

# RISING RATES

What You Need to Know



FRANKLIN TEMPLETON  
INVESTMENTS

**“Although rising interest rates may primarily challenge those bond investments with the highest sensitivity to interest rates, we believe many parts of the global fixed income markets can provide reduced interest-rate risk and even be used to seek potentially strong performance in a rising interest-rate environment.”**

—Christopher J. Molumphy, CFA®  
Executive Vice President and Chief Investment Officer  
Franklin Templeton Fixed Income Group®

# **RIISING RATES—WHAT YOU NEED TO KNOW**

It's important to remember the primary reasons to own fixed income funds don't change when market conditions, including interest rates, change. In addition to providing income, fixed income funds are an important component of a well-diversified portfolio.

The following pages will review the factors that can impact interest rates, why certain fixed income strategies are typically less interest rate sensitive than others and Franklin Templeton funds to consider for a rising rate environment.

Learn more about:

## **WHAT DRIVES INTEREST RATES?**

Short-term and long-term rates don't necessarily move in tandem. Learn what factors influence different parts of the yield curve.

## **NOT ALL FIXED INCOME IS CREATED EQUAL**

Not all fixed income sectors react the same way to interest rate changes. Some sectors are less rate-sensitive than others.

## **OUR FIXED INCOME FUND LINEUP**

See specific Franklin Templeton funds to consider for a rising rate environment.

# WHAT DRIVES INTEREST RATES?

In order to better understand the impact rising interest rates can have on your investments, it's important to understand the relationship between bond prices and yields, and the different factors that can influence short- and long-term rates.

## When Yields Go Up, Prices Go Down (and Vice Versa)

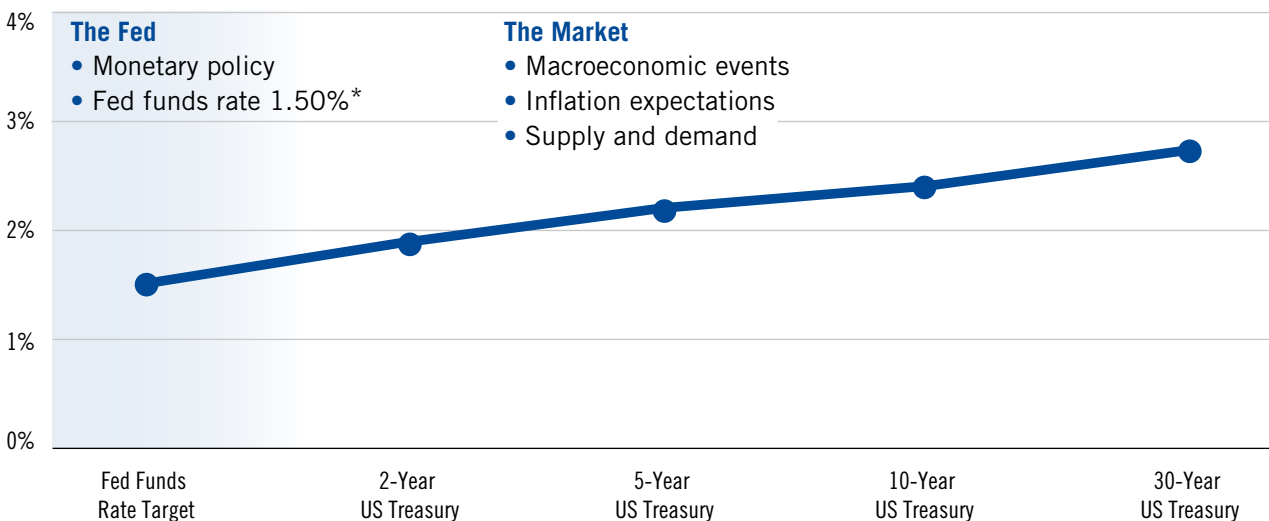
Bond prices and yields have an inverse relationship. Typically, bond prices and interest rates move in opposite directions. That means when interest rates rise, bond prices tend to fall, and conversely, when interest rates decline, bond prices tend to rise. Likewise, the share price of a fixed income mutual fund may move up or down, depending on movements in interest rates and their effect on the value of the bonds held in the fund's portfolio.

