FRANKLIN TEMPLETON GLOBAL INVESTORS LIMITED

Pillar 3 disclosures for the fiscal year ended 30 September 2018

1. OVERVIEW

1.1 BACKGROUND

The Capital Requirements Directive ("CRD") is the framework for implementing Basel II in the European Union. Basel II implements a risk sensitive framework for the calculation of regulatory capital. In the UK, the Financial Conduct Authority implemented the CRD in its regulations.

CRD consists of three pillars, Pillar 1 the minimum capital requirements, Pillar 2 the Internal Capital Adequacy Assessment Process ("ICAAP") and Pillar 3. The aim of Pillar 3 disclosure is to promote the transparency of institutions and to provide information to stakeholders on the solvency, risks and risk exposures with which the institutions must comply.

The Pillar 3 disclosure has been prepared in accordance with the disclosure requirements contained in Part Eight of the Capital Requirement Regulation ('the CRR').

1.2 BASIS AND FREQUENCY OF DISCLOSURE

This disclosure document has been prepared by the Franklin Templeton Global Investors Limited Group ("FTGIL Group") in accordance with the requirements of Part Eight of the CRR legislation. This disclosure is also prepared under the direction of the FTGIL Group's formal policy on the disclosure requirements. Unless otherwise stated, all figures are as at 30 September 2018, the financial year end.

Disclosures will be issued on an annual basis and published as soon as practicable after the finalisation of the UK financial statements.

Article 432 of the CRR legislation states information may be omitted from this disclosure if it is deemed non-material, proprietary or confidential. An omission of information is governed by the FTGIL Group's formal waiver policy. Any information omitted under Article 432 will be disclosed within this document.

1.3 SCOPE OF APPLICATION

At 30 September 2018, the consolidated FTGIL Group, for FCA reporting purposes, consists of the following companies:

- Franklin Templeton Global Investors Limited ("FTGIL")
- Franklin Templeton Investment Management Limited ("FTIML")
- Franklin Templeton Fund Management Limited ("FTFML")
- Templeton Asset Management Poland SA ("TAM Poland")
- Fiduciary Trust International Sarl ("FTI S.à r.l.")

FTCI (Cayman) Ltd is a subsidiary of FTI S.à r.l. however in accordance with Article 19(1) of the CRR, FTCI (Cayman) Ltd has been excluded as its total assets are below the threshold of the article and its exclusion does not have a material impact on the FTGIL Group ICAAP.

FTIML and FTFML are both CRD III regulated UK entities.

The immediate parent company of FTGIL is Templeton International, Inc. ("TII") which is incorporated in Delaware, USA. The ultimate parent company is Franklin Resources, Inc. ("FRI") which is also incorporated in Delaware, USA.

1.4 LOCATION AND VERIFICATION

This disclosure has been reviewed by the FTGIL Board of Directors and is published on the Franklin Templeton Investments UK corporate website (www.franklintempleton.co.uk). This disclosure is not subject to audit.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 SUMMARY OF THE RISK MANAGEMENT PROCESS

The FTGIL Group risk management process is applicable to the risks listed under Part Eight, Title II of the CRR legislation and the risks considered under the ICAAP. At present the FTGIL Group does not perform any hedging activity.

In the normal course of business, the FTGIL Group is exposed to a number of risks which it seeks to identify, assess, monitor, mitigate and control in order to provide reasonable assurance that it will meet its objectives. In doing so, the FTGIL Group considers the qualitative and quantitative aspects of these risks, assesses their impact and probability, and seeks to monitor and control them.

The FTGIL Group's risk appetite statements are included within the FTGIL Group ICAAP and are approved by the Board of Directors annually. The statements are a guide to the risk-taking activities that are appropriate to the scale and scope of the FTGIL Group and formalises its risk governance. The FTGIL Group's statements cover parts of the business including compliance and legal, business continuity planning and corporate finance. In summary the FTGIL Group has an adverse appetite for the failure of internal controls and policies and procedures. The FTGIL Group is also committed to protecting customers by having an adverse tolerance to breaches of regulatory rules and laws.

