Franklin Templeton Digital Assets Core

Separately Managed Accounts December 31, 2022 | Factsheet

FRANKLIN TEMPLETON digital assets

Why Invest in Digital Assets?

Both Web1 and Web2 brought innovation that led to new companies that have become standard names in investor portfolios. Web3 marks the next iteration of how businesses use new tech-driven capabilities to deliver goods and services to clients.

- Digital assets are part of the emerging Web3 universe and are the vehicles that allow investors to **obtain exposure to the entire set of new technologies** emerging in this space.
- Digital assets are the next **Frontier Risk Alternative**: a new investible opportunity that seeks to capture the return streams of novel business models where the compounded annual growth rate is on a trajectory to make holding these investments an important allocation for portfolios looking to capture potentially significant, differentiated returns.

Investment Team

Anthony Pecore
Senior Vice President
Director, Digital Asset Management

Nine investment team members who are involved in fundamental and quantitative research, data science, and trading.

Strategy Overview

At Franklin Templeton, our dedicated independent group has been building digital assets expertise since 2018, developing platforms, product expertise and strategy differentiation to help clients achieve investment in the digital assets ecosystem. Franklin Templeton Digital Assets Core seeks to provide capital appreciation through a typical exposure of 10-15 digital assets weighted by market capitalization that pass Franklin Templeton's selection process.

The Franklin Templeton Digital Assets investment team reviews digital assets based on various factors including market capitalization, protocol type and volume. The team includes digital assets based on our proprietary tokenomics scoring system, which excludes stablecoins and meme coins. The resulting portfolio typically targets 10-15 digital assets and is ordinarily rebalanced monthly.

Methodology

The Franklin Templeton Digital Assets investment team does the following:

- ✓ Selects potential digital assets for inclusion based on market capitalization, volume and liquidity thresholds
- ✓ Conducts further analysis on this set of digital assets through our proprietary tokenomics scoring system
- ✓ Synthesizes research and identifies high quality digital assets for investment

Key Terms

Investment Strategy	Franklin Templeton Digital Assets Core
Structure	Separately Managed Account
Ownership	Direct ownership (The client is the sole legal owner of the digital assets).
Required Minimum Investment	$50,000

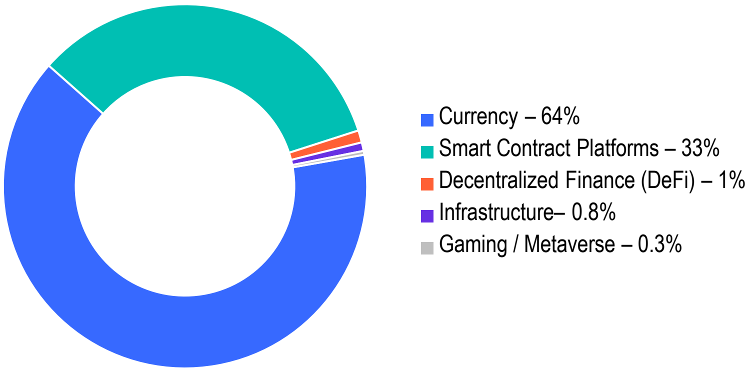
Portfolio Characteristics

As of December 31, 2022

Top 10 Holdings

Ticker	Name	Description	Weight
BTC	Bitcoin	The original cryptocurrency and often referred to as “digital gold”	64.32%
ETH	Ethereum	Decentralized, smart contract blockchain with its own cryptocurrency	29.71%
MATIC	Polygon	Scaling solutions for the Ethereum ecosystem	1.35%
DOT	Polkadot	Blockchain designed to scale, connect, and secure application-specific blockchains known as parachains	1.00%
UNI	Uniswap	A blockchain-native, decentralized crypto exchange	0.80%
SOL	Solana	Decentralized, smart contract blockchain with its own cryptocurrency	0.75%
AVAX	Avalanche	Decentralized blockchain for dApp scaling and interoperability	0.69%
LINK	Chainlink	Decentralized storage and data retrieval network	0.57%
FIL	Filecoin	Digital storage and data retrieval	0.19%
AAVE	Aave	DeFi lending protocol	0.16%

