-rata share of any other applicable expenses such as registrar, transfer, corporate, domiciliary,

<sup>78</sup> Class EO Shares in Franklin K2 ActusRay European Alpha UCITS Fund will be closed to initial investments at the end of a three (3) month-period after the Fund's launch date (or such reasonable longer period, as decided by the Board of Directors or the Management Company at their own discretion). Existing Investors in this Fund may make subsequent investments after the initial investment period until the maximum aggregate amount in subscription of the Class EO Shares of USD 100,000,000 is reached and subject to the maximum capacity of the Fund as disclosed in the Fund's specific section.

<sup>9</sup> The initial investment in Class EO Shares for seeding Institutional Investors shall occur within (i) a period of ninety (90) days for the Franklin K2 Emsco Emerging Markets UCITS Fund or (ii) a period of 5 months for the Franklin K2 Athena Risk Premia UCITS Fund and the Franklin K2 Cat Bond UCITS Fund following the launch of the relevant Fund (or such reasonable longer period, as decided by the Board of Directors or the Management Company at their own discretion).

administration, depositary, audit and regulatory fees and charges as well as any applicable taxes and other charges and expenses as further described in sections "Management Company Remuneration" and "Other Company Charges and Expenses".

**Class Y Shares<sup>10</sup>** may only be offered to Institutional Investors, in certain limited circumstances, at the discretion of the Management Company and/or its affiliates.

Class Y Shares are, inter alia, designed to accommodate an alternative charging structure whereby a fee covering the investment management and the registrar, transfer, corporate, domiciliary, as contemplated into sections "Management Company Remuneration" and "Investment Management Fees", is levied and collected by the Management Company directly from the Investors who are clients of Franklin Templeton Investments and who enter into a specific agreement with the Management Company. These fees will therefore not be payable out of the net assets of the relevant Fund attributable to Class Y Shares. Class Y Shares will however bear their pro-rata share of any other applicable expenses such as administration fees and charges expenses as further described in section "Other Company Charges and Expenses".

**The Company and the Management Company will not issue, execute a switch of or transfer Shares to any Investor who is deemed not to meet the above eligibility requirements. If it is identified at any time that a holder of one or several of the above Share Classes does not qualify, or no longer qualifies, the Company or the Management Company may, at any time, decide to compulsorily redeem said Shares in accordance with the conditions and procedures set forth in the Articles.**

**A complete list of available Share Classes may be obtained from the Franklin Templeton Investments Internet site <http://www.franklintempleton.lu> or upon request at the registered office of the Company and the Management Company.**

#### **List of Qualifying Institutional Investors**

- Institutional investors *stricto sensu*, such as banks and other regulated professionals of the financial sector, insurance and reinsurance companies, social security institutions and pension funds, charitable institutions, industrial, commercial and financial group companies, all subscribing on their own behalf, and the structures which such Institutional Investors put into place for the management of their own assets.
- Credit institutions and other regulated professionals of the financial sector investing in their own name but on behalf of Institutional Investors as defined above.
- Credit institutions and other regulated professionals of the financial sector established in Luxembourg or abroad which invest in their own name but on behalf of their non-institutional clients on the basis of a discretionary management mandate.
- Collective investment undertakings established in Luxembourg or abroad.
- Holding companies or similar entities, whether Luxembourg-based or not, whose shareholders are Institutional Investors as described in the foregoing paragraphs.
- Holding companies or similar entities, whether Luxembourg-based or not, whose shareholder(s)/ beneficial owner(s) is/are individual person(s) which is/are extremely wealthy and may reasonably be regarded as sophisticated investor(s) and where the purpose of the holding company is to hold important financial interests/investments for an individual or a family.
- A holding company or similar entity, whether Luxembourg based or not, which as a result of its structure and activity has a true substance and holds important financial interests / investments.

#### **Alternative Currency Classes**

Share Classes may be offered in the following currencies:

- Australian Dollar (AUD)
- Canadian Dollar (CAD)
- Czech Koruna (CZK)
- Euro (EUR)
- Hong Kong Dollar (HKD)
- Hungarian Forint (HUF)
- Israeli Shekel (ILS)
- Japanese Yen (JPY)
- Norwegian Krone (NOK)
- Polish Zloty (PLN)
- Renminbi (RMB)
- Singapore Dollar (SGD)
- South Africa Rand (ZAR)
- Swedish Krona (SEK)
- Swiss Francs (CHF)
- US Dollar (USD)
- UK Sterling (GBP)

or any other freely convertible currency.

Alternative Currency Classes offered in Renminbi (RMB) will only be available to professional investors and Institutional Investors in jurisdictions where the offer is authorised or lawful. The allotment of Shares in RMB is conditional upon receipt of purchase monies, including any applicable entry charge, which must be paid within four (4) Luxembourg Business Days of the Valuation Day unless the Board of Directors requires cleared funds on or prior to an application being accepted.

<sup>10</sup> Class Y Shares in Franklin K2 ActusRay European Alpha UCITS Fund will be closed to subscriptions once the maximum aggregate amount in subscription of the Class Y Shares of USD 100,000,000 is reached. Subscriptions or switches into the Fund will therefore no longer be accepted for new or existing Investors once this maximum aggregate subscription capacity is reached, provided that the Board may decide to accept further subscriptions at its discretion, subject to the maximum capacity of the Fund as disclosed in the Fund's specific section.

The offshore Renminbi market (CNH) rate will be used when determining the Net Asset Value of the Alternative Currency Classes denominated in RMB, not the onshore Renminbi (CNY). The value of CNH could differ, perhaps significantly, from that of CNY due to a number of factors including without limitation those foreign exchange control policies and repatriation restrictions applied by the Chinese government from time-to-time as well as other external market forces. Where the term RMB is used in the Prospectus, it refers to the offshore Renminbi market (CNH).

The Net Asset Value of Alternative Currency Classes will be calculated and published in the alternative currency and purchase payments for such Share Classes are to be paid by the Investors, and sale proceeds are paid to selling Investors, in such alternative currency, unless otherwise authorised under the Prospectus. It is not currently intended to hedge the currency risks to which these Classes are exposed, except for Hedged Share Classes.

The terms and conditions applicable to the Share Classes available in alternative currency are the same as those which apply for the same Share Classes offered in the base currency.

The Board of Directors may decide to offer an Alternative Currency Class in another currency than those mentioned above in which case the Prospectus will be updated.

### **Hedged Share Classes**

In respect of Hedged Share Classes, either the base currency exposure of the Fund may be hedged into the Hedged Share Class' alternative currency to reduce exchange rate fluctuations and to reduce return fluctuations (H1), or a hedging strategy may be applied in order to reduce the risk of currency movements between the currency of the Hedged Share Class and other material currencies of the securities and cash held by said Fund (H2). Hedged Share Class using the first methodology will contain the abbreviation H1 in their denomination whereas Hedged Share Class using the second methodology will contain the abbreviation H2.

A third methodology, containing the abbreviation H3 may be applied to those Funds whose investment strategy is based on a currency ("Currency of Return") different from the Funds' base currency. H3 Hedged Share Classes include a hedging strategy which attempts, to the extent possible, to reduce the influence of changes in the exchange rate between the Funds' base currency and the Currency of Return.

Where currency controls imposed by a country's monetary authority prevent free movement of currency ("Restricted Currency"), alternative hedging methodologies, containing the abbreviation H4 or H4E, may be used. These share classes will be denominated in the base currency of the Fund but will hedge the Fund's base currency into the relevant Fund Hedged Share Class' Restricted Currency for investors in that Restricted Currency.

H4 and H4E Hedged Share Classes are designed to offer a currency hedging solution to the underlying investors of Brazilian feeder funds which, due to the trading restrictions on Brazilian Real ("BRL") cannot be achieved via a traditional currency hedged Share Class that would be denominated in BRL.

Whilst the reference currency of the H4 and H4E Hedged Share Classes will be that of the Fund, the intention will be to systematically introduce the currency exposure into the value of the respective Share Class' NAV via the use of financial derivative instruments including non-deliverable forwards. The NAV of the H4 and H4E Hedged Share Classes, although denominated in the base currency of the Fund, will thus fluctuate in line with the fluctuation of the exchange rate between the BRL and the Base Currency of the Fund. The effects of this will be reflected in the performance of the relevant H4 or H4E Hedged Share Class which therefore may differ significantly from the performance of other Share Classes within the Fund. Any profit or loss as well as costs and expenses resulting from these transactions will be reflected exclusively in the NAV of the relevant H4 Hedged Share Class.

The Brazilian feeder funds will seek to offer a currency hedging solution to their investors by combining the derivative instruments including non-deliverable forwards investment within the Hedged Share Class combined with the Currency Spot conversion in the Feeder Fund. A feeder fund is a fund that invests all or nearly all of its assets in another single collective scheme commonly referred to as a target fund.

Such Currency Spot conversion will be undertaken by a FTI affiliate in relation to the H4 Share Class but will be done directly at the level of the relevant Feeder Fund by its third-party investment manager or an affiliate thereof in relation to the H4E Share Class.

A feeder fund is a fund that invests all or nearly all of its assets in another single collective scheme commonly referred to as a target fund.

H4 and H4E Hedged Share Classes are reserved for Institutional Investors as defined above which are collective investment schemes established in Brazil, managed either by managing entities belonging to FTI (H4 Hedged Share Class) or by third-party managing entities (H4E Hedged Share Class) and which have been approved by the Management Company to purchase the relevant Share Class.

Currency hedging techniques may be used at Share Class level. In this context, the Investment Manager will limit hedging to the extent of the relevant Hedged Share Class selected currency exposure. Over-hedged positions will not normally exceed 105% of the Net Asset Value of the relevant Hedged Share Class and under-hedged positions shall not normally fall short of 95% of the portion of the Net Asset Value of the relevant Hedged Share Class which is to be hedged against selected currency risk. Hedged positions will be reviewed on an on-going basis by the Investment Manager, to ensure that over-hedged or under-hedged positions do not exceed/fall short of the permitted levels outlined above. In the event that the hedging in respect of a Hedged Share Class exceeds permitted tolerances due to market movements or Subscription/Redemptions of Shares, the Investment Manager shall adjust such hedging appropriately.

Shareholders should also note that generally there is no segregation of assets and liabilities between Share Classes and therefore a counterparty to a derivative overlay entered into in respect of a Hedged Share Class may have recourse to the assets of the relevant Fund attributable to other Share Classes of that Fund where there is insufficient assets attributable to the hedged Share Class to discharge its liabilities. While the Company has taken steps to ensure that the risk of contagion between Share Classes is mitigated in order to ensure that the additional risk introduced to the Fund through the use of a derivative overlay is only borne by the Shareholders in the relevant Share Class, this risk cannot be fully eliminated.

An up-to-date list of the Share Classes utilising a currency overlay is available upon request at the registered office of the Company.

The terms and conditions applicable to the Hedged Share Classes are the same as those which apply for the same Share Classes offered in the base currency, the only difference being the hedging of the Hedged Share Class into the base currency of the Fund.

### **Entry Charge**

#### **Class A Shares**

- Entry Charge

The price at which Class A Shares will be offered is the Net Asset Value per Share, plus an entry charge of up to 5.75% based on the total amount invested.

Out of this charge the Principal Distributor may make payments to sub-distributors, intermediaries, Brokers/Dealers and/or professional investors, who may include affiliates of Franklin Templeton Investments. The entry charge may be waived in whole or in part by the Principal Distributor either for individual Investors or for particular groups of Investors. The balance of the amount invested after the deduction of any applicable entry charge will then be applied to the purchase of Shares in the relevant Fund.

If in any country in which the Shares are offered, local law or practice requires or permits a lower entry charge or a different maximum than the charge stated above for any individual purchase order, the Principal Distributor may sell Class A, and may authorise sub-distributors, intermediaries, Brokers/Dealers and/or professional investors to sell Class A, within such country at a total price less than the applicable price set forth above, but in accordance with the amounts permitted by the law or practice of such country.

#### **Class N Shares**

- Entry Charge

The price at which Class N Shares will be offered is the Net Asset Value per Share, plus an entry charge of up to 3.00% of the total amount invested. This entry charge will apply for all different asset classes. Out of this charge the Principal Distributor may make payments to sub-distributors, intermediaries, Brokers/Dealers and/or professional investors, who may include affiliates of Franklin Templeton Investments. The entry charge may be waived in whole or in part by the Principal Distributor either for individual Investors or for particular groups of Investors. The balance of the amount invested after the deduction of any applicable entry charge will then be applied to the purchase of Shares in the relevant Fund.

If in any country in which the Shares are offered, local law or practice requires or permits a lower entry charge or a different maximum than the charge stated above for any individual purchase order, the Principal Distributor may sell Class N Shares, and may authorise sub-distributors, intermediaries, Brokers/Dealers and/or professional investors to sell Class N Shares, within such country at a total price less than the applicable price set forth above, but in accordance with the amounts permitted by the law or practice of such country.

#### **Class EB, EO, I, J, S, W, X and Y Shares**

The price at which Class EB, EO, I, J, S, W, X and Y will be offered is the Net Asset Value per Share. The Principal Distributor does not apply any entry charge on purchases of Class EB, EO, I, J, S, W, X and Y Shares.

For clarity sake, in compliance with applicable laws, regulations and market practice, intermediaries or distributors selling Class J, S, W, X or Y may apply their own selling charges. Investors shall consult their intermediary, distributors or own financial adviser to find more information about such charges (for Class W Shares, such charges should not exceed 5.75% of the total amount invested).

## Specific features of Share classes

Specific features of the Share classes offered are provided in the table below.

Investor Category	Retail	Retail/ Institutional		Institutional			
Share Class Overview	Classes A, N	Class J, S	Class W	Class EB	Class EO	Class I	Classes X and Y
Minimum Investment	USD 5,000 <sup>1</sup>	Details available from the Company or the Management Company	USD 500,000	USD 5,000,000 <sup>2</sup>	USD 5,000,000 <sup>2,3</sup>	USD 5,000,000	Details available from the Company or the Management Company
Subsequent Investment	USD 1,000	Details available from the Company or the Management Company	USD 1,000	USD 1,000	USD 1,000 <sup>3</sup>	USD 1,000	Details available from the Company or the Management Company

<sup>1</sup> except for the Franklin K2 Ellington Structured Credit UCITS Fund, the Franklin K2 Market Neutral UCITS Fund which have a minimum initial investment of USD 10,000 or the equivalent in any other freely exchangeable currency and (ii) for the Franklin K2 Cat Bond UCITS Fund which has a minimum initial investment of USD 10,000 (provided Investors also meet the characteristics described in the Investor Profile for this Fund) or the equivalent in any other freely exchangeable currency

<sup>2</sup> in aggregate across all Funds, with a minimum of USD 1,000,000 per Fund

<sup>3</sup> except for Institutional Investors who entered into an advisory or investment management agreement with K2/D&S Management Co., L.L.C., the Management company or its affiliates prior to Fund launch. Such Institutional Investors will not be subject to any minimum investment or subsequent investment amount.

## HOW TO PURCHASE SHARES

### How to Apply

Prospective Investors should complete an application form and send it together with applicable identification documents (as detailed in the application form) to the Management Company in order to purchase Shares for the first time. Applications may also be accepted by telephone, facsimile, or electronic request if expressly allowed by the Management Company. The Management Company may request the original signed application form and identification documentation to be mailed, in which case it may delay the processing of the application form until their receipt. Applications will be accepted at the discretion of the Board of Directors or the Management Company.

Processing of all application forms received by a relevant Distributor will only commence once they have been forwarded to the Management Company or to a Distributor duly authorised in writing.

Investors should also provide the documentation required for anti-money laundering and counter-terrorist financing purposes and as more fully described in the section "Anti-Money Laundering and Counter-Terrorist Financing Legislation".

In addition, the Company and/or the Management Company reserves the right to request additional information and/or documentary evidence from Investors if their bank account is located in a country other than their country of residence, which may result in a delay in the processing of purchase and/or any other transaction until relevant and satisfactory information and/or documentary evidence is received.

