FRANKLIN TEMPLETON INVESTMENTS

Templeton Emerging Markets Bond Fund

A (Qdis) USD
31 December 2018

Franklin Templeton Investment Funds

Fund Commentary

Performance Review

- Market volatility escalated during the fourth quarter, as global growth uncertainties and trade concerns led to rallies in perceived safe haven assets. The US Federal Reserve (Fed) raised the federal funds target rate but modestly lowered its forecast for US economic growth for 2019. The 10-year US Treasury note's yield fell over the quarter, and yields broadly decreased across much of Europe and Asia ex Japan.
- For the quarter, the fund's A (Qdis) USD shares returned 4.50%, and its benchmark, the JP Morgan EMBI Global Index, returned -1.19%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	Argentine Peso	Brazil	—
	Brazilian Real	Argentina	—
	Indian Rupee	India	—
HURT	Mexican Peso	Negative Duration Exposure to US Treasuries	—
	Colombian Peso	—	—
	—	—	—

- Select duration exposures in Latin America (Brazil and Argentina), Asia ex Japan (India) and Africa (Ghana) contributed to absolute fund performance. We held select duration exposures in specific countries that we believe have attractive risk/return profiles, relatively higher yields and favourable macro conditions for yields to remain relatively stable or shift lower.
- Negative duration exposure to US Treasuries detracted from absolute fund results as the yield on the 10-year US Treasury note decreased 38 basis points to end the quarter at 2.69%. Overall, we expect US Treasury yields to rise as the Fed continues to tighten policy while US inflation pressures pick up.
- Currency positions in Asia ex Japan (the Indian rupee) contributed to absolute fund performance, while positions in Latin America had mixed results (the Argentine peso and Brazilian real contributed, while the Mexican peso and Colombia peso detracted). Emerging-market currencies performed idiosyncratically against the US dollar during the fourth quarter, as countries that generally benefit from lower oil prices tended to see exchange rate appreciations, while net oil exporters tended to depreciate. We continued to hold currency positions in a number of countries that we believe have strong growth fundamentals and compelling interest-rate differentials.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	Mexican Peso	Argentina	—
	Australian Dollar (Net-Negative Position)	Brazil	—
	—	Ghana	—
HURT	Japanese Yen (Net-Negative Position)	Negative Duration Exposure to US Treasuries	—
	Euro (Net-Negative Position)	—	—
	—	—	—

- In December, yields broadly decreased across core Europe and much of Asia ex Japan and Latin America. Select duration exposures in Latin America (Argentina and Brazil), Asia ex Japan (India) and Africa (Ghana) contributed to absolute fund performance. We remain focused on specific countries that are less externally dependent and more domestically driven, and that have responsible, credible central banks that consistently respond with appropriate monetary policies.
- Negative duration exposure to US Treasuries detracted from absolute fund results as the yield on the 10-year US Treasury note decreased 30 basis points to end the month at 2.69%. We continued to maintain low overall portfolio duration, while actively positioning for rising US Treasury yields.
- The fund's net-negative positions in the Japanese yen and the euro detracted from absolute results, while its net-negative position in the Australian dollar contributed. The Japanese yen appreciated against the US dollar in December as perceived safe haven assets rallied amidst heightened risk aversion. However, we expect the yen to fundamentally weaken against the US dollar in upcoming quarters on widening rate differentials with the US.

Outlook & Strategy

- Overall, our investment convictions remain largely unchanged. Many of the countries that we believed were undervalued earlier this year became even more undervalued during the "risk-off" cycles in August and September. Longer term we continue to have a positive outlook on a number of local-currency markets that we believe are fundamentally stronger than markets have been indicating.

- We continue to expect global growth to remain largely on trend, with some moderation from current levels in the upcoming year. However, trade disputes between the US and China remain a risk. On the whole, we don't see trade coming to a standstill or the global economy toppling into a recession—we continue to have a positive outlook for US growth and the global economy for 2019.
- In the major developed economies, we anticipate continued monetary accommodation and low rates in Japan and the eurozone while rates rise in the US—those increasing rate differentials should depreciate the yen and euro against the US dollar, in our view.
- Outside of the developed markets, we are focused on specific emerging markets that are less externally vulnerable and more domestically driven, and that have responsible, credible central banks that consistently respond with appropriate monetary policies.
- We continue to hold select local-currency duration exposures in countries that we believe have healthy fundamentals and significantly higher yields than those available in developed markets. We also expect currency appreciation across a select subset of emerging markets.

Fund Details

Inception Date	05/07/1991
Benchmark	JP Morgan EMBI Global 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 issued by government and government-related issuers or corporate entities located in developing or emerging-market countries.

Performance Data

Performance Net of Management Fees as at 31/12/2018 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (05/07/1991)
A (Qdis) USD	1.22	4.50	-5.44	-5.44	4.51	0.58	7.13	8.13
Net of Sales Charge - A (Qdis) USD	-3.84	-0.73	-10.17	-10.17	2.74	-0.44	6.59	7.93
JP Morgan EMBI Global Index USD	1.46	-1.19	-4.61	-4.61	4.74	4.19	7.79	9.80

Investment Team

Michael Hasenstab, Ph.D.
Years with Firm 20
Years Experience 24

Laura Burakreis
Years with Firm 12
Years Experience 32

Calvin Ho, Ph.D.
Years with Firm 13
Years Experience 14

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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 of any quality issued by entities located in developing and emerging markets. Such securities have historically been subject to price movements, generally due to interest rates, market factors 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: credit risk, derivatives 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.

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

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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.

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