

Fund Commentary

Performance Review

- European equity markets surged in November following news that at least two coronavirus vaccines were both safe and highly effective. The news raised hopes that widespread vaccinations could begin by the spring, helping to bring the pandemic under control and improving the European and global economic outlook.
- For the month, the fund's A (acc) EUR shares returned 16.84%, and its benchmark, the MSCI Europe Small-Mid Cap Index-NR, returned 14.26%.

ONE-MONTH KEY PERFORMANCE DRIVERS

| | Stocks | Sectors | Countries |
|--------|----------------------------------|--|--|
| HELPED | Lar Espana Real Estate SOCIMI SA | Communication Services (Stock Selection) | United Kingdom (Stock Selection) |
| | Elis SA | Industrials (Stock Selection) | Spain (Stock Selection, Overweight) |
| | CTS Eventim AG & Co. KGaA | Consumer Staples (Stock Selection) | Germany (Stock Selection) |
| HURT | Shurgard Self Storage SA | Financials (Underweight) | Belgium (Stock Selection) |
| | Biffa PLC | Energy (Lack of Exposure) | Italy (Stock Selection) |
| | Ardagh Group SA Class A | Materials (Stock Selection) | United States (Off-benchmark Exposure) |

- The positive vaccine news in November boosted shares of Spain-based real estate investment trust Lar Espana Real Estate SOCIMI. The company, which operates shopping centres in Spain, should benefit from an end to social distancing and a recovery in the domestic economy as people are inoculated over the coming year.
- France-based industrial laundry services provider Elis contributed to relative performance, as optimism that a vaccine was close at hand gave stocks servicing areas of the economy such as hospitality a boost. An eventual rebound in travel following widespread vaccinations could give Elis's hotel laundry services business a lift after the COVID-19 related slowdown in 2020.
- On the downside, Shurgard Self Storage, a Belgium-based self-storage facilities operator, hindered relative results, as companies whose businesses are more defensive lagged on the positive vaccine news. Nonetheless, we believe Shurgard can continue to grow, as it opens new facilities and consolidates a fragmented European market to better serve customers looking for additional storage space.

Outlook & Strategy

- We expect growth concerns to continue to hang over small-cap equity markets in the coming months, despite encouraging data on the prospects for a COVID-19 vaccine. News of a vaccine has helped companies that had fallen out of favour with investors at the start of the COVID-19 pandemic begin to rebound in November, but the ongoing outbreak in the United States and Europe remains a concern.
- The market environment over the past nine months has rewarded quality growth companies, further pushing up their already high valuations, while what we view as lower-quality companies have been left behind. This has created some challenges for us, as our investment approach aims to find high-quality companies that are trading at valuations we consider attractive.
- Nonetheless, we continue to see opportunities in so-called out-of-home businesses such as cash transit, real estate brokerages, events organisers, and industrial laundry firms which the various governmental lockdowns have disproportionately hurt. While business has slowed, we believe the quality players in these industries have robust competitive advantages, strong balance sheets and good long-term growth prospects, despite the near-term impact from the coronavirus. Many can also take market share from weaker rivals.
- Although the portfolio has struggled in recent quarters, we believe we are now well positioned to benefit from a post-COVID-19 world in the coming year. Over the past several months, we have worked diligently to take advantage of market volatility and add high-quality companies to the portfolio as valuations became more attractive, finding new ideas in areas like funeral services and building products.
- Furthermore, we continue to hold what we view as many good legacy companies in the portfolio. They have seen their operations slowly improve since lockdowns eased, yet their stock prices, by our analysis, remain depressed. We believe they will be a source of outperformance for us over the next several years, especially as market sentiment continues to become more favourable towards these businesses.

Fund Details

| | |
|----------------|------------------------------------|
| Inception Date | 03/12/2001 |
| Benchmark | MSCI Europe Small-Mid Cap Index-NR |

Fund Description

The Fund aims to achieve long-term capital appreciation by investing principally in equity and/or equity-related securities of small and mid-cap companies (those with market capitalisation above Euro 100 million and below Euro 8 billion) in Europe.

Performance Data¹Performance Net of Management Fees as at 30/11/2020 (Dividends Reinvested) (%)²

| | 1 Mth | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception (03/12/2001) |
|---|-------|--------|--------|--------|-------|-------|--------|---------------------------------|
| A (acc) EUR | 16.84 | 9.92 | -22.42 | -17.39 | -8.17 | -3.67 | 4.53 | 6.20 |
| Net of Sales Charge - A (acc) EUR | 11.00 | 4.42 | -26.30 | -21.52 | -9.73 | -4.66 | 4.00 | 5.92 |
| MSCI Europe Small-Mid Cap Index-NR EUR | 14.26 | 9.03 | -0.29 | 2.88 | 4.33 | 4.80 | 9.17 | 7.34 |

Investment Team

Ed Lugo, CFA

Years with Firm 20

Years Experience 30

1. Net Returns (NR) include income net of tax withholding when dividends are paid.

What Are the Key Risks?

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. The Fund invests mainly in equity and equity-related securities of small- and mid-cap companies located in or doing significant business in European countries. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: foreign currency risk, liquidity risk. For full details of all of the risks applicable to this Fund, please refer to the "Risk Considerations" section of the Fund in the current prospectus of Franklin Templeton Investment Funds.

Important Legal Information

Franklin European Small-Mid Cap Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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Investors may wish to seek advice from a financial adviser before making a commitment to invest in shares of the Fund. In the event an investor chooses not to seek advice from a financial adviser, he/she should consider whether the Fund is suitable for him/her.

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Effective 17 May 2019, Franklin European Small-Mid Cap Growth Fund was renamed Franklin European Small-Mid Cap Fund.

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2. Source for all information is Franklin Templeton Investments. Benchmark related data provided by FactSet. Fund performance computed in share class currency, on NAV-NAV basis and dividends reinvested. Net of Sales Charge figures are after 5% sales charge. Past performance is no guarantee of future results. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Other commissions, taxes and other relevant costs paid by investor are not included.



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