By applying for Class EB, EO, I and Class X and/or Y Shares, Investors represent to the Company and the Management Company that they qualify as one or more of the types of Institutional Investor(s) as listed in section "Share Classes" and undertake to indemnify the Company, the Management Company and/or any other entity of Franklin Templeton Investments against any and all damages, losses, costs or other expenses they may incur as a result of acting in good faith of such a representation. Each Investor will be given a personal Investor Portfolio Number which should be quoted, along with any relevant transaction references where applicable, whenever contacting the Company and/or the Management Company.

### Instructions to Purchase

Shares of any Class in any Fund can be purchased on any Dealing Day with the purchase request remitted on the relevant Dealing Day, except for Franklin K2 Cat Bond UCITS Fund which is subject to a three (3) Luxembourg Business Days prior notice.

Initial purchase instruction for Shares should be made on the standard application form. For subsequent purchase in an existing Investor Portfolio (if permitted in relation to a specific Fund), no further application form is required. However, private individual Investors instructing Franklin Templeton Investments directly without using Brokers/Dealers will need to complete and sign a standard purchase form (available from our website or upon request). Any subsequent instruction to purchase Shares (if permitted in relation to a specific Fund) may be made by telephone, facsimile or electronic request, if expressly allowed by the Management Company. The Management Company may request a written and duly signed confirmation of the subsequent purchase instructions which may result in delay in the processing of the investment until receipt of the requested written confirmation. Subsequent purchase instructions will be accepted at the discretion of the Board of Directors or the Management Company.

The relevant KIID must be provided to Investors prior to purchasing Shares. Where applicable, Brokers/Dealers are responsible for providing Investors with the appropriate KIID. Please always contact your Broker/Dealer before purchasing Shares. If you do not have a Broker/Dealer you should contact the Management Company or your local Franklin Templeton Investments office which will provide you with an electronic or paper copy of the relevant KIID.

Subsequent purchase instructions (if permitted in relation to a specific Fund) should be duly signed and:

(a) state the name of the Fund(s), the Share Class, the Share Class ISIN code (available on the Franklin Templeton Investments Internet site <http://www.franklintempleton.lu>) and number of Shares applied for in the Fund(s) (the number of Shares should be stated both in numbers and in words) or the amount (in numbers and in words) to be invested (which should include provision for any applicable entry charge);

(b) state how payment has been or will be made; and

(c) confirm that the relevant KIID has been provided.

If there is any discrepancy between the name of the Fund(s), the Share Class, the Share Class ISIN code or the currency of the Fund(s) Share Class quoted in the instruction, the order will be executed on the basis of the ISIN code quoted.

The Company and/or the Management Company reserve the right to accept or refuse any purchase instruction in whole or in part and for any reason. If any purchase instruction is not accepted in whole or in part, the purchase monies will be returned to the Investor at the risk and cost of the Investor.

An Investor may not withdraw his request for purchase except in the event of a suspension of the valuation of the assets of the Company (see Appendix D) and, in such event, a withdrawal of a purchase instruction will be effective only if written notification is received by the Management Company before termination of the period of suspension. Purchase monies will be returned to the Investor in such circumstances.

Neither the Company nor the Management Company shall be responsible or liable to any applicant or Investor for any loss resulting from the non-receipt of any application form or purchase instruction by whichever method it is sent (including non-receipt of facsimile application forms).

#### **Purchase Price**

At launch date, Shares of the Fund are generally offered at EUR 10, or currency equivalent (plus any applicable entry charge) of the total amount invested. From launch date onwards and for purchase instructions received and accepted by the Management Company for any Dealing Day before the applicable Dealing Cut-Off Time (as described in Appendix A), Shares will be issued at the relevant Net Asset Value per Share determined on this Dealing Day (plus any applicable entry charges). Purchase monies may be required to be received by the Management Company or the relevant Distributor in cleared funds prior to processing of the instruction. In such case, the instruction will be processed on the basis of the Net Asset Value per Share determined on the Valuation Day when such funds are received by the Management Company (plus any applicable entry charge).

The Net Asset Value per Share will be calculated as detailed in the section "Calculation of the Net Asset Value" in Appendix D.

The Company and/or the Management Company will inform the registered Shareholder of the price at which the Shares have been issued on their Contract Note (refer to "Contract Note" section).

#### **How to Pay**

The Company and the Management Company do not accept payments in cash, traveller's cheques or non-bank money orders. Payments should normally be made by electronic bank transfer to the bank account set forth by the Principal Distributor (as detailed in the application form). Payments can be made in the currency of the Share Class. However, an Investor may, in certain instances as permitted by the Management Company, provide for payment in any other freely exchangeable currency, in which case, the necessary foreign exchange transaction will be arranged on behalf of, and at the expense of, the Investor. Investors are advised that payments made in any other freely exchangeable currency may be delayed until the next Valuation Day to allow for currency conversion.

The Board of Directors is authorised to accept purchase of Shares in whole or in part in specie, having due regard to the requirements prescribed by the laws of the Grand Duchy of Luxembourg. In the event the Investor is unable to provide clear title on the assets the Company has the right to bring an action against the defaulting Investor.

The allotment of Shares is conditional upon receipt of purchase monies, including any applicable entry charge, which must be paid within three (3) Luxembourg Business Days of the Valuation Day (or such other timeframe as set out in the local fund related documentation or applicable dealing guide) unless the Board of Directors requires cleared funds on or prior to an application being accepted. Until full payment of settlement monies, the applicant for Shares does not have legal ownership of such Shares. Where an applicant for Shares fails to pay settlement monies on subscription or to provide a completed application form (for an initial application) by the due date, the Company and/or the Management Company may decide to redeem the relevant Shares, at the cost of the applicant or his/her distributor. The applicant for Shares may be required to indemnify the Company or the Principal Distributor against any losses, costs or expenses incurred directly or indirectly as a result of the applicant's failure to pay for Shares applied for or to submit the required documents by the due date.

Where payments are made by electronic transfer or bank wire, the Management Company shall not be responsible for reconciling remittances of purchase monies where problems occur in the transmission, or as a result of inadequate or incorrect details on the transfer instructions. Bank charges in connection with an electronic transfer may be deducted from the proceeds of the transfer by the remitting bank, correspondents, agents or sub-agents, and the receiving bank may also deduct bank charges from such remittance.



## **HOW TO SELL SHARES**

### **Instructions to Sell**

Shares of any Class in any Fund can be sold on any Dealing Day with the redemption request remitted on the relevant Dealing Day, except for (i) Franklin K2 Ellington Structured Credit UCITS Fund which is subject to a five (5) Luxembourg Business Days prior notice and (ii) Franklin K2 Cat Bond UCITS Fund which is subject to a seven (7) Luxembourg Business Days prior notice. Instructions to sell Shares should be submitted to the Management Company in writing or, if expressly permitted, by telephone, facsimile or electronic means. In the event of joint Investor Portfolios all instructions must be signed by all Investors except where sole signatory authority has been granted or where a power of attorney has been communicated to the Management Company. If an instruction has not been submitted in writing, the Management Company may request a written and duly signed confirmation of such instruction, in which case it may delay the processing of the instruction until receipt of the written and duly signed confirmation.

Where a certificate has been issued in the name(s) of the Shareholder(s), the Board of Directors may require that such Share certificate, duly endorsed, be returned to the Management Company prior to the transaction being effectuated at any applicable Net Asset Value and therefore prior to payment being made.

The instruction must contain details of the personal Investor Portfolio Number, the Fund name, the Share Class(es) including ISIN code (available on the Franklin Templeton Investments Internet site <http://www.franklintempleton.lu>), the number/value of Shares to be sold, the settlement currency and the bank details. If there is any discrepancy between the name of the Fund(s), the Share Class, the Share Class ISIN code or the currency of the Share Class quoted in the instruction, the instruction will be executed on the basis of the ISIN code quoted.

Any instruction to sell Shares may not be executed until any previous transaction involving the Shares to be sold has been completed and settled.

If the instruction would result in a Holding balance being less than USD 2,500 (or currency equivalent) or EUR 1,000,000 (or currency equivalent) for Class EB and Class EO Shares, the Company and/or the Management Company may redeem such Holding balance and pay the proceeds to the Investor.

The Company reserves the right not to be bound to accept the sale or switch on any Valuation Day more than 10% of the value of the Shares of any Fund. In these circumstances the sale of the Shares may be deferred for a period not exceeding ten (10) Luxembourg Business Days. These instructions to sell will be executed in priority to later instructions.

Neither the Company nor the Management Company shall be responsible or liable to any Investor for any loss resulting from the non-receipt of any instruction to sell, by whichever method it is sent.

An Investor may not withdraw an instruction to sell Shares except in the event of a suspension of the valuation of the assets of the Company (see Appendix D) and, in such event, a withdrawal of the instruction to sell will be effective only if written notification is received by the Management Company before termination of the period of suspension. If the instruction is not so withdrawn, the sale of the Shares will be made on the next Valuation Day following the end of the suspension.

### **Sale Price**

Except as provided below for Franklin K2 Ellington Structured Credit UCITS Fund and Franklin K2 Cat Bond UCITS Fund, a complete instruction to sell received and accepted by the Management Company or by a duly authorised Distributor on any Dealing Day before the applicable Dealing Cut-Off Time (as described in Appendix A) will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class of this Dealing Day.

For Franklin K2 Ellington Structured Credit UCITS Fund, for which selling instructions are subject to a five (5) Luxembourg Business Days prior notice, a complete instruction to sell received and accepted by the Management Company or by a duly authorised Distributor on any Dealing Day will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class to be determined on the Valuation Day following the end of five (5) Luxembourg Business Days prior notice period.

For Franklin K2 Cat Bond UCITS Fund, for which selling instructions are subject to a seven (7) Luxembourg Business Days prior notice, a complete instruction to sell received and accepted by the Management Company or by a duly authorised Distributor on any Dealing Day will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class to be determined on the Valuation Day following the end of seven (7) Luxembourg Business Days prior notice period.

Unless otherwise stated in local version of this Prospectus, local specific information document to be provided to Investors, application form or marketing document, a complete instruction to sell received and accepted by the Management Company or by a duly authorised Distributor on a Dealing Day after the applicable Dealing Cut-Off Time (as described in Appendix A) will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class determined on the next applicable Valuation Day.

The Net Asset Value per Share will be calculated on the basis detailed in the section "Calculation of the Net Asset Value" in Appendix D.

### **Payment of Sale Proceeds**

Payment for Shares sold will be made within three (3) Luxembourg Business Days from the applicable Valuation Day, (or such other timeframe as set out in the local fund related documentation or applicable dealing guide) provided that the instruction to sell has been received in good order and accepted by the Management Company and will normally be made in the Share Class currency by electronic bank transfer of funds unless otherwise instructed. The Company and/or the Management Company, after careful due diligence, are not responsible for any delays or charges incurred at any receiving bank or settlement system, nor are they responsible for delays in settlement which may occur due to the time required for local processing of payments within some countries or by certain banks, local

correspondent banks, payment agents or other agents. Payment may also be made in any freely exchangeable currency if requested within the instruction, at the cost and risk of the Investor.

If, in exceptional circumstances as described in Appendix D, the liquidity of the Fund does not permit payment of sale proceeds within three (3) Luxembourg Business Days (or such other timeframe as set out in the local fund related documentation or applicable dealing guide) from the relevant Valuation Day, the sale proceeds will be paid as soon as reasonably practicable but without interest.

The Board of Directors is also authorised to extend the period for payment of sale proceeds to such period, not exceeding thirty (30) Luxembourg Business Days (shorter periods may however apply in some jurisdictions), as may be required by settlement and other constraints prevailing in the financial markets of countries in which a substantial part of the assets attributable to any Fund shall be invested, and this exclusively with respect to those Funds of the Company of which the investment objectives and policies provide for investments in equity securities of issuers in developing countries.

All payments are made at the Investor's risk with no responsibility on the part of the Distributors, the Investment Manager, the Management Company and/or the Company.

#### **Sale in Specie**

With the prior consent of the Investor(s) concerned, and having due regard to the principle of equal treatment of Shareholders, the Board of Directors may satisfy the payment of sale proceeds in whole or in part in specie by allocating to the selling Investor(s) portfolio securities of the relevant Fund equal in value to the Net Asset Value of the Shares being sold.

#### **HOW TO SWITCH SHARES**

A switch is a transaction to convert an Investor's Holding in a Share Class into another Share Class within the same Fund or the same Share Class or another Share Class in different Funds. The transaction is executed by selling Shares in the original Share Class followed by purchasing Shares in the new Share Class provided that the Investor's Holding meets the eligibility requirements for both the existing and the new Fund or Share Class.

Investors may, under certain circumstances, switch Shares of the Company into Shares or units of certain other investment funds of Franklin Templeton Investments having a similar sales charge structure over the same period of time. Information on the investment funds into which Shares may be switched, and details of the procedure, terms and conditions for switch may be obtained from the Management Company upon request.

The Investors of the Franklin K2 Cat Bond UCITS Fund may only switch their Holding in a Share Class of this Fund into another Share Class of this Fund to the extent they meet the applicable eligibility criteria. Instructions to switch into another Share Class of Franklin K2 Cat Bond UCITS Fund are subject to a seven (7) Luxembourg Business Days prior notice and will be dealt with on the basis of the Net Asset Value per Share determined on the Valuation Day following the end of the seven (7) Luxembourg Business Days prior notice. No switch from a Share Class of another Fund will be permitted into a Share Class of the Franklin K2 Cat Bond UCITS Fund.

#### **Class A Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class A Shares can be switched with Shares in any other Fund or Share Class subject to meeting Investor qualification criteria for that Share Class.

#### **Class EB Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class EB Shares can be switched into Shares of any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Switching into Class EB Shares is not permitted.

#### **Class EO Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class EO Shares can be switched into Shares of any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Switching into Class EO Shares is not permitted.

#### **Class I Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class I Shares can be switched with Shares in any other Fund or Share Class. Only Institutional Investors can switch their Shares into Class I Shares.

#### **Class J Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class J Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Switching into Class J Shares is only permitted to Investors instructing through certain distributors, Brokers/Dealers and/or professional investors which fulfil the Class J Shares eligibility requirements as per the conditions laid down in section "Share Classes".

#### **Class N Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class N Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class.

### **Class S Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class S Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Switching into Class S Shares is only permitted to Investors instructing through certain distributors, Brokers/Dealers and/or professional investors which fulfil the Class S Shares eligibility requirements as per the conditions laid down in section "Share Classes".

### **Class W Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class W Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Switching into Class W Shares is only permitted to Investors instructing through intermediaries, distributors, platforms and/or Brokers/Dealers which fulfil the Class W Shares eligibility requirements as per the conditions laid down in section "Share Classes".

### **Class X Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class X Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Only Institutional Investors can switch their Shares into Class X Shares, subject to the conditions laid down in section "Share Classes".

### **Class Y Shares**

Without prejudice to specific Share Class restrictions provided for in this section, Class Y Shares can be switched with Shares in any other Fund or Share Classes subject to meeting Investor qualification criteria for that Share Class. Only Institutional Investors can switch their Shares into Class Y Shares, subject to the conditions laid down in section "Share Classes".

### **Instructions to Switch**

An instruction to switch Shares should be submitted to the Management Company in writing or, if expressly permitted, by telephone, facsimile or electronic means. In the event of joint Investor Portfolios all instructions must be signed by all Investors, except where sole signatory authority has been granted or where a power of attorney has been communicated to the Management Company. If an instruction is not submitted in writing, the Management Company may request a written and duly signed confirmation of such instruction in which case it may delay the processing of the instruction until receipt of the written and duly signed confirmation.

