

**Fund Commentary**
**Performance Review**

- Emerging market (EM) small-cap equities advanced over the fourth quarter of 2020 and outpaced their large-cap counterparts. 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 19.60%, and its benchmark, the MSCI Emerging Markets Small Cap Index-NR, returned 22.22%.

**QUARTERLY KEY PERFORMANCE DRIVERS**

	Stocks	Sectors	Countries
<b>HELPED</b>	Borosil Renewables Limited	Information Technology (Stock Selection)	India (Stock Selection)
	Xinyi Solar Holdings Ltd.	Financials (Stock Selection)	Vietnam (Off-benchmark Exposure)
	Hoa Phat Group JSC	Communication Services (Stock Selection)	South Korea (Stock Selection)
<b>HURT</b>	Health and Happiness (H&H) International Holdings Limited	Industrials (Stock Selection)	China (Stock Selection, Overweight)
	Luye Pharma Group Ltd.	Health Care (Stock Selection)	Taiwan (Stock Selection)
	Merida Industry Co., Ltd.	Consumer Staples (Stock Selection)	Brazil (Stock Selection)

- 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.
- Merida Industry, a Taiwan-based producer of bicycles, advanced but was outpaced by the benchmark index. Investor sentiment shifted away from companies that had fared well earlier in the COVID-19 pandemic. Nonetheless, Merida's fundamentals remain healthy, in our view, and its third-quarter earnings surpassed market expectations. We continue to see the pandemic as a catalyst for the ongoing adoption of cycling as a healthy pursuit, which could be a long-term positive for Merida.
- In contrast, solar glass maker Xinyi added to returns. 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 Xinyi Solar.

**ONE-MONTH KEY PERFORMANCE DRIVERS**

	Stocks	Sectors	Countries
<b>HELPED</b>	Borosil Renewables Limited	Information Technology (Stock Selection)	India (Stock Selection)
	Xinyi Solar Holdings Ltd.	Financials (Stock Selection)	Vietnam (Off-benchmark Exposure)
	Noah Holdings Ltd. Sponsored ADR Class A	Communication Services (Stock Selection)	Canada (Off-benchmark Exposure)
<b>HURT</b>	Health and Happiness (H&H) International Holdings Limited	Industrials (Stock Selection)	Brazil (Stock Selection)
	Luye Pharma Group Ltd.	Consumer Discretionary (Overweight)	Indonesia (Stock Selection)
	Merida Industry Co., Ltd.	Materials (Stock Selection)	Philippines

- 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 also 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 EMs, particularly in East Asia, substantially outperformed other countries in terms of health outcomes, economic impact and equity markets in 2020. Many companies have successfully executed during the pandemic and 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.
- The challenges of 2020 have highlighted structural advantages and other beneficial secular trends in EMs that we believe bode well for 2021. The resilience of key markets in East Asia during the crisis, paired with their ability to capitalise on secular shifts to the new economy, should drive continued strength in 2021. Laggards, including India and Brazil, stand to benefit from a uniquely accommodative environment of negative real rates (and an undervalued currency in Brazil), paired with ongoing reform efforts and excess capacity in the economy, boosting growth.
- This broadening of economic recovery in EMs should continue to drive improved earnings visibility into 2021 and amounts to a compelling opportunity across EMs as a whole—both from a near-term tactical perspective as well as structurally. For so many different markets across this landscape to concurrently offer compelling investment potential, individually and in aggregate, presents an exceptional investment window, in our view. We believe that in this environment it is important to focus on determining companies' long-term sustainable earnings power, robust business models and balance sheets, often bolstered by key structural trends, such as e-commerce penetration and healthy lifestyles.
- However, we expect COVID-19 to remain prevalent in 2021. Whilst some countries have already started inoculation, production and distribution of the vaccine 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 economic and market recovery.

## Fund Details

Inception Date	18/10/2007
Benchmark	MSCI Emerging Markets Small Cap Index-NR

## Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in equity securities and depository receipts of small-cap companies registered or performing a substantial part of their business in emerging markets or holding a substantial part of their participations in small-cap companies registered in emerging markets. Emerging markets 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 Emerging Markets Small Cap Index (Index).

## Performance Data<sup>1</sup>

### Performance Net of Management Fees as at 31/12/2020 (Dividends Reinvested) (%)<sup>a</sup>

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (18/10/2007)
A (acc) USD	8.37	19.60	11.81	11.81	-0.31	5.91	2.99	1.82
Net of Sales Charge - A (acc) USD	2.95	13.62	6.22	6.22	-2.00	4.84	2.46	1.43
MSCI Emerging Markets Small Cap Index-NR USD	7.72	22.22	19.29	19.29	2.69	8.19	2.29	2.31

## 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 the equity securities of smaller companies in emerging markets. 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 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 Emerging Markets 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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