Franklin Resources, Inc. and its consolidated subsidiaries ("Franklin") operate an independent global risk management function called Enterprise Risk Management ("ERM"). ERM is an integrated, consistent and strategic method to the management of risk. The methodology is applied in strategy setting both regionally and across Franklin to identify, measure and manage potential events that may affect the business. Enterprise Risk Management Organisation ("ERMO") is responsible for facilitating the identification, assessment and reporting of key risks across the company in the annual risk assessment process. The enterprise key risks are reported to the Audit Committee quarterly and annually to the FRI Board of Directors. ERMO also tracks audit issues from internal and external sources in a central repository, reports from the database are provided monthly to corresponding line of business leaders.

The mission of the Europe, Middle East and Africa Risk Management Committee ("EMEA RMC") is to oversee a risk management structure within the EMEA business that defines accountability, ensures communication, promotes control consciousness and provides an effective risk management environment that assures there is a process in place to identify, assess and control risk for the EMEA business entities. Risks identified as part of an annual risk assessment process are tracked by the business function designees. Individual business functions are responsible for assessing, reporting and updating their risks on an ongoing basis. During quarterly risk log walkthrough meeting the EMEA RMC coordinator will agree with the business function representative on any required changes to the risk log.

The above risk management arrangements are deemed adequate and provide assurance that the systems put in place are adequate with regard to the FTGIL Group's profile and strategy.

The FTGIL Group does not have any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities within the FTGIL Group. At 30 September 2018, the two UK regulated institutions maintained own funds in excess of their minimum capital requirement.

The following FTGIL Group Key Performance Indicators are monitored by management.

Key Performance Indicators	September 2018	September 2017
Operating Profit Margin	11%	16%
Return on Assets	16%	16%

2.2 GOVERNANCE ARRANGEMENTS

The directors of FTGIL and the number of directorships held by each are listed below.

FTGIL Director	Position	Directorships Held
William Jackson	Senior Vice President – Franklin Templeton Services -New Business Services	8
Paul J. Brady	Senior Vice President – International Transfer Agency	5
Adrian White	Finance Controller - Europe	7

Franklin is an equal opportunity employer and considers qualified applicants for employment without regard to race, sex, religion, colour, national origin, disability, medical condition, marital status, age, sexual orientation, or any other basis protected by law. Appointment to the UK Board of Directors follows the above equal opportunity policy and is based on positions held within Franklin, knowledge, skills and expertise.

3. CAPITAL RESOURCES

3.1 TOTAL AVAILABLE CAPITAL

At 30 September 2018 and throughout the financial year, the FTGIL Group complied with the FCA capital requirements in force.

The following table shows the breakdown of the total available capital for FTGIL Group as at 30 September 2018.

	£000
Reserves	122,690
Deductions from Common Equity Tier 1 Capital	(38,834)
Common Equity Tier 1 Capital	83,856
Additional Tier 1 Capital	3,450
Own Funds	87,306

Common equity tier 1 items comprise of paid up capital instruments and retained earnings, additional tier 1 items are perpetual non-cum preference shares, and common equity tier 1 capital deductions are intangible assets. Deductions from the common equity tier 1 capital relate only to intangible assets as stated in CRR Article 36(1)(b). There is no tier 2 capital.

The FTGIL Group does not prepare consolidated financial statements as FTGIL is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of its ultimate parent FRI. As the FTGIL Group does not prepare consolidated financial statements no reconciliation of the above own funds has been disclosed.

4. CAPITAL REQUIREMENTS

4.1 CAPITAL MANAGEMENT

The FTGIL Group's objectives in planning and managing capital are to ensure each regulated subsidiary has adequate capital resources to effectively manage the business, meet future requirements and maintain its regulatory capital ratios to meet the requirements of the FCA.