No application form is required for Switching Shares. However, private individual Investors instructing Franklin Templeton Investments directly without using Brokers/Dealers will need to complete and sign a standard switch form (available from our website or upon request). The relevant KIID must be provided to Investors prior to switching their Shares. Where applicable, Brokers/Dealers are responsible for providing Investors with the appropriate KIID. Please always contact your Broker/Dealer before switching Shares. If you do not have a Broker/Dealer you should contact the Management Company or your local Franklin Templeton Investments office which will provide you with an electronic or paper copy of the relevant KIID.

The instruction must contain details of the personal Investor Portfolio Number and the number/value of Shares to be switched between named Funds and Share Classes including the ISIN codes (available on the Franklin Templeton Investments Internet site <http://www.franklintempleton.lu>) and the confirmation that the relevant KIID has been provided. If there is any discrepancy between the name of the Fund(s), the Share Class, the Share Class ISIN code or the currency of the Share Class quoted in the instruction, the instruction will be executed on the basis of the ISIN code quoted. Investors may switch Shares on any Dealing Day with the instruction to switch remitted on the relevant Dealing Day, except for Franklin K2 Ellington Structured Credit UCITS Fund which is subject to a five (5) Luxembourg Business Days prior notice and Franklin K2 Cat Bond UCITS Fund which is subject to a seven (7) Luxembourg Business Days' prior notice.

The minimum initial investment in the new Fund is USD 2,500 (or currency equivalent). Any instruction which would result in a Holding balance being less than USD 2,500 (or currency equivalent) may not be executed.

Any instruction to switch Shares may not be executed until any previous transaction involving the Shares to be switched has been completed and settled. Where the sale is settled prior to the purchase, the sale proceeds will remain in the Company's collection bank account pending settlement of the purchase. No interest will accrue to the benefit of the Investor.

Except for Franklin K2 Ellington Structured Credit UCITS Fund for which instruction to switch are subject to a five (5) Luxembourg Business Days prior notice, any instruction to switch Shares between Funds denominated in differing currencies will be executed on the same Valuation Day. Instructions to switch out of Franklin K2 Ellington Structured Credit UCITS Fund will be dealt with on the basis of the Net Asset Value per Share determined on the Valuation Day following the end of the five (5) Luxembourg Business Days prior notice. However, in exceptional circumstances, the Company or the Management Company may, at its own discretion, require one (1) additional Business Day in order to process the switch transactions. The Company reserves the right not to be bound to switch on any Valuation Day more than 10% of the value of the Shares of any Fund. In these circumstances the switch may be deferred for a period not exceeding ten (10) Business Days. These instructions to switch will be executed in priority to later instructions.

In certain limited circumstances as well as for distributions in certain countries and/or through certain sub-distributors and/or professional investors, the Company or the Management Company may require one (1) additional Business Day in order to process switch transactions. The additional day may be required for operational reasons in cases where currency conversion is required.

An Investor may not withdraw an instruction to switch Shares except in the event of a suspension of the valuation of the assets of the Company (see Appendix D) and, in such event, a withdrawal of the instruction to switch will be effective only if written notification is received by the Management Company before termination of the period of suspension. If the instruction is not so withdrawn, the switch of the Shares will be made on the next Valuation Day following the end of the suspension.

### **Switch Price**

A complete switch instruction received and accepted by the Management Company or by a duly authorised Distributor on any Dealing Day before the applicable Dealing Cut-Off Time (as described in Appendix A), will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class determined on this Dealing Day.

A complete switch instruction received and accepted by the Management Company or by a duly authorised Distributor on a Dealing Day after the applicable Dealing Cut-Off Time, will be dealt with on the basis of the Net Asset Value per Share of the relevant Share Class determined on the next Valuation Day.

The number of Shares issued will be based upon the respective Net Asset Value of the Shares of the two relevant Funds or Share Classes on the relevant Valuation Day(s).

### **Switch Fees and Charges**

A switch charge of up to 1.00% of the value of the Shares to be switched may be applied for distribution in certain countries and/or through certain Distributors and/or professional investors. Such charge shall be automatically deducted when the number of Shares is calculated and paid by the Company.

In certain circumstances a switch from any one Fund or Share Class will necessitate a fee equivalent to the difference between the two levels of entry charges unless the Investor, as a result of prior switches, has already paid the entry charge rate differential.

It is currently anticipated that any switch charge or entry charge rate differential will be paid to the Principal Distributor, who may, in turn, pay a portion of each differential to Distributors, intermediaries, Brokers/Dealers and/or professional investor. However, the entry charge rate differential may be waived at the discretion of the Company and/or the Management Company.

### **HOW TO TRANSFER SHARES**

A transfer is a transaction for the purpose of transferring an Investor Holding to another Investor.

An instruction to transfer Shares should be submitted to the Management Company in writing or by a duly signed Share transfer form together with, if issued, the relevant Share certificate to be cancelled, or if expressly permitted, by telephone, facsimile or electronic means. The instruction must be dated and signed by the transferor(s), and if requested by the Company and/or the Management Company also signed by the transferee(s), or by persons holding suitable powers of attorney to act therefore.

Acceptance of the transfer by the Management Company will be subject to the transferee(s) having an accepted application by the Company, and meeting all Fund and Share Class eligibility requirements.

Any request to transfer Shares will only be executed once any previous transaction involving the Shares to be transferred has been completed and full settlement on those Shares received.

If the transfer instruction would result in a Holding balance being less than USD 2,500 (or currency equivalent) or EUR 1,000,000 (or currency equivalent) for Class EB and EO Shares the Company and/or the Management Company may redeem such Holding balance and pay the proceeds to the Investor.

Transfer of Shares will be effected in accordance with the rules applicable to the relevant stock exchange in Luxembourg where the Shares may be listed.

The Shares are freely transferable. The Articles provide that the Board of Directors is entitled to impose restrictions as they may think necessary for the purposes of ensuring that no Shares are acquired or held by (a) any person in violation of or subject to the applicable laws or regulations of any country or government authority or (b) any person in circumstances which, in the opinion of the Board of Directors, might result in the Company incurring any liability of taxation or suffering any other disadvantage which the Company might not otherwise have incurred.

The Shares transferred may be subject to specific conditions. Investors should ensure that they are aware of all specific conditions applicable to such Shares.

### **DIVIDEND POLICY**

In respect of all Funds which issue Distribution Shares, it is the intention of the Board of Directors to distribute substantially all of the income attributable to the Distribution Shares. Subject to any legal or regulatory requirements, dividends may also be paid out of the capital of such Funds. Subject to any legal or regulatory requirements, the Board of Directors reserves the right to introduce new Share Classes, which may retain and re-invest their net income.

Annual dividends may be declared separately in respect of each Fund at the Annual General Meeting of Shareholders.

Interim Share dividends may be paid upon a decision of the Board of Directors and/or the Management Company in relation to any of the Funds.

It is anticipated that distributions will be made under normal circumstances as set out in the table below:

Share type	Share name	Payments
Accumulation Shares	A (acc), EB (acc), EO (acc), I (acc), J (acc), N (acc), S (acc), W (acc), X (acc), Y (acc)	No distribution of dividends shall be made but the net income attributable will be reflected in the increased value of the Shares
Distribution Shares	A (Bdis), EB (Bdis), EO (Bdis) I (Bdis), J (Bdis), N (Bdis), S (Bdis), W (Bdis), X (Bdis), Y (Bdis)	Under normal circumstances it is anticipated that distribution will be made bi-annually (normally in April and in October each year)
	A (Mdis), EB (Mdis), EO (Mdis), I (Mdis), J (Mdis), N (Mdis), S (Mdis), W (Mdis), X (Mdis), Y (Mdis)	Under normal circumstances it is anticipated that distribution will be made monthly (following the end of each month)
	A (Qdis), EB (Qdis), EO (Qdis) I (Qdis), J (Qdis), N (Qdis), S (Qdis), W (Qdis), X (Qdis), Y (Qdis)	Under normal circumstances it is anticipated that distribution will be made quarterly (following the end of each calendar quarter)
	A (Ydis), EB (Ydis), EO (Ydis), I (Ydis), J (Ydis), N (Ydis), S (Ydis), W (Ydis), X (Ydis), Y (Ydis)	Under normal circumstances it is anticipated that distribution will be made yearly (normally in April/May each year)

In order to receive dividends on Distribution Shares, Investors must be registered as holders of such Distribution Shares on the register of Shareholders on the Valuation Day determined by the Company as being the distribution accounting date.

Dividends of registered Distribution Shares will normally be reinvested in the purchase of further Distribution Shares of the Fund and Share Class to which such dividends relate, unless otherwise stated in the application form. Such further Distribution Shares will be issued on the ex-dividend date. The price will be calculated in the same way as for other issues of Shares of that Fund on the Valuation Day on which the price of the Distribution Shares of that Fund goes ex-dividend. Fractional Shares will be rounded to three decimal places. No entry charge will be payable. Investors not wishing to use this reinvestment facility should complete the appropriate section of the application form. In the event that cash dividends are payable they will be paid to holders of registered Distribution Shares who have elected to receive dividends in cash, payment normally being made by transfer of funds. However, the Board of Directors may decide that any dividend below USD 50 (or currency equivalent) will be reinvested in further Shares of the same Share Class instead of being paid directly to the Investors. Dividends to be paid in any other freely exchangeable currency will be converted at the Investor's expense.

When dividends of USD 250 (or currency equivalent) or less cannot be paid to a registered Investor due to missing data or payment unable to be effected, the Company or the Management Company reserves the right, unless otherwise disclosed in a local supplement to the Prospectus, to automatically re-invest such dividends and any subsequent dividends to be paid in the purchase of further Distribution Shares of the Fund and Share Class to which such dividends relate until receipt of instructions in good order from the Investor.

If a dividend has been declared but not paid within a period of five (5) years, the Company will, as it is entitled to do under the laws of the Grand Duchy of Luxembourg, declare the dividend forfeited and such unpaid dividend will accrue for the benefit of the relevant Fund.

In respect of each dividend declared, the Board of Directors and/or the Management Company may determine if, and to what extent, such dividend is to be paid out of realised and unrealised capital gains and in the case of Funds which distribute income gross of expenses from initially subscribed capital, regardless of capital losses, increased or decreased, as the case may be, by the portion of investment income and capital gains attributable to Shares issued and to Shares redeemed.

**It should be remembered that dividend distributions are not guaranteed, that the Funds do not pay interest and that the price of Shares in the Funds and any income earned on the Shares may go down as well as up. It should also be remembered that any dividend distribution lowers the value of the Shares in the Funds by the amount of the distribution. Future earnings and investment performance can be affected by many factors, including changes in exchange rates, not necessarily within the control of the Company, its Board of Directors, officers, the Management Company or any other person. No guarantees as to future performance of, or future return from, the Company can be given by the Company itself, or by any Director or officer of the Company, by the Management Company, by Franklin Templeton Investments, or any of its worldwide affiliates, or by any of their directors, officers or employees.**

#### **Equalisation of Income**

The Funds use an accounting practice known as equalisation, by which a portion of the proceeds from issues and the costs of sale of Shares, equivalent on a per Share basis to the amount of undistributed investment income on the date of the transaction, is credited or charged to undistributed income. As a result, undistributed investment income per Share is unaffected by issues or redemptions of Shares. However, in respect of any Fund offering only Accumulation Shares, the Board of Directors and/or the Management Company reserve the right not to apply equalisation.

## **MANAGEMENT COMPANY REMUNERATION**

Franklin Templeton International Services S.à r.l., for performing, as Management Company, the investment management services and for any expenses incurred in connection with Investors liaison and administration of Shares, receives from the Company an annual management charge equivalent to a certain percentage per annum of each Fund's adjusted daily net assets during the year ("annual management charge") paid monthly. Details of such annual management charge are provided in Appendix E. The Management Company where applicable pays part of this annual management charge to various (i) Investment Managers, as described in section "Investment Management Fees" and (ii) third party distributors, intermediaries and Brokers/Dealers for the distribution of Shares outside the United States of America (also known as "maintenance charge"). Such maintenance charge is intended to compensate distributors, intermediaries and Brokers/Dealers for providing distribution or other services to the Investors, including but not limited to the enhancement of the communication of ongoing information to Investors, the transaction processing or other shareholder and/or administrative services. Any request for additional information regarding any such payments should be addressed by the Investors to their relevant intermediaries. The Management Company may also, in its sole discretion, pay all or part of the annual management charge to Institutional Investors which satisfy certain conditions, including minimum investment amounts. Details of such maintenance charge are provided in the annual report of the Company.

For performing registrar and transfer, corporate, domiciliary and administrative functions for the Company, the Management Company receives as remuneration from the Company an annual fee of up to 0.20% of the Net Asset Value of the relevant Share Class, an additional amount (consisting of a fixed and variable component) per Investor Holding at the relevant Class level over each one (1) year period, and a fixed amount per year to cover part of its organisational expenses. Such remuneration will be calculated and accrued daily and will be paid monthly in arrears. This annual fee includes any remuneration paid to J.P. Morgan SE, Luxembourg Branch for its services rendered to the Company as Administrative Agent.

Pursuant to article 111bis of the Law of 17 December 2010, the Management Company has established and apply a remuneration policy which is consistent with, and promote sound and effective risk management. Such policies and practices must not encourage risk taking which is inconsistent with the risk profile, Prospectus or Articles, and must not impair compliance with the Management Company's duty to act in the best interest of the Company.

The remuneration requirements apply to categories of staff, including senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers and whose professional activities have a material impact on the risk profile of the Management Company or the Company. The remuneration includes a fixed (essentially the base salary) and variable component (annual bonuses). The level of funding of the annual bonus (which can be paid in cash, equity awards or a combination of both) is dependent on overall FRI corporate performance, is approved by a compensation committee and is granted with reference to the actual performance of the relevant individual. A significant portion of the bonus can be deferred for at least three years and payment of bonus is subject to claw back provisions. The details of the up-to-date remuneration policy, including, but not limited to, a description of how remuneration and benefits are calculated, how it is consistent with the integration of sustainability risks, the identity of persons responsible for awarding the remuneration and benefits, including the composition of the compensation committee is available on the Internet site: <http://www.franklintempleton.lu>, by selecting "Our Company", "Regulatory Information" tabs (a paper copy will be made available free of charge upon request).

## **INVESTMENT MANAGEMENT FEES**

For the investment management services that it provides to the Funds, the Management Company receives from the Company, as part of the annual management charge, a monthly investment management fee equivalent to a certain percentage per annum of each Fund's adjusted daily net assets during the year. Details of investment management fees are provided in the annual report of the Company. The Investment Managers will be remunerated by the Management Company out of the investment management fee received from the Company.

Consistent with obtaining best execution, brokerage commissions on portfolio transactions for the Company may be directed by the Investment Manager(s) to Brokers/Dealers in recognition of research services furnished by them as well as for services rendered in the execution of orders by such Brokers/Dealers. The receipt of investment research and information and related services permits the Investment Manager(s) to supplement its own research and analysis and makes available to it the views and information of individuals and research staffs of other firms. Such services do not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employee salaries or direct money payment, which are paid by the Investment Manager(s).

The Investment Manager(s) may enter, with Brokers/Dealers that are entities and not individuals, into soft commission arrangements only where there is a direct and identifiable benefit to the clients of the Investment Manager(s), including the Company, and where the Investment Manager(s) is satisfied that the transactions generating the soft commissions are made in good faith, in strict compliance with applicable regulatory requirements and in the best interest of the Company. Any such arrangement must be made by the Investment Manager(s) on terms commensurate with best market practice. The use of soft commissions shall be disclosed in the periodic reports.

## **OTHER COMPANY CHARGES AND EXPENSES**

The Principal Distributor may be entitled to receive any applicable entry charge, of up to 5.75% of the total amount invested, as further described in the section "Share Classes". The entry charge shall in no case exceed the maximum permitted by the laws, regulations and practice of any country where the Shares are sold.