Sector Allocation



Market Capitalization

Large Cap ($100B+)	**94.03%**
Medium Cap ($10 - $100B)	**0.00%**
Small Cap (<$10B)	**5.97%**

What to Know About Web3 Investing

- **New User and Ownership Dynamics:** The Web2 formula elevated powerful platform providers who were able to leverage their connectivity and access to data and network effects to build a proprietary edge. Web3 offerings must generate and deliver “crowd” benefits; because token-based economics fuel Web3 engagement, incentivization occurs by rewarding the most active users of a network, positioning them to also become the owner/operators of these protocols. This changes the profit motive and success drivers used to inform value.
- **New Ways of Monetizing Investments:** Participants in Web3 issue tokens that are available to any potential investor, professional or novice. This requires an experienced investment manager to 1) sift through opportunities and identify those that offer the best potential for capital appreciation, and 2) understand the supply, demand, management and concentration of the token pool to ensure that the investment is well-managed for a long-term growth trajectory.
- **New Market Dynamics:** The tokens and coins involved in Web3 trade 24 hours a day, 7 days a week, 365 days a year. This requires an entirely new approach to risk management that searches for new types of signals to indicate possible stressors in the portfolio, using the unprecedented transparency of the blockchain to create new risk analytics to inform the portfolio’s construction, management and oversight.

The investment process may change over time.
The characteristics set forth above are intended as a general illustration of some of the criteria the strategy team considers in selecting assets for client portfolios. There is no guarantee that investment objectives will be achieved. Allocations are subject to change. Actual underlying allocations may vary over time as markets change.
Portfolio characteristics are based on a representative account taken from the Franklin Templeton Digital Assets Core SMA Composite. A representative portfolio may vary significantly from other similarly managed separate accounts, depending on a variety of factors, such as portfolio size, specific investment guidelines and inception date of the account. Weight based on market cap as of December 31, 2022. Percentage may not total 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

Performance

As of December 31, 2022

Average Annual Total Returns

	3-mo*	6-mo*	Since Inception* (06/30/22)
Gross of Fees (USD)	-15.56%	-6.52%	-6.52%
Net of Fees (USD)	-16.22%	-7.93%	-7.93%

Past performance is not an indicator or a guarantee of future performance.
Net of fee returns are reduced with a model of 3% for equity and balanced strategies. The total wrap fee includes trading expenses as well as investment management, administrative and custodial fees. Accounts in the composite may have been charged trading expenses in addition to the standard bundled fee which may reduce pure gross performance. Gross of fee returns for wrap account may be pure gross before wrap fees, including brokerage fees related to trading expenses for transactions executed through the sponsor. Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs. Returns assume the reinvestment of dividends, interest, and realized and unrealized capital gains and losses.

*Cumulative Total Returns
The investment process may change over time.

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What should I know before investing?

All investments involve risk, including the loss of principal. Certain Accounts will invest in cryptocurrencies, such as, but not limited to, Bitcoin or Ethereum, as well as other digital representations of value or rights (including for investment, finance or idle cash purposes). Such assets or investments may be transferred and stored electronically, using distributed ledger technology or other technology, and may include but are not limited to any decentralized application tokens and blockchain-based tokens and other digital assets, or instruments for the purchase of such, including but not limited to token rights agreements, token warrants and other instruments (together with cryptocurrencies, "**Digital Assets**"). Investments in Digital Assets are subject to many specialized risks and considerations, including but not limited to risks relating to (i) immature and rapidly developing technology underlying Digital Assets, (ii) security vulnerabilities of this technology, (iii) credit risk of Digital Asset exchanges that may hold an Account's Digital Assets in custody, (iv) regulatory uncertainty around the rules governing Digital Assets, Digital Asset exchanges and other aspects and parties involved with Digital Asset transactions, (v) high volatility in the value/price of Digital Assets, (vi) unclear acceptance of some or all Digital Assets by users and global marketplaces, and (vii) manipulation or fraud resulting from the pseudo-anonymous manner in which ownership of Digital Assets is recorded and managed.

Additional risks applicable to Digital Assets Strategies include:

Asset allocation risk: The portfolio manager's ability to achieve the investment goal(s) may depend upon their skill in determining a portfolio's asset allocation mix and/or selecting sub-advisers. There is the possibility that their evaluations and assumptions regarding asset classes and the selected sub-advisers will not be successful in view of actual market trends.