The FTGIL Group also completes an ICAAP which is an ongoing assessment of the FTGIL Group's risks, how it intends to mitigate those risks and the amount of current and future capital required having considered other mitigating factors. The ICAAP is an integral part of the business and is embedded in the FTGIL Group's risk management and decision-making process. The ICAAP is performed annually or more frequently should the need arise and is reported to the Board of Directors, who have ultimate responsibility, for challenge and approval.

4.2 OWN FUNDS REQUIREMENTS

Under Article 92(1) of the CRR legislation the FTGIL Group is required to meet the following own funds requirements:

i) a common equity tier 1 capital ratio of 4.5%;
ii) a tier 1 capital ratio of 6%;
iii) a total capital ratio of 8%.

At 30 September 2018, the FTGIL Group had the following capital ratios, therefore, meeting the above requirements.

Own Funds Requirements	September 2018
Common Equity Tier 1 Capital	16.5%
Tier 1 Capital	17.2%
Total Capital	17.2%

4.3 TOTAL RISK EXPOSURE AMOUNT

To meet the own funds requirements the FTGIL Group must follow the guidance in Article 95(2) of the CRR legislation that states the total risk exposure amount is the higher of:

i) the sum of the items referred to in points (a) to (d) and (f) of Article 92(3) after applying Article 92(4);
ii) 12.5 multiplied by the amount specified in Article 97 (own funds based on fixed overheads).

At 30 September 2018, the FTGIL Group's total risk exposure amount is own funds based on fixed overheads.

4.4 CREDIT RISK

Credit risk is the risk of loss due to a counterparty or borrower being unable to meet its obligations. As the FTGIL Group does not conduct lending activities, the risk associated with this category is narrowed to cover only counterparty risk. The FTGIL Group is exposed to credit risk through both its debtors and its banking partners. Experience has shown that counterparty risk is minimal.

The majority of the FTGIL Groups' debtors are other Franklin subsidiaries or funds, with debtors generally settled within one month. For the banking partners, Franklin has developed procedures to monitor and mitigate credit risk, including the Investment Risk and Counterparty Credit Committee's oversight of firm-wide exposure with both monthly and ad-hoc meetings to address current events with counterparties.

4.4.1 EXPOSURE CLASSES

Article 438(c) of the CRR legislation states institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2 of the CRR legislation shall disclose 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 of the CRR legislation (there are 17 exposure classes in total). The FTGIL Group calculates the risk-weighted exposure amounts in this manner; however, in accordance with Article 432 of the CRR legislation the FTGIL Group has opted not to disclose this information for reasons of non-materiality.

Non-material Disclosure Waiver Statement

Information Not Being Disclosed	Reason for Non-disclosure	Aggregate Information
Article 438(c) of the CRR legislation	The total risk exposure amount of the FTGIL Group is own funds based on fixed overheads. Therefore, the risk-weighted amounts by exposure classes are non-material.	At 30 September 2018, 8% of the total risk weighted exposure amounts for the combined 17 exposure classes was £2,900,000.

4.4.2 USE OF EXTERNAL CREDIT ASSESSMENT INSTITUTION (“ECAIS”)

Article 444 of the CRR legislation states institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2 of the CRR legislation shall disclose information on the use of ECAIs for each exposure class specified in Article 112 of the CRR legislation. The FTGIL Group uses ECAIs however, in accordance with Article 432 of the CRR legislation the FTGIL Group has opted not to disclose this information for reasons of non-materiality.

Non-material Disclosure Waiver Statement

Information Not Being Disclosed	Reason for Non-disclosure	Aggregate Information
Article 444 of the CRR legislation	The total risk exposure amount of the FTGIL Group is own funds based on fixed overheads. Therefore, information on the use of ECAIs by exposure classes is non-material.	The FTGIL Group does make use of ECAIs based on Moody’s long-term assessment and credit quality steps provided by the Committee of European Banking Supervisors.

