

DRAFT COMMON CROSS-BORDER MERGER TERMS
DRAWN UP BY THE BOARDS OF DIRECTORS OF

(1)

Franklin Templeton International Services S.à r.l., a company with limited liability (*société à responsabilité limitée*) incorporated under the laws of the Grand Duchy of Luxembourg with a share capital of EUR 3,961,413, having its registered office at 8A, rue Albert Borschette, L-1246 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Register of Trade and Companies (*Registre de Commerce et des Sociétés*) under No. B 36.979 (“**FTIS**”)

(2)

Franklin Templeton Italia SIM S.p.A., a joint stock company (*società per azioni*) incorporated under the laws of the Republic of Italy having its registered office at Corso Italia 1, 20122 Milan, Italy, with a share capital of EUR 3,500,000, registered with the Companies’ Register of Milan (*Registro delle Imprese*) under No. 11500370157 (“**FT SIM**”)

FTIS and FT SIM are hereinafter jointly also referred to as the “**Companies**”.

WHEREAS

- A. These draft common cross-border terms (“**Common Cross-Border Merger Terms**”) have been prepared by the boards of directors/managers of the Companies (each, a “**Board**” and collectively, the “**Boards**”) in order to establish a cross-border legal merger within the meaning of the provisions of EU Directive 2005/56/EC of the European Parliament and Council of October 26, 2005 on cross-border mergers of limited liability companies, implemented into Luxembourg law in Articles 257 *et seq.* of the Luxembourg Law of August 10, 1915 on commercial companies as amended (the “**1915 Law**”) and into Italian law by Italian Legislative Decree no. 108 of May 30, 2008, as amended (the “**Legislative Decree 108**”).
- B. By virtue of the cross-border legal merger described herein, FT SIM (the “**Absorbed Company**”) will be merged into FTIS (the “**Absorbing Company**”) (merger by acquisition), and all its assets and liabilities as well as all rights and obligations will be transferred to the Absorbing Company under universal title of succession (the “**Merger**”).
- C. In anticipation of the Merger, FTIS has notified its home regulator its intention to establish a branch in Italy (the “**Branch**”) which will become operational on the Merger Effective Date (as defined below) and will take over the activities and legal relationship – including the workforce - of FT SIM.

1. BACKGROUND AND RATIONALE

- 1.1 Both FTIS and FT SIM are wholly owned subsidiaries of Franklin Templeton Luxembourg S.A., a joint stock company (*société anonyme*) incorporated under the laws of the Grand Duchy of Luxembourg having its registered office at 8A, rue Albert Borschette, L-1246 Luxembourg, Grand Duchy of Luxembourg, registered with the Luxembourg Register of Trade and Companies (*Registre de Commerce et des Sociétés*) under No. B 131.440 (“*FTL*”).
- 1.2 FTIS is a management company authorised pursuant to Articles 101 (2) and 101-1 of the Luxembourg Law of 17 December 2010, as amended (the "*2010 Law*") implementing Directive 2009/65/EC on undertakings for collective investment in transferable securities ("*UCITS Directive*") as well as Article 5 (2) of the Luxembourg Law of 12 July 2013 on alternative investment fund managers (the "*2013 Law*") implementing Directive 2011/61/EU on alternative investment fund managers ("*AIFM Directive*").

By virtue of its authorisation, FTIS can manage UCITS, other undertakings for collective investment and AIFs (the "*Funds*") (as these acronyms are explained in the denominations of the two directives above) and carry out a series of activities falling within the definition of “management”, within the meaning of the laws and directives mentioned above, including portfolio management, risk management, central administration and marketing activities. The "marketing" consists of the direct or indirect offering or placement on the initiative of FTIS or on behalf of FTIS of units or shares of the Funds to or with investors.

- 1.3 FT SIM holds an Italian licence for “placing of financial instruments without a firm commitment basis” and of “investment advice” granted under the Italian laws implementing Directive 2004/39/EC (“*MiFID*”) on markets in financial instruments. However, it appears that FT SIM does not completely exploit its current licence as it provides limited investment services. Indeed, the service of “placing of financial instruments” carried out by FT SIM is only addressed to professional clients (as defined in the Italian rules implementing the MiFID), and offers only the Funds managed or promoted by companies of Franklin Templeton Group, one of which being the flagship Luxembourg UCITS, Franklin Templeton Investment Fund. With regard to the offering/placement of units/shares of the Funds to the retail clients, FT SIM does not directly undertake this activity (i.e. “place” shares/units within the meaning of the Italian laws implementing the MiFID to these clients), but actually operates as “principal distributor” to the extent that FT SIM appoints other Italian regulated entities as placement agents such as banks or other SIMs that will contract with the retail clients. In this circumstance, the licence for “placing” of FT SIM is not used towards retail clients and therefore the “placing” to retail clients will actually be performed by other SIMs or banks, appointed by FT SIM. Also with regard to the “investment advice”, FT SIM does not provide personal recommendation to clients and therefore its activities do not fall