Similar to the Reserve Bank of Australia and the official cash rate, the Federal Reserve (Fed) in the U.S. controls the Federal funds target rate, which in turn influences the market for short-term debt securities.

The Federal funds target rate is the rate that banks charge other banks for overnight loans. The Fed cut the Federal funds target rate to near zero in December 2008 in order to combat the deep recession—where it stayed for seven years until December of 2015, when the Fed made its first rate increase of 25 basis points. Another 25 basis points rate increase came a full year later. However, with inflation measures picking up, and the US economy appearing to be on more solid footing, the Fed has indicated it is likely to continue gradual tightening in order to keep the economy operating smoothly.

## WHAT DRIVES INTEREST RATES?

**Treasury yield curve** (as of 31 December 2017)<sup>1</sup>



*This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. Past performance does not guarantee future results.*

\*As of 31 December 2017.

1. Source: Bloomberg, Federal Reserve. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

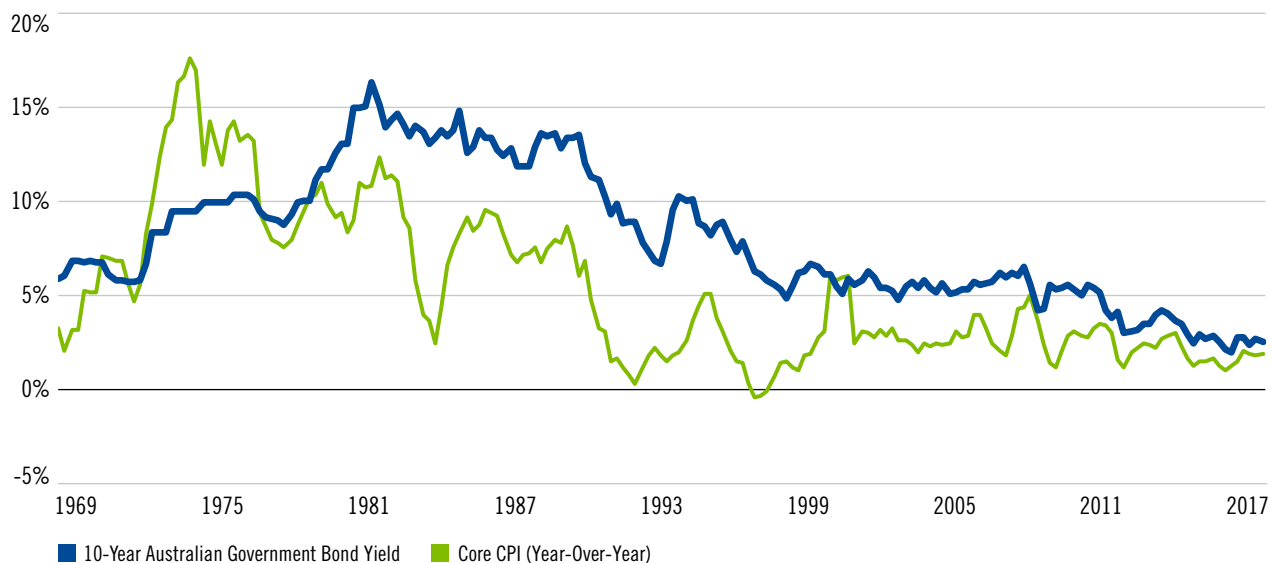
Longer-term interest rates, as represented by yields of 10-year and 30-year Treasury bonds, are typically market driven and may be influenced by macroeconomic events (such as economic expansion or contraction), inflation expectations, as well as supply and demand factors (including demand from foreign central banks). From 2009–2014, longer-term rates had been held down, in part, by large-scale bond purchases from the Fed—known as quantitative easing (QE). With the conclusion of QE in late 2014, longer-term rates, once again, became more sensitive to market pressure.

## Inflation Has Historically Influenced Long-Term Rates

While different factors may affect interest rates at any given time, over the long-term inflation (or the rate at which the prices of goods and services is rising), has tended to be a key driver. Inflation is often a sign that the economy is expanding and expectations of growing inflation by the market may cause long-term rates to move higher.