Concentration risk: Concentrating investments in a particular country, region, market, industry or asset class means that performance will be more susceptible to loss due to adverse occurrences affecting that country, region, market, industry or asset class. A portfolio concentrating in a single state or jurisdiction is subject to greater risk of adverse economic, market, political or social conditions and regulatory changes than a portfolio with broader geographical diversification.

Cybersecurity risk: Portfolio manager(s), service providers to the portfolios and other market participants increasingly depend on complex information technology and communications systems to conduct business functions. These systems are subject to a number of different threats or risks that could adversely affect the portfolio and their investors, despite the efforts of the portfolio manager(s) and service providers to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the portfolios and their investors.

Liquidity risk: Liquidity risk exists when the markets for particular securities or types of securities are or become relatively illiquid so that it is or becomes more difficult to sell the security, partially or in full, at the price at which the security was valued. Illiquidity may result from political, economic or issuer-specific events; changes in a specific market's size or structure, including the number of participants; or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets.

Market risk: The market value of securities or other investments will go up and down, sometimes rapidly or unpredictably. Investments may decline in value due to factors that affect an individual issuer (such as the result of supply and demand) or a particular industry or sector. A security's or other investment's market value may also go up and down due to general market activity or other results of supply and demand unrelated to the issuer, such as real or perceived adverse economic conditions, changes in interest rates or exchange rates, or adverse investor sentiment generally.

Non-diversification risk: Non-diversification of investments means a portfolio may invest a large percentage of its assets in securities issued by or representing a small number of issuers. As a result, the portfolio's performance may depend on the performance of a smaller number of issuers, and it may be more sensitive to a single economic, business, political, regulatory or other occurrence than a more diversified portfolio might be.

New strategy risk: The Franklin Templeton Digital Assets Core strategy has no operating history and is being first offered to client accounts during the third quarter of 2022.

Volatility risk: Trading prices for Digital Assets have historically been highly volatile. The value of the Digital Assets held by an account could decline rapidly, including to zero. Digital Assets have not been in existence long enough to assess the volatility of market cycles with any precision and an investment in an account may turn out to be substantially worthless. Investors should be prepared for volatile market swings and prolonged bear markets.

Unlisted securities risk: Unlisted securities (i.e., securities not listed on a stock exchange or other markets and for which no liquid secondary trading market exists) may involve a high degree of business and financial risk and may result in substantial losses. The companies underlying such securities may have relatively limited operating and profit histories. Many of these companies may also need substantial additional capital to support expansion or to achieve or maintain a competitive position and there is no assurance that capital will be available to finance such needs. In the absence of a liquid trading market for unlisted securities, they will be difficult to value. It is also possible that such investments will be difficult to liquidate when desired, which may limit the ability to realize their full value. Although it is generally desirable that unlisted securities become listed in due course, there can be no assurance that this will be the case, or that sufficient liquidity for substantial shareholdings will be available following listing.

Valuation: The strategy may directly or indirectly invest in securities for which reliable market quotations are not available. The process of valuing such securities is based on inherent uncertainties, and the resulting values may differ from values that would have been determined had readily available market quotations been available. As a result, the values placed on such securities by the Advisers may differ from values placed on such securities by other investors or a client's custodian and from prices at which such securities may ultimately be sold.

For complete details on the strategy's risk factors, refer to Form ADV Part 2A.

Glossary

Stablecoin: A digital asset where the value is tied, to that of another currency, commodity or financial instrument.

Tokenomics: The topic of understanding the supply, demand and economics characteristics of digital assets.

Meme coins: A digital asset that's inspired by an internet meme or viral image.

Important Information

Any information, statement or opinion set forth herein is general in nature, is not directed to or based on the financial situation or needs of any particular investor, and does not constitute, and should not be construed as, investment advice, forecast of future events, a guarantee of future results, or a recommendation with respect to any particular security or investment strategy or type of retirement account. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies should consult their financial professional.

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On December 1, 2022, Legg Mason Private Portfolio Group, LLC (LMPPG) changed its name to Franklin Templeton Private Portfolio Group, LLC (FTPPG).

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FRANKLIN TEMPLETON

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