FRANKLIN TEMPLETON

Templeton China Fund

Franklin Templeton Investment Funds

A (acc) USD
31 December 2020

Fund Commentary

Performance Review

- Equity markets rose over the fourth quarter of 2020. China's stock market also advanced but was outpaced by emerging markets (EMs) overall. The country's increased scrutiny of its internet industry, plus a US restriction on investments in certain Chinese companies caused some market unease. However, indicators of China's economic rebound remained encouraging.
- For the quarter, the fund's A (acc) USD shares returned 12.37%, and its benchmark, the MSCI China 10/40 Index-NR – Linked, returned 16.54%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Luzhou Laojiao Company Limited Class A	Consumer Staples (Stock Selection)
	Wuxi Biologics (Cayman) Inc.	Health Care (Stock Selection)
	ANTA Sports Products Ltd.	Communication Services (Stock Selection, Underweight)
HURT	Alibaba Group Holding Ltd.	Consumer Discretionary (Stock Selection)
	Shimao Group Holdings Limited	Industrials (Stock Selection)
	A-Living Smart City Services Co., Ltd. Class H	Information Technology (Stock Selection)

- In the real-estate sector, property developer Shimao declined. The sector was negatively impacted at the start of the period, partly because of the rising supply of new shares via initial public offerings (IPOs). Shimao completed a partial spinoff of its property management arm via an IPO, which may have led some investors to adjust their positioning from the parent company towards the property management company.
- Internet retailer Alibaba detracted from relative performance as its shares retreated. It was negatively impacted by the decision of China's regulators to suspend the IPO of a financial technology firm in which Alibaba has a stake. In addition, the Chinese government issued a discussion paper on monopolistic practices in technology and e-commerce, and market participants assumed that this would lead to increased oversight and regulation in future. Alibaba's quarterly results saw the pace of sales growth slow from the previous quarter.
- In contrast, liquor producer Luzhou Laojiao advanced. During the quarter, the firm reported better-than-expected results that benefitted from an improving product mix, given buoyant demand for high-end spirits. In addition, selling, general and administrative cost control measures were well-received.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Innovent Biologics, Inc.	Health Care (Stock Selection, Overweight)
	China Tourism Group Duty Free Corporation Limited Class A	Financials (Stock Selection)
	Wuxi Biologics (Cayman) Inc.	Consumer Staples (Stock Selection)
HURT	Alibaba Group Holding Ltd.	Information Technology (Stock Selection)
	Shimao Group Holdings Limited	Real Estate (Stock Selection)
	Tencent Holdings Ltd.	Materials (Stock Selection)

- Innovent Biologics, a biopharmaceutical firm, rose and contributed to relative returns in December. This followed weakness over the previous month on concerns that drug-price negotiations via China's National Reimbursement Drug List (NDRL) would lead to price cuts for certain innovative drugs. In the event, in December, its shares benefitted from lower-than-expected price cuts from the NDRL, which led to a rebound in the sector overall.
- China Tourism Group Duty Free, which is a travel agency and a retailer of duty-free products, advanced. Its share price was bolstered by expectations that China's domestic travel sector could be a beneficiary of domestic consumption trends as travellers may focus on internal travel in the wake of a worsening COVID-19 situation in many countries globally.
- In contrast, internet retailer Alibaba detracted from relative performance in December as its shares declined. In part, sentiment remained negative following a regulatory review that could signal increased oversight in future, while investor concern grew that China's political leadership was turning against its billionaire founder, Jack Ma.

Outlook & Strategy

- The challenges of 2020 have highlighted structural advantages and other beneficial secular trends in certain EMs, including China, that we believe bode well for 2021. The resilience of certain markets during the crisis, paired with their ability to capitalise on secular shifts to the new economy, should drive continued strength in 2021, in our view. We also believe that companies that have successfully executed their strategies during the pandemic should emerge out of the crisis in a stronger competitive position. We continue to closely monitor the pace of recovery in what we consider good quality companies that have corrected significantly beyond the limited near-term impact to their intrinsic value.

- We think characteristics that favour China specifically include continued domestic reforms, technological advancement, rapid digitalisation, a huge consumer market and the availability of fiscal and monetary tools to help weather external shocks. We continue to like domestically oriented businesses with quality franchises that may be less sensitive to global macro-related fluctuations or could potentially benefit from ongoing market consolidation and improving domestic consumption.
- However, we expect COVID-19 to remain prevalent in 2021. Whilst some countries have already started inoculations, the production and distribution of the vaccines in sufficient scale are challenges equal to its development. As such, we expect many countries to continue to experience sporadic viral outbreaks, which will add volatility to the underlying trend of the global and regional economic and market recovery.

Fund Details

Inception Date	01/09/1994
Benchmark	MSCI China 10/40 Index-NR – Linked, MSCI China 10/40 Index-NR

Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in equity securities of companies organised under the laws of or having their principal offices in China, Hong Kong or Taiwan, as well as in companies which derive the principal portion of their revenues from goods or services sold or produced, or have the principal portion of their assets in China, Hong Kong or Taiwan.

Performance Data*,**

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	6.51	12.37	36.69	36.69	13.28	15.69	4.86	5.95
Net of Sales Charge - A (acc) USD	1.18	6.75	29.85	29.85	11.36	14.51	4.32	5.75
A (acc) SGD	4.91	8.75	34.25	34.25	12.80	14.07	5.16	2.40
Net of Sales Charge - A (acc) SGD	-0.34	3.31	27.54	27.54	10.89	12.92	4.62	2.01
MSCI China 10/40 Index-NR – Linked USD	4.61	16.54	30.75	30.75	9.18	14.68	7.90	-
MSCI China 10/40 Index-NR – Linked SGD	3.20	12.83	28.52	28.52	8.77	13.07	8.24	4.04

The Inception Date for the A (acc) USD share class and A (acc) SGD share class is 01/09/1994 and 25/10/2007 respectively.

*Effective 1 January 2020, the Fund's benchmark is the MSCI China 10/40 Index–NR—Linked. The benchmark performance shown is derived from a combination of the MSCI Golden Dragon Index from the Fund's inception to 28 February 2019, MSCI China Index from 1 March 2019 to 31 December 2019, and MSCI China 10/40 Index–NR from 1 January 2020 to the current reporting period.
**Net Returns (NR) include income net of tax withholding when dividends are paid.

Investment Team

Michael Lai, CFA
Years with Firm 1
Years Experience 30

Eric Mok, CFA
Years with Firm 22
Years Experience 22

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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 Chinese equity securities. Such securities 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 significantly over relatively short time periods. 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 China 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.

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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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