### 10-Year Australian Government Bond Yield vs. Core CPI Year-Over-Year<sup>2</sup>

31 December 1969–31 December 2017



### Rising Rates Have an Upside Too

There tends to be a sense of foreboding whenever the prospect of rising interest rates comes up, but it's important to remember that rising interest rates have an upside too. Rising rates may also be an indication of economic expansion, and investors could see an increase in dividends and interest payments over time. For those investors whose investment horizon is longer than their bonds' time to maturity, they also have the opportunity to reinvest at the new higher rates.

2. Sources: Bloomberg, Reserve Bank of Australia, Australian Bureau of Statistics.

# NOT ALL FIXED INCOME IS CREATED EQUAL

The size and scope of the fixed income market is much larger than the stock market. Within this large marketplace, different fixed income asset classes have their own set of unique characteristics, including interest rate sensitivity.

## The Importance of Fixed Income Diversification

This table shows the annual returns of key fixed income sectors, on a year-by-year basis from 1995–2017, ordered from high to low. The outlined columns denote years when the Federal funds target rate and/or the 10-year Treasury bond yield increased.

ANNUAL TOTAL RETURNS OF KEY FIXED INCOME SECTORS<sup>3</sup> (1995–2017)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Emerging Markets Debt	26.38%	Emerging Markets Debt	High-Yield Bonds	International Bonds	Emerging Markets Debt	Preferreds	Investment-Grade Corporate Bonds	International Bonds	High-Yield Bonds	International Bonds
10-Year US Treasury Bonds	23.73%	High-Yield Bonds	Emerging Markets Debt	Global Bonds	Floating-Rate Loans	10-Year US Treasury Bonds	Preferreds	Global Bonds	Emerging Markets Debt	High-Yield Bonds
Investment-Grade Corporate Bonds	22.25%	Floating-Rate Loans	10-Year US Treasury Bonds	10-Year US Treasury Bonds	Short-Term Gov't Bonds	Emerging Markets Debt	Asset-Backed Securities	TIPS	International Bonds	Emerging Markets Debt
Preferreds	20.41%	Preferreds	Investment-Grade Corporate Bonds	Agencies	High-Yield Bonds	TIPS	Agencies	10-Year US Treasury Bonds	Global Bonds	Global Bonds
International Bonds	19.55%	Mortgage-Backed Securities	Preferreds	Investment-Grade Corporate Bonds	TIPS	Agencies	Short-Term Gov't Bonds	Emerging Markets Debt	Floating-Rate Loans	TIPS
Global Bonds	19.04%	Short-Term Gov't Bonds	Agencies	Asset-Backed Securities	Mortgage-Backed Securities	Municipal Bonds	Mortgage-Backed Securities	Agencies	Preferreds	Floating-Rate Loans
Agencies	18.27%	Asset-Backed Securities	Mortgage-Backed Securities	Mortgage-Backed Securities	Asset-Backed Securities	Mortgage-Backed Securities	TIPS	Investment-Grade Corporate Bonds	TIPS	Investment-Grade Corporate Bonds
Municipal Bonds	17.45%	Municipal Bonds	Municipal Bonds	Preferreds	Agencies	Asset-Backed Securities	High-Yield Bonds	Municipal Bonds	Investment-Grade Corporate Bonds	Preferreds
High-Yield Bonds	17.38%	International Bonds	Floating-Rate Loans	Short-Term Gov't Bonds	Investment-Grade Corporate Bonds	Investment-Grade Corporate Bonds	Municipal Bonds	Mortgage-Backed Securities	Municipal Bonds	10-Year US Treasury Bonds
Mortgage-Backed Securities	16.80%	Global Bonds	Asset-Backed Securities	Municipal Bonds	Municipal Bonds	Short-Term Gov't Bonds	10-Year US Treasury Bonds	Asset-Backed Securities	Asset-Backed Securities	Mortgage-Backed Securities
Asset-Backed Securities	13.43%	Agencies	Short-Term Gov't Bonds	Floating-Rate Loans	Global Bonds	Floating-Rate Loans	Floating-Rate Loans	Preferreds	Mortgage-Backed Securities	Municipal Bonds
Short-Term Gov't Bonds	9.77%	Investment-Grade Corporate Bonds	Global Bonds	TIPS	Preferreds	Global Bonds	Emerging Markets Debt	Short-Term Gov't Bonds	Agencies	Agencies
Floating-Rate Loans	8.91%	10-Year US Treasury Bonds	International Bonds	High-Yield Bonds	International Bonds	International Bonds	Global Bonds	High-Yield Bonds	Short-Term Gov't Bonds	Asset-Backed Securities
TIPS	N/A	TIPS	TIPS	Emerging Markets Debt	10-Year US Treasury Bonds	High-Yield Bonds	International Bonds	Floating-Rate Loans	10-Year US Treasury Bonds	Short-Term Gov't Bonds

