

Fund Commentary

Performance Review

- Global equity markets bounced back sharply during November 2020. Many investors turned bullish as the month progressed as uncertainty around the US elections lessened and progress on potential COVID-19 vaccines was reported. The vaccine news helped broaden the bull market to include some of the most pandemic-challenged businesses (including airlines and oil producers), despite concerns that rising coronavirus infection rates could lead to renewed lockdowns that could stall economic recoveries. High-yield bonds led global fixed income higher as credit spreads tightened. Commodities prices generally responded positively to vaccine developments and ongoing progress in the global economic recovery.
- For the month, the fund's A (acc) USD shares returned 3.90%, and its benchmarks, the ICE BofA US 3-Month Treasury Bill Index and the HFRX Global Hedge Fund Index, returned 0.01% and 2.82%, respectively.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Long/Short Equity	Electron (Long/Short Equity)	Information Technology (Long)
	Relative Value	Wellington (Long/Short Equity)	Industrials (Long)
	Event Driven	Lazard (Relative Value)	Health Care (Long)
HURT	—	Chatham (Relative Value)	Equity Index Hedges
	—	—	Currency Exposure (Long)
	—	—	—

- Fourteen of the 15 underlying subadvisors delivered absolute gains in November.
- Both equity and credit positioning were significant contributors to absolute returns. Long equity positioning was a substantial driver of gains. In terms of sectors, information technology was the largest contributor, but gains were widespread, with strength in industrials and health care as well as consumer discretionary and financials, some of which lagged the previous month. Gains were partially offset by deduction from equity index hedges on the US and other developed markets, particularly the S&P 500® Index, which reached new record highs during the month. Corporate bonds, and particularly high-yield paper, which broadly led credit markets, also drove advances across the portfolio, with additional contribution from credit swaps.
- The long short equity strategy was responsible for the majority of the portfolio's absolute gains, as five of the strategy's subadvisors ranked in the top six in terms of contribution. Subadvisor Electron, which was added to the portfolio in September, led the way, benefitting from a more stable and growth-oriented outlook for renewable energy assets. Long positioning in information technology stocks, especially for subadvisor Wellington, another notable contributor, and in the health care sector (especially subadvisor Jennison) drove the strategy's return. In contrast, equity index hedges, mostly in the US, detracted.
- The relative value strategy was also a notable contributor, driven largely by credit swaps and long positions in high-yield and convertible bonds. Subadvisor Lazard, bolstered in part by consumer staples names, and Loomis were leading contributors. In contrast, short equity positions and hedges detracted modestly. Subadvisor Chatham was a slight detractor; the manager is in the process of liquidating the portfolio.
- The event driven strategy's more modest contribution was driven in part by long equity positions within consumer discretionary. Notable contributors included subadvisor Bardin Hill's positions in a Netherlands-based optical retailer and a global automaker, as well as PSAM's position in a US-based hotel and casino operator that traded higher upon regulatory approval of its potential acquisition.
- The global macro strategy's advance was broad-based, with contributions across multiple asset classes, led by subadvisors Emso and Graham. Longs in emerging market assets and broad currencies against the US dollar helped drive gains.
- During the month, the team reduced exposure to relative value subadvisor Chatham. The portfolio's liquidation is expected to be completed by the end of 2020.

Outlook & Strategy

- Given elements of uncertainty tied to COVID-19, geopolitics and policy decisions to come in the United States and across the globe, we believe it is prudent to remain conservative in our positioning, but maintain a positive outlook for alternative investments that exhibit a low correlation to the general direction of broader risk assets. We believe the theme of lingering uncertainty around the health crisis and policy responses may favour nimble, shorter-term strategies.
- We hold a favourable view for opportunities in the long short equity strategy, backed by the dispersion and volatility created by COVID-19 disruptions. Whilst the trajectory of the overall markets remains uncertain, we believe that a strong alpha environment will persist, which can be attributed to higher dispersion. In addition, elevated market volatility has historically benefitted long/short equity managers as they have more opportunities to realise dispersion.

- Within the relative value strategy, persistent opportunities exist for trading in convertible bonds and equity volatility due to continued market inefficiencies and limited competition. We are less focused on fixed income relative value trading as the essentially unlimited central bank support has depressed volatility for the foreseeable future. Dispersion in corporate and structured credit instruments remains significant, favouring a more active long short investment strategy.
- The opportunity set for global macro strategy managers remains attractive, in our view. Macro factors are likely to remain a leading driver of market fluctuations over the medium term. Managers may find attractive trading opportunities around political events as well as significant policy changes being made by monetary and fiscal authorities.
- Turning to the event driven strategy, merger arbitrage spreads have been tightening recently even as deal volumes have recovered strongly in recent months. Increase in volumes is helping to broaden the opportunity set, particularly in situations with increased complexity, including leveraged buyouts (LBOs), cross-border deals, and hostile approaches. Special situations investing remains underweight because of susceptibility to a potential increase in market volatility.

Fund Details

Inception Date	15/09/2014
Benchmark	ICE BofA US 3-Month Treasury Bill Index, HFRX Global Hedge Fund Index

Fund Description

The Fund's investment goal is to seek capital appreciation with lower volatility relative to the broad equity markets. The Fund seeks to achieve its investment goal by allocating its assets across multiple non-traditional or "alternative" strategies.

Performance Data

Performance Net of Management Fees as at 30/11/2020 (Dividends Reinvested) (%)¹

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (15/09/2014)
A (acc) USD	3.90	3.81	4.08	4.54	2.61	2.91	2.95
Net of Sales Charge - A (acc) USD	-1.29	-1.38	-1.12	-0.69	0.87	1.86	2.11
ICE BofA US 3-Month Treasury Bill Index USD	0.01	0.03	0.66	0.80	1.64	1.20	0.97
HFRX Global Hedge Fund Index USD	2.82	2.42	4.26	5.53	2.09	2.52	1.25

Investment Team

Brooks Ritchey
Years with Firm 14
Years Experience 37

Robert Christian
Years with Firm 10
Years Experience 30

Anthony M Zanolla, CFA
Years with Firm 6
Years Experience 26

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 seeks to achieve its targeted investment objective by allocating its assets across multiple "alternative" strategies and by investing in a wide range of assets. Such assets and investment instruments have historically been subject to price movements due to such factors as general stock market volatility, sudden changes in interest rates, or fluctuations in commodity prices. The Fund will seek to limit volatility using hedged strategies. As a result, the performance of the Fund can fluctuate moderately over time. Other significant risks include: credit risk, foreign currency risk, derivative instruments risk, liquidity risk, multi-manager 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.

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Benchmarks provided for additional performance comparison are for informational purposes only; the fund manager does not intend for the portfolio to track them. The Bank of America Merrill Lynch 3-Month US Treasury Index is provided as an absolute return benchmark. The HFRX Global Hedge Fund Index represents a measure of a broad universe of hedge fund strategies. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

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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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