The Principal Distributor may enter into contractual arrangements with various sub-distributors, intermediaries, Brokers/Dealers and/or professional investors for the distribution of Shares outside the United States of America. Payments of fees or commissions to various sub-distributors, Brokers/Dealers or other intermediaries may be made out of the annual management charges, servicing charges or other related similar fees normally paid to the Principal Distributor, when such payments are expected to enhance the quality of the distribution or other services provided to the Investors, including but not limited to the improvement of the communication of ongoing information to Investors, the transaction processing or other shareholder and/or administrative services.

As remuneration for the services rendered to the Company as Depositary J.P. Morgan SE, Luxembourg Branch will receive an annual fee depending on the nature of the investments of the different Funds in a range from 0.01% to 0.14% of the Net Asset Values of the

assets of the different Funds, with possible higher depositary annual fees for those Funds of the Company the investment objectives and policies of which provide for investments in equity securities of issuers in developing countries, as reflected in more detail in the Funds' relevant total expense ratio (TER) and in the Company financial reports. Such fee will be calculated and accrued daily and will be paid monthly in arrears to the Depositary by the Company.

Such fees do not include normal banking and brokerage fees and commissions on transactions relating to the assets and liabilities of the Company as well as any reasonable out-of-pocket expenses incurred in connection with the Company, and chargeable to the Company and fees for other services as agreed from time to time. The amounts effectively paid will be shown in the Company's financial statements.

The Company bears its other operational costs including, but not limited to, the costs of buying and selling underlying securities, governmental and regulatory charges, legal and auditing fees, insurance premiums, interest charges, reporting and publication expenses, postage, telephone and facsimile expenses. All expenses are estimated and accrued daily in the calculation of the Net Asset Value of each Fund. The Company may, from time to time, pay certain fees to the Management Company for onward allocation to various sub-distributors, intermediaries, Brokers/Dealers and/or professional investors relating to placing certain Funds on sales platforms designed to bring about a wider distribution of Fund Shares. Such costs would only be allocated among the Funds placed on such platforms.

All charges and expenses pursuant to the above are exclusive of value added taxes or other taxes chargeable thereon, which should be paid by the Fund as required.

### **PERFORMANCE FEES**

There are two models for calculating the Performance Fee: (A) using the High Water Mark without a hurdle or benchmark and (B) using a hurdle or benchmark only. The Performance Fee for all Share Classes, except Class J Shares, will be calculated using the first model (A). For Class J Shares, the Performance Fee will be calculated using the second model (B).

#### **Model A - High Water Mark without a hurdle or benchmark**

The Investment Manager may be entitled to receive from the net assets attributable to a Share Class an annual performance-based incentive fee (the "Performance Fee") which, if applicable, will be calculated and accrued daily and payable as of the end of each accounting year. Details of Performance Fees are provided in Appendix E.

For the purpose of the Performance Fee calculation:

- **High Water Mark** shall be calculated by reference to (i) the initial launch price or (ii) the NAV as of the last Valuation Day of the accounting year which formed the basis of an accrual within the relevant Performance Period, for which a Performance Fee was paid, whichever is the higher.
- **Performance Period** shall normally be each accounting year. The first Performance Period for a given Share Class starts from the launch date of such Share Class and will end at the end of the accounting year.

The Performance Fee becomes due in the event of outperformance, that is, if the increase in the NAV during the relevant Performance Period (after deduction of any subscription and/or redemption fees levied) exceeds the applicable High Water Mark.

The Performance Fee is accrued on each Dealing Day, on the basis of the difference between the NAV on the preceding Dealing Day (before deduction of any provision for the Performance Fee) and the High Water Mark, multiplied by the number of Shares then outstanding. The Performance Fee shall be calculated and expressed in the currency in which the relevant Share Class is denominated or hedged into.

On each Dealing Day, the accounting provision made on the immediately preceding Dealing Day is adjusted to reflect the Share Class performance, positive or negative, calculated as described above. If the NAV on a given Dealing Day is lower than the High Water Mark, the provision made on such Dealing Day is adjusted for the relevant Share Class within the relevant Fund.

If Shareholders redeem all or part of their Shares before the end of a Performance Period, any accrued Performance Fee with respect to such Shares will crystallise on that Dealing Day and will then become payable.

It should be noted that the Performance Fee is calculated on the basis of the performance of the Share Class of the relevant Fund, rather than on the basis of an individual Investor Portfolio.

#### **Example Year 1:**

- Share Class outperformance of 8%
- Gross Assets of 108
- Annual charges (before performance fees) of 1.5% of 108 = 1.62
- Gross Asset Value calculated using  $108 - 1.62 = 106.38$
- Performance Fee (20% of outperformance above High Water Mark) calculated by taking 20% of the gross asset value above the High Water Mark, i.e.,  $6.38 \times 0.20 = 1.28$
- Net NAV = Gross Asset Value less performance fee

	Year 1	Year 2	Year 3	Year 4	Year 5
Share Class Performance	8%	8%	-2%	5%	-8%
Gross Assets	108	117	114	120	110
Annual Management Charge (1.5%) (A)	1.62	1.75	1.71	1.8	1.66
<b>Gross Asset Value</b>	<b>106.38</b>	<b>114.89</b>	<b>112.59</b>	<b>118.22</b>	<b>108.76</b>

High Water Mark	100	105	113	113	117
Performance fees (over 20% HWM) (B)	1.28	1.96	Nil	1.06	Nil
<i>Net NAV</i>	<i>105</i>	<i>113</i>	<i>113</i>	<i>117</i>	<i>109</i>
Total fees paid ((A) +(B))	2.9	3.71	1.71	2.86	1.66

#### **Model B - with a hurdle or benchmark**

For the purpose of the Performance Fee calculation for Class J Shares:

- **Performance Period** shall normally be each fiscal year, except where a Share Class with a Performance Fee is launched during the fiscal year, in which case its first performance period will commence on the launch date.
- **Target Benchmark** is the applicable benchmark as indicated in Appendix E and shall be expressed in the currency in which the relevant Share Class is denominated or hedged into.
- Hurdle is the Target Benchmark +3%.

The Management Company may be entitled to receive from the net assets attributable to a Share Class an annual performance-based incentive fee (the "Performance Fee") which, if applicable, will be calculated and accrued in the daily NAV and payable as of the end of each fiscal year. Details of Performance Fees are provided in Appendix E. The Investment Manager(s) will be remunerated by the Management Company out of the Performance Fees received from the Company.

The Performance Fee becomes due in the event of outperformance, that is, if the increase in the NAV during the relevant Performance Period (after deduction of any subscription and/or redemption fees levied) exceeds the Hurdle over the same period.

The Performance Fee is accrued on each Dealing Day, on the basis of the difference between the NAV on the preceding Dealing Day (before deduction of any provision for the Performance Fee) and the Hurdle, multiplied by the number of Shares then outstanding. The Performance Fee shall be calculated and expressed in the currency in which the relevant Share Class is denominated or hedged into.

On each Dealing Day, the accounting provision made on the immediately preceding Dealing Day is adjusted to reflect the Share Class performance, positive or negative, calculated as described above. If the NAV on a given Dealing Day is lower than the Hurdle, the provision made on such Dealing Day is adjusted for the relevant Share Class within the relevant Fund.

If Shareholders redeem all or part of their Shares before the end of a Performance Period, any accrued Performance Fee with respect to such Shares will crystallise on that Dealing Day and will then become payable.

It should be noted that the Performance Fee is calculated on the basis of the performance of the Share Class of the relevant Fund, rather than on the basis of an individual Investor Portfolio.

The examples are for illustrative purposes only. The returns shown are for illustrative purposes only and there is no guarantee that any Fund will achieve these returns.

#### **Example 1: a fund outperforms the performance fee hurdle over the fiscal year**

- Fund's cumulative Share Class return before fees and expenses is 10.00%
- Cumulative Performance Fee benchmark return is 3.00%
- Hurdle Rate is benchmark return of 3.00% plus 3.00% which is 6.00%
- Performance Fee rate is 20% - charged on outperformance above the hurdle
- Total Annual Management Charge for the share class is 1.00%

Gross cumulative Share Class return	10%
Less Annual Management Charge	1.00%
Cumulative Share Class return after Annual Management Charge	9.0%
Less Performance Fees (i.e., 20% of excess performance above hurdle) (see note 1 below)	0.6%
Net Cumulative Share Class return after Performance Fees	8.4%

Note 1: Performance Fees = 20% x (Share Class return after Annual Management Charge (9%) – hurdle (6%))

#### **Example 2: a fund underperforms the performance fee hurdle over the fiscal year**

- Fund's cumulative Share Class return before fees and expenses is 5.00%
- Cumulative Performance Fee benchmark return is 6.00%
- Hurdle becomes 9% i.e., benchmark return of 6.00% plus 3.00%
- Performance Fee rate is 20%

Gross cumulative Share Class return	5%
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Less Annual Management Charge	1.00%
Cumulative Share Class return after Annual Management Charge	4.0%
Less Performance Fees (i.e., 20% of excess performance)	n/a
Net cumulative Share Class return after Performance Fees	4.0%

Performance Fees = 20% x (Share Class return after Annual Management Charge – hurdle)

### **TAXATION OF THE COMPANY**

The following information is based on the laws, regulations, decisions and practice currently in force in the Grand Duchy of Luxembourg and is subject to changes therein, possibly with retrospective effect. This summary does not purport to be a comprehensive description of all Luxembourg tax laws and Luxembourg tax considerations that may be relevant to a decision to invest in, own, hold, or dispose of Shares and is not intended as tax advice to any particular Investor or potential Investor. This summary does not describe any tax consequences arising under the laws of any state, locality or other taxing jurisdiction other than the Grand Duchy of Luxembourg. Investors should inform themselves of and, when appropriate, consult their professional advisors on the possible tax consequences of purchasing, buying, holding or disposing of Shares under the laws of their country of citizenship, residence, domicile or incorporation.

The Company is not liable in the Grand Duchy of Luxembourg to any tax on its profits or income and is not subject to the Grand Duchy of Luxembourg's net wealth tax.

The Company, however, is liable in the Grand Duchy of Luxembourg to a tax of 0.05% per annum of its Net Asset Value, such tax being payable quarterly on the basis of the value of the net assets of the Company at the end of the relevant calendar quarter. This tax is not applicable for the portion of the assets of a Fund invested in other undertakings for collective investment which have been already subject to such tax. A reduced tax rate of 0.01% may apply to Share Classes reserved for Institutional Investors.

No stamp duty or other tax is payable in the Grand Duchy of Luxembourg on the issue of the Shares in the Company. A EUR 75 registration duty is to be paid upon incorporation and each time the Articles are amended.

Under current laws and practice, no capital gains tax is payable in the Grand Duchy of Luxembourg on the realised or unrealised capital appreciation of the assets of the Company.

The Company is registered for Value Added Tax in the Grand Duchy of Luxembourg and subject to account for Value Added Tax in accordance with applicable laws.

Investment income received or capital gains realised by the Company may be subject to tax in the countries of origin at varying rates. The Company may benefit in certain circumstances from double taxation treaties, which the Grand Duchy of Luxembourg has concluded with other countries.

### **WITHHOLDING TAX**

Distributions made by the Company are not subject to withholding tax in the Grand Duchy of Luxembourg.

### **TAXATION OF INVESTORS**

Investors should note that certain Share Classes may make distributions from capital, net realised and net unrealised capital gains as well as income gross of expenses. This may result in Investors receiving a higher dividend than they would have otherwise received and therefore Investors may suffer a higher income tax liability as a result. In addition, in some circumstances, this may mean that the Fund pays dividends from capital property as opposed to income property. Such dividends may still be considered income distributions for tax purposes in the hands of Investors, depending on the local tax legislation in place. In case of share classes charging Performance Fees, Investors should note that such Performance Fees may, depending on the local tax legislation in place, not be considered as a deductible expense for investor taxation purposes. Investors should seek their own professional tax advice with regard to these matters.

#### **Grand Duchy of Luxembourg**

Investors are currently not subject to any capital gains, income, withholding, gift, estate, inheritance or other taxes in the Grand Duchy of Luxembourg (except for Investors domiciled, resident or having a permanent establishment in the Grand Duchy of Luxembourg).

#### **Automatic Exchange of Financial Account Information**

On 29 October 2014, the Grand Duchy of Luxembourg signed the Multilateral Competent Authority Agreement (the "MCAA") on the implementation of the Global Standard for the automatic exchange of financial account information. By signing the MCAA, Luxembourg has agreed to implement regulations to enable the adoption of automatic exchange of information with other MCAA signatory countries.

On 9 December 2014, the European Council adopted Directive 2014/107/EU in relation to the administrative cooperation in the field of direct taxation. Directive 2014/107/EU provides for the automatic exchange of account information between Member States of the European Union ("EU Member States"), with reporting commencing in 2017 in relation to accounts held in the 2016 calendar year. Directive 2014/107/EU has been implemented in the Grand Duchy of Luxembourg by the law of 18 December 2015 relating to the automatic exchange of financial account information in tax matters (the "2015 Law"), which is effective from 1 January 2016.

Investors are hereby notified that the Company may be required by Luxembourg law to report details of specified accounts of account holders resident in EU Member States or MCAA signatory jurisdictions. The Luxembourg Tax Authorities may share such account data in accordance with Directive 2014/107/EU and the MCAA with the Tax Authorities of other EU Member States and MCAA signatory jurisdictions, where the account holder is tax resident. The information which may be reported includes, in the case of an individual, the reportable person's name, address, tax identification number, date and place of birth, balance of the account and the total gross amount paid or credited to the account in respect of the relevant reporting period.

**The foregoing is only a summary of the implications of Directive 2014/107/EU, the MCAA and the 2015 Law. The summary is based on the current interpretation thereof and does not purport to be complete in all respects. It does not constitute investment or tax advice and Investors should therefore seek advice from their financial or tax adviser on the full implications for themselves of Directive 2014/107/EU, the MCAA and the 2015 Law.**

### **FATCA**

The Foreign Account Tax Compliance Act ("FATCA"), which is an amendment to the US Internal Revenue Code, was enacted in the United States in 2010 and many of the operative provisions became effective on 1 July 2014. Generally, FATCA requires financial institutions outside the US ("foreign financial institutions" or "FFIs") to provide the US Internal Revenue Service ("IRS") with information about financial accounts held directly or indirectly by certain specified US persons. A 30% withholding tax is imposed on certain types of US source income paid to an FFI that fails to comply with FATCA. On 28 March 2014, the Grand Duchy of Luxembourg entered into a Model 1 Intergovernmental Agreement ("IGA") with the United States of America and a memorandum of understanding in respect thereof. The Company hence has to comply with such Luxembourg IGA, as implemented into Luxembourg law by the law of 24 July 2015 relating to FATCA (the "FATCA Law") in order to comply with the provisions of FATCA rather than directly complying with the US Treasury Regulations implementing FATCA. Under the FATCA Law and the Luxembourg IGA, the Company will be required to collect information aiming to identify its direct and indirect Shareholders that are US Persons for FATCA purposes ("reportable accounts"). Any such information on reportable accounts provided to the Company will be shared with the Luxembourg tax authorities which will exchange that information on an automatic basis with the Government of the United States of America pursuant to Article 28 of the convention between the Government of the United States of America and the Government of the Grand Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes in Income and Capital, entered into in Luxembourg on 3 April 1996. The Company intends to comply with the provisions of the FATCA Law and the Luxembourg IGA to be deemed compliant with FATCA and will thus not be subject to the 30% withholding tax with respect to its share of any such payments attributable to actual and deemed US investments of the Company. The Company will continually assess the extent of the requirements that FATCA and notably the FATCA Law place upon it.

To ensure the Company's compliance with FATCA, the FATCA Law and the Luxembourg IGA in accordance with the foregoing, Franklin Templeton International Services S.à r.l., in its capacity as the Company's Management Company, may:

- a. request information or documentary evidence, including W-8 tax forms, a Global Intermediary Identification Number, if applicable, or any other valid evidence of a Shareholder's FATCA registration with the IRS or a corresponding exemption, in order to ascertain such Shareholder's FATCA status;
- b. report information concerning a Shareholder and his account holding in the Company to the Luxembourg tax authorities if such account is deemed a US reportable account under the FATCA Law and the Luxembourg IGA; and
- c. report information to the Luxembourg tax authorities concerning payments to account holders with the FATCA status of non-participating foreign financial institution.