within one of the regulated investment services under the Italian laws implementing MiFID. FT SIM's activities relate to providing support to other Franklin Templeton Group companies in relation to the identification of new business opportunities in the Italian market and any relevant regulatory developments.

- 1.4 On the basis of these circumstances, the Boards came to the conclusion that the services of FT SIM, as above described, can be rendered in a more economically efficient manner by FTIS through the Branch that would engage in the activity of "marketing" of the Franklin Templeton Funds in Italy. Such marketing shall be capable of being addressed either to professional clients or to retail clients, subject to the Italian rules governing these activities.
- 1.5 These Common Cross-Border Merger Terms will be published in accordance with the applicable laws and regulations and made available on the Italian website of Franklin Templeton (www.franklintempleton.it), as well as, for inspection, at the registered offices of FTIS and FT SIM by whomever is entitled to them by applicable law.
- 1.6 As provided for by the laws applicable to the Companies, these Common Cross-Border Merger Terms are drafted, executed and filed in Italian, English and French.
- 1.7 The information which has to be made available pursuant to the 1915 Law, the Legislative Decree 108 and Article 2501-ter of the Italian Civil Code ("*ICC*") is listed below.

2 LEGAL FORM, NAME AND SEAT OF THE COMPANIES

2.1 The Absorbing Company:

- is named Franklin Templeton International Services S.à r.l.;
- is incorporated in the form of a limited liability company (*société à responsabilité limitée*) under the laws of the Grand Duchy of Luxembourg;
- has its registered office at 8A, rue Albert Borschette, L-1246 Luxembourg, Grand Duchy of Luxembourg;
- has a share capital amounting to three million nine hundred and sixty-one thousand four hundred and thirteen euros (EUR 3,961,413.-), represented by one hundred and fifty-nine thousand eight hundred and three (159,803) fully paid-in shares without nominal value;
- has none of its shares pledged, lent or encumbered with a right of usufruct;
- is registered with the Luxembourg Register of Trade and Companies (*Registre de Commerce et des Sociétés*) under no B 36.979;

- has been authorised by the Luxembourg *Commission de Surveillance du Secteur Financier*, the Luxembourg regulator (the “*CSSF*”) as a management company subject to Chapter 15 of the 2010 Law and as an AIFM under the 2013 Law since November 21, 2013. Before this date, FTIS was approved as a professional of the financial sector under the Law of 5 April 1993, as amended on the financial sector providing *inter alia* central administration, transfer agent, distribution and investment advice activities from May 17, 1991 to November 21, 2013;
- as of the date of these Common Cross-Border Merger Terms, FTIS has applied to the *CSSF* in order to establish the Branch.

As a result of the Merger, FTIS will be the surviving company and will maintain its current legal form, its denomination and official seat and will therefore be subject to the laws of the Grand Duchy of Luxembourg.

2.2 The Absorbed Company

- is named Franklin Templeton Italia SIM S.p.A.;
- is incorporated in the form of a joint stock company (*società per azioni*) under the laws of the Republic of Italy;
- has its registered office at Corso Italia 1, 20122, Milan, Italy;
- has a share capital amounting to three million five hundred thousand euros (EUR 3,500,000), represented by three million five hundred thousand (3,500,000) fully paid-in ordinary shares with a nominal value of one euro (EUR 1) each;
- has received an amount of two million euros (EUR 2,000,000) from its sole shareholder after September 30, 2015 to proceed to a capital injection, in accordance with Italian legal provisions;
- has none of its shares pledged, lent or encumbered with a right of usufruct;
- is registered with the Companies’ Register of Milan (*Registro delle Imprese*) under no 11500370157.

