Templeton Global Total Return Fund

Franklin Templeton Investment Funds

A (Mdis) 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.
- For the quarter, the fund's A (Mdis) USD shares returned 1.43%, and its benchmark, the Bloomberg Barclays Multiverse Index, returned 3.52%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	Japanese Yen (Net-Positive Position)	Argentina	—
	Norwegian Krone	Mexico	—
	Swedish Krona	—	—
HURT	Euro (Net-Negative Position)	—	—
	Australian Dollar (Net-Negative Position)	—	—
	Mexican Peso (Tactically Negative Position)	—	—

- Sovereign bond yields declined in much of core Europe, Latin America and Asia, notably Brazil, Mexico, Colombia, Indonesia and India. Select duration exposures in Latin America (Argentina and Mexico) contributed to absolute fund 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.
- In currency markets, the US dollar (USD) broadly weakened against major developed market and emerging market currencies alike during the quarter. Positions in northern European currencies (the Norwegian krone and Swedish krona) contributed to absolute fund results, as did the fund's position in the Swiss franc. Currency positions in Asia ex Japan (the Indonesian rupiah) and Latin America (the Colombian peso) also contributed to absolute fund performance.
- The fund's net-positive position in the Japanese yen contributed to absolute results. However, its net-negative positions in the euro and the Australian dollar detracted from absolute performance, as did tactical positioning (negative) in the Mexican peso. We expect the Japanese yen to appreciate against the USD in upcoming months given Japan's strong external balance. We continue to expect the euro to weaken against the USD given negative rates, as well as greater headwinds to growth and reflation efforts in Europe.
- From a positioning standpoint, 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, Indonesia, India, Ghana and Colombia. We also hold fully hedged local-currency positions in Mexico and Brazil. We are also focusing on value opportunities in specific currencies, focusing on countries with surplus economies, notably in northern Europe, Japan and other areas of Asia. We have notable long exposures in the Norwegian krone and Swedish krona against the euro, and in the Japanese yen and Chinese yuan against the US dollar. We also continue to broadly avoid credit sectors, which remain overvalued and vulnerable to ongoing economic damage, in our view. Nonetheless, 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

	Currencies	Duration	Credit
HELPED	Japanese Yen (Net-Positive Position)	Argentina	—
	Norwegian Krone	Mexico	—
	Argentine Peso	Ghana	—
HURT	Euro (Net-Negative Position)	—	—
	Australian Dollar (Net-Negative Position)	—	—
	Mexican Peso (Tactically Negative Position)	—	—

- In December, sovereign bond yields declined in several countries in Latin America and Asia, and modestly declined in much of core Europe. Select duration exposures in Latin America (Argentina and Mexico) and Africa (Ghana) contributed to absolute fund 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.

- In currency markets, the USD continued to broadly weaken during the month, with notable strength in Latin America and regional areas of Europe. Positions in northern European currencies (the Norwegian krone and Swedish krona) contributed to absolute results, as did the fund's position in the Swiss franc. Currency positions in Latin America (the Argentine peso and Colombian peso) and Asia ex Japan (the South Korean won and Indian rupee) also contributed to absolute fund performance.
- The fund's net-positive position in the Japanese yen contributed to absolute results. However, its net-negative positions in the euro and the Australian dollar detracted from absolute performance, as did tactical positioning (negative) in the Mexican peso. We reduced our net-negative position in the Australian dollar in December, as part of our tactical rotation into areas of risk and value in Asia.

Outlook & Strategy

- 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.
- Additionally, optimism for a potential curtailment of the pandemic in the second half of the year should be counterbalanced with caution over acute near-term risks, in our view. The pandemic continues to destroy areas of economic activity as cases surge to record levels in areas of Europe, the US and Latin America, resulting in substantial risks for a number of financial assets. COVID-19 cases appear likely to reach a zenith during the winter months before vaccine distributions may cause the pandemic to ebb in the late spring and summer of 2021. Broad disinflationary effects are likely to persist until economies can return to full mobility. There will also be wide variation in distribution efficiency in countries, with several emerging markets lagging the deployments of vaccines in advanced economies, creating staggered timelines for economic recoveries and specific investment opportunities.
- From a macro standpoint, fiscal and monetary policies continue to have a substantial impact on financial market valuations. Central banks are now seen as the policymaker of first and last resort during a crisis, with extreme monetary policy becoming the norm in developed economies. Emerging markets typically have less ability to pursue ultra-accommodative policies given the amplified risks to price stability and their exchange rates. Stronger institutions in developed countries allow for more extreme measures, though not without consequence; massive fiscal deficits and persistently low rates to minimise debt financing should lead to currency depreciation, notably in the euro area and the US.
- 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.
- Widening income inequality in many countries also remains a critical issue that threatens to undermine economic stability and intensify social discord. Damaged economies and elevated unemployment from the pandemic have only worsened several pre-existing structural problems. Countries that effectively address these challenges in the years ahead can strengthen the underpinnings of their economies, while those that neglect these factors risk further instability. We expect ESG to be a defining characteristic for global fixed income markets in years ahead. Countries that are projected to improve on ESG factors often present the strongest investment opportunities.

Fund Details

Inception Date	29/08/2003
Benchmark	Bloomberg Barclays Multiverse 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 worldwide. The Fund may invest in investment grade and non-investment grade debt securities. The Fund may also use various currency-related and other transactions involving derivative instruments.

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 (29/08/2003)
A (Mdis) USD	1.20	1.43	-6.55	-6.55	-2.50	0.34	1.61	6.14
Net of Sales Charge - A (Mdis) USD	-3.86	-3.64	-11.22	-11.22	-4.15	-0.68	1.09	5.83
Bloomberg Barclays Multiverse Index USD	1.42	3.52	9.02	9.02	4.83	4.99	2.98	4.43

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Investment Team

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

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

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 issued by government, government-related or corporate entities worldwide and in derivatives. Such securities and derivatives have historically been subject to price movements, generally due to interest rates, foreign exchange rates 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: Chinese market risk, credit risk, foreign currency risk, derivatives instruments risk, emerging markets 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 Total Return 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, efficient portfolio management and/or investment purposes.

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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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