YEAR-END

Federal Funds Target Rate	5.50%	5.25%	5.50%	4.75%	5.50%	6.50%	1.75%	1.25%	1.00%	2.25%
10-Year Treasury Bond Yield	5.58%	6.43%	5.75%	4.65%	6.45%	5.12%	5.07%	3.83%	4.27%	4.24%

This chart is for illustrative purposes only and does not reflect performance of any Franklin Templeton fund.

**Past performance does not guarantee future results.** Fund performance can be obtained at [franklintempleton.com.au](http://franklintempleton.com.au).

Diversification does not guarantee a profit or protect against a loss.

Treasuries, if held to maturity, offer a fixed rate of return and fixed principal value; their interest payments and principal are guaranteed.

3. Sources: Bloomberg, Credit Suisse; Federal Reserve H.15 Report and © 2018 Morningstar. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Emerging Markets Debt	High-Yield Bonds	TIPS	10-Year US Treasury Bonds	High-Yield Bonds	High-Yield Bonds	10-Year US Treasury Bonds	Emerging Markets Debt	High-Yield Bonds	Preferreds	Preferreds	High-Yield Bonds	Preferreds
10.73%	11.92%	11.64%	20.30%	54.22%	14.42%	16.99%	18.54%	7.53%	15.44%	7.58%	18.25%	10.58%
Floating-Rate Loans	Emerging Markets Debt	International Bonds	Global Bonds	Floating-Rate Loans	Preferreds	TIPS	High-Yield Bonds	Floating-Rate Loans	10-Year US Treasury Bonds	Municipal Bonds	Emerging Markets Debt	International Bonds
5.69%	9.88%	11.45%	10.89%	44.87%	13.66%	13.56%	14.71%	6.15%	10.72%	3.30%	10.19%	10.33%
Municipal Bonds	Preferreds	Global Bonds	International Bonds	Emerging Markets Debt	Emerging Markets Debt	Municipal Bonds	Preferreds	Short-Term Gov't Bonds	Municipal Bonds	Mortgage-Backed Securities	Floating-Rate Loans	Emerging Markets Debt
3.51%	8.10%	10.95%	10.11%	28.18%	12.04%	10.70%	13.59%	0.39%	9.05%	1.51%	9.88%	9.32%
TIPS	Floating-Rate Loans	10-Year US Treasury Bonds	Agencies	Asset-Backed Securities	Floating-Rate Loans	Emerging Markets Debt	Investment-Grade Corporate Bonds	Asset-Backed Securities	Investment-Grade Corporate Bonds	Asset-Backed Securities	Investment-Grade Corporate Bonds	Global Bonds
2.84%	7.33%	9.77%	9.26%	24.71%	9.97%	8.46%	9.82%	-0.27%	7.46%	1.25%	6.11%	7.49%
Mortgage-Backed Securities	International Bonds	Agencies	Mortgage-Backed Securities	Preferreds	Investment-Grade Corporate Bonds	Investment-Grade Corporate Bonds	Floating-Rate Loans	Agencies	Mortgage-Backed Securities	Emerging Markets Debt	TIPS	High-Yield Bonds
2.61%	6.94%	7.90%	8.34%	20.07%	9.00%	8.15%	9.43%	-1.38%	6.08%	1.23%	4.68%	7.03%
Agencies	Global Bonds	Mortgage-Backed Securities	Short-Term Gov't Bonds	Investment-Grade Corporate Bonds	10-Year US Treasury Bonds	Global Bonds	TIPS	Mortgage-Backed Securities	Emerging Markets Debt	Agencies	Preferreds	Investment-Grade Corporate Bonds
