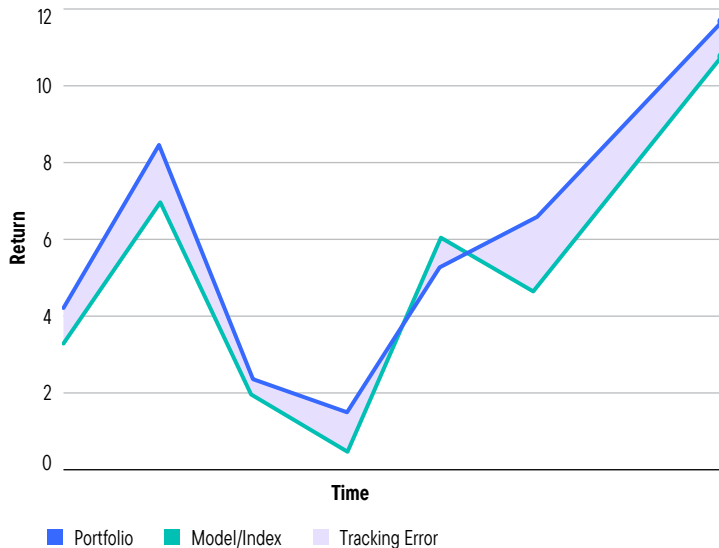


What is tracking error?


Tracking error quantifies how much a portfolio's return may differ from the underlying model it tracks. With Canvas, this model can be a market index or a custom model.




For illustrative purposes only.

Custom Indexing background

Traditional index investing attempts to track the performance of an index via mutual funds or ETFs. Custom Indexing seeks to replicate performance by directly owning the index or strategy's component securities. This empowers investors to:



Fully utilize tax loss harvesting to potentially improve after-tax returns



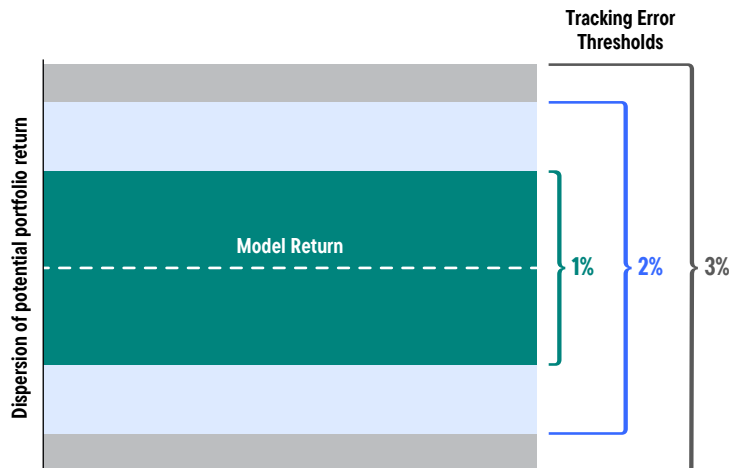
Personalize portfolios

Tax loss harvesting and tracking error

Understanding the interplay between tax loss harvesting and tracking error is essential. Realizing losses generates cash to reinvest in the portfolio. By rule, the replacement securities must be different than the security(ies) sold. As a result, the new portfolio will be different than the model it tracks. In essence, tax loss harvesting requires accepting some deviation from the model—the question is how much.

Tracking example

Tracking error roughly follows a normal distribution. If the index returns 10% for the year, and the portfolio has a 1% tracking error, we'd expect portfolio return to be within 8% and 12%, 95% of the time. With a 3% tracking error, we'd expect performance to be within 4% and 16%, 95% of the time. Increasing tracking error introduces a broader set of outcomes.



For illustrative purposes only.

In summary

As great of a solution as Custom Indexing can be, it's important to remember that portfolios are investments and allowing tracking error to ride too high, can put undue risk on them. There may be reasons to do so, and we certainly have had clients who've benefited from it, but it's important to understand the trade-offs.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

IMPORTANT INFORMATION

CANVAS® is an interactive web-based investment tool developed by O'Shaughnessy Asset Management, L.L.C. ("OSAM") that permits an investment professional to select a desired investment strategy for the professional's client. At all times, the investment professional, and not OSAM, is responsible for determining the initial and ongoing suitability of any investment strategy for the investment professional's underlying client. The professional's client shall not rely on OSAM for any such initial or subsequent review or determination. Rather, to the contrary, at all times the professional shall remain exclusively responsible for same.

Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Franklin Templeton, its affiliates, and its employees are not in the business of providing tax or legal advice to taxpayers. These materials and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any such taxpayer for the purpose of avoiding tax penalties or complying with any applicable tax laws or regulations. Tax related statements, if any, may have been written in connection with the "promotion or marketing" of the transaction(s) or matter(s) addressed by these materials, to the extent allowed by applicable law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

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.

Separately Managed Accounts (SMAs) are investment services provided by O'Shaughnessy Asset Management, LLC (OSAM), a federally registered investment adviser. Client portfolios are managed based on investment instructions or advice provided by OSAM. Management is implemented by OSAM, or, in the case of certain programs, the program sponsor or its designee.

These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please contact Franklin Templeton.



[franklintempleton.com](https://www.franklintempleton.com)

**Contact your Franklin Templeton
separately managed accounts sales
team at (800) 342-5236**