FRANKLIN TEMPLETON

Templeton Global Balanced Fund

Franklin Templeton Investment Funds

A (Qdis) USD
31 December 2020

Fund Commentary

Performance Review

- Risk assets initially rallied during the first couple weeks of the fourth quarter of 2020, before broad risk aversion sharply returned in the second half of October, leading to significant price adjustments in various securities. Investors appeared concerned over resurgent waves of COVID-19 cases around the world, notably in Europe where local governments were compelled to reinstate various restrictions and lockdowns. However, market sentiments improved in November on apparent optimism over promising vaccine trials and prospects for a potential global economic recovery in 2021. Risk assets broadly rallied in November, as well as December as initial vaccine distributions commenced. Global equities advanced in the fourth quarter, with the bulk of gains concentrated in November. Global value stocks outpaced global growth during the quarter. The yield on the 10-year US Treasury note finished the quarter 23 basis points higher at 0.92%.
- For the quarter, the fund's A (Qdis) USD shares returned 14.57%, and its benchmark, the Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index, returned 10.32%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Equity	Fixed Income
HELPED	United States (Stock Selection)	Colombian Peso
	Information Technology (Stock Selection)	Japanese Yen (Net-Positive Position)
	Japan (Stock Selection)	Duration Exposure in Mexico
HURT	Canada (Stock Selection)	—
	France (Stock Selection, Overweight)	—
	Germany (Stock Selection, Overweight)	—

- In the equity portfolio, performance in the information technology sector was led higher by our investment in South Korean semiconductor and consumer electronics manufacturer Samsung Electronics. Its shares rose to a record on signs of a cyclical upswing in the memory business and expectations that the company's mobile and 5G network gear businesses would benefit from tighter trade sanctions on Chinese rivals. We also see significant optionality around capital deployment, given the over US$100 billion on Samsung's balance sheet, and are encouraged by its commitment to return capital to shareholders. Overall, we believe the stock is not expensive for a global technology leader with strong competitive positions across a number of attractive businesses.
- Canadian precious metals firm Wheaton Precious Metals, one of the equity portfolio's top-performing stocks over the trailing one-, three- and five-year periods, was amongst the biggest individual stock detractors in a weak period for gold. Precious metals sold off with other perceived safe havens in November after positive vaccine news sparked a strong recovery in investor risk appetite. Wheaton has grown into a top holding for us over the years, and we continued to trim the stock during the period to manage position sizing.
- In currency markets, the US dollar (USD) broadly weakened against major developed market and emerging market currencies alike during the quarter. Currency positions in Latin America (the Colombian peso) and Asia ex Japan (the South Korean won) contributed to the fixed income portfolio's absolute performance. Its net-positive position in the Japanese yen also contributed to absolute results. Sovereign bond yields declined in much of core Europe, Latin America and Asia, notably Brazil, Mexico, Colombia and India. Select duration exposures in Latin America (Mexico) contributed to the fixed income portfolio's absolute performance. On the duration front, we continue to see value in specific local-currency emerging markets, specifically in countries with domestically driven economies that are less vulnerable to external shocks. There were no notable detractors from the fixed income portfolio's absolute performance for the quarter.
- From a positioning standpoint in fixed income, we continue to maintain low portfolio duration. We are significantly underweight developed market duration, preferring to hold short- to intermediate-term US Treasuries, while holding no exposure to the long end of the curve. We hold no duration exposure in the eurozone. Instead, we continue to emphasise select local-currency bonds outside of the major developed markets, in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are holding various unhedged local-currency positions, notably in South Korea, India, Ghana and Colombia. We are also focusing on value opportunities in specific currencies, focusing on countries with surplus economies, notably in Japan and other areas of Asia. We have notable long exposures in the Japanese yen and Chinese yuan against the USD. We have become increasingly constructive in various areas of the global fixed income markets, notably in areas of Asia, as we expect vaccine distributions to improve economic activity in the second half of 2021.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Equity	Fixed Income
HELPED	Information Technology (Stock Selection)	South Korean Won
	Communication Services (Stock Selection)	Colombian Peso
	United States (Stock Selection)	Japanese Yen (Net-Positive Position)
HURT	Financials (Stock Selection)	—
	Industrials (Stock Selection)	—
	Netherlands (Stock Selection)	—

- Notable equity contributors from the communication services sector included Chinese internet search firm Baidu and US-based multimedia and entertainment giant Walt Disney Company. Shares of Disney surged to an all-time high in December after management announced that the company expects its Disney+ streaming service to hit 260 million subscribers by 2024. Investors have cheered the company's plan to focus on its streaming product and produce over 100 new titles annually.
- In contrast, performance in the financials sector was pressured during a period when banks rebounded strongly. We increasingly view Western banks not as long-term investments but as public utilities in which it may be possible to benefit from buying and selling astutely during increasingly frequent cycles. Structurally, the banking sector faces challenges in an age of financial repression as low interest rates cap earnings potential and increasing government control over the provision of credit threatens to further impair the economics of lending.
- In currency markets, the USD continued to broadly weaken in December, with notable strength in Latin America. Currency positions in Asia ex Japan (the South Korean won and Indian rupee) and Latin America (the Colombian peso) contributed to the fixed income portfolio's absolute performance. Its net-positive position in the Japanese yen also contributed to absolute results. We expect the Japanese yen to appreciate against the USD in upcoming months given Japan's strong external balance.
- During the month, sovereign bond yields declined in several countries in Latin America and Asia. Select duration exposures in Latin America (Mexico) contributed to the fixed income portfolio's absolute performance. We continue to emphasise select local-currency bonds outside of the major developed markets, in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. There were no notable detractors from the fixed income portfolio's absolute performance for the month.

