

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 28574; 812-13499]

Franklin Templeton Fund Allocator Series, et al.; Notice of Application

December 29, 2008

Agency: Securities and Exchange Commission (“Commission”)

Action: Notice of application for an order under section 17(d) of the Investment Company Act of 1940 (“Act”) and rule 17d-1 under the Act.

Summary of Application: Applicants request an order to permit certain registered open-end investment companies in the same group of investment companies to enter into a special servicing agreement (“Special Servicing Agreement”).

Applicants: Franklin Templeton Fund Allocator Series, Franklin Capital Growth Fund, Franklin Gold and Precious Metals Fund, Franklin Custodian Funds, Franklin Value Investors Trust, Franklin Mutual Series Funds, Templeton China World Fund, Templeton Developing Markets Trust, Templeton Funds, Franklin Templeton International Trust, Templeton Global Smaller Companies Fund, Franklin High Income Trust, Franklin Investors Securities Trust, Franklin Real Estate Securities Trust, Franklin Strategic Series, Franklin Strategic Mortgage Portfolio, Franklin Templeton Global Trust, Templeton Income Trust, Franklin Global Trust, Templeton Growth Fund, Inc., Institutional Fiduciary Trust (each, a “Franklin Templeton Fund” and collectively, the “Franklin Templeton Funds”), Franklin Advisers, Inc. (“Franklin Advisers”), Franklin Templeton Institutional, LLC, Franklin Templeton Investments Corp., Franklin Investment Advisory Services, LLC, Franklin Advisory Services, LLC, Franklin Mutual Advisers, LLC, Templeton Asset Management Ltd., Templeton Global Advisors Limited, Templeton Investment Counsel, LLC, Franklin Templeton Investment Management Limited (the “Underlying Fund Advisers”

and, together with Franklin Advisers, the “Advisers”), Franklin/Templeton Distributors, Inc. (“FTD”), Franklin Templeton Services, LLC (“FTS”), and each existing or future registered open-end management investment company or series thereof that is part of the same “group of investment companies” as the Franklin Templeton Funds under section 12(d)(1)(G)(ii) of the Act and (i) is advised by Franklin Advisers or any entity controlling, controlled by, or under common control with Franklin Advisers, or (ii) for which FTD or any entity controlling, controlled by, or under common control with FTD serves as principal underwriter (such investment companies or series thereof, together with the Franklin Templeton Funds and their series, the “Funds”).<sup>1</sup>

Filing Dates: The application was filed on February 25, 2008, and amended on December 19, 2008.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on January 23, 2009, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer’s interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.

Addresses: Secretary, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090; Applicants, One Franklin Parkway, San Mateo, CA 94403-1906.

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<sup>1</sup>All entities that currently intend to rely on the order have been named as applicants. Any other entity that relies on the order in the future will comply with the terms and conditions of the application.

For Further Information Contact: John Yoder, Senior Counsel, at (202) 551-6878, or Mary Kay Frech, Branch Chief, at (202) 551-6821 (Division of Investment Management, Office of Investment Company Regulation).

Supplementary Information: The following is a summary of the application. The complete application may be obtained for a fee at the Public Reference Room, U.S. Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1520, telephone (202) 551-5850.

Applicants' Representations:

1. The Advisers are investment advisers registered under the Investment Advisers Act of 1940 and are under common control of Franklin Resources, Inc. Franklin Advisers provides investment management and related administrative services to the Top-Tier Funds (as defined below) and certain of the Underlying Funds (as defined below). The Underlying Fund Advisers serve as investment advisers to the remaining Underlying Funds. FTD is registered as a broker-dealer under the Securities Exchange Act of 1934 and serves as distributor of the Funds. FTS provides certain administrative services and facilities for the Funds.<sup>2</sup>

2. The Franklin Templeton Funds are registered under the Act as open-end management investment companies. The Franklin Templeton Funds currently offer multiple series, 10 of which are "Top-Tier Funds"<sup>3</sup> and 33 of which are "Underlying Funds."<sup>4</sup> The Top-

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<sup>2</sup> FTS also provides general administrative services to certain Top-Tier Funds that do not have an investment adviser. The administrative services provided include monitoring and rebalancing these Top-Tier Funds' investment in the Underlying Funds.

<sup>3</sup> "Top-Tier Funds" refers to Franklin Templeton Conservative Target Fund, Franklin Templeton Corefolio Allocation Fund, Franklin Templeton Founding Funds Allocation Fund, Franklin Templeton Growth Target Fund, Franklin Templeton Moderate Target Fund, Franklin Templeton Perspectives Allocation Fund, Franklin Templeton 2015 Retirement Target Fund, Franklin Templeton 2025 Retirement Target Fund, Franklin Templeton 2035 Retirement Target Fund and Franklin Templeton 2045 Retirement Target Fund and any other Fund that invests substantially all of its assets in the Underlying Funds (as defined below).

Tier Funds will invest substantially all of their assets in the Underlying Funds.<sup>5</sup> The Top-Tier Funds and certain of the Underlying Funds currently offer multiple classes of shares in reliance on rule 18f-3 under the Act.

