FRANKLIN TEMPLETON

Templeton Asian Bond Fund

Franklin Templeton Investment Funds

A (Mdis) USD
31 August 2020

Fund Commentary

Performance Review

- Sovereign bond yields rose around the world in August, while risk assets largely extended their summer rallies. Upward yield pressures led to moderately negative returns across the highest-rated credit tiers in several global fixed income sectors, while lower-rated credit tiers benefitted from higher yield carry and greater spread cushioning.
- For the month, the fund's A (Mdis) USD shares returned -0.64%, and its benchmark, the JPM GBI-EM Broad Diversified Asia Index, returned 0.68%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	—	Indonesia	—
	—	—	—
	—	—	—
HURT	Australian Dollar (Net-Negative Position)	South Korea	—
	—	—	—
	—	—	—

- Major developed market currencies continued to retain strength against the US dollar in August, while emerging market currencies were more mixed. The fund's net-negative position in the Australian dollar detracted from absolute performance. The negative exposure to the Australian dollar is intended to hedge against broad-based beta risks in emerging markets, as the currency shares emerging market risk factors, including linkages to China's economy and commodity markets.
- Select duration exposures in Southeast Asia ex Japan (Indonesia) contributed to the fund's absolute results, while duration exposure in South Korea detracted. We held select duration exposures in countries with relatively higher yields that we believe have compelling valuations and varying degrees of economic resilience to external shocks.
- Strategically, we continue to maintain low portfolio duration. We are significantly underweight developed market duration, preferring to hold short- to intermediate-term US Treasuries, while holding no exposure to the long-end of the curve. We continue to emphasise select local-currency positions outside of the major developed markets, in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are counter-balancing those various risk exposures with perceived safe-haven investments, such as the Japanese yen, and we are hedging a substantial amount of local-currency risk through proxy hedges (negative Australian dollar) and direct hedges (Indian rupee and South Korean won). Overall, we are aiming the strategies to be a portfolio diversifier against overvalued asset classes that remain vulnerable to ongoing economic shocks.

Outlook & Strategy

- We remain cautious on the risk profiles across global fixed income markets as the COVID-19 pandemic continues to impact economic activity around the world. While some resistance levels began to develop across financial markets in August, the broad rallies in risk assets to date reflect an underappreciation of the likelihood for successive waves of infections, growing insolvencies and deepening economic hardship, in our view. We see elevated risks for a correction in financial markets given the extreme dislocations between asset prices and macroeconomic fundamentals.
- Our aim is to position our strategies to be uncorrelated to vulnerable asset classes while delivering high income and defending capital. We're currently focusing on specific perceived safe-haven investments, while emphasising a select set of higher-yielding emerging markets that have relatively resilient domestic economies. We're aiming to derive alpha from different sources than the low-to-negative yielding developed fixed income markets, which have limited upside potential left and asymmetric interest-rate risks as yields grind to historic lows.
- We are expecting a gradual global economic recovery with the potential for multiple stages of relief rallies and corrections in financial markets before a more sustainable growth recovery takes hold. There are still unknowns over how long the pandemic will last and what the impacts will be as governments struggle to effectively reopen economies.
- There are also uncertainties over what society will look like when we get to the other side, given elevated unemployment, significant economic hardship and unprecedented fiscal intervention. Widening economic inequality in the US was already a source of social strife at low unemployment levels (3.5%) before the crisis—a constrained economy will only exacerbate the issue. It remains to be seen whether people will ultimately be brought together by adversity, or further polarised.
- We currently remain cautious on the broad outlook for emerging markets as a whole, but we see risk-adjusted value in specific countries. It remains crucial to be selective. Tragically, the COVID-19 pandemic will be significantly worse for many emerging markets than advanced economies due to weaker health care systems and less-developed infrastructure. Countries that were in stronger fundamental shape before the crisis generally have better prospects to endure the substantial economic headwinds. A number of countries have inherent economic resiliencies while others remain highly vulnerable to external and internal shocks. On the whole, several domestically oriented economies have comparatively

better prospects than externally dependent economies, given the collapse in global aggregate demand and diminished levels of trade. We continue to monitor conditions and expect that the impacts of the COVID-19 pandemic could persist for multiple quarters, potentially pushing out the timeline for when certain investment opportunities may become suitable.

Fund Details

Inception Date	25/10/2005
Benchmark	JPM GBI-EM Broad Diversified Asia Index

Fund Description

The Fund aims to maximise total investment return consisting of a combination of interest income, capital appreciation and currency gains by investing principally in a portfolio of fixed and floating rate debt securities and debt obligations of government and government-related issuers and/or corporate entities located throughout Asia.

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 (25/10/2005)
A (Mdis) USD	-0.64	-0.25	-2.41	-0.51	-0.17	0.79	0.92	3.85
Net of Sales Charge - A (Mdis) USD	-5.61	-5.24	-7.29	-5.49	-1.86	-0.24	0.40	3.49
JPM GBI-EM Broad Diversified Asia Index USD	0.68	3.72	2.73	6.41	4.84	6.16	4.14	5.45

Investment Team

Michael Hasenstab, Ph.D.
Years with Firm 21
Years Experience 25

Vivek Ahuja
Years with Firm 14
Years Experience 24

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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 debt securities issued by any type of entity located in Asia. 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: Chinese market risk, credit 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

Templeton Asian Bond Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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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.

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.

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The Fund may utilise financial derivative instruments for hedging, efficient portfolio management and/or investment purposes.

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

Effective 30/09/2017, the performance benchmark changed from Custom Templeton Asian Bond Index to JPM GBI-EM Broad Diversified Asia Index.

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.