2.33%	6.12%	6.90%	5.96%	18.68%	8.10%	6.35%	6.98%	-1.41%	5.53%	1.01%	2.32%	6.42%
High-Yield Bonds	Mortgage-Backed Securities	Short-Term Gov't Bonds	TIPS	Municipal Bonds	TIPS	Mortgage-Backed Securities	Municipal Bonds	Investment-Grade Corporate Bonds	TIPS	10-Year US Treasury Bonds	Asset-Backed Securities	Municipal Bonds
2.26%	5.22%	6.65%	-2.35%	12.91%	6.31%	6.23%	6.78%	-1.53%	3.64%	0.90%	2.03%	5.45%
Asset-Backed Securities	Municipal Bonds	Emerging Markets Debt	Municipal Bonds	TIPS	Asset-Backed Securities	High-Yield Bonds	10-Year US Treasury Bonds	Municipal Bonds	Agencies	Short-Term Gov't Bonds	International Bonds	Floating-Rate Loans
2.09%	4.84%	6.28%	-2.47%	11.41%	5.85%	5.47%	4.23%	-2.55%	3.58%	0.31%	1.81%	4.25%
10-Year US Treasury Bonds	Asset-Backed Securities	Investment-Grade Corporate Bonds	Investment-Grade Corporate Bonds	Mortgage-Backed Securities	Mortgage-Backed Securities	International Bonds	Asset-Backed Securities	Preferreds	Floating-Rate Loans	Floating-Rate Loans	Mortgage-Backed Securities	TIPS
2.04%	4.70%	4.56%	-4.94%	5.89%	5.37%	5.17%	3.66%	-3.65%	2.06%	-0.38%	1.67%	3.01%
Short-Term Gov't Bonds	Agencies	Municipal Bonds	Emerging Markets Debt	International Bonds	International Bonds	Asset-Backed Securities	Mortgage-Backed Securities	Global Bonds	Asset-Backed Securities	Investment-Grade Corporate Bonds	Global Bonds	Mortgage-Backed Securities
1.93%	4.37%	3.36%	-10.91%	4.39%	5.21%	5.14%	2.59%	-4.00%	1.88%	-0.68%	1.60%	2.47%
Investment-Grade Corporate Bonds	Investment-Grade Corporate Bonds	High-Yield Bonds	Asset-Backed Securities	Global Bonds	Global Bonds	Agencies	Agencies	International Bonds	High-Yield Bonds	TIPS	Agencies	10-Year US Treasury Bonds
1.68%	4.30%	2.65%	-12.72%	2.55%	5.17%	4.82%	2.16%	-4.56%	1.86%	-1.44%	1.39%	2.13%
Preferreds	Short-Term Gov't Bonds	Asset-Backed Securities	Preferreds	Agencies	Agencies	Preferreds	Global Bonds	Emerging Markets Debt	Short-Term Gov't Bonds	Global Bonds	Short-Term Gov't Bonds	Agencies
0.96%	4.18%	2.21%	-25.24%	1.53%	4.36%	4.11%	1.65%	-6.58%	0.41%	-3.57%	0.83%	2.06%
Global Bonds	10-Year US Treasury Bonds	Floating-Rate Loans	High-Yield Bonds	Short-Term Gov't Bonds	Municipal Bonds	Floating-Rate Loans	International Bonds	10-Year US Treasury Bonds	Global Bonds	High-Yield Bonds	Municipal Bonds	Asset-Backed Securities
-6.88%	1.38%	1.88%	-26.17%	1.28%	2.38%	1.82%	1.51%	-7.85%	-0.48%	-4.93%	0.25%	1.55%
International Bonds	TIPS	Preferreds	Floating-Rate Loans	10-Year US Treasury Bonds	Short-Term Gov't Bonds	Short-Term Gov't Bonds	Short-Term Gov't Bonds	TIPS	International Bonds	International Bonds	10-Year US Treasury Bonds	Short-Term Gov't Bonds
-9.20%	0.41%	-11.31%	-28.75%	-9.92%	1.65%	1.01%	0.37%	-8.61%	-2.68%	-5.54%	-0.14%	0.41%

