FRANKLIN TEMPLETON

# FRANKLIN US INDEX (FTUSLX)

Charting a course toward stable growth

## INDEX OVERVIEW

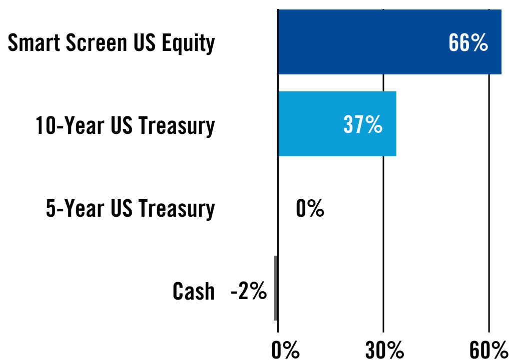
| | |
|---|---|
| Inception | November 13, 2017 |
| Volatility target | 7% |
| Frequency of rebalancing | Daily |
| Number of holdings | 3 |
| Exchange | FTUSLX |

## INDEX OBJECTIVE

A US-multi-asset index designed to deliver attractive risk-adjusted returns with an annualized target volatility of 7%.

## ALLOCATION SNAPSHOT

As of June 30, 2019




### Commentary

A series of advances and sharp sell-offs whipsawed US equity markets in 2019's second quarter, which ended on a high note thanks to better-than-expected corporate earnings and a solid June relief rally. Equities were also supported by the US Federal Reserve signaling a readiness to make interest-rate cuts if the economic outlook deteriorates. The Cboe Volatility Index (VIX) eased to near multi-year lows in April before trade tensions contributed to moderate equity market volatility in May and early June.

For the period from March 29th to June 28th 2019, the Franklin US Index returned 2.2%, with 6.8% annualized volatility of daily returns. The index gradually increased equity exposure from 58% on March 29th to 66% on June 28th. The increased allocation to equities coincided with a decreased allocation to 10-year US Treasury notes. Over this period 10-year US Treasury notes started with a 51% allocation and finished with 37%. Note, shifting to 10-year US Treasury notes represents a longer duration investment.

## PERFORMANCE

As of June 30, 2019

| | Cumulative | | | | Annualized | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | MTD | QTD | YTD | 1Y | 3Y | 5Y | 7Y | 10Y | Incept |
| Franklin US Index | 4.27 | 2.22 | 8.42 | 5.53 | 8.53 | 6.74 | 8.16 | 9.61 | 7.02 |
| S&P 500 | 7.05 | 4.30 | 18.54 | 10.42 | 14.20 | 10.71 | 13.99 | 14.70 | 6.40 |
| 10Y US Treasury Futures | 1.14 | 3.36 | 5.56 | 8.60 | 1.07 | 2.57 | 1.89 | 3.76 | 5.37 |
| 5Y US Treasury Futures | 0.85 | 2.43 | 3.92 | 6.35 | 0.99 | 1.81 | 1.37 | 2.60 | 4.32 |

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Franklin US Index** | -3.02 | 2.22 | 15.04 | 10.58 | 1.04 | 5.92 | 7.47 | -0.66 | 6.56 | 13.70 | 11.14 | 6.69 | 18.50 | 8.21 | -2.36 | 5.89 | 20.83 | -2.44 |
| **S&P 500** | -13.68 | -22.10 | 28.68 | 10.88 | 4.91 | 15.79 | 5.49 | -37.00 | 26.46 | 15.06 | 2.11 | 16.00 | 32.39 | 13.69 | 1.38 | 11.96 | 21.83 | -4.38 |
| **10Y US Treasury Futures** | 6.51 | 17.95 | 2.86 | 5.47 | 2.85 | 3.30 | 10.95 | 20.56 | -4.35 | 7.60 | 12.73 | 3.55 | -3.92 | 6.05 | 1.27 | 0.63 | 1.83 | 1.29 |
| **5Y US Treasury Futures** | 7.17 | 14.08 | 3.24 | 3.52 | 1.50 | 3.53 | 9.60 | 14.80 | -0.07 | 5.85 | 7.67 | 1.77 | -1.88 | 2.58 | 1.36 | 0.58 | 0.80 | 1.48 |

Source: Bloomberg. The Franklin US Index is an excess return index. The index levels represent performance in excess of the 3-month US Dollar LIBOR rate. All information for the index prior to its launch date is back-tested, based on the methodology that was in effect on the launch date on November 13, 2017. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than back-tested returns. The performance data does not reflect the deduction of any fees/charges and assumes reinvestment of interest or dividends. There can be no assurance that implementation of managed volatility strategies will produce desired results. Hypothetical performance information is not indicative or a guarantee of future results.

