FIXED INCOME

Meet the Manager: James Conn

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At Franklin Templeton, our people are passionate about investing, and James (Jim) Conn is no exception. His father boasts an impressive career in investment management, so you might even say it's in his blood. Here, we get to know Franklin Templeton Fixed Income Group's Jim Conn and discover the three words he uses to describe his approach as an investment manager.

What drew you to a career in investment management? I understand your father is also in the industry.

Jim Conn: Yes, my father was and still is in the investment management field. I have always been interested in investing, partially from watching my father's career and partially out of my own curious nature. The concept of how the financial markets rapidly reprice, changing their value often by billions, was captivating to me. I wanted to know the details of how the financial ecosystem operated.

Did your father give you any career advice which still resonates with you today?

On many accounts my father and mother shaped my thinking. My father was adamant that you should always do your *own* homework and really know the details of your investments. To this day, my dad remains convinced of the value in figuring out why investments worked or failed. Starting in my high school years, he often suggested reading shareholder reports from successful companies while trying to determine why those companies were successful and if their success was sustainable.

Take us back to when you first joined Franklin Templeton. What was going on in the markets at the time, and what were the early days like?

Andy Johnson (former Franklin Templeton Chairman and CEO Charlie Johnson's older brother) originated and ran the municipal bond department when I first started at Franklin in 1987. In October of '87, we witnessed "Black Monday," when the world's stock markets melted down. The Dow Jones Industrial Average fell 508 points in one day (a loss of more than 20%), and panic permeated the investment community. Andy was zealous about the power of fixed income and the stability that coupon payments provided to portfolios, especially tax-free income. His point was certainly tested—and proven in late 1987. Many investors who owned bonds experienced an elevated sense of calm knowing coupon payments provided a tangible and predictable source of real return on their investments.

I didn't really think about a career in munis at first though. My primary targets were high-yield debt or equity research. The historical context at the time was heavily biased toward junk bonds and equity. Many college grads in the business field wanted to be the next Mike Milken—despite having no clue what that meant.

Michael Lewis' book, *Liar's Poker*, contains a degrading comment about underachievers being relegated to muni-bond sales in Atlanta. It was the mentality that dominated the era. During this period, however, the muni offerings available to investors were growing rapidly and Franklin's muni department needed people. When I landed in the municipal bond department, the first thing that struck me was the tight-knit nature of the department. We truly operated more like a family than business associates. The environment was infectious. It didn't take too long for the excesses of the '80s to be exposed and when reflection took hold—many investors realized the municipal bond market was a great place to be. One really had the sense that being part of the process of building roads, water delivery systems, schools, etc., while still in finance, was a great combination of altruism and investing.

What is the most rewarding part of your job?

Probably the dual benefits of investing in municipal bonds. Muni bonds can not only help investors earn money (often times shielded from taxation), but at the same time they can help states, cities, and towns throughout America maintain and improve their infrastructure.

One nuance to the municipal bond market is that corporations often issue bonds to finance operations, whereas municipalities do not—they issue debt to build something tangible. As of 2016, there was more than $3.7 trillion in debt outstanding in the muni market, the overwhelming majority of which was issued to build infrastructure, including water delivery systems, roads, airports and public transit.[1] In San Francisco, all the bridges—including the famous Golden Gate bridge—were financed this way, and munis also finance public schools, community colleges and universities. I could go on and on!

What defines your approach as an investment manager?

In one word, I would define my approach as an investment manager as "value." My tactical approach to investing can be captured through three Benjamin Franklin quotes:

Diligence: "Diligence is the mother of good luck."

Efficiency: "Never confuse motion with action."

Persistence: "Energy and persistence conquer all things."

What advice would you give young people interested in a career in investment management?

Be curious, start with your areas of interest, and never stop learning.

Can you explain the basic differences between the Franklin Liberty Intermediate Municipal Opportunities ETF and the Franklin Liberty Municipal Bond ETF?

Franklin Liberty Intermediate Municipal Opportunities ETF (FLMI) will have a bent toward intermediate- and higher-yielding opportunities versus the Franklin Liberty Municipal Bond ETF (FMLB), which will be investing more in high-grade bonds with slightly longer maturities. The FLMI can invest in below-investment-grade muni bonds, whereas FMLB cannot—at the time of purchase all bonds must be rated as investment grade.

Why might an investor consider an actively managed ETF?

For an investor seeking tax-free income[2], but who is also looking for an investment that is liquid, can trade intraday, and with no minimum investment, the ETF structure may be a good option. From a simplistic view, they might want to consider an actively managed ETF to take advantage of opportunities outside of a particular index. I think the case for using an active ETF becomes far more compelling when you are talking about the municipal bond market in particular. Since the muni-bond market is relatively inefficient and highly tax-sensitive, the ability to replicate an existing index is if not impossible, very close to it.

Outside of work, do you have a hobby that you are passionate about?

I enjoy almost any type of exercise and do so frequently. Running, biking, weightlifting and golfing are at the top of my list.

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What Are the Risks?

All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest rate movements, the funds' yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the funds adjust to a rise in interest rates, the funds' share prices may decline. The Franklin Liberty Intermediate Municipal Opportunities ETF's investments in lower rated bonds include higher risk of default and loss of principal. 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. The funds may invest a significant part of their assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project would likely affect all similar projects, thereby increasing market risk.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below the ETF's net asset value. Brokerage commissions and ETF expenses will reduce returns.

ETF shares may be bought or sold throughout the day at their market price, not their Net Asset Value (NAV), on the exchange on which they are listed. Shares of ETFs are tradable on secondary markets and may trade either at a premium or a discount to their NAV on the secondary market.

For more information on any of our funds, contact your financial advisor or download a free *prospectus.*

Investors should carefully consider a fund's investment goals, risks, sales charges and expenses before investing. The prospectus contains this and other information. Please read the carefully before investing or sending money.

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1. Source: US Federal Reserve, as of 2016.

2. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.