3 ARTICLES OF ASSOCIATION OF FTIS

- 3.1 The articles of association of FTIS were drawn up by a notarial deed dated May 17, 1991, published in the *Mémorial C, Recueil des Sociétés et Associations* number 417 of 1991. The articles of association of FTIS were last amended pursuant to a deed of Me Jean-Joseph Wagner, notary residing in Sanem, Grand Duchy of Luxembourg, on December 20, 2013,

published in the *Mémorial C, Recueil des Sociétés et Associations* number 580 on 5 March 2014.

3.2 The articles of association of FTIS in force as of the Merger Effective Date are attached hereto as Annex 1.

4 BOARD OF MANAGERS OF FTIS

As of the date of these Common Cross-Border Merger Terms, the Board of Managers of FTIS is composed of the following individuals:

- Kathleen M. Davidson
- Paul Brady
- Gwen Shaneyfelt
- Alok Sethi
- Julie Moret
- Harold C. Nash
- Craig Blair
- Denise Voss

5. BENEFITS, IF ANY, GRANTED TO BOARD MEMBERS, EXPERTS EXAMINING THESE COMMON CROSS-BORDER MERGER TERMS OR APPROVED STATUTORY AUDITORS OF THE COMPANIES IN CONNECTION WITH THE MERGER

5.1 No specific benefits connected with the Merger shall be granted to members of any of the Boards or to any other person upon the Merger.

5.2 No specific benefits connected with the Merger were established for the experts, if any, appointed by the Companies.

5.3 No specific benefits connected with the Merger were established for the approved statutory auditors or the members of any other control body of the Companies.

6 MERGER EFFECTIVE DATE: LEGAL AS WELL AS ACCOUNTING AND FINANCIAL DATE

6.1 Pursuant to Article 15 of Legislative Decree 108 and Article 263 of the 1915 Law, and subject to the satisfaction of the conditions precedent to the Merger, including waiver, if any, of certain of these conditions precedent, the Merger shall be carried out in accordance with Article 271 of the 1915 Law by means of the approval by a resolution of the shareholder of the Absorbed Company and of the Absorbing Company of the Merger, whereby, in the context of its dissolution without liquidation, the Absorbed Company will

ipso jure and simultaneously transfer to the Absorbing Company all of its assets and liabilities (the “*Closing Date*”).

- 6.2 The Merger will become effective, in accordance with Article 273 ter of the 1915 Law, between the Companies and vis-à-vis third parties from the date of the publication in the Luxembourg official gazette (*Mémorial C, Recueil des Sociétés et Associations*) of the resolution of the shareholder of the Absorbing Company approving the Merger (the “*Merger Effective Date*”).
- 6.3 For accounting purposes the operations of the Absorbed Company shall be treated as being carried out on behalf of the Absorbing Company starting from October 1st, 2015.

7 SHARES IN FT SIM

- 7.1 As a result of the Merger, all shares of FT SIM currently outstanding will be cancelled by operation of law and FT SIM will cease to exist.
- 7.2 FT SIM does not have any shares outstanding that are non-voting shares or non-profit sharing shares that would require resolutions of shareholder’s meetings other than the EGM of FT SIM that under Article 2501-*sexies* of the ICC and Article 10 of Legislative Decree 108 will approve the Merger.

8 OTHER RIGHTS AND COMPENSATION CHARGEABLE TO FTIS

- 8.1 There are no persons who, in any other capacity than as FT SIM shareholder, are known to have special rights against FT SIM such as rights to participate in profit distributions or rights to acquire newly issued shares in the capital of FT SIM. Therefore no similar special rights are due and no compensation shall be paid to anyone on behalf of FTIS.
- 8.2 Neither the share capital of FT SIM nor the share capital of FTIS currently consists of shares other than ordinary shares.

9 THE SHARE EXCHANGE RATIO

- 9.1 The current share capital of FTIS amounts to three million nine hundred sixty-one thousand four hundred thirteen euros (EUR 3,961,413) represented by one hundred fifty-nine thousand eight hundred three (159,803) shares without nominal value.

The current share capital of FT SIM amounts to three million five hundred thousand euros (EUR 3,500,000) represented by three million five hundred thousand (3,500,000) ordinary shares having a nominal value of one euro (EUR 1) each.

FTL will be remunerated for the transferred assets and liabilities deriving from FT SIM, solely by receiving three thousand two hundred fifty-eight (3,258) new shares in FTIS without nominal value.

