Templeton Emerging Markets Dynamic Income Fund

A (Qdis) USD
31 July 2020

Franklin Templeton Investment Funds

Fund Commentary

Performance Review

- Global financial markets continued to rally in July on rebounding economic activity and extraordinary monetary and fiscal interventions from central banks and governments around the world. Progress in coronavirus vaccine trials, more policy stimulus, China's economic recovery, and a weaker US dollar boosted investors' risk appetite despite a resurgence of COVID-19 outbreaks and worsening US-China relations. Emerging market (EM) equities climbed in July and outpaced their developed market counterparts. The yield on the 10-year US Treasury note dropped 13 basis points to finish the month at 0.53%, near its lowest level on record to date.
- For the month, the fund's A (Qdis) USD shares returned 5.45%, and its benchmark, the Linked 50% MSCI EM + 50% JPMorgan GBI-EM Global Diversified Index, returned 6.02%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Equity	Fixed Income
HELPED	Taiwan (Stock Selection)	Japanese Yen (Net-Positive Position)
	Information Technology (Overweight)	Duration Exposure in Argentina
	Communication Services (Stock Selection)	Duration Exposure in Indonesia
HURT	South Africa (Stock Selection)	Argentine Peso
	India (Stock Selection)	Australian Dollar (Net-Negative Position)
	Consumer Discretionary (Stock Selection)	Indonesian Rupiah

- In the equity portfolio, shares of Taiwan Semiconductor Manufacturing Company (TSMC) soared. The chip maker posted better-than-expected quarterly results and lifted its full-year revenue guidance amidst strong demand for its cutting-edge chips. Investors turned even more upbeat on TSMC following production setbacks for its competitor. We are positive on TSMC's technology leadership, and we expect it to benefit from a diverse range of demand drivers, including smartphones, high-performance computing, and the Internet of Things.
- Conversely, India-based ICICI Bank declined in value. The private-sector lender announced equity fundraising plans to strengthen already healthy capital levels amidst the pandemic. It also set aside additional provisions to buffer against potential bad debts. We believe ICICI's robust balance sheet, growing deposit franchise, and risk-conscious lending practices should help it withstand the crisis better than many peers, and we think it is well-positioned to gain market share in the longer run.
- Sovereign bond yields largely declined across much of Europe, Asia and Latin America in July. Select duration exposures in Latin America (Argentina), Asia ex Japan (Indonesia) and Africa (Ghana) contributed to the fixed income portfolio's absolute performance. We held select duration exposures in countries with relatively higher yields that we believe have varying degrees of economic resilience to external shocks.
- The US dollar broadly weakened against most currencies during the month, with some notable exceptions. Currency positions in Latin America (the Argentine peso) and Asia ex Japan (the Indonesian rupiah) detracted from the fixed income portfolio's absolute results. The portfolio's net-negative position in the Australian dollar also detracted from relative performance, while its net-positive position in the Japanese yen contributed.

Outlook & Strategy

- Equity market sentiment has largely held out against the evolving trajectory of the pandemic. While some economies are struggling with new waves of COVID-19 transmission, others have seen containment and are gradually reopening. In our view, the timing of economic recoveries across EMs is likely to depend on the health of each country going into the crisis, and the range of fiscal and monetary policy tools available. Governments have responded with various measures, and we continue to monitor the impact of these policies.
- In addition to the health crisis, the longstanding friction between China and the United States has returned to the fore. Even as we continually factor geopolitical risks into our investment decisions, of greater importance to us are company fundamentals. We seek quality companies with strong competitive advantages and exposures to areas of secular growth. We believe that the pandemic has accelerated certain structural trends, especially in technology and consumption, and these remain core themes in the equity portfolio.
- From a fixed income perspective, we think it is still too early to pursue additional risk as the world is still in the first phase of the economic repercussions. The recent rallies across risk assets reflect an underappreciation of the risks for successive waves of infections and a second leg down in financial markets, in our view. We're currently focusing on specific perceived safe-haven investments, while emphasising a select set of higher-yielding EMs 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 as yields grind to historic lows.
- We currently remain cautious on the broad outlook for EMs 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 EMs 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 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	29/04/2011
Benchmark	Linked 50% MSCI EM + 50% JPMorgan GBI-EM Global Diversified Index, MSCI Emerging Markets Index, JP Morgan GBI-EM Global Diversified Index

Fund Description

The Fund's investment objective is to maximise, consistent with prudent investment management, a combination of capital appreciation and income. The Fund seeks to achieve its objective by investing principally in a diversified portfolio of equity and debt securities by issuers located, incorporated or have their principal business activities in developing or Emerging Market countries. The Fund will typically invest at least 25% of its assets in Emerging Market equity securities and at least 25% of its assets in debt securities.

Performance Data

Performance Net of Management Fees as at 31/07/2020 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (29/04/2011)
A (Qdis) USD	5.45	11.55	-2.80	0.97	1.02	5.55	0.28
Net of Sales Charge - A (Qdis) USD	0.17	5.97	-7.66	-4.08	-0.69	4.48	-0.27
Linked 50% MSCI EM + 50% JPMorgan GBI-EM Global Diversified Index USD	6.02	13.48	-2.61	4.93	3.72	6.22	3.83

Investment Team

Chetan Sehgal, CFA
Years with Firm 25
Years Experience 28

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

Vivek Ahuja
Years with Firm 13
Years Experience 24

Subash Pillai
Years with Firm 2
Years Experience 23

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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 and equity securities issued by entities located in emerging countries. Such securities have historically been subject to price movements, generally due to interest rates, market factors or movements in the equity and bond markets. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: Chinese market risk, credit risk, foreign currency risk, derivative 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

Effective 2 September 2019, Templeton Emerging Markets Balanced Fund was renamed Templeton Emerging Markets Dynamic Income Fund.

Templeton Emerging Markets Dynamic Income 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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