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**Index Description**

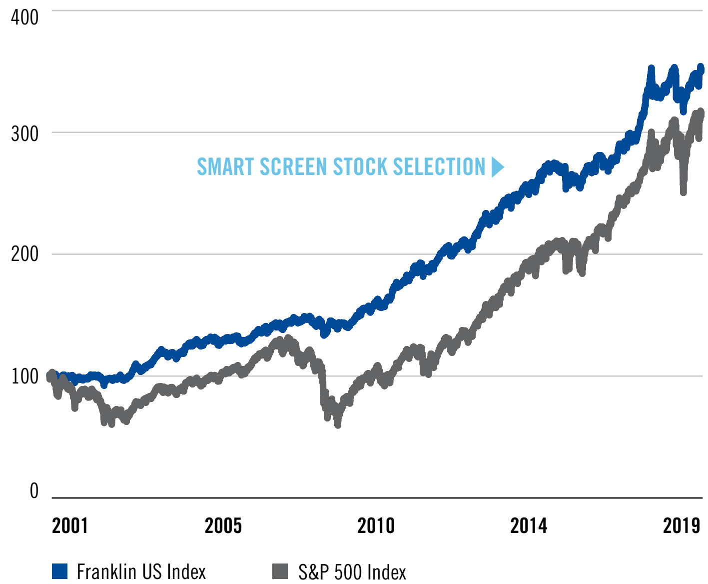
The Franklin US Index is a daily blended index. Built on a “smart screen” strategy and focused on US Large Cap stocks, the Franklin US Index is enhanced by its MarketNav Technology, which reacts to changing conditions in an effort to create a smoother ride over time.

| SMART SCREEN | | MARKETNAV TECHNOLOGY | | FRANKLIN US INDEX |
|---|---|---|---|---|
| 250 US stocks selected to drive growth | + | Reacts to changing conditions in an effort to create a smoother ride over time | = | Daily Blended Index |

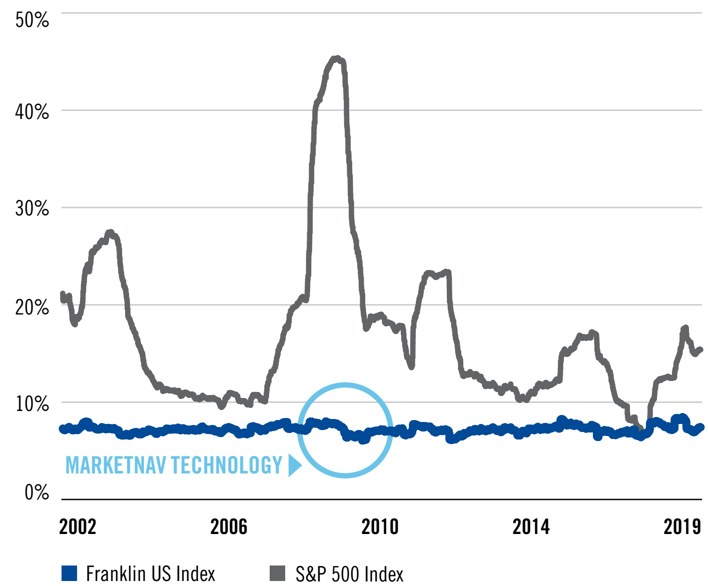
It is not possible to invest directly in an index. There can be no assurance that any strategy will achieve its objectives.