In connection with the Merger, FTIS will issue three thousand two hundred fifty eight (3,258) new shares without nominal value to be fully subscribed by FTL. Thus, the share capital of FTIS will be increased by a total amount of five million nine hundred sixty seven thousand nine hundred sixty-five euros (EUR 5,967,965) consisting of eighty thousand seven hundred sixty-five euros and eighty-two cents (EUR 80,765.82) allocated to the share capital and five million eight hundred eighty-seven thousand one hundred ninety nine euros and eighteen cents (EUR 5,887,199.18) allocated to a share premium account.

The share capital of FTIS will after completion of the Merger amount to four million forty-two thousand one hundred seventy-eight euros and eighty-two cents (EUR 4,042,178.82) consisting of one hundred sixty three thousand sixty one (163,061) shares without nominal value.

The exchange ratio is thus three thousand two hundred fifty eight (3,258) new shares in FTIS for three million five hundred thousand (3,500,000) shares in FT SIM.

The shares to be provided to FTL in consideration for the shares in FT SIM entitle to dividend and other rights as of the Merger Effective Date. The consideration shares carry the same rights as all the other shares in FTIS.

Since FTL owns all the shares in FTIS and FT SIM, there has been no difficulty in connection with determining the remuneration.

10 EXPECTED IMPACT OF THE MERGER ON THE ACTIVITIES OF FT SIM

- 10.1 Following the Merger, the activities of FT SIM shall be continued by the Branch in the same terms as they were carried out by the former.

11 EXPECTED EFFECTS OF THE MERGER ON EMPLOYMENT

- 11.1 As a result of the Merger all employees of FT SIM will be transferred to FTIS and employed in the Branch, which is subject to Italian law. The transfer of the employees will take place without interruption, and FTIS shall apply to the said employees the terms and conditions of employment and salary levels that are currently in force according to the existing employment contracts. FTIS will also apply the same national collective bargaining agreements so far applied by FT SIM, namely the one for the employees and the one for the executives of the tertiary sector, distribution and services.

11.2 At least 25 days before the adoption of the resolution mentioned in Section 16.2 below, FT SIM will carry out the consultation procedure set out under Article 47 of the Italian law no 428 of December 29, 1990, as amended. FTIS will comply with the legal requirements as provided for by the Luxembourg Labour Law Code regarding information and consultation rights of the staff representatives within the context of a transfer of undertaking. In accordance with Article 265 of the 1915 Law, FTIS shall make the report of the management on the Merger available to the staff representatives.

12 INFORMATION ON THE PROCEDURES FOR THE INVOLVEMENT OF EMPLOYEES IN DEFINING THEIR CO-PARTICIPATION RIGHTS IN FTIS

12.1 Article 19 of Legislative Decree 108 regulating participation of employees is not applicable to the Merger since FTIS as the surviving company in the Merger is not an Italian company and none of the Companies apply an employee participation system within the meaning of EU Directive 2005/56/EC of October 26, 2005 on cross-border mergers of limited liability companies. Furthermore FTIS does not fall within the scope of Articles L.426-1 *ff* of the Luxembourg Labour Law Code implementing the participation rights of employees. In light of the above, no special negotiation body will be set up and no other action whatsoever will be taken with regard to employee participation in the context of the contemplated Merger.

13 INFORMATION ON THE VALUATION OF THE ASSETS AND LIABILITIES TO BE TRANSFERRED TO FTIS AND THE DATE OF THE MOST RECENTLY ADOPTED STATUTORY FINANCIAL STATEMENTS OR INTERIM BALANCE SHEET

13.1 Subject to the approval of FTL, all assets and liabilities of FT SIM will be transferred to FTIS ipso jure and simultaneously.

13.2 The value of the assets and liabilities of FT SIM will be determined on the basis of the relevant book value as at September 30, 2015.

13.3 The conditions of the Merger have been set on the basis of the statutory approved financial statements at September 30, 2015 of FT SIM and on the basis of the statutory approved financial statements at September 30, 2015 of FTIS.

13.4 FT SIM does not own any real estate property or intellectual property rights.

14 GOODWILL

14.1 As the Merger takes place on the basis of the book value, there will be no goodwill impact.

15 RIGHTS FOR MINORITY SHAREHOLDERS

- 15.1 Both Companies having the same sole shareholder, this provision is not applicable. In the event of dissenting vote of that shareholder, the Merger will not take place.

