

Performance Review

- Volatility and a generally pessimistic market tone in the last few months of 2018 gave way to improved market conditions in January. Optimism for some progress on US-China trade talks, higher oil prices and dovish US Federal Reserve (Fed) comments all contributed towards a broad market recovery—against this backdrop, spreads across fixed income sectors generally trended lower. The Fed kept its funds rate unchanged at its January meeting, but removed the “further gradual increases” wording and mentioned that the committee would exercise patience before any further policy moves amidst global economic and financial developments, and muted inflation pressures.
- For the month, the fund’s A (Mdis) USD shares returned 4.85%, and its benchmark, the Credit Suisse High Yield Index, returned 4.46%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Finance	Underweight in transportation	—	Yield-curve positioning
	Energy	Underweight in aerospace and defense	—	—
	Health care	Underweight in automotive	—	—
HURT	Wireless	Overweight in utility	Ratings-quality tilt	—
	—	Overweight in packaging	—	—
	—	—	—	—

- Security selection was a major contributor to relative performance, led by selection in finance, energy and health care industries amidst the backdrop of generally positive performance across sectors, particularly in energy.
- Our industry allocation also contributed to results overall, led by our underweight in the transportation, aerospace and defense and automotive industries. Conversely, our overweight positions in the utility and packaging industries detracted from performance.
- Our ratings-quality tilt hindered relative results overall.

Outlook & Strategy

- During the month, the high-yield (HY) bond market returned 4.46%, as measured by the Credit Suisse High Yield Index. Lower-quality bonds generally outperformed during the rally and primary market sectors all posted positive results, led by energy, health care and retail. As market sentiment improved, HY issuance picked up during the month, another reversal from December and 2018 overall.
- The increase in new issue supply was well-absorbed by the market, benefitting in part from a notable increase in demand as HY retail vehicles saw positive net flows for the first time since mid-2018. Market participants were eager to put cash to work, especially after December’s sentiment-driven decline helped to create attractive buying opportunities, in our opinion.
- As we have stated following December’s steep decline, we maintain a positive outlook on HY market fundamentals but remain committed to our credit selection discipline. Despite a few notable exceptions in recent months, HY default rates remain low while valuations are largely undemanding (albeit less so than at the start of the year), in our view.
- A more dovish stance from the Fed and expectations for fewer rate increases this year also support a favourable backdrop for the asset class. However, while the US economy generally remains strong, we continue to believe that we are in the latter stages of the economic cycle and we also remain wary of an array of political risks that could each impact the market at any point in time. Looking ahead, we will continue to balance this complex set of risks and rewards as we look to create value for our shareholders.

Fund Details

Inception Date	01/03/1996
Benchmark	Credit Suisse High Yield 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 principally investing either directly or through the use of financial derivative instruments in Fixed Income debt Securities of US or non-US issuers of any credit ratings, if issued by US issuers, or, if issued by non-US issuers or unrated, their equivalent.

Performance Data

Performance Net of Management Fees as at 31/01/2019 (Dividends Reinvested) (%)¹

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
A (Mdis) USD	4.85	1.16	4.85	-0.17	8.85	1.54	7.52	4.68
Net of Sales Charge - A (Mdis) USD	-0.40	-3.90	-0.40	-5.16	7.01	0.50	6.97	4.45
A (Mdis) SGD-H1	4.68	0.94	4.68	-0.93	8.35	1.44	7.20	3.54
Net of Sales Charge - A (Mdis) SGD-H1	-0.56	-4.11	-0.56	-5.88	6.51	0.40	6.65	3.07
Credit Suisse High Yield Index USD	4.46	1.16	4.46	1.38	9.52	4.44	10.50	7.02
Credit Suisse High Yield Index SGD	4.46	1.16	4.46	1.38	9.52	4.44	10.50	6.74

The Inception Date for the A (Mdis) USD share class and A (Mdis) SGD-H1 share class is 01/03/1996 and 25/10/2007.

Investment Team

Betsy Hofman, CFA
 Years with Firm 37
 Years Experience 36

Glenn Voyles, CFA
 Years with Firm 25
 Years Experience 26

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 debt securities of any quality issued principally by corporations located in the U.S. Such securities have historically been subject to price movements, generally due to interest rates or movements in the bond market. As a result, the performance of the Fund can fluctuate 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, derivatives 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.

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Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance.

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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.



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