4.4.3 EXPOSURE TO COUNTERPARTY CREDIT RISK

Counterparty credit risk is defined in Article 272 as the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. Transaction types are long settlement transactions and margin lending transactions. The counterparty risks the FTGIL Group is exposed to do not meet this definition therefore, this risk is not applicable to the FTGIL Group. The counterparties the FTGIL Group is exposed to are detailed in section 4.4.

4.4.4 CREDIT RISK ADJUSTMENTS

Credit risk adjustment is defined in Article 4(95) of the CRR legislation as the amount of specific and general loan loss provision for credit risks that has been recognised in the financial statements of the institution in accordance with the applicable accounting framework. No institutions within the FTGIL Group have recognised loan loss provisions for credit risk in the financial statements; therefore, this risk is not applicable to the FTGIL Group.

4.5 MARKET RISK

Market risk is the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. This risk has been identified by the EMEA RMC, is closely monitored and is mitigated through diversification of products across investment objectives, diversified distribution channels and clients.

Article 445 of the CRR legislation states institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose each risk requirement separately. As stated above, the FTGIL Group’s total risk exposure amount is own funds based on fixed overheads; therefore, in accordance with Article 432 of the CRR legislation, the FTGIL Group has opted not to disclose this information for reasons of non-materiality.

Non-material Disclosure Waiver Statement

Information Not Being Disclosed	Reason for Non-disclosure	Aggregate Information
Article 445 of the CRR legislation	The total risk exposure amount of the FTGIL Group is own funds based on fixed overheads. Therefore, information on the exposure to market risk is non-material.	At 30 September 2018, the total of each risk requirement listed under Article 92(3) of the CRR legislation was £61,451,000.

4.6 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The three regulated institutions within the FTGIL Group are limited licence firms; therefore, their own funds requirements do not include operational risk.

As part of the FTGIL Group’s 2018 ICAAP, operational risk was assessed. Consideration was given to a number of operational risks, measuring the potential loss value after taking into account the likelihood of the event arising based on past experience and mitigating actions. The FTGIL Group also maintains insurance against a number of major operational risks.

4.7 CAPITAL BUFFERS

The three regulated institutions within the FTGIL Group are limited licence firms and therefore, do not have any counter-cyclical capital buffer requirements.

4.8 GLOBAL SYSTEMIC IMPORTANCE

No institutions within the FTGIL Group have been identified as globally systemically important institutions.

4.9 UNENCUMBERED ASSETS

No institutions within the FTGIL Group have encumbered assets. The average carrying amount of unencumbered assets during the twelve months to September 2018 is £185,000,000.

4.10 EXPOSURES IN EQUITIES NOT INCLUDED IN THE TRADING BOOK

At 30 September 2018, the FTGIL Group held one investment in the FTIF Franklin US Low Duration Fund with a book value and market value of £14,665,000. Investments are stated in the financial statements at the market value. Both temporary and permanent diminutions in the value of investments are charged to the statement of income and other comprehensive income. The FTGIL Group holds no exchange-traded exposures or private equity exposures.

4.11 EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

Interest rate risk is the risk the FTGIL Group is highly exposed to interest rate movements resulting in an impact on the entity's cash and ultimately its liquidity position. This risk is minimal as the FTGIL Group has no direct debt holdings. The only impact is on the cash deposits, investments and fixed income revenue. In the FTGIL Group's 2018 ICAAP a 200 basis point upward movement in interest rates was measured and considered in the calculation of the Pillar 2 capital.

4.12 EXPOSURE TO SECURITISATION POSITIONS

This risk is not applicable to the FTGIL Group.

4.13 LEVERAGE

This risk is not applicable to the FTGIL Group.

4.14 OTHER RISKS

As part of the 2018 FTGIL Group ICAAP the following additional risks were considered, concentration risk, pension obligation risk, group risk, regulatory risk, liquidity risk, securitisation risk, residual risk, business risk and risk of excessive leverage.