3. The Advisers and the Funds propose to enter into a Special Servicing Agreement that would allow an Underlying Fund to bear the expenses of a Top-Tier Fund (other than management fees, fund-level administrative service fees,<sup>6</sup> rule 12b-1 fees and class-specific administrative service fees). Under the Special Servicing Agreement, each Underlying Fund will bear expenses of a Top-Tier Fund in proportion to the estimated benefits to the Underlying Fund arising from the investment in the Underlying Fund by the Top-Tier Fund (“Underlying Fund Benefits”).

4. Applicants state that the Underlying Fund Benefits are expected to result primarily from the incremental increase in assets resulting from investments in the Underlying Funds by the Top-Tier Funds and the large asset size of each shareholder account that represents an investment by a Top-Tier Fund relative to other shareholder accounts. A shareholder account that represents a Top-Tier Fund will experience fewer shareholder transactions and greater predictability of transaction activity than other shareholder accounts. As a result, the shareholder

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<sup>4</sup> “Underlying Funds” refers to Franklin Capital Growth Fund, Franklin Gold and Precious Metals Fund, Franklin Growth Fund, Franklin Income Fund, Franklin U.S. Government Securities Fund, Franklin MicroCap Value Fund, Franklin Small Cap Value Fund, Mutual Discovery Fund, Mutual European Fund, Mutual Financial Services Fund, Mutual Shares Fund, Templeton China World Fund, Templeton Developing Markets Trust, Templeton Foreign Fund, Templeton Foreign Smaller Companies Fund, Templeton Global Long-Short Fund, Templeton Global Smaller Companies Fund, Franklin High Income Fund, Franklin Floating Rate Daily Access Fund, Franklin Limited Maturity U.S. Government Securities Fund, Franklin Total Return Fund, Franklin Real Estate Securities Fund, Franklin Strategic Income Fund, Franklin Growth Opportunities Fund, Franklin Flex Cap Growth Fund, Franklin Natural Resources Fund, Franklin Small Cap Growth Fund II, Franklin Strategic Mortgage Portfolio, Franklin Templeton Hard Currency Fund, Templeton Global Bond Fund, Franklin Global Real Estate Fund, Templeton Growth Fund, Inc., Franklin Cash Reserves Fund and any other Fund.

<sup>5</sup> The Top-Tier Funds will not be Underlying Funds and no Top-Tier Fund will invest in another Top-Tier Fund.

<sup>6</sup> Fund-level administrative services are those that benefit all classes of a Fund, including, for example, coordinating daily pricing of the Fund’s portfolio, providing Fund accounting, monitoring the Fund’s compliance with laws and providing office space, equipment and supplies for the Fund.

servicing costs to any Underlying Fund for servicing one account registered to a Top-Tier Fund will be significantly less than the cost to that same Underlying Fund of servicing the same pool of assets contributed by a large group of shareholders owning relatively small accounts in one or more Underlying Funds. In addition, by reducing Top-Tier Fund expenses, the Special Servicing Agreement may lead to increased assets being invested in the Top-Tier Funds, which in turn would lead to increased assets being invested in the Underlying Funds, which could enable the Underlying Funds to control and reduce their expense ratios because their operating expenses will be spread over a larger asset base.

5. No Fund will enter into a Special Servicing Agreement unless the Special Servicing Agreement: (a) precisely describes the services provided to the Top-Tier Fund and the fees for those services charged to the Top-Tier Fund that may be paid by the Underlying Fund (“Underlying Fund Payments”); (b) provides that no affiliated person of the Top-Tier Funds, or affiliated person of such person, will receive, directly or indirectly, any portion of the Underlying Fund Payments, except for bona fide transfer agent services approved by the board of trustees (“Board”) of the Underlying Fund, including a majority of trustees who are not “interested persons” (within the meaning of section 2(a)(19) of the Act) (“Independent Trustees”); (c) provides that the Underlying Fund Payments may not exceed the amount of actual expenses incurred by the Top-Tier Funds; (d) provides that no Underlying Fund will reimburse transfer agent expenses of a Top-Tier Fund, including sub-accounting expenses and other out-of-pocket expenses, at a rate in excess of the average per account transfer agent expenses of the Underlying Fund, including sub-accounting expenses and other out-of-pocket expenses, expressed as a basis point charge (for purposes of calculating the Underlying Fund’s average per account transfer agent expense the Top-Tier Fund’s investment in the Underlying Fund will be excluded); and (e)

Applicants' Legal Analysis:

1. Section 17(d) of the Act and rule 17d-1 under the Act provide that an affiliated person of, or a principal underwriter for, a registered investment company, or an affiliate of such person or principal underwriter, acting as principal, shall not participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement in which the registered investment company is a participant unless the Commission has issued an order approving the arrangement. As investment advisers to the Funds, the Advisers are affiliated persons of each of the Underlying Funds and Top-Tier Funds, which in turn could be deemed to be under common control of the Advisers and therefore affiliated persons of each other. The Top-Tier Funds and the Underlying Funds also may be affiliated persons by virtue of a Top-Tier Fund's ownership of more than 5% of the outstanding voting securities of an Underlying Fund. Consequently, the Special Servicing Agreement could be deemed to be a joint transaction among the Top-Tier Funds, the Underlying Funds and the Advisers.

