Franklin Mutual U.S. Value Fund

Franklin Templeton Investment Funds

A (acc) USD
31 March 2019

Fund Commentary

Performance Review

- Following a turbulent late-2018 selloff, US stocks rallied broadly during 2019's first quarter. The bull market hit its 10th anniversary as the US Federal Reserve backed away from raising interest rates and investors grew more confident that the United States and China would sign a trade deal.
- For the quarter, the fund's A (acc) USD shares returned 9.22%, and its benchmark, the S&P 500 Index, returned 13.65%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
Helped	Kinder Morgan Inc Class P	Financials
	Cisco Systems, Inc.	Information Technology
	Charter Communications, Inc. Class A	Energy
Hurt	CVS Health Corporation	Utilities
	Newell Brands Inc	Consumer Staples
	PG&E Corporation	—

- Shares of Kinder Morgan rose in early 2019, as the energy sector rebounded from a weak performance in the fourth quarter of 2018. In addition, US pipeline companies have been benefiting from increased volumes of US crude oil, natural gas and natural gas liquids, along with limited pipeline supply. Conditions are likely to remain favorable for the energy sector if commodity prices hold up, most notably if crude oil prices remain above $50 per barrel.
- Positive quarterly results boosted shares of Cisco Systems. Revenues and earnings topped consensus expectations due to ongoing growth in its subscription-based software business, increased demand for new switching products and corporate cost reductions. The direct impact from heightened US-China tensions regarding trade, technology and telecommunication equipment is less significant for Cisco than its competitors, as Cisco has comparatively less exposure to China.
- In January, CVS Health's chief executive officer highlighted probable headwinds for 2019, and in February the company detailed the financial drag from those headwinds. Negative factors include: higher costs from increased investments in its workforce, which will have a year-over-year drag on earnings through the first half of 2019; greater price competition in nursing care; and lowered-than-expected branded drug inflation.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
Helped	Williams Companies, Inc.	Energy
	Altria Group Inc	Health Care
	Cisco Systems, Inc.	Information Technology
Hurt	Kroger Co.	Financials
	Citizens Financial Group, Inc.	Consumer Staples
	Sensata Technologies Holding PLC	Industrials

- Kroger reported weaker-than-expected quarterly revenues and earnings per share (EPS), and it provided 2019 EPS guidance that was below the consensus estimate. Investments, stronger growth in its lower-margin specialty pharmacy business and the opening of a new warehouse caused a decline in Kroger's gross margin. In our view, the immediate stock price decline was an over-reaction, but earnings announcements can be high-volatility events, as a small change in the margin has a significant effect on earnings.
- US banks, including Citizens Financial Group, declined as softer economic conditions led the US Federal Reserve (Fed) to pull back on its plans to raise interest rates in 2019. The Fed's decision contributed to an inversion to parts of the US yield curve, which renewed investor concern that a US economic recession may occur in the next 12-24 months.
- Williams Companies reached an agreement with the Canada Pension Plan Investment Board (CPPIB) to form a joint venture involving some of Williams' assets in the Marcellus Shale region. The CPPIB agreed to invest $1.34 billion for a 35% stake in the newly formed partnership. In our view, Williams got an attractive valuation for the assets, while consolidating the assets under Williams' control should be positive for operating efficiency and should allow Williams to further leverage its infrastructure.

Outlook & Strategy

- Little has happened to challenge the full-year consensus view of slower global economic growth and modest improvement in corporate earnings. The US Federal Reserve's (Fed's) policy shift lessened investor concern about a near-term recession, despite continued downside risks to the global economy. Market expectations regarding the Fed's next move have shifted from near certainty of another rate hike to serious consideration of a rate cut.

- We are closely monitoring US-China trade discussions, Brexit negotiations, the effectiveness of China's stimulus measures, and how major central banks navigate an uncertain economic environment. Movement towards positive, or at least less negative, policy outcomes has boosted investor sentiment. Yet, trade tensions and Brexit remain far from resolved, leaving financial markets vulnerable to renewed volatility and another downturn.
- We took advantage of late 2018 market turbulence to seek out stocks whose risk/reward profiles turned more favorable. Subsequently, we used the recent rebound to exit or trim from select positions that reached or exceeded our estimates of intrinsic value, most notably within the health care sector.
- As of period end, we believe the overall equity market is close to fair value, given the uncertain economic outlook, with no sector or industry looking abnormally cheap or compelling. New opportunities at this time are idiosyncratic in nature. However, an uncertain and volatile market typically presents broader opportunities for prudent stock pickers with a disciplined approach.
- Value investing often requires an investor to be contrarian in nature. We continue to maintain a bottom-up stock-picking process that is disciplined, driven by rigorous fundamental analysis, and attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer meaningful upside potential and a degree of downside protection in periods of financial market turbulence.

Fund Details

Inception Date	07/07/1997
Benchmark	S&P 500 Index

Fund Description

The Fund aims to achieve long-term capital appreciation by investing principally in US equity and convertible debt securities. The Fund may also seek to invest in the securities of companies involved in mergers, consolidations, liquidations and reorganisations.

Performance Data

Performance Net of Management Fees as at 31/03/2019 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
A (acc) USD	-0.84	9.22	9.22	1.28	6.16	3.58	10.56	5.80
Net of Sales Charge - A (acc) USD	-5.80	3.76	3.76	-3.78	4.36	2.53	9.99	5.55
A (acc) SGD	-0.61	8.58	8.58	4.66	6.36	5.12	9.29	2.34
Net of Sales Charge - A (acc) SGD	-5.58	3.15	3.15	-0.57	4.56	4.05	8.73	1.88
S&P 500 Index USD	1.94	13.65	13.65	9.50	13.52	10.91	15.92	7.36
S&P 500 Index SGD	2.19	13.01	13.01	13.21	13.74	12.58	14.59	7.25

The Inception Date for the A (acc) USD share class and A (acc) SGD share class is 07/07/1997 and 25/10/2007 respectively.

Investment Team

Peter Langerman
Years with Firm 29
Years Experience 33

F. David Segal, CFA
Years with Firm 16
Years Experience 28

Deborah Turner, CFA
Years with Firm 26
Years Experience 27

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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 companies located in the U.S. 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: currency 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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