## FRANKLIN US INDEX—PERFORMANCE As of January 2001–June 2019

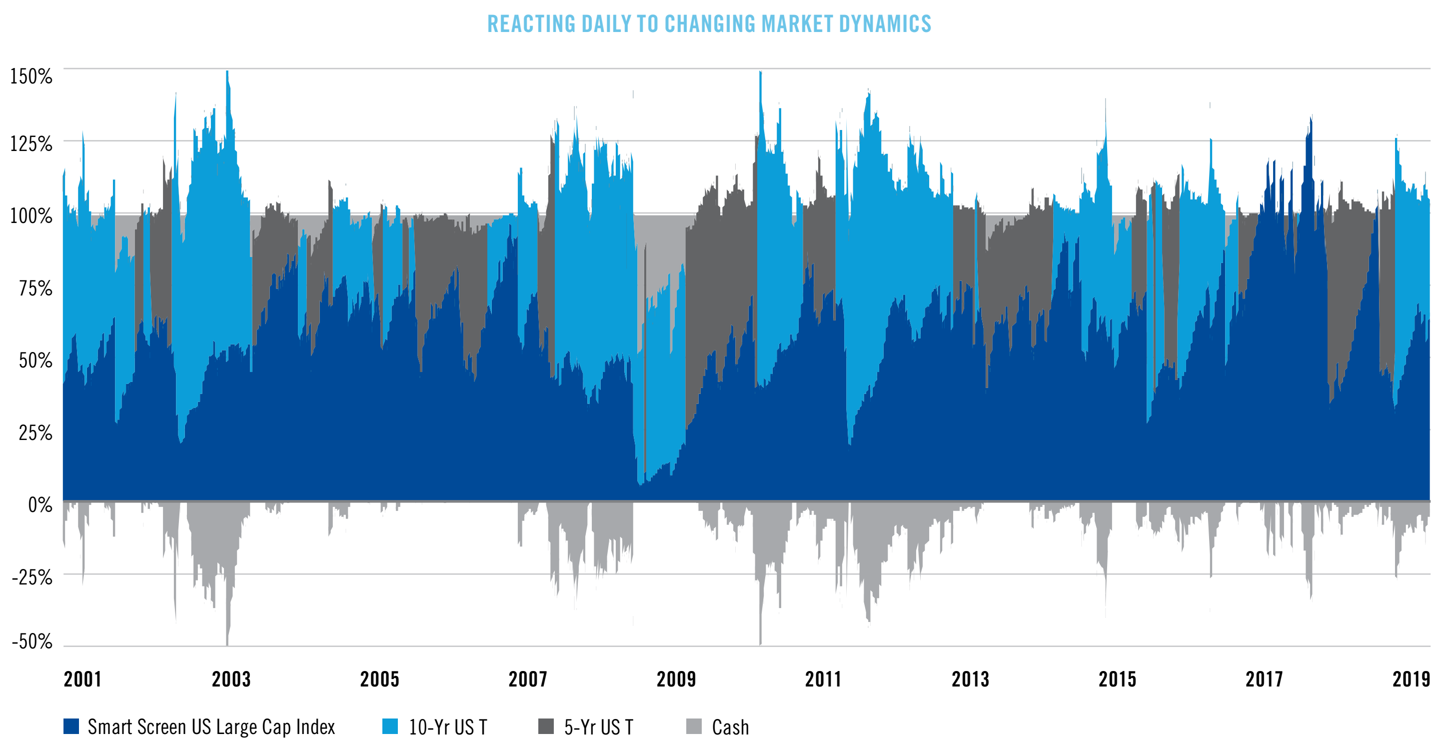
### Return Profile (cumulative)




### Volatility Profile (annualized)




### Historical Asset Allocation

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## NOTES ON PERFORMANCE CALCULATIONS

Performance information in this presentation is for illustrative purposes only and includes hypothetical, back-tested returns. As such it does NOT represent or guarantee the performance of any Franklin portfolio, whose performance may vary significantly from that which is shown.

A target volatility is not total return performance—the investment manager does not expect, nor does it represent, that the strategy's total return performance would be any specific level or within any specified range or provide competitive returns. It is possible that the strategy could meet a target volatility level while having negative performance returns.

There can be no guarantee that the strategy will reduce volatility or achieve any specific level of volatility. The target volatility strategy may expose the portfolio to losses (some of which may be sudden) to which it would not otherwise have been exposed if it only invested directly in securities.

The actual volatility that the strategy experiences may be significantly higher or lower than that sought by the investment manager at any time and for any period of time. The use of derivative instruments in an effort to adjust exposures may at times increase volatility, for reasons including the economic leveraging effect of those instruments. In addition, the target volatility strategy could limit the fund's performance in rising markets and may expose the portfolio to costs to which it would otherwise not have been exposed.

The Franklin US Index (the "Index") is the property of Franklin Templeton, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omissions in calculating the Index. S&P® and the S&P 500 Index are registered trademarks of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").

It is not possible to invest directly in an index. There is no assurance that investment products based on the Index will accurately track index performance or provide positive investment returns. Inclusion of a security within an index is not a recommendation by Franklin Templeton or S&P Dow Jones Indices to buy, sell, or hold such security.

The hypothetical performance information presented herein does not reflect the results of actual trading and calculation of the index levels and performance do not reflect the fees and expenses that an investor would pay. These fees and expenses would cause the actual and back-tested performance of the index to be lower. For example, if an investor invested $100,000 in an investment product that returned 10% ($10,000 in gains) over a 12-month period and was charged an asset-based fee of 1.5% at the end of the period on the investment plus gains (a $1,650 fee), the investor's net return would be 8.35% ($8,350). Over three years, an annual 1.5% fee taken at the end of each year with the same assumed 10% return per year would result in a cumulative gross return of 33.10% but a net return (after $5,375 in fees) of 27.2%.

Additional important data provider notices and terms available at www.franklintempletondatasources.com

## WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in an investment portfolio adjust to a rise in interest rates, the value of the portfolio may decline. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size, lesser liquidity and lack of established legal, political, business, and social frameworks to support securities markets. Such investments could experience significant price volatility in any given year. Derivatives, including currency management strategies, involve costs and can create economic leverage in a portfolio, which may result in significant volatility and cause the portfolio to participate in losses (as well as enable gains) on an amount that exceeds the portfolio's initial investment.

Investing in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector—prices of such securities can be volatile, particularly over the short term. Some strategies, such as hedge fund and private equity strategies, are available only to pre-qualified investors, may be speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment in such strategies. Real estate securities involve special risks, such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments affecting the sector.

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