DECISION-MAKING PROCESS FOR REMUNERATION POLICY

Franklin Templeton Global Investors Limited has formally adopted a Remuneration Policy aligned to the Financial Conduct Authority (FCA) Remuneration Code.

Franklin Resources Inc. has a Compensation Committee of the Board which meets regularly to assist the Board in fulfilling its responsibilities relating to the compensation of executive officers and other senior Group employees of the Company and the administration of the Company's incentive compensation and equity-based plans that are subject to Board approval. Within the authority delegated by the Franklin Resources Inc. Board, the Compensation Committee's responsibility extends across the entire organization, including the Franklin Templeton Global Investors Limited Group ("FTGIL Group"). The Committee administers incentive plans, stock incentive plans and stock purchase plans designated by the Board or the plan documents as well as individual remuneration packages of executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on the risk profile of UK regulated entities (Code Staff).

There were 7 meetings of the Compensation Committee during fiscal year 2018. The Committee records its activities and proceedings and regularly reports to the Board on its actions. The terms of reference of the Committee are available at:

https://www.franklinresources.com/download/ftresources/common/jjv13zhs/compensation-committee-charter.pdf

The members of the Compensation Committee throughout fiscal year 2018 were Peter Barker, Seth Waugh and Mark C Pigott. All members are non-executive directors of Franklin Resources Inc.

EXTERNAL CONSULTANTS AND MANAGEMENT BRIEFING

The Committee received independent advice on remuneration issues from Exequity, LLP.

During the year, the Committee received briefings from Management, including the Group Chief Executive, Head of Human Resources, and General Counsel on the implications of the remuneration policy on risk and risk management.

No individual is involved in decisions relating to his or her own remuneration.

ROLE OF THE RELEVANT STAKEHOLDERS

The Compensation Committee takes full account of the company's strategic objectives in setting remuneration policy and is mindful of its long-term duties to shareholders and other stakeholders and of the role that remuneration strategies can have in mitigating risk. The Committee seeks to preserve shareholder value by appropriately balancing the successful retention, recruitment and motivation of employees as well as ensuring that employees are not rewarded for taking inappropriate levels of risk.

CODE STAFF CRITERIA

The following groups of employees have been identified as meeting the FCA's criteria for Code Staff:

Significant Influence Function (SIF) Directors
Heads of Trading/Portfolio Management Strategies
Senior Leaders of Internal Governance and Oversight Functions (Finance, Legal, Compliance, HR, Internal Audit)

THE LINK BETWEEN PAY AND PERFORMANCE FOR CODE STAFF

Remuneration is made up of fixed pay (i.e. salary and benefits) and performance-related pay. Performance-related pay is designed to reflect success or failure against a range of targets which have appropriate risk-management as a key component. All management and key contributing employees are subject to deferral of at least 35% of their annual bonus into equity (either Franklin Resources Inc stock or a combination of Franklin Resources Inc. stock and Mutual Fund Units). That deferred equity element then typically vests over three years in equal instalments.

The Company provides long-term incentives which are designed to link reward with the long-term success of the Company and recognise the responsibility participants have in driving its future successes, appropriate risk-management and delivering value for shareholders. Long-term incentive awards are conditional on the satisfaction of medium to long-term corporate performance measures and Investment Management metrics.

At a corporate level a Compensation Risk Review Committee, which is comprised of cross-functional senior management, has been established to oversee incentive compensation arrangements with a view to ensuring that such arrangements do not encourage imprudent risk-taking.

The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Company to operate a truly flexible bonus policy.

AGGREGATE REMUNERATION COST FOR CODE STAFF

For fiscal year 2018 there were 24 employees categorised as Code Staff.

Aggregate remuneration expenditure in respect of the fiscal year ending 30 September 2018 in respect of Code Staff was as follows:

FTGIL Group

£12,400,000, of which the fixed element comprised of £4,700,000 (38%) and the variable element £7,700.000 (62%).