### **United Kingdom**

It is intended that certain Share Classes offered by the Company will meet the conditions to qualify as "reporting" for the purposes of the United Kingdom tax legislation relating to offshore funds. The annual reports to investors will be made available on the Internet site: <http://www.franklintempleton.co.uk>. The list of such Share Classes may also be available on the above Internet site or may be obtained at the registered office of the Company.

### **MEETINGS AND REPORTS**

The Annual General Meeting of Shareholders is held at the registered office of the Company on the last Thursday of August in each year at 2:00 p.m. or, if such day is not a Luxembourg Business Day, on the immediately following Luxembourg Business Day. If no publications are required by law or imposed by the Board of Directors, notices to shareholders may be communicated by registered mail, e-mail or any other means permitted by law. Notices of all meetings for which a publication is otherwise required will be published in the *d'Wort* or such other newspaper as the Board of Directors shall from time to time determine and in the *Recueil Electronique des Sociétés et Associations* (hereafter "RESA") at least fifteen (15) calendar days prior to the meeting. Such notices will include the agenda of the meeting and specify the conditions of admission (if any).

The audited annual reports and unaudited semi-annual reports will be available on the following Franklin Templeton Investments Internet site, <http://www.franklintempleton.lu>, or may be obtained upon request at the registered office of the Company and the Management Company; they are only distributed to registered Shareholders in those countries where local regulation so requires. The complete audited annual reports and unaudited semi-annual reports are available at the registered office of the Company and the Management Company.

The first report of the Company was an audited report as of 31 March 2020. The accounting year of the Company ends on 31 March of each year and ended for the first time on 31 March 2020.

### **INVESTOR VOTING RIGHTS**

At any general meetings of the Shareholders of the Company, each Shareholder will be entitled to one vote for each whole Share held, whatever Share Class and regardless of the Net Asset Value per Share within the Share Class(es).

A Shareholder of any particular Fund or Share Class will be entitled at any separate meeting of the Shareholders of that Fund or Share

Class to one vote for each whole Share of that Fund or Share Class held, whatever Share Class and regardless of the Net Asset Value per Share within the Share Class(es).

In the case of joint Shareholders, only the first named Shareholder may vote, whom the Company may consider to be the representative of all joint Shareholders, except where a Shareholder has been expressly nominated by all joint Shareholders or where a written authority has been given.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Articles may be obtained at the registered office of the Company and the Management Company.

## APPENDIX A

### STANDARD DEALING CUT-OFF TIMES

Unless otherwise disclosed in a local supplement to the Prospectus, any agreement or marketing material, requests for purchase, sale or switch of Shares (the "Transactions") received by one of the Franklin Templeton Investments offices listed below on a Dealing Day before the appropriate Dealing Cut-Off Time will be dealt on that day on the basis of the Net Asset Value per Share of the relevant Share Class calculated on that day.

#### **Luxembourg office**

Main Countries covered	Dealing Cut-Off Time for transactions in the currencies of the relevant Share Class	Dealing Cut-Off Time for transactions in other acceptable currencies than the currency of the relevant Share Class	Dealing Cut-Off Time for transactions in Hedged Share Classes
Any country where the Company is registered for distribution, unless mentioned below under another local Franklin Templeton Investments office.	18:00 CET	18:00 CET	18:00 CET

#### **Frankfurt office**

Main Countries covered	Dealing Cut-Off Time for transactions in the currencies of the relevant Share Class	Dealing Cut-Off Time for transactions in other acceptable currencies than the currency of the relevant Share Class	Dealing Cut-Off Time for transactions in Hedged Share classes
. Austria . Germany . Switzerland	16:00 CET	16:00 CET	16:00 CET
. the Netherlands	18:00 CET	18:00 CET	18:00 CET

#### **American office**

Main Countries covered	Dealing Cut-Off Time for transactions in the currencies of the relevant Share Class	Dealing Cut-Off Time for transactions in other acceptable currencies than the currency of the relevant Share Class	Dealing Cut-Off Time for transactions in Hedged Share Classes
Caribbean Latin America	16:00 EST	16:00 EST	12:00 EST (except H4, which is 16:00 EST)

#### **Electronic Dealing**

(Swift and Direct Electronic link with Franklin Templeton Investments)

Main Countries covered	Dealing Cut-Off Time for transactions in the currencies of the relevant Share Class	Dealing Cut-Off Time for transactions in other acceptable currencies than the currency of the relevant Share Class	Dealing Cut-Off Time for transactions in Hedged Share Classes
Any Country where the Shares of the Company can be distributed	22:00 CET	22:00 CET	18:00 CET

Investors domiciled in countries not listed above but where transactions in Shares of the Company are allowed under all applicable laws and regulations should contact the client service's representative of the nearest Franklin Templeton Investments office. This information is available on the Internet site <http://www.franklintempleton.lu>.

#### **Definitions:**

CET: Central Europe time

EST: Eastern Standard time (USA)

## **APPENDIX B**

### **INVESTMENT RESTRICTIONS**

The Board of Directors has adopted the following restrictions relating to the investment of the Company's assets and its activities. These restrictions and policies may be amended from time to time by the Board of Directors if and as they shall deem it to be in the best interests of the Company in which case this Prospectus will be updated.

The investment restrictions imposed by Luxembourg law must be complied with by each Fund. Those restrictions in paragraph 1. e) below are applicable to the Company as a whole.

#### **1. INVESTMENT IN TRANSFERABLE SECURITIES AND LIQUID ASSETS**

a) The Company will invest in one or more of the following type of investments:

(i) transferable securities and money market instruments admitted to or dealt on a regulated market within the meaning of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments;

(ii) transferable securities and money market instruments dealt on another market in a member state of the European Economic Area (a "Member State") which is regulated, operates regularly and is recognised and open to the public;

(iii) transferable securities and money market instruments admitted to official listing on a stock exchange in a non-EU Member State or dealt on another market in a non-EU Member State, which is regulated, operates regularly and is recognised and open to the public;

(iv) recently issued transferable securities and money market instruments, provided that the terms of issue include an undertaking that application will be made for admission to official listing on a stock exchange or on another regulated market, in the countries of the areas referred to under (i), (ii) and (iii) above, which operates regularly and is recognised and open to the public, and such admission is secured within a year of the purchase;

(v) units of UCITS and/or other UCIs, whether situated in a Member State or not, provided that:

- such other UCIs have been authorised under the laws of any EU Member State or under laws which provide that they are subject to supervision considered by the Luxembourg supervisory authority to be equivalent to that laid down in EU law and that cooperation between authorities is sufficiently ensured,

- the level of protection for unitholders in such other UCIs is equivalent to that provided for unitholders in a UCITS, and in particular that the rules on assets segregation, borrowing, lending, and uncovered sales of transferable securities and money market instruments are equivalent to the requirements of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009,

- the business of such other UCIs is reported in half-yearly and annual reports to enable an assessment of the assets and liabilities, income and operations over the reporting period,

- no more than 10% of the assets of the UCITS or of the other UCIs, whose acquisition is contemplated, can, according to their constitutional documents, in aggregate be invested in units of other UCITS or other UCIs;

(vi) deposits with credit institutions which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months, provided that the credit institution has its registered office in an EU Member State or, if the registered office of the credit institution is situated in a non-Member State, provided that it is subject to prudential rules considered by the Luxembourg supervisory authority as equivalent to those laid down in EU law;

(vii) financial derivative instruments, including equivalent cash-settled instruments, dealt on a regulated market referred to in subparagraph (i) to (iv) above, and/or financial derivative instruments dealt over-the-counter ("OTC derivatives"), provided that:

- the underlying consists of instruments covered by this appendix under 1. a), financial indices, interest rates, foreign exchange rates or currencies, in which the Fund may invest according to its investment objectives,

- the counterparties to OTC derivative transactions are institutions subject to prudential supervision, and belonging to the categories approved by the Luxembourg supervisory authority,

- the OTC derivatives are subject to reliable and verifiable valuation on a daily basis and can be sold, liquidated or closed by an offsetting transaction at any time at their fair value at the Company's initiative,

(viii) money market instruments other than those dealt on a regulated market and which fall under 1. a), if the issue or the issuer of such instruments are themselves regulated for the purpose of protecting investors and savings, and provided that such instruments are:

- issued or guaranteed by a central, regional or local authority or by a central bank of a Member State, the European Central Bank, the European Union or the European Investment Bank, a non-Member State or, in case of a Federal State, by one of the members making up the federation, or by a public international body to which one or more Member States belong, or

- issued by an undertaking any securities of which are dealt on regulated markets referred to above, or

- issued or guaranteed by an establishment subject to prudential supervision in accordance with criteria defined by the EU law, or by an establishment which is subject to and complies with prudential rules considered by the Luxembourg supervisory authority to be at least as stringent as those laid down by EU law, or

- issued by other bodies belonging to the categories approved by the Luxembourg supervisory authority provided that investments in such instruments are subject to investor protection equivalent to that laid down in the first, the second or the third indent and provided that the issuer is a company whose capital and reserves amount to at least 10 million Euro and which presents and publishes its annual accounts in accordance with the fourth directive 78/660/EEC, is an entity which, within a group of companies which include one or several listed companies, is dedicated to the financing of the group or is an entity which is dedicated to the financing of securitisation vehicles which benefit from a banking liquidity line.

b) The Company may invest up to 10% of the net assets of any Fund in transferable securities and money market instruments other than those referred to in (a) above;

c) Each Fund of the Company may hold ancillary liquid assets;

d) (i) Each Fund of the Company may invest no more than 10% of its net assets in transferable securities and money market instruments issued by the same body. Each Fund of the Company may not invest more than 20% of its net assets in deposits made with the same body. The risk exposure to a counterparty of a Fund in an OTC derivative transaction may not exceed 10% of its assets when the counterparty is a credit institution referred to in 1. a) (vi) above or 5% of its net assets in other cases.

(ii) The total value of the transferable securities and money market instruments held in the issuing bodies in each of which any Fund invests more than 5% of its net assets must not exceed 40% of the value of its assets. This limitation does not apply to deposits and OTC derivative transactions made with financial institutions subject to prudential supervision.

Notwithstanding the individual limits laid down in paragraph 1. d) (i), a Fund may not combine:

- investments in transferable securities or money market instruments issued by a single body,
- deposits made with a single body, and/or
- exposures arising from OTC derivative transactions undertaken with a single body,

in excess of 20% of its net assets.

(iii) The limit laid down under the first sentence of paragraph 1. d) (i) above shall be of 35% where the Fund has invested in transferable securities or money market instruments issued or guaranteed by a Member State, by its local authorities, by a non-Member State or by public international bodies of which one or more Member States are members.

(iv) The limit laid down under the first sentence of paragraph 1. d) (i) above shall be of 25% for bonds issued by a credit institution which has its registered office in a Member State and is subject by law, to special public supervision designed to protect bondholders. In particular, sums deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of validity of the bonds, are capable of covering claims attaching to the bonds and which, in case of bankruptcy of the issuer, would be used on a priority basis for the repayment of principal and payment of the accrued interest. If a Fund invests more than 5% of its net assets in the bonds above and issued by one issuer, the total value of such investments may not exceed 80% of the value of the assets of the Fund.

(v) The transferable securities and money market instruments referred to in paragraphs 1. d) (iii) and 1. d) (iv) are not included in the calculation of the limit of 40% referred to in paragraph 1. d) (ii).

The limit set out above under 1. d) (i), (ii), (iii) and (iv) may not be combined, and thus investments in transferable securities or money market instruments issued by the same body, in deposits or derivative instruments made with this body carried out in accordance with section 1. d) (i), (ii), (iii) and (iv) may not exceed a total of 35% of the net assets of the Fund.

Companies which are included in the same group for the purposes of consolidated accounts, as defined in accordance with Directive 83/349/EEC or in accordance with recognised international accounting rules, are regarded as a single body for the purpose of calculating the limits contained under 1. d). A Fund may cumulatively invest up to 20% of its net assets in transferable securities and money market instruments within the same group.

(vi) Without prejudice to the limits laid down in paragraph e), the limits laid down in this paragraph d) shall be 20% for investments in shares and/or bonds issued by the same body when the aim of a Fund's investment policy is to replicate the composition of a certain stock or bond index which is recognised by the Luxembourg supervisory authority, provided:

- the composition of the index is sufficiently diversified,
- the index represents an adequate benchmark for the market to which it refers,
- it is published in an appropriate manner.

The limit laid down in the subparagraph above is raised to 35% where it proves to be justified by exceptional market conditions in particular in regulated markets where certain transferable securities or money market instruments are highly dominant provided that investment up to 35% is only permitted for a single issuer.

(vii) Where any Fund has invested in accordance with the principle of risk spreading in transferable securities and money market instruments issued or guaranteed by any EU Member State, its local authorities, or public international bodies of which one or more EU Member States are members, by any other State of the OECD, by Singapore or any member state of the G20, the Company may invest all of the assets of any Fund in such securities provided that such Fund must hold securities from at least six different issues and securities from one issue must not account for more than 30% of that Fund's net assets.

e) The Company or any Fund may not invest in voting shares of companies allowing it to exercise a significant influence in the management of the issuer. Further, a Fund may acquire no more than (i) 10% of the non-voting shares of any single issuing body, (ii) 10% of the debt securities of any single issuing body, (iii) 25% of the units of any single collective investment undertaking, (iv) 10% of the money market instruments of any single issuing body. However, the limits laid down under (ii), (iii) and (iv) may be disregarded at the time of acquisition if, at that time, the gross amount of the bonds or of the money market instruments or the net amount of the instruments in issue cannot be calculated.

The limits under this section e) shall not apply to (i) transferable securities or money market instruments issued or guaranteed by a Member State, its local authorities, or public international bodies of which one or more Member States are members or by any other State, nor to (ii) shares held by the Company in the capital of a company incorporated in a State which is not a Member State investing its assets mainly in the securities of issuing bodies having their registered offices in that State, where under the legislation of that State such a holding represents the only way in which the Company can invest in the securities of issuing bodies of that State, provided that, however, the Company, in its investment policy, complies with the limits laid down in Articles 43 and 46 and in paragraphs (1) and (2) of Article 48 of the Law of 17 December 2010.

f) (i) Unless otherwise provided in the investment policy of a specific Fund, each Fund will not invest more than 10% of its net assets in UCITS and other UCIs.

(ii) In the case restriction f) (i) above is not applicable to a specific Fund, as provided in its investment policy, such Fund may acquire units of UCITS and/or other UCIs referred to in paragraph 1. a) (v), provided that no more than 20% of a Fund's net assets be invested in the units of a single UCITS or other UCI.

For the purpose of the application of this investment limit, each compartment of a UCITS and/or other UCI with multiple compartments is to be considered as a separate issuer provided that the principle of segregation of the obligations of the various compartments vis-à-vis third parties is ensured.

(iii) Investments made in units of UCIs other than UCITS may not in aggregate exceed 30% of the net assets of a Fund.

(iv) When a Fund invests in the units of UCITS and/or other UCIs linked to the Company by common management or control, or by a substantial direct or indirect holding, no subscription or redemption fees may be charged to the Company on account of its investment in the units of such other UCITS and/or UCIs.

In respect of a Fund's investments in UCITS and other UCIs linked to the Company as described in the preceding paragraph, the total investment management fee (excluding any performance fee, if any) charged to such Fund and each of the UCITS or other UCIs concerned shall not exceed 2% of the value of the relevant investments. The Company will indicate in its annual report the total investment management fees charged both to the relevant Fund and to the UCITS and other UCIs in which such Fund has invested during the relevant period.