4.25%	5.25%	4.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	1.50%
4.39%	4.71%	4.04%	2.25%	3.85%	3.30%	1.89%	1.78%	3.04%	2.17%	2.27%	2.45%	2.40%

■ High-Yield Bonds are represented by Credit Suisse High Yield Index; ■ Emerging Markets Debt are represented by J.P. Morgan Emerging Market Bond Index Global; ■ Floating-Rate Loans are represented by Credit Suisse Leveraged Loan Index; ■ International Bonds are represented by Citigroup World Government Bond Index Non-US; ■ Global Bonds are represented by Citigroup World Government Bond Index; ■ TIPS are represented by Bloomberg Barclays US TIPS Index; ■ Municipal Bonds are represented by Bloomberg Barclays Municipal Bond Index; ■ Mortgage-Backed Securities are represented by Bloomberg Barclays US MBS Index; ■ Asset-Backed Securities are represented by Barclays Asset-Backed Securities Index; ■ Investment-Grade Corporate Bonds are represented by Bloomberg Barclays US Corporate Investment Grade Index; ■ Short-Term Government Bonds are represented by Barclays US Government 1–2 Year Index; ■ Agencies are represented by Bloomberg Barclays US Agency Index; ■ 10-Year US Treasury Bonds are represented by Citigroup 10-Year US Treasury Index; ■ Preferreds are represented by BofAML Preferred Stock Fixed Rate Index.

**Past performance is no guarantee of future results.** Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges. Please see page 9 for definitions of indexes shown here.

# FIXED INCOME SECTORS THAT TEND TO HAVE LOWER INTEREST RATE SENSITIVITY

Interest rate sensitivity can vary quite a bit across the fixed income universe. Generally speaking, higher quality sectors (such as government bonds) and longer duration bonds have tended to be the most vulnerable to interest rate volatility. The following are strategies that have tended to be less interest rate sensitive.

## CONSIDER CREDIT-ORIENTED STRATEGIES

- High-Yield Corporate Bonds
- Floating-Rate Bank Loans

Credit-oriented sectors and, in particular, non-investment grade sectors such as high yield corporate bonds and floating-rate bank loans have historically been less correlated to US Treasuries as their performance is typically tied more to the overall economic outlook and corporate earnings landscape than interest rates.

## KEEP IT SHORT

- Adjustable-Rate Mortgages
- Short-Term Bonds
- Floating-Rate Bank Loans

Shorter duration securities are generally not as sensitive to rate movements and can offer an attractive alternative to longer duration securities where rising rates typically have a greater effect on price and valuations.

## GO GLOBAL

- Global Bonds

International and global strategies can seek to capitalise on the differing business cycles and economic conditions present around the world, and thus are typically less impacted by rate changes.

### What about Stocks?

Rising rates often signify an expanding economy. When rates are rising due to economic growth, it also tends to mean businesses and consumers are increasing their spending on goods and services—all of which tends to be good for the stock market.



# FRANKLIN TEMPLETON FUNDS TO CONSIDER FOR A RISING RATE ENVIRONMENT

Strategy Type	Key Features
<b>Specialist Australian Bond</b>	
<b>Franklin Australian Absolute Return Bond Fund</b>	<ul style="list-style-type: none"><li>• Providing access to fixed income opportunities in domestic markets and select strategies from the broader global universe, with a focus on delivering stable, income style returns.</li></ul>
<b>Global Bond</b>	
<b>Franklin Templeton Global Aggregate Bond Fund</b>	<ul style="list-style-type: none"><li>• A benchmark aware strategy that provides broad global bond exposure focused on providing lower correlations to other asset classes.</li></ul>
<b>Unconstrained Global Bond</b>	
<b>Templeton Global Bond Plus Fund</b>	<ul style="list-style-type: none"><li>• A benchmark agnostic, high alpha-seeking strategy seeking exposure to improving interest rate dynamics and currency appreciation.</li></ul>
<b>Franklin Templeton Multisector Bond Fund</b>	<ul style="list-style-type: none"><li>• A benchmark agnostic, multi-sector global fixed income strategy that may invest across the breadth of the global fixed income markets including government, securitised and corporate credit as well as emerging market debt.</li></ul>



## How to Prepare for Rising Rates

Although it's impossible to predict the exact timing and direction of interest rate changes, it's almost certain fluctuations will occur. To learn more about Franklin Templeton's range of funds that may be considered for a rising rate environment, talk to your financial advisor. They offer market knowledge and planning expertise, and will take into account your individual investment needs to create an investment strategy tailored to your specific investment goals and risk tolerance.

