FRANKLIN TEMPLETON

Templeton Global High Yield Fund

Franklin Templeton Investment Funds

A (Mdis) USD
31 July 2020

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. Positive returns were seen amongst risk assets and the highest rated securities alike. Despite a resurgence of COVID-19 cases, credit markets continued to advance alongside equities as corporate earnings season for the second quarter got under way. Fixed income spreads trended generally tighter during the month. 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 (Mdis) USD shares returned 3.15%, and its benchmark, the Custom 50% JP Morgan Global High Yield + 50% JP Morgan EMBI Global Index, returned 3.94%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Credit Sectors	Credit Quality	Duration	Currencies
HELPED	Security Selection	Ratings-Quality Tilt	US Treasuries	Japanese Yen (Net-Positive Position)
	Industry Allocation	—	Argentina	—
	—	—	Ghana	—
HURT	—	—	—	Argentine Peso
	—	—	—	Australian Dollar (Net-Negative Position)
	—	—	—	—

- During the month, security selection was a major contributor to relative performance, led by selection in the energy, metals and mining and finance industries. Conversely, our selection in the wireless, technology and automotive segments detracted from results.
- Industry allocation benefitted relative performance, led by our underweight positioning in the transportation industry and overweight in the media cable and health care segments. Conversely, our underweight allocation to the consumer cyclical service and aerospace and defense industries and overweight to the restaurant segment hindered results.
- Our ratings-quality tilt contributed to performance.
- Sovereign bond yields largely declined across much of Europe, Asia and Latin America. Duration exposures to US Treasuries contributed to absolute fund results, as did select duration exposures in Latin America (Argentina) and Africa (Ghana). 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) detracted from absolute performance, as did the fund's net-negative position in the Australian dollar. We continued to hold net-negative positioning in the Australian dollar to hedge broad-based beta risk across emerging markets.

Outlook & Strategy

- While we recognise the positive US high-yield (HY) technical picture provided by the perceived US Federal Reserve backstop and substantial year-to-date retail inflows into the sector, we maintain a somewhat cautious view on HY credit as we expect fundamentals to remain challenged, especially for sectors with the most exposure to the COVID-19 pandemic and those further down the credit quality spectrum. To the extent that credit rating agencies have issued downgrades to companies directly impacted by the pandemic, we believe that the resulting fallen angels entering the HY market could reprice certain sectors. As default levels are likely to trend higher, we believe investors need to be vigilant in choosing sector exposures with longer-term outlooks in mind.
- We maintain our up-in-quality bias, as we do think the economy faces ongoing risks that may not be fully reflected in the valuation of certain lower-quality credits at this point in time. Despite our somewhat cautious stance, we continue to find pockets of value in both select new issues and in the secondary market. Prudent credit selection and thorough due diligence remain central tenets of our investment and risk management efforts. As bottom-up, fundamental investors, we remain focused on companies that we believe have the financial wherewithal to survive the coronavirus-related economic downturn and emerge in solid shape.
- 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 emerging markets 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 emerging markets 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 emerging markets 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

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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	27/09/2007
Benchmark	Custom 50% JP Morgan Global High Yield + 50% JP Morgan EMBI Global Index

Fund Description

The fund aims to earn a high level of current income, and seeks capital appreciation when consistent with its principal objective of high current income, by investing principally in fixed and floating-rate debt securities of issuers globally, including those in emerging markets.

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	10 Yrs	Since Inception (27/09/2007)
A (Mdis) USD	3.15	6.72	-3.09	-4.12	-0.19	2.23	2.96	3.43
Net of Sales Charge - A (Mdis) USD	-2.01	1.39	-7.93	-8.91	-1.88	1.18	2.43	3.02
Custom 50% JP Morgan Global High Yield + 50% JP Morgan EMBI Global Index USD	3.94	11.88	-0.02	2.85	4.12	5.73	6.29	6.83

Investment Team

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

Glenn Voyles, CFA
Years with Firm 26
Years Experience 27

Patricia O'Connor, CFA
Years with Firm 22
Years Experience 24

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

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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 any government or corporate entity worldwide. Such securities have historically been subject to price movements, generally due to interest 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: credit risk, derivatives 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

Templeton Global High Yield 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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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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