(v) A Fund may acquire no more than 25% of the units of the same UCITS and/or other UCI. This limit may be disregarded at the time of acquisition if at that time the gross amount of the units in issue cannot be calculated. In case of a UCITS or other UCI with multiple compartments, this restriction is applicable by reference to all units issued by the UCITS/UCI concerned, all compartments combined.

(vi) The underlying investments held by the UCITS or other UCIs in which the Funds invest do not have to be considered for the purpose of the investment restrictions set forth under 1. d) above.

g) A Fund may subscribe, acquire and/or hold shares to be issued or issued by one or more other Funds without the Fund being subject to the requirements of the law of 10 August 1915 on commercial companies (as amended) with respect to the subscription, acquisition and/or the holding by a company of its own shares, under the conditions however that:

(i) The target Fund does not, in turn, invest in the Fund invested in this target Fund; and

(ii) No more than 10% of the assets that the target Fund whose acquisition is contemplated may be invested in units of UCITS and/or other UCIs; and

(iii) Voting rights, if any, attaching to the shares of the target Fund are suspended for as long as they are held by the Fund concerned and without prejudice to the appropriate processing in the accounts and the periodic reports; and

(iv) In any event, for as long as these shares are held by the Fund, their value will not be taken into consideration for the calculation of the net assets of the Fund for the purposes of verifying the minimum threshold of the net assets imposed by the Law of 17 December 2010; and

(v) There is no duplication of management/entry or sale charges between those at the level of the Fund having invested in the target Fund, and this target Fund.

h) The Company may not (i) acquire for the benefit of any Fund securities which are partly paid or not paid or involving liability (contingent or otherwise) unless according to the terms of issue such securities will or may at the option of the holder become free of such liabilities within one year of such acquisition and (ii) underwrite or subunderwrite securities of other issuers for any Fund.

i) The Company may not purchase or otherwise acquire any investment in which the liability of the holder is unlimited.

j) The Company may not purchase securities or debt instruments issued by the Investment Managers or any connected person or by the Management Company.

k) The Company may not purchase any securities on margin (except that the Company may, within the limits set forth in clause 2. e) below, obtain such short term credit as may be necessary for the clearance of purchases or sales of securities) or make uncovered

sales of transferable securities, money market instruments or other financial instruments referred to above; except that the Company may make initial and maintenance margin deposits in respect of futures and forward contracts (and options thereon).

## **2. INVESTMENT IN OTHER ASSETS**

a) The Company may not purchase real estate, nor acquire any options, rights or interest in respect thereof, provided that the Company may invest for the account of any Fund in securities secured by real estate or interest therein or in securities of companies investing in real estate.

b) The Company may not make investments in precious metals or certificates representing them.

c) The Company may not enter into direct commodities transactions or commodity contracts, except that the Company may, in order to hedge risk, enter into financial futures on such transactions within the limits laid down in clause 3 below.

d) The Company may not make loans to other persons or act as a guarantor on behalf of third parties or assume, endorse or otherwise become directly or contingently liable for, or in connection with, any obligation or indebtedness or any person in respect of borrowed monies, provided that for the purpose of this restriction:

(i) the acquisition of bonds, debentures or other corporate or sovereign debt obligations (whether wholly or partly paid) and investment in securities issued or guaranteed by a member country of the OECD or by any supranational institution, organisation or authority, short-term commercial paper, certificates of deposit and bankers' acceptances of prime issuers or other traded debt instruments shall not be deemed to be the making of a loan; and

(ii) the purchase of foreign currency by way of a back-to-back loan shall not be deemed to be the making of a loan.

e) The Company may not borrow for the account of any Fund, other than amounts which do not in aggregate exceed 10% of the net assets of the Fund, taken at market value and then only as a temporary measure. The Company may, however, acquire foreign currency by means of a back-to-back loan.

f) The Company may not mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness, any of the securities or other assets of any Fund, except as may be necessary in connection with the borrowings mentioned in clause e) above. The purchase or sale of securities on a when-issued or delayed-delivery basis, and collateral arrangements with respect to the writing of options or the purchase or sale of forward or futures contracts are not deemed the pledge of the assets.

## **3. FINANCIAL DERIVATIVE INSTRUMENTS**

The Company may use financial derivative instruments for investment, hedging and efficient portfolio management purposes, within the limits of the Law of 17 December 2010. Under no circumstances shall the use of these instruments and techniques cause a Fund to diverge from its investment policy.

Each Fund may invest in financial derivative instruments within the limits laid down in clause 1. a) (vii) provided that the exposure to the underlying assets does not exceed in aggregate the investment limits laid down in clause 1. d) (i) to (v). When a Fund invests in index-based financial derivative instruments, these investments do not have to be combined in respect of the limits laid down in clause 1. d). A regular review and a rebalancing of the composition of the underlying index of such financial derivative instruments are performed on such frequency determined by the promoter of the relevant index but which, for avoidance of any doubt, cannot be daily or intra-daily. The impact of the rebalancing frequency on the costs borne by the relevant Funds in the context of the performance of their investment objective is expected to remain minimal. In accordance with CSSF circular 14/592, further details on the components of these financial indices and on the review and rebalancing frequency of those financial indices are available, upon request and free of charge, at the registered office of the Company and the Management Company (see the contact details contained in the "Administrative Information" section of this Prospectus).

When a transferable security or money market instrument embeds a derivative, the latter must be taken into account when complying with the requirements of this restriction.

The Company on behalf of a relevant Fund may only choose swap counterparties that are first class financial institutions selected by the Board of Directors and that are subject to prudential supervision and belonging to the categories approved by the CSSF for the purposes of OTC derivative transactions and specialised in these types of transactions.

As the case may be, collateral received by each Fund in relation to OTC derivative transactions may offset net exposure to the counterparty if it complies with the criteria set out in applicable laws, regulations and circulars issued by the CSSF from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. Collateral primarily consist of cash and highly rated sovereign bonds. Collateral value is reduced by a percentage (a "haircut") which provides for short term fluctuations in the value of the collateral. The types of asset used as eligible collateral exchanged will vary based on the agreement with each counterparty, and typically consist of cash, US Treasury bills or US government agency bonds supported by the full faith and credit of the US government and/or core Eurozone sovereign or agency debt. The eligible collateral and corresponding haircut used for each type of asset is consistent with the requirements of Commission Delegated Regulation (EU) 2016/2251 of 4 October 2016 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty (more commonly referred to as the "EU uncleared OTC derivatives margin regulation"), as may be amended or supplemented from time to time. Net exposures are calculated daily by counterparty and are subject to the terms of the agreements, which include a minimum transfer amount which is typically less than Euro 500,000. The minimum transfer amount provides a threshold, below which, no collateral is exchanged. If the counterparty's net exposure to the Fund exceeds the minimum transfer amount the Fund will be required to post collateral to the counterparty. Collateral levels may fluctuate between the Fund and the counterparty depending on the market movement of the exposure.



Non-cash collateral received is not sold, reinvested or pledged. Cash collateral may be reinvested if reinvestment is consistent with the provisions established in the Credit Support Annex ("CSA") of the International Swaps and Derivatives Association Master Agreement ("ISDA Master Agreement") executed with the relevant counterparty and provided that any reinvestment is consistent with the risk diversification requirements detailed in Appendix B "Investment Restrictions" in (a) shares or units issued by short term money market undertakings for collective investment as defined in the Guidelines on a Common Definition of European Money Market Funds, (b) deposits with credit institution having its registered office in a Member State or with a credit institution situated in a non-Member State provided that it is subject to prudential rules considered by the CSSF as equivalent to those laid down in EU law, (c) high quality government bonds that are deemed eligible collateral according to the terms of the CSA of the ISDA Master Agreement, and (d) reverse repurchase agreement transactions provided the transactions are with credit institutions subject to the prudential supervision and the Company may recall at any time the full amount of cash on accrued basis. The Company has policies with respect to the reinvestment of collateral (specifically, that derivatives or other instruments that may contribute to leverage may not be used) such that it would not impact the Global Exposure calculation.

In accordance with the criteria laid down in the precedent paragraph, a Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by any EU Member State, its local authorities, or public international bodies of which one or more EU Member States are members, by any other State of the OECD, by Singapore or any member state of the G20, provided that such Fund holds securities at least from six different issues and that any single issue must not account for more than 30% of such Fund's net assets.

The Global Exposure relating to financial derivative instruments is calculated taking into account the current value of the underlying assets, the counterparty risk, foreseeable market movements and the time available to liquidate the positions.

The Company shall ensure that the Global Exposure of each Fund relating to financial derivative instruments does not exceed the total net assets of that Fund. The Fund's overall risk exposure shall consequently not exceed 200% of its total net assets. In addition, this overall risk exposure may not be increased by more than 10% by means of temporary borrowings (as referred to in clause 2. e) above) so that it may not exceed 210% of any Fund's total net assets under any circumstances.

The Funds apply either the Value-at-Risk (VaR) or the Commitment Approach to calculate their Global Exposure, whichever is deemed to be appropriate.

When the investment objective of a Fund indicates a benchmark against which the performance might be compared, the method used to calculate the Global Exposure may consider a different benchmark than the one mentioned for performance or volatility purposes in said Fund's investment objective.

#### Currency Hedging

The Company may, in respect of each Fund, for the purpose of hedging currency risks, have outstanding commitments in forward currency contracts, currency futures, written call options and purchased put options on currencies and currency swaps either quoted on an exchange or dealt in on a regulated market or entered into with highly rated financial institutions.

Subject to the implementation of the currency hedging techniques below, commitments in one currency may not exceed the aggregate value of securities and other assets held by the relevant Fund denominated in such currency (or other currencies that fluctuate in a substantially similar manner to such currency).

In this context, the Company may, in respect of each Fund, engage in the following currency hedging techniques:

- hedging by proxy, i.e. a technique whereby a Fund effects a hedge of the reference currency of the Fund (or benchmark or currency exposure of the assets of the Fund) against exposure in one currency by instead selling (or purchasing) another currency closely related to it, provided however that these currencies are indeed likely to fluctuate in the same manner. Guidelines followed in determining that one currency moves in a substantially similar manner to another currency include the following: i) the correlation of one currency to another currency is proven over a significant period of time to be over 85%; ii) the two currencies are, by explicit government policy, scheduled to participate in European Monetary Union (Eurozone countries) on a set future date (which would include using the Euro itself as a proxy for hedging bond positions denominated in other currencies scheduled to become part of the Euro on a set future date); and iii) the currency used as the hedging vehicle against the other currency is part of a currency basket against which the central bank for that other currency explicitly manages its currency within a band or corridor that is either stable or sloping at a predetermined rate.
- cross-hedging, i.e. a technique whereby a Fund sells a currency to which it is exposed and purchases more of another currency to which the Fund may also be exposed, the level of the base currency being left unchanged, provided however that all such currencies are currencies of the countries which are at that time within the Fund's benchmark or investment policy and the technique is used as an efficient method to gain the desired currency and asset exposures.
- anticipatory hedging, i.e. a technique whereby the decision to take a position on a given currency and the decision to have some securities held in a Fund's portfolio denominated in that currency are separate, provided however that the currency which is bought in anticipation of a later purchase of underlying portfolio securities is a currency associated with those countries which are within the Fund's benchmark or investment policy.

#### Total return swaps transactions

A Fund which is authorised as per its investment policy to invest in total return swaps but which does not enter into such transactions as of the date of this Prospectus may however enter into total return swaps transactions provided that the maximum proportion of the net assets of that Fund that could be subject to such transactions does not exceed 30% and that the relevant section relating to this individual Fund is updated accordingly at the next available opportunity. In such cases, the counterparty to the transaction will be a counterparty approved and monitored by the Management Company or the Investment Manager. At no time will a counterparty in a transaction have discretion over the composition or the management of a Fund's investment portfolio or over the underlying of the total return swap. While there are no predetermined legal status or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process.

The following types of assets can be subject to total return swaps: equity, currency and/or commodity indices (such as, but not limited to Morgan Stanley Balanced Ex Energy Index, Morgan Stanley Balanced Ex Grains Index, Morgan Stanley Balanced Ex Industrial Metals Index, Morgan Stanley Balanced Ex Precious Metals Index or Morgan Stanley Balanced Ex Softs Index), volatility variance swaps as well as fixed income, most notably high yield corporate and bank loan related exposures.

The risk of counterparty default and the effect on investors returns are more fully described under section "Risk Considerations".

Where a Fund enters into total return swaps transactions as of the date of this Prospectus, the expected proportion of such Fund's net assets that could be subject to total return swaps transactions shall be calculated as the sum of notionals of the derivatives used and is set out in the "Fund information, objectives and investment policies" section of the relevant Fund. If and when a Fund enters into total return swaps transactions, it is for the purpose of generating additional capital through the change in value of the underlying reference asset and receipt of any income generated by the reference asset and/or to mitigate investment risk within the portfolio through taking a short position on an underlying reference asset.

All revenues arising from total return swaps transactions will be returned to the relevant Fund, and the Management Company will not take any fees or costs out of those revenues additional to the investment management fee for the relevant Fund as set out under section "Investment Management Fees".

#### **4. USE OF TECHNIQUES AND INSTRUMENTS RELATING TO TRANSFERABLE SECURITIES AND MONEY MARKET INSTRUMENTS**

##### **a) Repurchase and reverse repurchase agreement transactions**

###### **(i) Types and purpose**

To the maximum extent allowed by, and within the limits set forth in, the Law of 17 December 2010 as well as any present or future related Luxembourg laws or implementing regulations, circulars and the Luxembourg supervisory authority's positions (the "Regulations"), in particular the provisions of (i) article 11 of the Grand Ducal regulation of 8 February 2008 relating to certain definitions of the Luxembourg law of 20 December 2002 on undertakings for collective investment and of (ii) CSSF Circulars 08/356 and 14/592, a Fund may for the purpose of generating additional capital or income or for reducing costs or risks enter, either as purchaser or seller, into optional as well as non-optional repurchase and reverse repurchase agreement transactions.

As the case may be, collateral received by each Fund in relation to any of these transactions may offset net exposure by the counterparty if it complies with the criteria set out in applicable laws, regulations and circulars issued by the CSSF from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability as further set out below.

The form and nature of the collateral will primarily consist of cash and highly rated sovereign fixed income securities that meets particular ratings criteria. The collateral received by the Company in respect of repurchase agreements transactions may be US Treasury bills or US government agency bonds supported by the full faith and credit of the US government and/or core Eurozone sovereign or agency debt rated AA- or above. Acceptable tri-party collateral used in relation to the Custodial Undertaking in connection with the Master Repurchase agreement include, US Treasuries (Bill, Notes, and Bonds), and the following Government Sponsored Agencies: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corp (FHLMC), and Federal Farm Credit System (FFCB).

The collateral shall have a final maturity of no more than five (5) years from the date the repurchase transaction is entered.

The value of the securities received or posted as collateral shall also be equal to, or greater than, 102% of the amount of the repurchase or reverse repurchase transaction. The additional collateral, above 100%, provides for short term fluctuations in the value of the collateral. Net exposures are calculated daily by the counterparty and subject to the terms of the agreements, including a minimum transfer amount. Collateral levels may fluctuate between the Fund and the counterparty depending on the market movement of the exposure.

Non-cash collateral received is not sold, reinvested or pledged.

Cash collateral received by a Fund in relation to any of these transactions may be reinvested in a manner consistent with the investment objectives of such Fund and with the risk diversification requirements detailed in Appendix B "Investment Restrictions" in (a) shares or units issued by short term money market undertakings for collective investment as defined in the Guidelines on a Common Definition of European Money Market Funds, (b) deposits with credit institutional having its registered office in a Member State or with a credit institution situated in a non-Member State provided that it is subject to prudential rules considered by the CSSF as equivalent to those laid down in EU law, (c) high quality government bonds, and (d) reverse repurchase agreement transactions provided the transactions are with credit institutions subject to the prudential supervision and the Company may recall at any time the full amount of cash on accrued basis. The Company has policies with respect to the reinvestment of collateral (specifically, that derivatives or other instruments that may contribute to leverage may not be used) such that it would not impact the Global Exposure calculation.