# FRANKLIN TEMPLETON FIXED INCOME GROUP®

## Extensive Expertise

Franklin Templeton has been managing fixed income assets since 1948 and dedicated fixed income mutual funds since 1970. During that time, we have become one of the most respected names in the industry, as well as one of the largest fixed income fund managers in the USA.<sup>4</sup>

**A Fixed Income Leader.** Franklin Templeton manages over \$370 billion (AUD) in fixed income assets.<sup>5</sup>

**Research Expertise.** Our fixed income team includes over 170 investment professionals with an average of 17 years of experience.<sup>5</sup> We are also able to tap the expertise of the Franklin equity research team, which gives us the ability to view our investments from yet another perspective.

**Extensive Resources.** Our dedicated risk management team partners with managers to analyse and monitor portfolio risk.



**“The Franklin Templeton Fixed Income Group has global specialist teams focusing on every major sector of the fixed income market. This worldwide breadth gives us an advantage in identifying investment opportunities for our fund portfolios.”**

CHRISTOPHER MOLUMPBY, CFA®, EVP and CIO, Franklin Templeton Fixed Income Group

4. Strategic Insight, ICI as of 31/12/16.

5. As of 31/12/17.

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## WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in a fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. Floating-rate loans and high-yield corporate bonds are generally rated below investment grade and are subject to greater risk of default, which could result in loss of principal, a risk that may be heightened in a slowing economy. The risks of foreign securities include currency fluctuations and political uncertainty. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Derivatives, including currency management strategies involve costs and can create economic leverage in a portfolio which may result in significant volatility and cause a fund to participate in losses (as well as enable gains) on an amount that exceeds the fund's initial investment. A fund may not achieve the anticipated benefits, and may realise losses when a counterparty fails to perform as promised. Some derivatives are particularly sensitive to changes in interest rates. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

### Index Definitions

Credit Suisse High Yield Index is designed to mirror the investible universe of the US dollar denominated high yield debt market.

J.P. Morgan Emerging Markets Bond Index Global tracks total returns for US dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities.

Credit Suisse Leveraged Loan Index is designed to mirror the investible universe of the US dollar denominated leveraged loan market.

Citigroup World Government Bond Index Non-US is a market capitalization weighted index consisting of investment-grade world government bonds (apart from US).

Citigroup World Government Bond Index is a market capitalization weighted index consisting of investment-grade world government bonds.

Bloomberg Barclays US TIPS Index covers the universe of inflation-protected notes issued by the US Treasury that have at least one year to final maturity.

Bloomberg Barclays Municipal Bond Index is a market-value-weighted index engineered for the long-term tax-exempt bond market.

Bloomberg Barclays US MBS Index is the MBS component of the Bloomberg Barclays US Aggregate Index and covers agency mortgage-backed pass-through securities (both fixed rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

Bloomberg Barclays Asset-Backed Securities (ABS) Index is the ABS component of the Bloomberg Barclays US Aggregate Index and includes credit and charge card, auto, and utility loans.

Bloomberg Barclays US Corporate Investment Grade Index is the US Corporate component of the Bloomberg Barclays US Credit Index and covers USD-denominated, investment-grade, fixed-rate, taxable securities sold by industrial, utility, and financial institution issuers.

Bloomberg Barclays US Government Index: 1–2 Year Component is the 1–2 year component of the Bloomberg Barclays US Government Index.

Bloomberg Barclays US Government Index is the US Government component of the Barclays US Government/Credit index and includes public obligations of the US Treasury with at least one year to final maturity and publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

Bloomberg Barclays US Agency Index is the US Agency component of the Bloomberg Barclays US Government/Credit Index and includes publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government.

Citigroup 10-Year US Treasury Index is a total return index based on a constant maturity instrument.

BofAML Preferred Stock Fixed Rate Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market.

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