

Performance Review

- Renewed risk appetite in the fourth quarter of 2020 buoyed Asia ex Japan small-cap equities, which outperformed their large-cap peers. COVID-19 vaccine breakthroughs fanned hopes for full economic reopenings and eclipsed concerns around resurgent outbreaks, the spread of a new coronavirus strain, and US-China tensions. Additional US economic stimulus and increased clarity on US election results also lifted market sentiment.
- For the quarter, the fund's A (acc) USD shares returned 21.10%, and its benchmark, the MSCI AC Asia ex-Japan Small Cap Index-NR, returned 19.64%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Xinyi Solar Holdings Ltd.	Information Technology (Stock Selection)	India (Stock Selection)
	Daqo New Energy Corp Sponsored ADR	Financials (Stock Selection)	Hong Kong (Stock Selection)
	Novatek Microelectronics Corp.	Communication Services (Stock Selection)	Vietnam (Off-benchmark Exposure)
HURT	Luye Pharma Group Ltd.	Industrials (Stock Selection)	Indonesia (Stock Selection)
	Health and Happiness (H&H) International Holdings Limited	Health Care (Stock Selection)	Taiwan (Stock Selection)
	Huaxin Cement Co., Ltd. Class B	Consumer Staples (Stock Selection, Overweight)	Philippines (Stock Selection)

- Solar energy-related stocks in China were buoyant, thanks to favourable demand-supply dynamics and supportive policies in the industry. Rising solar glass prices due to tight supply led by an increasing penetration of bifacial modules, and China's pledge to cut its net carbon emissions to zero by 2060, drove optimism for solar glass maker Xinyi Solar.
- Against this backdrop, polysilicon producer Daqo New Energy rallied. Daqo stands out to us for its cost competitiveness in the polysilicon industry. The company has been eyeing a listing on China's Science and Technology Innovation Board, and we think progress in its plan could help boost the stock.
- Conversely, China-based Health and Happiness (H&H) International declined despite posting encouraging sales growth for the third quarter. It agreed to acquire a pet nutrition company, which could pave the way for pet nutrition to become its third major business segment after its baby and adult nutrition segments. We continue to view H&H as a potential beneficiary of society's growing health awareness and rising demand for higher-quality products.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Xinyi Solar Holdings Ltd.	Information Technology (Stock Selection)	China (Stock Selection)
	Novatek Microelectronics Corp.	Financials (Stock Selection)	Hong Kong (Stock Selection)
	Noah Holdings Ltd. Sponsored ADR Class A	Communication Services (Stock Selection)	Taiwan (Stock Selection)
HURT	Luye Pharma Group Ltd.	Health Care (Stock Selection)	Indonesia (Stock Selection)
	Health and Happiness (H&H) International Holdings Limited	Materials (Stock Selection)	Philippines
	Merida Industry Co., Ltd.	Industrials (Stock Selection)	South Korea (Underweight)

- Xinyi Solar's surge in December capped a stellar quarter for the stock. The company projected a jump in its 2020 earnings on the back of higher sales volumes. We believe Xinyi Solar enjoys scale and cost advantages as one of the world's largest solar glass producers, and we expect it to continue reaping higher margins than smaller players.
- Taiwan-based semiconductor company Novatek Microelectronics finished higher. Strong demand and increasing prices for its display driver integrated circuits boosted the market's outlook for its earnings. In our view, Novatek has delivered solid operational results across diverse product segments, and we believe it is well-positioned to gain market share.
- Finishing lower was Taiwan-based bicycle maker Merida Industry. The rollout of COVID-19 vaccines diverted investors' interest away from companies that had fared well during the pandemic. We see changing commuting habits and pro-cycling government policies supporting a structural shift towards cycling, and we think e-bikes could be a growth driver for Merida.

Outlook & Strategy

- Key Asian markets substantially outperformed other countries in terms of health outcomes, economic resilience, and equity returns in 2020. Many small-cap companies successfully weathered the pandemic and should emerge from the crisis with stronger competitive positions, in our view. We continue to closely monitor the pace of recovery in what we consider to be good-quality companies that have corrected significantly beyond the limited near-term impact to their intrinsic values.
- The challenges of 2020 have highlighted structural advantages and other beneficial secular trends in Asia that we believe bode well for 2021. The resilience of East Asian markets during the crisis, paired with their ability to capitalise on digitalisation and other secular shifts to the new economy, should drive their continued strength. Meanwhile, laggards such as India and Southeast Asia could benefit from easy monetary policies, ongoing reform efforts, and global supply chain diversification.
- A broadening economic recovery in Asia could continue to drive improved earnings visibility into 2021. We see compelling opportunities to invest in small-cap companies that demonstrate sustainable earnings power, trading at discounts to our assessment of their intrinsic worth. We believe our portfolio is well-diversified, with exposures not only to new-economy companies riding on technology and innovation, but also to old-economy businesses displaying growth potential at valuations we find supportive.
- However, we expect COVID-19 to remain a concern in 2021. While some countries have already started inoculation, the production and distribution of vaccines in sufficient scale are challenges equal to their development. As a result, we expect countries to continue experiencing sporadic COVID-19 outbreaks, which could add volatility to the underlying trend of economic and market recovery.

Fund Details

Inception Date	14/10/2008
Benchmark	MSCI AC Asia ex-Japan Small Cap Index-NR

Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in small cap companies incorporated in the Asia region (except Japan) or whose principal business activity is in the Asia region. Asian small cap companies are those having a market capitalisation at the time of initial purchase within the range of the market capitalisations of companies included in the MSCI AC Asia ex-Japan Small Cap Index (Index).

Performance Data¹

Performance Net of Management Fees as at 31/12/2020 (Dividends Reinvested) (%)^a

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
A (acc) USD	8.53	21.10	11.60	11.60	0.31	6.81	5.68	14.20
Net of Sales Charge - A (acc) USD	3.11	15.05	6.02	6.02	-1.39	5.72	5.14	13.72
A (acc) SGD	6.90	17.20	9.59	9.59	-0.10	5.31	5.99	13.25
Net of Sales Charge - A (acc) SGD	1.55	11.34	4.11	4.11	-1.80	4.24	5.45	12.78
MSCI AC Asia ex-Japan Small Cap Index-NR USD	6.39	19.64	26.20	26.20	3.16	7.45	3.06	9.80
MSCI AC Asia ex-Japan Small Cap Index-NR SGD	4.95	15.84	24.04	24.04	2.78	5.94	3.38	8.89

Investment Team

Chetan Sehgal, CFA
Years with Firm 25
Years Experience 28

Vikas Chiranewal, CFA
Years with Firm 14
Years Experience 16

Krzysztof Musialik, CFA
Years with Firm 14
Years Experience 14

1. Net Returns (NR) include income net of tax withholding when dividends are paid.

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 securities of smaller companies located in or doing significant business in Asia. Emerging markets have historically been subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: foreign currency risk, emerging markets risk, liquidity risk, Chinese market 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 Smaller Companies 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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a. 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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