

Fund Commentary

Performance Review

- Agency mortgage-backed securities (MBS) continued to lag the strong performance of credit markets, but outperformed similar duration US Treasuries (USTs), posting 9 basis points (bps) of excess returns. Within the MBS sector, Fannie Mae (FNMA) MBS and Freddie Mac (FHLMC) were the best performers with 21 and 18 bps of excess returns, respectively. Ginnie Mae (GMNA) MBS lagged with -21 bps of excess returns. For the GNMA coupon stack, GN I 3.5% and 4.5% coupons were the best performers while GN II 2.5% and 3.0% coupons performed the worst.
- For the month, the fund's A (Mdis) USD shares returned -0.11%, and its benchmark, the Bloomberg Barclays US Government - Intermediate Index, returned -0.19%.

ONE-MONTH KEY PERFORMANCE DRIVERS

HELPED	Security selection in GN II 2.5% through 4.5% and 5.0% coupon securities contributed to relative performance (especially the 3.5% coupon securities).
	Security selection in GN I 5.0% through 6.0% coupon securities benefitted results.
	—
HURT	Our overweight allocations to GN I 5.0% through 6.0% coupon securities detracted from performance.
	Our overweight allocation to GN II 2.5%, 3.0% and underweight to GN II 4.5% coupon securities hindered results.
	Security selection in GN I 4.0% and 4.5% coupon securities detracted from performance.

Outlook Strategy

- At period-end, we remained more heavily weighted in GNMA II securities (comprised of multiple-issuer pools), with over 80% of allocation in the sector, versus GNMA I securities (comprised of single-issuer pools). The fund's largest absolute allocation remains in GN II 3.0% coupon securities followed by 3.5% coupons.
- Historical low mortgage rates combined with historical low inventories have kept the housing demand intact with very little supply amidst the pandemic. Our model forecasts slightly positive home price appreciation (HPA) through June 2021. However, stringent underwriting, low credit availability and bad sentiments due to uncertainty about the economy continues to be headwinds for the housing sector.
- Prepayment risk remains elevated with mortgage rates at record lows. As the economy normalises, we expect prepayments to rise, with 82% of the agency MBS universe having an incentive to refinance at current rates. Primary and secondary market spreads have remained elevated since the beginning of the year which has kept refinance activity somewhat muted. If these spreads were to normalise to historical averages, 99% of the mortgage universe would have an incentive to refinance their loans. However, forbearance requests have started to taper, which could lead to lower involuntary prepayments in the coming months. To mitigate prepayment risk over the intermediate term, we are positioned down in coupon. In general, we believe technical support from US Federal Reserve's MBS purchases will continue to bolster the sector, potentially limiting spread widening and keeping spreads rangebound which will benefit lower coupons and associated mortgage dollar rolls (MDRs).
- 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. 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. While certain policies will change with a different US administration, for the time being we are not changing our approach to fixed income investing. 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	28/02/1991
Benchmark	Bloomberg Barclays US Government - Intermediate Index

Fund Description

The Fund's investment objective is income and safety of principal. The Fund seeks to achieve its objective by investing in debt obligations issued or guaranteed by the U.S. government and its agencies, including purchasing mortgage- and asset-backed securities.

Performance DataPerformance 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 (28/02/1991)
A (Mdis) USD	-0.11	-0.55	2.57	2.42	2.21	1.55	1.64	3.67
Net of Sales Charge - A (Mdis) USD	-5.10	-5.52	-2.56	-2.70	0.48	0.52	1.12	3.49
Bloomberg Barclays US Government - Intermediate Index USD	-0.19	0.21	5.88	5.44	3.81	2.90	2.34	4.93

Investment Team**Paul Varunok**

Years with Firm 19
Years Experience 28

Neil Dhruv

Years with Firm 18
Years Experience 18

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 issued or guaranteed by the U.S. government and its agencies. Such securities have historically proven to present some stability over time and have benefitted from a limited exposure to interest rates or movements in the bond market. As a result, the performance of the Fund can fluctuate to a small degree over time. Other significant risks include: mortgage and asset-backed securities 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 U.S. Government Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

This document is for information only and does not constitute investment advice or a recommendation and was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. Any research and analysis contained in this presentation has been procured by Franklin Templeton Investments for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Any views expressed are the views of the fund manager and do not constitute investment advice. The underlying assumptions and these views are subject to change. Franklin Templeton Investments accepts no liability whatsoever for any direct or indirect consequential loss arising from the use of any information, opinion or estimate herein. **The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested.**

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.

Past performance or any prediction or forecast is not necessarily indicative of future performance of the Fund. Subscriptions may only be made on the basis of the most recent Prospectus and Product Highlights Sheet which is available at Templeton Asset Management Ltd or our authorised distributors. Potential investor should read the details of the Prospectus and Product Highlights Sheet before deciding to subscribe for or purchase the Fund. This shall not be construed as the making of any offer or invitation to anyone in any jurisdiction in which such offer is not authorised or in which the person making such offer is not qualified to do so or to anyone to whom it is unlawful to make such an offer. In particular, this Fund is not available to U.S. Persons and Canadian residents.

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.

Copyright© 2020 Franklin Templeton. All rights reserved.

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

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Important data provider notices and terms available at www.franklintempletondatasources.com.

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.



www.franklintempleton.com.sg

For use by brokers/dealers or intended institutional investor recipients only and cannot be disseminated further.