In accordance with the criteria laid down in the precedent paragraph, a Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by any EU Member State, its local authorities, or public international bodies of which one or more EU Member States are members, by any other State of the OECD, by Singapore or any member state of the G20, provided that such Fund holds securities at least from six different issues and that any single issue must not account for more than 30% of such Fund's net assets.

(ii) Limits and conditions

– **Repurchase and reverse repurchase agreement transactions**

Unless otherwise provided in the relevant Fund's investment policy, any Fund shall utilise, on a temporary basis, up to 5% of its assets for repurchase agreement transactions. The counterparties to repurchase and reverse repurchase agreement transactions are selected following an initial analysis, and subsequent annual review thereafter, of financial statements, company announcements, credit ratings and other market information which includes general market movements. While there are no predetermined legal status, credit rating or geographical criteria applied in the selection of the counterparties, these elements are typically taken into account in the selection process. The volume of the repurchase and reverse repurchase agreement transactions of a Fund shall be kept at a level such that the Fund is able, at all times, to meet its redemption obligations towards shareholders. Further, a Fund must ensure that, at maturity of the repurchase and reverse repurchase agreement transactions, it has sufficient assets to be able to settle the amount agreed with the counterparty for the restitution of the securities to the Fund. Any incremental income generated from repurchase and reverse repurchase agreement transactions will be accrued to the relevant Fund.

The following types of assets can be subject to repurchase and reverse repurchase agreement transactions: sovereign debt, corporate and government bonds, non-agency residential mortgage-backed securities and commercial mortgage-backed securities, possibly other asset-backed securities.

Unless otherwise provided in the relevant Fund's investment policy, the expected proportion of any Fund's net assets that could be subject to repurchase or reverse repurchase agreement transactions is within a range from 0% to 5% of the relevant Fund's net assets.

The use of such transactions will be temporary and will depend on factors such as, but not limited to, total Fund's net assets, the demand from the underlying market and seasonal trends in the underlying market. During periods of little or no demand from the market, the proportion of the Fund's net assets subject to repurchase and reverse repurchase agreement transactions may be 0%, while there may also be periods of higher demand, in which case this proportion may approach 5%.

The risks related to the use of, and the effect of, repurchase and reverse repurchase agreement transactions on investors returns are more fully described under section "Risk Considerations".

– **Costs and revenues of repurchase and/or reverse repurchase agreement transactions**

Direct and indirect operational costs and fees arising from repurchase and/or reverse repurchase agreement transactions may be deducted from the revenue delivered to the relevant Fund. These costs and fees shall not include hidden revenue. All the revenues arising from such transactions, net of direct and indirect operational costs, will be returned to the relevant Fund. The annual report of the Company shall contain details of the revenues arising from repurchase agreement and/or reverse repurchase transactions for the entire reporting period together with the direct and indirect operational costs and fees incurred. The entities to which direct and indirect costs and fees may be paid include banks, investment firms, broker-dealers or other financial institutions or intermediaries and may be related parties to the Management Company and/or the Depositary Bank.

All revenues arising from repurchase and/or reverse repurchase agreement transactions will be returned to the relevant Fund, and the Management Company will not take any fees or costs out of those revenues additional to the investment management fee for the relevant Fund as set out under section "Investment Management Fees".

(iii) Conflicts of Interest

No conflicts of interest to note. The Investment Manager of the relevant Fund does not intend to lend the securities of the Fund to its related corporations.

(iv) Collateral

Collateral received by the relevant Fund may be used to reduce its counterparty risk exposure if it complies with the criteria set out in applicable laws, regulations and circulars issued by the CSSF from time to time notably in terms of liquidity, valuation, issuer credit quality, correlation, risks linked to the management of collateral and enforceability. In particular, collateral should comply with the following conditions:

(a) Any collateral received other than cash should be of high quality, highly liquid and traded on a regulated market or multilateral trading facility with transparent pricing in order that it can be sold quickly at a price that is close to pre-sale valuation;

(b) It should be valued on at least a daily basis and assets that exhibit high price volatility should not be accepted as collateral unless suitably conservative haircuts are in place;

(c) It should be issued by an entity that is independent from the counterparty and is expected not to display a high correlation with the performance of the counterparty;

(d) It should be sufficiently diversified in terms of country, markets and issuers with a maximum exposure of 20% of the Fund's net asset value to any single issuer on an aggregate basis, taking into account all collateral received. By way of derogation, a Fund may be fully collateralised in different transferable securities and money market instruments issued or guaranteed by a EU Member State, one or more of its local authorities, a third country, or a public international body to which one or more EU Member States belong. In such event, the relevant Fund should receive securities from at least six different issues, but securities from any single issue should not account for more than 30% of the Fund's net asset value;

(e) It should be capable of being fully enforced by the relevant Fund at any time without reference to or approval from the counterparty;

(f) Where there is a title transfer, the collateral received will be held by the Depositary in accordance with the Depositary's safekeeping duties under the Depositary Agreement. For other types of collateral arrangements, the collateral can be held by a third party custodian which is subject to prudential supervision, and which is unrelated to the provider of the collateral.

(g) Collateral received shall have a quality of credit of investment grade.

Collateral will be valued on each Valuation Day, using the last available market prices and taking into account appropriate discounts determined for each asset class based on the applicable haircut policy. The collateral will be marked to market daily and depending on

the current market exposure and collateral balance, the collateral may be subject to margin movement when and if certain predetermined thresholds are crossed.

**b) Securities lending, buy/sell-back, sell/buy-back and margin lending transactions**

As of the date of this Prospectus, the Company does not participate and has no intention to participate in securities or commodities lending or borrowing transactions, buy-sell back or sell-buy back transactions or margin lending transactions as defined by the SFT Regulation. If the Company enters into any such transactions in the future, the Prospectus will be amended in accordance with the SFT Regulation.

**5. ADDITIONAL LOCAL RESTRICTIONS**

To ensure eligibility for the partial tax exemption for equity funds for Investors resident in Germany, the following Fund will invest more than 50% of their assets in equity securities as defined in Section 2 para. 8 of the German Investment Tax Act:

**1. Franklin K2 Electron Global UCITS Fund**

In case that the Fund invest into other investment funds, those investment funds may be considered as equity securities in the sense of the German Investment Tax Act to the extent of the equity ratio published by these funds on each valuation day or, alternatively, to the extent of the minimum equity ratio as per the funds' investment policy.

**RISK MANAGEMENT**

The Management Company employs a risk-management process, which enables it to monitor and measure at any time the risk of the positions of the Company and their contribution to the overall risk profile of each Fund's portfolio. The Management Company and the Investment Managers employ a process for accurate and independent assessment of the value of OTC derivative instruments.

Upon request of an investor, the Management Company will provide supplementary information relating to the quantitative limits that apply in the risk management of each Fund, to the methods chosen to this end and to the recent evolution of the risks and yields of the main categories of instruments.

## APPENDIX C

### ADDITIONAL INFORMATION

1. The Company is an investment company with limited liability organised as a *société anonyme* under the laws of the Grand Duchy of Luxembourg and is qualified as a *société d'investissement à capital variable*. The Company was incorporated in Luxembourg on 1 August 2019, for an undetermined period. The Articles were published in RESA on 16 August 2019. The Company is registered with the *Registre de Commerce et des Sociétés, Luxembourg*, under number B236840. Copies of the Articles are available for inspection at the *Registre de Commerce et des Sociétés, Luxembourg* and the registered office of the Company and the Management Company.

2. The minimum capital of the Company is 1,250,000 Euro or the equivalent in US dollars.

3. The Company may be dissolved upon decision of an extraordinary general meeting of its Shareholders. If the capital of the Company falls below two-thirds of the minimum capital, the Board of Directors must submit the question of the dissolution of the Company to a general meeting for which no quorum shall be prescribed and which shall be decided by a simple majority of the holders of Shares represented at the meeting. If the capital of the Company falls below one-fourth of the minimum capital, the Board of Directors must submit the question of the dissolution of the Company to a general meeting for which no quorum shall be prescribed; dissolution may be resolved by Shareholders holding one-fourth of the Shares at the meeting. If the Company should be liquidated, its liquidation will be carried out in accordance with the provisions of the laws of the Grand Duchy of Luxembourg which specify the steps to be taken to enable Shareholders to participate in the liquidation distribution(s) and in that connection provides for deposit in escrow at the *Caisse de Consignation* of any such amounts which have not been promptly claimed by any Shareholders. Amounts not claimed from escrow within the prescribed period would be liable to be forfeited in accordance with the provisions of the laws of the Grand Duchy of Luxembourg. Any amount transferred to the *Caisse de Consignation* is subject to a "*taxe de consignation*" and as a consequence, the initial amount might not be refunded.

4. The Board of Directors may decide to liquidate a Fund if the net assets of such Fund fall below USD 50 million or if a change in the economic or political situation relating to the Fund concerned would justify such liquidation or if it is required by the interests of the Shareholders of the Fund concerned. The decision to liquidate a Fund will be published or notified, if appropriate, by the Company prior to the liquidation and the publication and/or notification will indicate the reasons for, and the procedures of, the liquidation operations. Unless the Board of Directors otherwise decides in the interests of, or to keep equal treatment between, the Shareholders, the Shareholders of the Fund concerned may continue to request sale or switch of their Shares. Assets which could not be distributed to their beneficiaries upon the close of the liquidation period of the Fund will be deposited with the *Caisse de Consignation* on behalf of their beneficiaries. Any amount transferred to the *Caisse de Consignation* is subject to a "*taxe de consignation*" and as a consequence, the initial amount might not be refunded.

In all other circumstances or where the Board of Directors determines that the decision should be submitted for Shareholders' approval, the decision to liquidate a Fund may be taken at a meeting of Shareholders of the Fund to be liquidated. At such Fund meeting, no quorum shall be required and the decision to liquidate will be taken by simple majority of the votes cast.

Any merger of a Fund shall be decided by the Board of Directors unless the Board of Directors decides to submit the decision for a merger to a meeting of Shareholders of the Fund concerned. No quorum is required for this meeting and decisions are taken by the simple majority of the votes cast.

In case of a merger of one or more Funds where, as a result, the Company ceases to exist, the merger shall be decided by a meeting of Shareholders for which no quorum is required and that may decide with a simple majority of the votes cast. In addition, the provisions on mergers of UCITS set forth in the Law of 17 December 2010 and any implementing regulation (relating in particular to the notification of the shareholders) shall apply.

The Board of Directors may also, under the circumstances provided above in the first paragraph of point 4., decide the reorganisation of any Fund by means of a division into two or more separate Funds. To the extent required by Luxembourg law, such decision will be published or notified, if appropriate and, in addition, the publication or notification will contain information in relation to the Funds resulting from the reorganisation.

The preceding paragraph also applies to a division of Shares of any Share Class.

In the circumstances provided above in the first paragraph, the Board of Directors may also, subject to regulatory approval (if required), decide to consolidate or split any Share Classes within a Fund. To the extent required by Luxembourg law, such decision will be published or notified and the publication and/or notification will contain information in relation to the proposed split or consolidation. The Board of Directors may also decide to submit the question of the consolidation or split of Share Class to a meeting of holders of such Share Class. No quorum is required for this meeting and decisions are taken by the simple majority of the votes cast.

5. As a matter of policy, the Management Company aims to exercise the voting rights that may be associated with the Company's various investments in transferable securities. To this extent, the Management Company has delegated the authority to vote proxies related to the portfolio securities held by the Company to the Investment Manager and sub-investment manager(s) who may be Franklin Templeton Investments entities or not. Proxy voting records are available free of charge and upon request at the registered office of the Company and the Management Company.

## **APPENDIX D**

### **DETERMINATION OF THE NET ASSET VALUE OF SHARES**

#### **CALCULATION OF THE NET ASSET VALUE**

The Net Asset Value per Share ("NAV") of each Share Class of each Fund shall be expressed in the currency of the relevant Fund or of the relevant Class as a per Share figure, and shall be determined in respect of any Valuation Day by dividing the net assets of the Company corresponding to each Share Class of each Fund, being the value of the assets of the Company corresponding to such Fund less liabilities attributable to such Fund, by the number of Shares then outstanding and shall be rounded up or down to two decimal places as the Board of Directors may decide.

#### **VALUATION**

The assets of the Company shall be deemed to include:

- (a) all cash on hand or on deposit, including any interest accrued thereon;
- (b) all bills and demand notes and accounts receivable (including proceeds of securities sold but not delivered);
- (c) all bonds, time notes, shares, stock, debenture stocks, subscription rights, warrants, options and other derivative instruments, units or shares of undertakings for collective investment and other investments and securities owned or contracted for by the Company;
- (d) all stock, dividends, cash dividends and cash distributions receivable by the Company and to the extent known by the Company (provided that the Company may make adjustments with regard to fluctuations in the market value of securities caused by trading ex-dividends, ex-rights, or by similar practices);
- (e) all interest accrued on any interest-bearing securities owned by the Company, except to the extent that the same is included or reflected in the principal amount of such security;
- (f) the formation expenses of the Company in so far as the same have not been written off; and
- (g) all other assets of every kind and nature, including prepaid expenses.

Total liabilities include:

- (a) all loans, bills and accounts payable;
- (b) all accrued or payable administrative expenses (including investment management and/or advisory fees, depositary fees, and corporate agents' fees);
- (c) all known liabilities, present and future, including all matured contractual obligations for payments of money or property, including the amount of any unpaid dividends declared by the Company where the Valuation Day falls on the record date for determination of the person entitled thereto or is subsequent thereto;
- (d) an appropriate provision for future taxes based on capital and income to the Valuation Day, as determined from time to time by the Company, and other provisions, if any, authorised and approved by the Board of Directors covering among other liabilities liquidation expenses; and
- (e) all other liabilities of the Company of whatsoever kind and nature except liabilities represented by Shares in the Company. In determining the amount of such liabilities the Company shall take into account all relevant expenses payable by the Company comprising formation expenses, fees and expenses at the accounts, fees payable to the Management Company for the performance of its various services and for those rendered by the Investment Manager and/or investment advisers, the Depositary and local Paying Agents and permanent representatives in places of registration, any other agent employed by the Company, fees for legal and auditing services, insurance premiums, printing, reporting and publishing expenses, including the cost of preparing and printing of the prospectuses, KIIDs, explanatory memoranda or registration statements, taxes or governmental charges, all other operating expenses, including the cost of buying and selling assets, interest, bank charges and brokerage, postage, telephone and facsimile. The Company and/or the Administrative Agent, as appropriate, may calculate administrative and other expenses of a regular or recurring nature on an estimated figure for yearly or other periods in advance, and may accrue the same in equal proportions over any such period.

Foreign exchange hedging may be utilised for the benefit of Hedged Share Classes. As such, cost and related liabilities and/or benefits of such hedging activities shall be for the account of that class only. Accordingly, such costs and related liabilities and/or benefits will be reflected in the Net Asset Value per Share for shares of any such Hedged Share Class. The currency exposures of the assets of the relevant Fund will not be allocated to separate classes. Foreign exchange hedging shall not be used for speculative purposes. The periodic reports of the Company will indicate how hedging transactions have been utilised.

In determining the NAV of the Company, the Management Company and/or the Administrative Agent, values cash and receivables at their realisable amounts and records interests as accrued and dividends on the ex-dividend date. The Management Company and/or the Administrative Agent generally utilises two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities quoted or dealt on a stock exchange, the Management Company and/or the Administrative Agent will value those securities at their latest available price on said stock exchange (last quoted sale price or official closing price of the day, respectively), or if there is no reported sale, within the range of the most recent bid and ask prices. Securities dealt on an organised market will be valued in a manner as near as possible to that for quoted securities.