16 APPROVAL OF THE RESOLUTION TO ENTER INTO THE MERGER

- 16.1 With regard to FTIS, Article 261 of the 1915 Law requires that the decision of the Board of FTIS approving these Common Cross-Border Merger Terms be approved by a resolution of the sole shareholder of FTIS.
- 16.2 With regard to FT SIM, Article 2502 of the ICC requires that the resolution of the Board of Directors of FT SIM approving these Common Cross-Border Merger Terms is approved by the extraordinary shareholder's meeting of FT SIM.

17. CREDITORS' PROTECTION

- 17.1 As a result of the Merger, *vis-à-vis* third parties the Absorbing Company shall support all the liabilities of the Absorbed Company as from the Merger Effective Date as defined above.

As a consequence and in compliance with Article 268 of the 1915 Law, the creditors of the merging companies whose claims antedate the date of the publication of the deeds recording the Merger provided for by Article 273 of the 1915 Law, are entitled to apply for adequate safeguards within two months after the publication to the judge presiding over the chamber of the *Tribunal d'Arrondissement* dealing with commercial matters in the City of Luxembourg (the "**Court**") and sitting as in urgent matters, where the Merger would make the protection necessary. The President of the Court shall reject the application if the creditor is already in possession of an adequate safeguard or if such safeguards are unnecessary, having regard to the assets and liabilities of the Company after the Merger.

- 17.2 The creditors of FTIS and of FT SIM shall be entitled to obtain, free of charge, complete information regarding the procedure to be followed to exercise their rights as creditors of FTIS and/or FT SIM at the following addresses:

- For FTIS: 8A rue Albert Borschette, L-1246 Luxembourg
- For FT SIM: Corso Italia 1, I-20122 Milan

- 17.3 With regard to FT SIM, the completion of the Merger is subject to the satisfaction of the following conditions:

17.3.1 in accordance with Articles 2501-quater, 2501-quinquies and 2501-sexies, of the ICC, the shareholder of the Companies has waived the requirements of,

respectively, the statement of assets and liabilities and the independent experts' report on the Merger;

17.3.2 the approval of the Merger by the Extraordinary Shareholders' Meeting of FT SIM;

17.3.3 the 60-day period following the date upon which the Extraordinary Shareholders' Meeting of FT SIM was registered with the Companies' Register of Milan shall have expired without any FT SIM creditors having opposed to the Merger pursuant to applicable law or such period having been earlier terminated pursuant to creditors' consent to the merger and/or the other actions for the protection of the creditors provided for in Article 2503 of the ICC or, where an opposition has been filed, this opposition has been withdrawn or discharged or an order allowing the Merger has been issued pursuant to Article 2445 of the ICC.

17.4 With regard to both Companies, the completion of the Merger is subject to the delivery by the Italian public notary selected by FT SIM of the pre-merger compliance certificate to the Luxembourg notary, this certificate being the pre-merger scrutiny certificate pursuant to the EU Directive 2005/56/EC of the European Parliament and Council of October 26, 2005 on cross-border mergers of limited liability companies.

18 GOVERNING LAW, JURISDICTION

18.1 For all matters that are not mandatorily subject to the laws applicable to FT SIM (i.e. Italian law), these Common Cross-Border Merger Terms shall be governed by, and interpreted in accordance with, the laws of the Grand Duchy of Luxembourg as the law of the surviving company.

18.2 Any dispute between the Companies as to the validity, interpretation or performance of these Common Cross-Border Merger Terms shall be submitted to the exclusive jurisdiction of the courts of the City of Luxembourg, unless otherwise provided for by mandatory provisions of law.

Dated: 16 March 2016

List of Annexes

Articles of Association of FTIS following the Merger

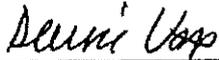
Audited balance sheet of FTIS as at September 30, 2015

Audited balance sheet of FT SIM as at September 30, 2015

Signed

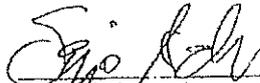
On behalf of

Franklin Templeton International
Services S.à r.l.
Board of Managers(Consell de Gérance)

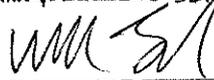


Denise Voss
Manager

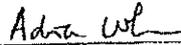
Board of Directors/Consiglio di
Amminstrazione



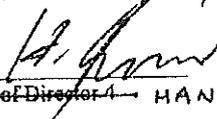
Name of Director 1 SERGIO ALBARELLI



Name of Director 2 WILLIAM JACKSON



Name of Director 3 ADRIAN WHITE



Name of Director 4 HANS WISSER

Franklin Templeton Italia SIM S.p.A.