FRANKLIN TEMPLETON

Franklin Floating Rate Fund PLC

Franklin Floating Rate Fund plc

A (dis)
30 April 2019

Fund Commentary

Performance Review

- In April, positive sentiment in the broad capital markets continued to be reinforced by improving global growth, better than expected corporate earnings, and more accommodative global central banks. Leveraged loan returns outpaced high-yield bond returns for the first time this year, as the loan asset class experienced strengthening technical conditions. Overall, loan demand, driven by increasing collateralised loan obligation (CLO) issuance and slower retail vehicle outflows, materially exceeded supply, which was driven by a decline in leveraged buyout (LBO) and mergers-and-acquisitions (M&A) related transactions coupled with increasing repayments.
- For the month, the fund's A (dis) shares returned 0.62%, and its benchmark, the Credit Suisse Leveraged Loan Index, returned 1.59%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Loan Selection	Quality/Tier	Sectors/Industries
HELPED	Paper Issuer	—	Overweight in Retail
	Consumer Product Industry	—	—
	Media Cable Issuer	—	—
HURT	Aero and Defense Issuer	Lower-Tier	—
	Retail Issuer	Upper-Tier	—
	Metals and Mining Issuer	Middle-Tier	—

- During the month, security selection was the primary detractor from relative results, particularly from an aerospace and defense issuer. Although the loan issued by a retailer was also a top detractor, the fund's overweight in the sector contributed. The fund's holdings in all three credit tiers hindered results, with the Lower-Tier underperforming by the largest margin. Conversely, loan selection in paper and media cable issuers, as well as the consumer product industry benefitted performance.
- We maintained our defensive positioning and overweight in Upper-Tier loans relative to the index.

Outlook & Strategy

- In a reversal from March, April's bank loan market performance turned positive. Market technical conditions remained supportive as demand conditions were balanced by continued growth in CLO issuance on a net year-to-date basis, which has mitigated negative demand from retail fund outflows. Stable loan demand conditions combined with persistently low supply were generally supportive of prices. An uptick in high-yield senior secured bond issuance also helped to suppress loan supply.
- In our view, as long as the US Federal Reserve remains accommodative and demand/supply conditions remain balanced, we expect the loan market to continue in its current steady state. As loan prices remain range-bound, we also expect returns to tilt more towards current income levels, rather than price appreciation. Absent unforeseen market stresses, we expect technical factors to be the primary driver of loan returns in the short-term. Longer-term, we see elevated risks in the loan market driven mainly by deteriorating credit statistics and lender protections.
- April also marks the one-year anniversary of the Secured Overnight Finance Rate (SOFR), a potential replacement for the London Interbank Offered Rate (LIBOR). SOFR is a secured overnight rate backed by US Treasuries (USTs), whereas LIBOR is an unsecured rate that is quoted for five currencies and has seven different maturities. While work continues on SOFR, it remains to be seen whether the proposed reference rate will gain traction as a workable alternative to LIBOR.
- Regardless of LIBOR's future fate, we remain committed to our discipline of security selection, credit quality screening and proper due diligence to identify potential risks that lie beneath the surface, especially as related to risks that are increasingly present in loan documentation amidst the current environment of eroding lender protection (as mentioned previously). We further believe that loan portfolios should be positioned conservatively, with an overweight in the higher-end of the credit quality spectrum as protection from unforeseen longer-term stresses.

Fund Details

Inception Date	15/05/2000
Benchmark	Credit Suisse Leveraged Loan Index

Fund Description

A master feeder fund which seeks to provide investors with as high a level of current income and preservation of capital as is consistent with investing primarily in floating rate or variable rate senior secured corporate loans or senior secured debt securities.

Performance Data

Performance Net of Management Fees as at 30/04/2019 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (15/10/2002)
A (dis)	0.62	1.41	3.03	1.57	3.90	2.58	4.91	3.29
Net of Sales Charge - A (dis)	-2.39	-1.63	-0.06	-1.48	2.85	1.95	4.59	3.10
Credit Suisse Leveraged Loan Index USD	1.59	3.05	5.42	4.46	5.76	4.11	7.29	5.21

Investment Team

Reema Agarwal, CFA
Years with Firm 14
Years Experience 22

Justin G. Ma, CFA
Years with Firm 12
Years Experience 12

Margaret Chiu, CFA
Years with Firm 7
Years Experience 7

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 and debt securities of US companies. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate considerably over time. Investors should be aware that the fund's share price and yield will fluctuate with market conditions. Counterparty Risk: the risk of failure of financial institutions or agents (when serving as a counterparty to financial contracts) to perform their obligations, whether due to insolvency, bankruptcy or other causes. Derivatives risk: the risk of loss in an instrument where a small change in the value of the underlying investment may have a larger impact on the value of such instrument. Derivatives may involve additional liquidity, credit and counterparty risks. Liquidity risk: the risk that arises when adverse market conditions affect the ability to sell assets when necessary. Reduced liquidity may have a negative impact on the price of the assets. Other significant risks include: lower-rated or non-investment grade securities risk, credit risk, derivative instruments risk, and interest rate securities risk. For full details of all of the risks applicable to this Fund, please refer to the "Risk Factors" section of the Fund in the current prospectus of Franklin Floating Rate Fund plc.

Important Legal Information

THIS FUND SHOULD NOT BE PROMOTED TO RETAIL INVESTORS. ITS MATERIALS SHOULD NOT BE DISTRIBUTED TO RETAIL INVESTORS.

Franklin Floating Rate Fund PLC is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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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 3% 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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