Franklin U.S. Low Duration Fund

Franklin Templeton Investment Funds

A (Mdis) USD
31 August 2020

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 1.10%, and its benchmark, the Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index, returned 0.04%.

ONE-MONTH KEY PERFORMANCE DRIVERS

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

- Our overweight allocation to RMBS was the primary contributor to relative performance as the sector recovered 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 reduced exposure over the month.
- As credit markets posted another month of solid performance, the portfolio's exposure to credit sectors (inclusive of CLOs, IG and HY corporate bonds) benefitted relative results. Additionally, our overweight in senior secured floating-rate bank loans was positive for returns. IG corporate bonds remains the fund's largest allocation, although we slightly reduced our exposure to the sector over the month.
- TIPS performance benefitted returns over the month and we reduced exposure over the period as inflation expectations have recovered significantly since their March lows. Our non-US and US duration positioning detracted from results. Similarly, our foreign-currency exposure hindered performance. Negligible performance gains were offset by negative returns mainly from our short Canadian and Australian dollar and long Japanese yen 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	29/08/2003
Benchmark	Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index

Fund Description

The fund's investment objective is to provide as high a level of current income as is consistent with prudent investing, while seeking preservation of shareholders' capital.

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 (29/08/2003)
A (Mdis) USD	1.10	2.87	0.79	1.58	1.50	1.48	1.27	1.65
Net of Sales Charge - A (Mdis) USD	-3.95	-2.27	-4.25	-3.50	-0.22	0.45	0.75	1.34
Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index USD	0.04	0.43	3.11	3.66	2.79	2.15	1.44	2.29

Investment Team

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

David Yuen, CFA
Years with Firm 24
Years Experience 32

Tina Chou
Years with Firm 15
Years Experience 17

Kent Burns, 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 in relatively short-term debt securities mainly in the U.S., but may invest up to 25% in non-U.S. issuers. 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 to a small degree over time. Other significant risks include: credit risk, foreign currency risk, mortgage and asset-backed securities 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 U.S. Low Duration 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.