Franklin Floating Rate Fund PLC

Franklin Floating Rate Fund plc

A (dis) USD
31 July 2020

Fund Commentary

Performance Review

- Leveraged loan prices rallied alongside broad markets amidst a firmer technical environment, stronger demand from collateralised loan obligation (CLO) new issues and a supportive US Federal Reserve (Fed) despite the rally showing signs of weakness in June. During July, redemptions from retail vehicles decreased slightly and technical conditions strengthened during the month as demand exceeded supply.
- For the month, the fund's A (dis) USD shares returned 0.96%, and its benchmark, the Credit Suisse Leveraged Loan Index, returned 1.88%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Loan Selection	Quality/Tier	Sectors/Industries
HELPED	Retail Issuers	Lower-Tier	Overweight in Retailers
	Energy Issuer	Middle-Tier	Underweight in Entertainment
	Automotive Issuer	—	—
HURT	Consumer Products Issuers	—	Overweight in Transportation
	Aerospace and Defense Issuers	—	Underweight in Health Care
	Food and Beverage Issuer	—	Underweight in Technology

- During the month, our loan selection detracted from relative results, led by our selection in consumer product, aerospace and defense and food and beverage issuers. Conversely, our loan selection in retail, energy and automotive issuers benefitted performance. Our industry allocation hindered relative results, led by our overweight in the transportation segment and underweights in the health care and technology industries. Conversely, our overweight in the retail segment and underweight in the entertainment industry contributed to performance.
- The fund's allocation to the Lower- and Middle-Tier segments contributed to results, while allocation to the Upper-Tier segment had a largely neutral effect on performance.
- We maintained our defensive positioning and overweight in Upper-Tier loans relative to the index.

Outlook & Strategy

- Amidst the ongoing Fed support for financial markets, risk-on behavior persisted in July. In general, market participants seemed to have brushed off negative headlines pertaining to the resurgence of COVID-19 cases. As we look ahead, loan market technical conditions remain favourable, mostly driven by tapering of retail outflows, renewed demand from CLOs, and a moderate new issue calendar.
- We expect bifurcation to continue, however, especially as the second quarter's earnings season begins in earnest. We believe there could be increasing investor differentiation between the haves and have-nots along the credit quality spectrum and sectors with perceived exposures to COVID-19 related disruptions.
- Furthermore, against the backdrop of ongoing COVID-19 related economic uncertainties, defaults have started to increase meaningfully. We believe the longer loan market fundamentals remain challenged, the higher the likelihood there will be additional stresses/defaults among the most vulnerable loan issuers, with recoveries trending lower. Consequently, we maintain our view that investors should remain vigilant in choosing sector exposures with longer-term outlooks in mind.
- Amidst the recent rapid rise in loan prices, we are seeing attractive relative value in the primary market relative to the secondary market as investors are increasingly making room for such new issuance by swapping from names in the secondary market where spreads have tightened. We have pivoted our research efforts towards more creditworthy primary issues.
- Overall, we are generally positioned with a higher-credit quality bias in loan issuers from more recession and COVID-19 resilient industries while maintaining adequate liquidity to potentially add exposure to securities for which we have a favourable view, such as strong single-B rated loans. The core of our risk management efforts remains prudent security selection and thorough due diligence.

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 31/07/2020 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (15/10/2002)
A (dis) USD	0.96	3.37	-9.52	-10.08	-2.73	0.00	1.87	2.40
Net of Sales Charge - A (dis) USD	-2.07	0.27	-12.23	-12.78	-3.71	-0.61	1.56	2.23
Credit Suisse Leveraged Loan Index USD	1.88	7.18	-2.97	-1.20	2.50	3.30	4.38	4.81

Investment Team

Reema Agarwal, CFA
Years with Firm 15
Years Experience 23

Justin G. Ma, CFA
Years with Firm 13
Years Experience 13

Margaret Chiu, CFA
Years with Firm 8
Years Experience 8

Judy Sher
Years with Firm 6
Years Experience 17

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).

This document is for information only and does not constitute investment advice or a recommendation and was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. Any research and analysis contained in this presentation has been procured by Franklin Templeton Investments for its own purposes and may be acted upon in that connection and, as such, is provided to you incidentally. Any views expressed are the views of the fund manager and do not constitute investment advice. The underlying assumptions and these views are subject to change. Franklin Templeton Investments accepts no liability whatsoever for any direct or indirect consequential loss arising from the use of any information, opinion or estimate herein. **The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested.**

Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance.

Past performance or any prediction or forecast is not necessarily indicative of future performance of the Fund. Subscriptions may only be made on the basis of the most recent Prospectus and Product Highlights Sheet which is available at Templeton Asset Management Ltd or our authorised distributors. Potential investor should read the details of the Prospectus and Product Highlights Sheet before deciding to subscribe for or purchase the Fund. This shall not be construed as the making of any offer or invitation to anyone in any jurisdiction in which such offer is not authorised or in which the person making such offer is not qualified to do so or to anyone to whom it is unlawful to make such an offer. In particular, this Fund is not available to U.S. Persons and Canadian residents.

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.

Issued by Templeton Asset Management Ltd. Registration No. (UEN) 199205211E

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

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

Important data provider notices and terms available at www.franklintempletondatasources.com.

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.

For use by brokers/dealers or intended institutional investor recipients only and cannot be disseminated further.