

Manager profile

Company overview

Franklin Resources Inc is a global investment management organisation which operates under the name of Franklin Templeton Investments (Franklin Templeton) and offers a full range of investment capabilities from six distinct investment management platforms: Franklin Global Advisers, Templeton, Franklin Templeton Fixed Income, Franklin Templeton Real Estate Advisers, Darby and Mutual Series. Each investment platform's process and approach operates autonomously.

Franklin Templeton Investments is headquartered in San Mateo, California. Globally, the firm employs over 8,000 people, has offices in 30 countries and offers investment products and services in over 150. It's one of the largest independent publicly-quoted investment managers in the world and as at 30 September 2011 had assets under management of \$659.9 billion. With 70 years of investing experience, the firm provides specialist investment management services, deriving more than 97% of its revenues from this core business. The wholly-owned subsidiary Franklin Templeton Investments Australia Limited was established in 1988.

Investment philosophy and style

Franklin Templeton's Global Fixed Income team employs a bottom-up, research-driven investment decision making process. Its investment objective is to provide higher returns over a market cycle with lower volatility relative to the benchmark. Franklin Templeton usually considers a market cycle to be a period of three to five years. However, it also keeps in mind three, six and twelve month time horizons.

Each of its investment decisions are based on probability-weighted expected return analysis and the tenure of each investment decision is a function of the following, (1) reaching the price target or (2) a fundamental reassessment of the risk-reward profile and therefore a change in the price target resulting in a buy or sell decision.

In the short term, and on a country by country basis, Franklin Templeton believes there are often inefficiencies in global bond and currency markets but over the longer term the market will generally price to fundamentals. This is a characteristic of the markets that Franklin expects to continue in the future. For this reason it focuses its investment process on fundamental research to identify long-term opportunities and use short-term market inefficiencies to build positions in such investments.

Global Multisector Fixed Income

Franklin Templeton's Global Multisector Plus strategy seeks high risk-adjusted returns through a fundamentally research driven active investment strategy, heavily focused on fundamental macro-economic research. The strategy invests in multi-fixed income assets and multi-currencies around the world. Whereas other more traditional bond products are constrained, the geographic and asset flexibility allows this strategy to take advantage of different interest rate cycles, undervalued currencies, as well as macro-economic environments that support the relative outperformance of one sub-sector of fixed income. This investment approach allows Franklin Templeton to add an additional layer of diversification, while at the same time managing interest rate, exchange rate and credit risk.

Investment process

Macro-economic view formulation

Franklin Templeton's Fixed Income Policy Committee establishes the long-term macro-economic investment themes that guide its portfolio construction process across all fixed income strategies. The Committee is composed of the CIO and other senior investment professionals based in New York, San Mateo and London, representing the global fixed income markets. Committee meetings serve as a forum and include input from its local asset management colleagues in India, Korea, China, UAE and Brazil.

At these macro-economic sessions, the Committee analyse the factors impacting global fixed income markets, such as economic output, monetary policy, duration/yield curve, global currency and geo-political trends, as well as fiscal policy. To determine recommended sector weightings, the Committee evaluates qualitative assessments and benchmark comparisons, as well as quantitative valuations (ie, spread duration; risk adjusted spread and standard deviation).

Investment strategy formulation

The investment strategies for the Global Multisector Plus portfolio are formulated by combining qualitative macro-economic analysis with quantitative tools to determine the most attractive investment opportunities. These views are incorporated into an expected return matrix, which aims to bring together all the major allocation decisions into one framework that also considers yield, roll down, convexity, currency hedge cost and credit cost. This provides Franklin Templeton with a comprehensive view of the fixed income markets in a static environment, as well as one reflecting

the relative return expectations of the Global Multisector Plus strategy team. This exercise determines the best sources of expected alpha for the portfolio.

Implementation

Once Franklin Templeton's Global Multisector Fixed Income strategy has been formulated by its strategy leaders and sector specialist teams which consist of a sector head, analysts and traders, it begins the process of identifying specific undervalued issues for investments within each sector, setting price targets and investment time horizons. The lead portfolio managers in each sector are responsible for implementing the model portfolio strategy across all discretionary portfolios, tailored to meet individual portfolio objectives and constraints. Franklin Templeton's Quantitative Research Group also plays a role at this stage, as it's responsible for evaluating risks related to sector, yield curve and issuer positions.

Investment team

The Franklin Templeton Fixed Income Group manages a wide array of US, international and global fixed income strategies, linking 130 investment professionals globally, forming a seamlessly integrated fixed income platform that manages more than \$214 billion in assets. Drawing on 30 years of investment experience and capitalising on its size and global presence, the Fixed Income Group offers comprehensive coverage of potential alpha opportunities in all major fixed income sectors worldwide.

Reason Advance selected Franklin Templeton

We favour Franklin Templeton's fundamental macro-driven process and its fluid, benchmark agnostic, absolute return approach to investing. It has a well resourced team which is split across global offices and services a comprehensive range of global and regional bond products. We like the strong leadership and investor strength which is evident in Franklin Templeton's global macro team and the sole focus it places on investment management.

Contact Centre: 1800 819 935

Adviser Services: 1300 361 864

advance.com.au

This information is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before acting on the information, a person should consider its appropriateness having regard to these factors. The Advance Funds (Funds) are issued by Advance Asset Management Limited ABN 98 002 538 329 AFSL No. 240902. Before deciding whether to acquire or to continue to hold an investment in a Fund, investors should obtain and consider the Product Disclosure Statement for the Fund, available from Advance at www.advance.com.au or by calling 1800 819 935. Whilst every effort has been taken to ensure that the assumptions on which the outlooks given in this document are based are reasonable, the outlooks may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. Past performance is not a reliable indicator of future performance. Information from third parties is believed to be reliable however it has not been independently verified. While the information in this document is given in good faith, no warranty is given that it is accurate, reliable, free from error or omission. Advance is a member of the Westpac Group. An investment in a Fund does not represent an investment in, deposit with or other liability of Westpac Banking Corporation or any other member of the Westpac Group. Subject to any terms implied by statute which cannot be excluded, no member of the Westpac Group nor its directors, employees and associates accept any responsibility for errors in, or omissions from the information. This document is current as at January 2012.

The logo for ADVANCE, featuring the word "ADVANCE" in a bold, black, sans-serif font. A red horizontal line is drawn across the middle of the letters, starting from the left and ending under the 'A'.

AD11056C-0112aj