Franklin Euro High Yield Fund

Franklin Templeton Investment Funds

A (Ydis) EUR
31 August 2020

Fund Commentary

Performance Review

- The European high-yield (EHY) market continued to tighten in August amidst the seasonally light trading. Compared with July, lower-rated securities outperformed the rest of the market. Despite increasing COVID-19 infections rates in Europe, issuers directly exposed to challenges associated with the pandemic were in high demand as investors reached for higher-yielding names to enhance declining average yields.
- For the month, the fund's A (Ydis) EUR shares returned 1.42%, and its benchmark, the ICE BofA Euro High Yield Constrained Index, returned 1.43%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Italy-based Entertainment Issuer	Overweight Industrial Issuers	CCC Selection	Short Duration Positioning
	Italian Telecommunications Operator	Overweight Subordinated Financials (Italian and Iberian Banks)	Distressed Credit Exposure	—
	—	—	—	—
HURT	Global Media Issuer	Underweight Retail	Investment-Grade Exposure	—
	—	Overweight Health Care	BB Selection	—
	—	—	—	—

- Despite a high cash balance that detracted from relative results, the fund nevertheless performed in line with the benchmark and outperformed its peers owing mainly to strong security selection. Security selection in an Italy-based entertainment issuer and telecommunications operator benefitted results. Conversely, our selection in a global media issuer hindered performance.
- Our industry allocation detracted from results, led by underweight in the retail sector and overweight in the health care industry. Conversely, our overweight in the industrial sector (particularly those with single-B ratings) contributed to performance, as did our overweight to subordinated financials in Italian and Iberian banks.
- Our ratings-quality tilt hindered results, led by our investment-grade exposure and security selection amongst double-B rated bonds. Conversely, our selection in triple-C rated credits and exposure to distressed credits contributed to performance. Our short duration positioning also benefitted results.

Outlook & Strategy

- During the month, solid low-yielding credits that performed strongly in the second quarter underperformed in a reversal from July. Likewise, defensive sectors such as utility and health care that were in strong demand from March to May underperformed during the summer months as investors switched into more cyclical sectors with high beta. Total returns were highly positive as credit spreads tightened sharply and most bond prices trended upwards during the month. The small number of bonds that had posted negative monthly returns had name-specific issues. The fund's trading activity was muted as bid-ask spreads widened due to low liquidity. We only slightly increased our exposure to floating-rate notes (FRNs) due to their past underperformance versus fixed-rated bonds.
- In general, demand for higher-yielding products further increased during August. We believe abundant liquidity is mainly responsible for the elevated demand. Public equity markets seemed willing to underwrite capital increases for companies operating in challenging sectors such as aviation. Furthermore, buoyant equity markets pushed equity multiples higher and, as a result, helped distressed bond prices remain above historic average levels.
- Against the backdrop of strong technical conditions, fundamental considerations were secondary for most investors. While economic momentum had indeed sharply improved since the end of May, there were signs the recovery had slowed in August. With the summer season coming to an end in the northern hemisphere, we think the return to school and normal working conditions across several sectors are likely to drive infection rates higher. We believe, however, that declining death rates and possible developments on COVID-19 vaccine could act as a counter-balance. The extent and speed of economic recovery will depend on the resolution between opposing market forces, in our view.
- As EHY spreads have already tightened sharply, we maintain our cautious stance, while remaining open to higher beta opportunities with attractive upside potential on a selective basis.

Fund Details

Inception Date	17/04/2000
Benchmark	ICE BofA Euro High Yield Constrained Index

Fund Description

The Fund aims to earn a high level of current income and seeks capital appreciation when consistent with its principal objective of high current income, by investing principally either directly or through the use of financial derivative instruments in Euro-denominated or Non-Euro-denominated Euro-hedged Fixed Income Debt Securities of European or Non-European issuers with Non-investment-grade ratings, or if unrated, their equivalent.

Performance Data

Performance Net of Management Fees as at 31/08/2020 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	1.42	5.49	-2.44	-1.15	0.88	2.39	4.71	3.39
Net of Sales Charge - A (Ydis) EUR	-3.66	0.21	-7.32	-6.09	-0.83	1.34	4.18	3.13
ICE BofA Euro High Yield Constrained Index EUR	1.43	5.18	-1.99	-0.26	2.12	3.86	6.22	4.89

Investment Team

Patricia O'Connor, CFA
Years with Firm 22
Years Experience 24

Piero del Monte
Years with Firm 12
Years Experience 22

Rod MacPhee, CFA
Years with Firm 7
Years Experience 13

Emmanuel Teissier
Years with Firm 12
Years Experience 17

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 lower-quality debt securities denominated in euro. Such securities have historically been subject to price movements, generally due to interest rates or movements in the bond market in general. As a result, the performance of the Fund can fluctuate moderately over time. The Fund may distribute income gross of expenses. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital. Other significant risks include: credit risk, derivative instruments 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 Euro High Yield 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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1. 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.