

Fund Commentary

Performance Review

- Despite relatively dismal economic numbers, investor sentiment remained largely positive over the month of August. Fixed income spreads continued to tighten overall, with yields in many sectors remaining low.
- For the month, the fund's A (Mdis) USD shares returned 0.70%, and its benchmark, the Bloomberg Barclays US Aggregate Index, returned -0.81%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Sector Exposure	Duration/Yield Curve
HELPED	Non-Agency Residential Mortgage-Backed Securities (RMBS) primarily in Credit Risk Transfer Securities (CRTs); US Treasury Inflation-Protected Security (TIPS), Taxable Municipal Bonds, Agency Mortgage-Backed Securities (MBS) and Commercial Mortgage-Backed Securities	US Duration Positioning
	Corporate Credits: High-Yield (HY) and Investment-Grade (IG) Corporate Bonds, Collateralised Loan Obligations (CLOs) and Senior Secured Floating-Rate Bank Loans	Non-US Duration Positioning
	Sovereign Emerging Market (EM) and Developed- Market Debt; Non-US Dollar Denominated Developed-Market and EM Debt	—
HURT	Foreign-Currency Exposure	—
	—	—
	—	—

- Our allocation to RMBS was the primary contributor to absolute performance as prices in the sector experience a strong rebound over the month, after lagging other spread sectors in previous months. A majority of RMBS exposure in the portfolio is in CRTs. RMBS spreads for CRT cohorts have tightened in throughout August, currently spreads have recovered anywhere from 75-97% since their March 2020 widest. Although we still expect non-agency RMBS to provide strong risk-adjusted returns, from a broader perspective the potential economic headwinds and generally supportive valuations balance each other out. We slightly reduced exposure over the month.
- As credit markets posted another month of solid performance, the portfolio's allocation across credit sectors (inclusive of IG and HY corporate bonds, CLOs and senior secured floating-rate bank loans) benefitted absolute results. IG corporate bonds remains the fund's largest allocation.
- TIPS performance benefitted returns over the month; since the March lows, inflation expectations have recovered significantly. Our US and non-US duration positioning detracted from results. Similarly, our foreign-currency exposure hindered performance. Performance gains mainly from our long Mexican peso position were offset by negative returns mainly from our short Canadian, Australian and Singapore dollar positions.

Outlook & Strategy

- Similar to the global financial crisis, we are in highly uncertain times amidst the COVID-19 environment. With the upcoming US presidential election in November inching ever closer, market participants are bracing for potential far reaching policy implications.
- If President Trump were to win a second term, the trend towards anti-globalisation would likely continue with more unilateral terms of trade. Under a Biden presidency, there is an underlying market sentiment for tax increases, and the uncertainty over future US tax policy could feed into markets globally. President Trump undertook a substantial push for deregulation; if some of the deregulations were to be unwound, it could create barriers for many businesses to operate. Under either candidate, however, fiscal spending looks likely to continue.
- No matter which US candidate wins, we do not believe the dynamics for fixed income markets globally will change much. Given how central banks have flooded financial markets with liquidity in the COVID-19 environment, we do not foresee a massive rise in yields just because there is a change in US presidency. We believe central banks are committed to providing liquidity to keep markets calm and could dampen some of the volatility we would normally experience within an election cycle.
- We remain optimistic that over time the global economy will recover, albeit with significantly more debt on government balance sheets and a host of related problems to address.

Fund Details

Inception Date	12/07/2007
Benchmark	Bloomberg Barclays US Aggregate Index

Fund Description

The fund aims to earn a high level of current income and seeks capital appreciation over the long term by investing principally in fixed and floating-rate debt securities globally, including those in emerging markets.

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 (12/07/2007)
A (Mdis) USD	0.70	4.22	0.05	0.90	2.05	2.71	3.07	3.79
Net of Sales Charge - A (Mdis) USD	-4.34	-0.99	-4.95	-4.15	0.32	1.66	2.54	3.39
Bloomberg Barclays US Aggregate Index USD	-0.81	1.31	6.85	6.47	5.09	4.33	3.65	4.70

Investment Team

Sonal Desai, Ph.D.
Years with Firm 10
Years Experience 26

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

William Chong
Years with Firm 11
Years Experience 11

David Yuen, CFA
Years with Firm 24
Years Experience 32

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 from issuers of both developed and emerging countries. Such securities have historically been subject to price movements, generally due to interest rates, foreign exchange rates or movements in the bond market. 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, mortgage and asset-backed securities risk, derivatives instruments risk, emerging markets 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 Strategic Income Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E

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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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