Outlook & Strategy

- From a global equity perspective, while we are encouraged by recent vaccine developments and are generally optimistic about their implications, much of the good news seems discounted by expensive valuations. Low interest rates may justify high valuations, but if the combination of stimulus and vaccination succeeds in reflating the global economy, rates should move higher, at least in nominal terms. Governments burdened by debts they can never pay back cannot afford to let interest costs spike, leading us to expect continued state intervention into financial markets and the economy, with all the distortions that implies for pricing signals. The era of free markets and liberal democracy as we once knew it is likely over, in our view. The modern policy goal of engineering a permanent recovery will prove impossible.
- We expect the push and pull between inflationary and deflationary forces to accelerate, cycles to compress and growth to be harder to come by. Our continued efforts towards diversifying and upgrading the quality of the portfolio are intended to help us succeed in the challenging environment ahead. After all, uncertainty can be favourable for active investment managers with a long-term horizon and global opportunity set. We are applying all our energies and talents to uncovering what we view as the best ideas in this environment and getting them into a sensible and balanced portfolio suitable for a future of increasing adversity and complexity.
- From a global fixed income perspective, we are optimistic for the potential effectiveness of vaccine distributions in 2021, which we expect to incrementally support a rebound in economic activity midway through the year. We anticipate being constructive in a number of regions as the world transitions towards a post-COVID era, with a particular focus on areas of Asia that have addressed the health crisis and economic crisis more effectively. However, it remains crucial to be highly selective as there is wide variance in how countries have contained COVID-19, handled fiscal and monetary policy, and supported their economies.
- Environmental, social and governance (ESG) factors will play a major role in rebuilding the post-COVID world. Social cohesion and good governance have the power to accelerate a country's post-crisis recovery, or the lack thereof can stymie it. Tragically we have seen the consequences of weak ESG factors in specific emerging markets during the pandemic. Countries that were less prepared for a health crisis due to weaker health care systems and less developed infrastructure, and/or less prepared for an economic crisis due to fiscal imbalances, high levels of debt and external dependencies, have suffered greater damage. By contrast, countries that were in stronger fundamental shape before the crisis, with stronger institutions, lower levels of debt and more diversified economies, have generally fared better.

Fund Details

Inception Date	01/06/1994
Benchmark	Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index, MSCI All Country World Index-NR, JP Morgan Global Government Bond Index

Fund Description

The fund seeks capital appreciation and current income by investing principally in equity securities and government debt securities issued by entities throughout the world, including emerging markets. The portfolio manager anticipates that the majority of the fund's portfolio is normally invested in equity or equity-linked securities.

Performance Data[1,2]

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 (Qdis) USD	5.32	14.57	6.32	6.32	2.65	5.33	4.50	5.27
Net of Sales Charge - A (Qdis) USD	0.06	8.85	1.00	1.00	0.91	4.26	3.97	5.06
A (acc) SGD	3.69	10.88	4.46	4.46	2.23	3.88	4.81	1.79
Net of Sales Charge - A (acc) SGD	-1.49	5.33	-0.76	-0.76	0.50	2.82	4.28	1.40
Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index USD	3.43	10.32	14.69	14.69	8.66	9.83	7.00	6.96
Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index SGD	2.04	6.81	12.73	12.73	8.26	8.28	7.34	4.45

The Inception Date for the A (Qdis) USD share class and A (acc) SGD share class is 01/06/1994 and 25/10/2007 respectively.

Investment Team

Michael Hasenstab, Ph.D.
Years with Firm 22
Years Experience 25

Alan Chua, CFA
Years with Firm 20
Years Experience 31

Calvin Ho, Ph.D.
Years with Firm 15
Years Experience 15

1. Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index reflects performance of the Custom 65% MSCI ACWI + 35% JP Morgan Global Government Bond Index (gross returns) from fund inception through 31 December 2000 and the Custom 65% MSCI ACWI-NR + 35% JP Morgan Global Government Bond Index thereafter.
2. 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, equity-related and debt securities around the world. Such securities have historically been subject to significant price movements that may occur suddenly due to equity and bond market or company-specific factors. As a result, the performance of the Fund can fluctuate considerably 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, foreign currency risk, emerging markets risk, liquidity risk, derivatives instruments 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 Global Balanced Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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

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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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