The Management Company and/or the Administrative Agent, values over-the-counter portfolio securities acquired by a specific fund in accordance with the investment restrictions set forth in Appendix B above, within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Management Company and/or the Administrative Agent, values them according to the broadest and most representative market as determined by the Board of Directors.

Generally, trading in corporate bonds, government securities or money market instruments is substantially completed each day at various times before the close of the New York Stock Exchange. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the New York Stock Exchange that will not be reflected in the computation of the NAV. The Management Company and/or the Administrative Agent, relies on third party pricing vendors to monitor for events materially affecting the value of these securities during this period. If an event occurs the third party vendors will provide revised values to the Management Company and/or the Administrative Agent.

The value of securities not quoted or dealt on a stock exchange or an organised market and of securities which are so quoted or dealt in, but in respect of which no price quotation is available or the price quoted is not representative of the securities' fair market value shall be determined by or under the direction of the Board of Directors. Short-dated debt transferable securities and money market instruments not traded on a regulated exchange are usually valued on an amortised cost basis.

Since the Company may, in accordance with the investment restrictions set forth in Appendix B above, invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Management Company and/or the Administrative Agent has procedures to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Company could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Management Company and/or the Administrative Agent determines the Company's NAV per share.

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be normally completed well before the New York Stock Exchange closing time on each day that the New York Stock Exchange is open. Trading in European or Far Eastern securities generally, or in a particular country or countries, may not take place on every Valuation Day. Furthermore, trading may take place in various foreign markets on days that are not Valuation Days and on which the Fund's Net Asset Value is not calculated. Thus, the calculation of the Shares' Net Asset Value does not take place contemporaneously with the determination of the prices of many of the portfolio securities used in the calculation and, if events materially affecting the values of these foreign securities occur, the securities will be valued at fair value as determined and approved in good faith by or under the direction of the Management Company.

#### **SWING PRICING ADJUSTMENT**

A Fund may suffer reduction of the Net Asset Value per Share due to Investors purchasing, selling and/or switching in and out of the Fund at a price that does not reflect the dealing costs associated with this Fund's portfolio trades undertaken by the Investment Manager to accommodate cash inflows or outflows.

To counter this dilution impact and to protect Shareholders' interests, a swing pricing mechanism may be adopted by the Company as part of its valuation policy.

The Fund operates a swing pricing mechanism which is applied when the total capital activity (aggregate of inflows and outflows) at a Fund level exceeds a pre-determined threshold as determined as a percentage of the net assets of that Fund for the Valuation Day. Funds can operate a full swing pricing mechanism where the threshold is set to zero or a partial swing pricing mechanism where the threshold is greater than zero.

Typically, such adjustment will increase the Net Asset Value per Share when there are net inflows into the Fund and decrease the Net Asset Value per Share when there are net outflows. The Net Asset Value per Share of each Share Class in a Fund will be calculated separately but any adjustment will, in percentage terms, affect the Net Asset Value per Share of each Share Class in a Fund identically. Swing pricing does not address the specific circumstances of each individual investor transaction.

The adjustments will seek to reflect the anticipated prices at which the Fund will be buying and selling assets, as well as estimated transaction costs. Investors are advised that the volatility of the Fund's Net Asset Value might not reflect the true portfolio performance as a consequence of the application of swing pricing.

The size of the adjustment impact is determined by factors such as the volume of transactions, the purchase or sale prices of the underlying investments and the valuation method adopted to calculate the value of such underlying investments of the Fund.

The swing pricing mechanism may be applied across all Funds of the Company. The extent of the price adjustment will be reset by the Company on a periodic basis to reflect an approximation of current dealing and other costs. Such adjustment may vary from Fund to Fund and under normal market conditions will not exceed 2% of the original Net Asset Value per Share. The Board of Directors can approve an increase of this limit in case of exceptional circumstances, unusually large Shareholders trading activities, and if it is deemed to be in the best interest of Shareholders.

The Management Company mandates authority to the Swing Pricing Oversight Committee to implement and on a periodic basis review, the operational decisions associated with swing pricing. This committee is responsible for decisions relating to swing pricing and the ongoing approval of swing factors which form the basis of pre-determined standing instructions.

The price adjustment is available on request from the Management Company at its registered office.

On certain share classes, the Management Company may be entitled to a Performance Fee which will be based on the unsprung NAV.

Additional information on Swing Pricing can be found at: <https://www.franklintempleton.lu/investor/resources/investor-tools/swing-pricing>.

#### **SUSPENSION OF CALCULATION OF NET ASSET VALUE**

1. The Company may suspend the determination of the Net Asset Value of the Shares of any particular Fund and the purchase and sale of the Shares and the switch of Shares from and to such Fund during:

(a) any period when any of the principal stock exchanges or markets of which any substantial portion of the investments of the Company attributable to such Fund from time to time are quoted is closed, or during which dealings therein are restricted or suspended; or

(b) the existence of any state of affairs which constitutes an emergency as a result of which disposal or valuation of assets owned by the Company attributable to such Fund would be impracticable; or

(c) any breakdown or restriction in the means of communication normally employed in determining the price or value of any of the investments of any particular Fund or the current price or values on any stock exchange or market; or

(d) any period when the Company is unable to repatriate funds for the purpose of making payments due on sale of such Shares or any period when the transfer of funds involved in the realisation or acquisition of investments or payments due on sale of such Shares cannot, in the opinion of the Board of Directors, be effected at normal rates of exchange; or

(e) any period when the Net Asset Value of Shares of any Fund may not be determined accurately; or

(f) during any period when in the opinion of the Board of Directors there exists unusual circumstances where it would be impractical or unfair towards the Investors to continue dealing in the Shares of any Fund or circumstances where a failure to do so might result in the Investors or a Fund incurring any liability to taxation or suffering other pecuniary disadvantage or other detriment which the Investors or a Fund might not otherwise have suffered; or

(g) if the Company or a Fund is being or may be wound-up, on or following the date on which such decision is taken by the Board of Directors or notice is given to Shareholders of a general meeting at which a resolution to wind-up the Company or a Fund is to be proposed; or

(h) in the case of a merger, if the Board of Directors deems this to be justified for the protection of the Shareholders; or

(i) in the case of a suspension of the calculation of the net asset value of one or several underlying investment funds in which a Fund has invested a substantial portion of assets.

2. Any such suspension shall be publicised by the Company and shall be notified to Shareholders requesting sale or switching, if permitted, of their Shares by the Company at the time of the filing of the irrevocable written request for such sale or switch.

#### **ALLOCATION OF ASSETS AND LIABILITIES**

The Board of Directors shall establish a pool of assets for the Shares of each Fund in the following manner:

1. (a) the proceeds from the issue of Shares of each Class of each Fund shall be applied in the books of the Company to the pool of assets established for that Fund, and the assets and liabilities and income and expenditure attributable thereto shall be applied to such pool;

(b) where any asset is derived from another asset, such derivative asset shall be applied in the books of the Company to the same pool as the assets from which it was derived and in each revaluation of an asset, the increase or diminution in value shall be applied to the relevant pool;

(c) where the Company incurs a liability which relates to any asset of a particular pool or to any action taken in connection with an asset of a particular pool, such liability shall be allocated to the relevant pool;

(d) in the case where any asset or liability of the Company cannot be considered as being attributable to a particular pool, such asset or liability shall be equally divided between all the pools or, as in so far as justified by the amounts, shall be allocated to the pools pro rata to the net asset value of the relevant pool;

(e) upon the record date for determination of the person entitled to any dividend on the Shares of each Class of any Fund, the Net Asset Value of the Shares of such Fund shall be reduced by the amount of such dividend declared.

2. If there have been created within any Fund two or several Share Classes, the allocation rules set out above apply, *mutatis mutandis*, to such Classes.

3. For the purpose of the calculation of the Net Asset Value, the valuation and the allocation as aforesaid, Shares of the Company to be redeemed shall be treated as existing and taken into account until immediately after the close of business on the Valuation Day, and from time to time, until the price therefor has been paid, shall be deemed to be a liability of the Company; all investments, cash balances and other assets of the Company expressed in currencies other than the currency of the relevant Fund shall be valued after taking into account the market rate or rates of exchange in force at the date and time for determination of the Net Asset Value of Shares; and effect



shall be given on any Valuation Day to any purchases or sales of securities contracted for by the Company on such Valuation Day, to the extent practicable.

## APPENDIX E

### FRANKLIN TEMPLETON ALTERNATIVE FUNDS CHARGES, FEES AND EXPENSES

#### 1. ENTRY CHARGE

##### Entry Charge

Share Class Overview	Classes: • A	Classes: • N	Classes: • S • J • W*	Classes: • EB • EO • I • X • Y
Investor Category	Retail & Institutional	Retail & Institutional	Retail & Institutional	Institutional
Entry charge	Up to 5.75%	Up to 3.00%	No	No

\* Intermediaries or distributors selling Class W Shares may apply their own selling charges, but which should not exceed 5.75%.

#### 2. ANNUAL MANAGEMENT CHARGE

As Class X Shares and Class Y Shares are, *inter alia*, designed to accommodate an alternative charging structure whereby the Investor is a client of Franklin Templeton Investments and is charged annual management charge directly by Franklin Templeton Investments, no annual management charge will be payable in respect of Class X Shares and Class Y Shares out of the net assets of the relevant Fund.

The following annual management charge apply in respect of the Shares as indicated below:

Fund Name	Class A	Class N	Class EB	Class EO	Class I	Class J	Class S	Class W
FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND	1.90%	2.65%	0.50%	0.65%	1%	N/A	Up to 1%	1%
FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND	1.90%	2.65%	0.60%	0.75%	1.20%	N/A	Up to 1.20%	1.20%
FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND	1.95%	2.7%	0.63%	0.75%	1.25%	N/A	Up to 1.25%	1.25%
FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND	1.90%	2.65%	0.60%	0.75%	1.20%	N/A	Up to 1.20%	1.20%
FRANKLIN K2 ELECTRON GLOBAL UCITS FUND	1.95%	2.7%	0.60%	0.75%	1.25%	Up to 1.25%	Up to 1.25%	1.25%
FRANKLIN K2 MARKET NEUTRAL UCITS FUND	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRANKLIN K2 EMSO EMERGING MARKETS UCITS FUND	1.70%	2.45%	0.50%	0.65%	1%	N/A	Up to 1%	1%
FRANKLIN K2 ATHENA RISK PREMIA UCITS FUND	1.20%	1.95%	0.30%	0.45%	0.60%	N/A	Up to 0.60%	0.60%
FRANKLIN K2 CAT BOND UCITS FUND	1.50%	2.25%	0.40%	0.55%	0.75%	N/A	Up to 0.75%	0.75%

<b>FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND</b>	1.95%	N/A	0.75%	1.00%	1.25%	<b>N/A</b>	Up to 1.25%	1.25%
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### 3. PERFORMANCE FEES

A) The following Performance Fees apply:

Fund Name	Share Currency	Performance Fee		
		Classes A, I, N, S, W X and Y	Class EB	Class EO
FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND <sup>11</sup>	EUR	15%	10%	15%
	CHF	15%	10%	15%
	USD	15%	10%	15%
	GBP	15%	10%	15%
	JPY	15%	10%	15%
FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND	EUR	15%	15%	20%
	CHF	15%	15%	20%
	USD	15%	15%	20%
	GBP	15%	15%	20%
	JPY	15%	15%	20%
FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND	EUR	12.5%	10%	20%
	CHF	12.5%	10%	20%
	USD	12.5%	10%	20%
	GBP	12.5%	10%	20%
	JPY	12.5%	10%	20%
FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND	EUR	15%	12.5%	20%
	CHF	15%	12.5%	20%
	USD	15%	12.5%	20%
	GBP	15%	12.5%	20%
	JPY	15%	12.5%	20%
FRANKLIN K2 ELECTRON GLOBAL UCITS FUND	EUR	15%	10%	20%
	CHF	15%	10%	20%
	USD	15%	10%	20%
	GBP	15%	10%	20%
	JPY	15%	10%	20%
FRANKLIN K2 MARKET NEUTRAL UCITS FUND	EUR	10%	N/A	20%
	CHF	10%	N/A	20%
	USD	10%	N/A	20%
	GBP	10%	N/A	20%
	JPY	10%	N/A	20%
FRANKLIN K2 EMISO EMERGING MARKETS UCITS FUND	EUR	15%	15%	15%
	CHF	15%	15%	15%
	USD	15%	15%	15%
	GBP	15%	15%	15%
	JPY	15%	15%	15%
FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND	EUR	20%	20%	20%
	CHF	20%	20%	20%
	USD	20%	20%	20%
	GBP	20%	20%	20%
	JPY	20%	20%	20%

B) The following Performance Fees apply to Class J Shares:

Fund Name	Share Currency	Performance Fee	Performance Fee Benchmark	Benchmark Administrator	Hurdle
Franklin K2 Electron Global UCITS Fund	EUR	18%	Euro Short-term Rate (ESTR)	European Central Bank	Benchmark +3%
	USD	18%	Secured Overnight Financing Rate (SOFR)	Federal Reserve Bank of New York	Benchmark +3%
	GBP	18%	Sterling Over Night Index Average (SONIA)	Bank of England	Benchmark +3%

<sup>11</sup> As from 1 April 2022, no Performance Fee will be charged, with respect to Classes A, I, N, S, W X and Y of the Franklin K2 Ellington Structured Credit UCITS Fund.

No Performance Fee will be charged, with respect to the Franklin K2 Athena Risk Premia UCITS Fund and the Franklin K2 Cat Bond UCITS Fund.

## **APPENDIX F**

### **BENCHMARK DISCLOSURE**

Shareholders should note that these benchmarks may change over time and that the Prospectus will be updated accordingly. The current list of benchmarks applicable for the Funds is available on the Internet site: [www.franklintempleton.lu](http://www.franklintempleton.lu).

1. FRANKLIN K2 ELLINGTON STRUCTURED CREDIT UCITS FUND

Benchmarks:

HFRX RV: FI-Asset Backed Index

Bloomberg Barclays US Aggregate Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

2. FRANKLIN K2 CHILTON EQUITY LONG SHORT UCITS FUND

Benchmarks:

HFRX Equity Hedge Index

S&P 500 Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

3. FRANKLIN K2 BARDIN HILL ARBITRAGE UCITS FUND

Benchmarks:

HFRX ED: Merger Arbitrage Index

HFRX Event Driven Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

4. FRANKLIN K2 WELLINGTON TECHNOLOGY LONG SHORT UCITS FUND

Benchmarks:

HFRX Equity Hedge Index

MSCI World Information Technology Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

5. FRANKLIN K2 ELECTRON GLOBAL UCITS FUND

Benchmarks:

MSCI World Utilities Sector Index

HFRX Equity Hedge Index

Euro Short-term Rate (ESTR) – used for Performance Fee calculation purposes

Secured Overnight Financing Rate (SOFR) – used for Performance Fee calculation purposes

Sterling Over Night Index Average (SONIA) – used for Performance Fee calculation purposes

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

6. FRANKLIN K2 EMSO EMERGING MARKETS UCITS FUND

Benchmarks:

HFRX Multi-Emerging Markets Index

JP Morgan JEMB Hard Currency Local Currency 50-50 Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

7. FRANKLIN K2 ATHENA RISK PREMIA UCITS FUND

Benchmark: EURIBOR 3-Month Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

8. FRANKLIN K2 CAT BOND UCITS FUND

Benchmark: ICE LIBOR 3-Month (USD) Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.

9. FRANKLIN K2 ACTUSRAY EUROPEAN ALPHA UCITS FUND

Benchmark: HFRX Equity Hedge – Equity Market Neutral Index

Benchmark uses and resemblance: The Fund is actively managed. The benchmarks are used solely as a reference for Investors to compare against the Funds' performance. These benchmarks are neither used as a constraint on how the Fund's portfolio is to be constructed nor set as a target for the Fund's performance to beat. The Fund is not obliged to hold any of the benchmarks constituents and may indeed invest up to 100% of its net assets outside these benchmarks.