2. Rule 17d-1 under the Act provides that, in passing upon a joint arrangement under the rule, the Commission will consider whether participation of the investment company in the joint enterprise or joint arrangement on the basis proposed is consistent with the provisions, policies, and purposes of the Act and the extent to which the participation is on a basis different from or less advantageous than that of other participants.

3. Applicants request an order under section 17(d) and rule 17d-1 to permit them to enter into the Special Servicing Agreement. Applicants state that participation by the Top-Tier

Funds, the Underlying Funds and the Advisers in the proposed Special Servicing Agreement is consistent with the provisions, policies and purposes of the Act, and that the terms of the Special Servicing Agreement and the conditions set forth below will ensure that no participant participates on a basis less advantageous than that of other participants.

Applicants' Conditions:

Applicants agree that any order granting the requested relief shall be subject to the following conditions:

1. No Fund will enter into a Special Servicing Agreement unless the Special Servicing Agreement: (a) precisely describes the services provided to the Top-Tier Funds and the Underlying Fund Payments; (b) provides that no affiliated person of the Top-Tier Funds, or affiliated person of such person, will receive, directly or indirectly, any portion of the Underlying Fund Payments, except for bona fide transfer agent services approved by the Board of the Underlying Fund, including a majority of the Independent Trustees; (c) provides that the Underlying Fund Payments may not exceed the amount of actual expenses incurred by the Top-Tier Funds; (d) provides that no Underlying Fund will reimburse transfer agent expenses of a Top-Tier Fund, including sub-accounting expenses and other out-of-pocket expenses, at a rate in excess of the average per account transfer agent expenses of the Underlying Fund, including sub-accounting expenses and other out-of-pocket expenses, expressed as a basis point charge (for purposes of calculating the Underlying Fund's average per account transfer agent expense the Top-Tier Fund's investment in the Underlying Fund will be excluded); and (e) has been approved by the Fund's Board, including a majority of the Independent Trustees, as being in the best interests of the Fund and its shareholders and not involving overreaching on the part of any person concerned.

2. In approving a Special Servicing Agreement, the Board of an Underlying Fund will consider, without limitation: (a) the reasons for the Underlying Fund's entering into the Special Servicing Agreement; (b) information quantifying the Underlying Fund Benefits; (c) the extent to which investors in the Top-Tier Fund could have purchased shares of the Underlying Fund; (d) the extent to which an investment in the Top-Tier Fund represents or would represent a consolidation of accounts in the Underlying Funds, through exchanges or otherwise, or a reduction in the rate of increase in the number of accounts in the Underlying Funds; (e) the extent to which the expense ratio of the Underlying Fund was reduced following investment in the Underlying Fund by the Top-Tier Fund and the reasonably foreseeable effects of the investment by the Top-Tier Fund on the Underlying Fund's expense ratio; (f) the reasonably foreseeable effects of participation in the Special Servicing Agreement on the Underlying Fund's expense ratio; and (g) any conflicts of interest that the Advisers, any affiliated person of the Advisers, or any other affiliated person of the Underlying Fund may have relating to the Underlying Fund's participation in the Special Servicing Agreement.

3. Prior to approving a Special Servicing Agreement on behalf of an Underlying Fund, the Board of the Underlying Fund, including a majority of the Independent Trustees, will determine that: (a) the Underlying Fund Payments under the Special Servicing Agreement are expenses that the Underlying Fund would have incurred if the shareholders of the Top-Tier Fund had instead purchased shares of the Underlying Fund through the same broker-dealer or other financial intermediary; (b) the amount of the Underlying Fund Payments is less than the amount of Underlying Fund Benefits; and (c) by entering into the Special Servicing Agreement, the Underlying Fund is not engaging, directly or indirectly, in financing any activity which is primarily intended to result in the sale of shares issued by the Underlying Fund.



4. In approving a Special Servicing Agreement, the Board of a Fund will request and evaluate, and the Advisers and FTS will furnish, such information as may reasonably be necessary to evaluate the terms of the Special Servicing Agreement and the factors set forth in condition 2 above, and make the determinations set forth in conditions 1 and 3 above.

5. Approval by the Fund's Board, including a majority of the Independent Trustees, in accordance with conditions 1 through 4 above, will be required at least annually after the Fund's entering into a Special Servicing Agreement and prior to any material amendment to a Special Servicing Agreement.

6. To the extent Underlying Fund Payments are treated, in whole or in part, as a class expense of an Underlying Fund, or are used to pay a class-based expense of a Top-Tier Fund, conditions 1 through 5 above must be met with respect to each class of a Fund as well as the Fund as a whole.

7. Each Fund will maintain and preserve the Board's findings and determinations set forth in conditions 1 and 3 above, and the information and considerations on which they were based, for the duration of the Special Servicing Agreement, and for a period not less than six years thereafter, the first two years in an easily accessible place.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Florence E. Harmon  
Acting Secretary