



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin K2 Long Short Credit Fund– A (acc) USD

Franklin Templeton Investment Funds

### Fund Manager Report

Multi Strategy  
Alternatives  
31 December 2018

#### Product Details

Fund Assets	\$96,457,231.41
Fund Inception Date	02/12/2016
Bloomberg	FTLSAAU LX
ISIN	LU1446804301
Base Currency	USD
Investment Style	Multi Strategy
Benchmark	HFRX Fixed Income - Credit Index
Morningstar Category™	Alt - Long/Short Debt
Value-at-Risk (VAR)	-1.23

#### Fund Description

The Fund seeks total return over a complete market cycle (through a combination of current income, capital preservation and capital appreciation), by allocating its assets across multiple non-traditional strategies, including but not limited to, alternative fixed income and credit strategies.

#### Performance Data

##### Performance Net of Management Fees as at 31/12/2018 (Dividends Reinvested) (%)<sup>1</sup>

	1 Mth	3 Mths	YTD	1 Yr	Since Inception (02/12/2016)
A (acc) USD	-0.48	-1.33	-0.38	-0.38	1.76
Net of Sales Charge - A (acc) USD	-5.46	-6.27	-5.36	-5.36	-0.72
ICE BofAML US 3- Month Treasury Bill Index USD	0.18	0.56	1.87	1.87	1.33
HFRX Fixed Income - Credit Index USD	-1.43	-3.04	-2.55	-2.55	1.09

##### Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	Since Inception (02/12/2016)
A (acc) USD	-0.48	-1.33	-0.38	-0.38	3.70
Net of Sales Charge - A (acc) USD	-5.46	-6.27	-5.36	-5.36	-1.48
ICE BofAML US 3- Month Treasury Bill Index USD	0.18	0.56	1.87	1.87	2.79
HFRX Fixed Income - Credit Index USD	-1.43	-3.04	-2.55	-2.55	2.29

#### Portfolio Manager Insight

##### Performance Review

##### QUARTERLY KEY PERFORMANCE DRIVERS

	Manager	Allocation (Fund Level)	Countries (Fund Level)
HELPED	Medalist	Equity Index Hedges	India (short)
	Ellington	Fixed Income Index Hedges	South Africa (short)
	—	Mortgage-Backed Securities (long)	Euro (short)
HURT	Apollo	Energy (long)	United States (long)
	Chatham	Health Care (long)	Canada (long)
	Emso	Consumer Discretionary (long)	Mexico (short)

- Although posting a modest decline in the fourth quarter, the fund benefitted from diverse positioning across credit markets. Both structured credit subadvisors delivered gains, partially offsetting negative performance from the credit long short and emerging markets credit subadvisors.
- Credit long short subadvisors Apollo and Chatham saw fourth-quarter performance dampened by long energy positions, including a petroleum pipeline master limited partnership. Beset by signs of excess inventory and weak demand, US crude-oil prices notably declined in the fourth quarter. On the plus side, Apollo benefitted from a short consumer retail theme as one issuer reported disappointing earnings. Apollo and Chatham actively managed exposures during the quarter, and equity index hedges also contributed to performance.
- Medalist and Ellington each posted positive returns in the fourth quarter as underlying fundamentals remained strong in structured credit bonds and US consumers appeared to maintain solid financial footing. Net interest income benefitted performance, helping overcome spread widening amidst investor pessimism. A short position on a 3-month US interest rate derivative detracted.

- Emerging markets-focused subadvisor Emso experienced a small decline. A short position in Hungarian local interest rates detracted as the currency strengthened against the US dollar in December and global rates rallied in the fourth quarter. In contrast, equity market index hedges were a contributor.

#### ONE-MONTH KEY PERFORMANCE DRIVERS

	Manager	Allocation (Fund Level)	Countries (Fund Level)
<b>HELPED</b>	Medalist	Equity Index Hedges	India (short)
	—	Mortgage-Backed Securities (long)	Mexico (long)
	—	Fixed Income Index Hedges	Russia (long)
<b>HURT</b>	Apollo	Energy (long)	United States (long)
	Chatham	Information Technology (long)	United Kingdom (short)
	Ellington	Communication Services (long)	South Africa (short)

- Although the fund performed better than the HFRX Fixed Income Credit Index in December, credit long short subadvisors Apollo and Chatham dragged down absolute fund results. Returns were relatively flat for the other fund subadvisors.
- For Apollo and Chatham, long positions in the energy, information technology and communication services sectors weakened results during a risk-off market environment. In contrast, equity and fixed income hedges provided contributions to performance.
- Turning to structured credit subadvisors, Ellington posted a slight decline, while Medalist recorded a small gain. A flight to safety amongst investors weighed on short interest-rate derivative positions. Conversely, interest income from mortgage-backed securities (MBS) supported returns.
- Emso was short UK and Czech Republic interest rates, and this weighed on December performance. Although the subadvisor had a small decline, a US equity index hedge and a long Mexico interest-rate position contributed.

#### Outlook & Strategy

- We hold a favourable outlook for 2019 for credit long short. Recent volatility has significantly expanded the opportunity set across the different credit markets, in our opinion. The fund's subadvisors have been active over the last weeks of 2018 and the early weeks of 2019, closing out with gains on existing short positions and identifying new positions. Subadvisors have found compelling opportunities on the long side on the higher quality end of the spectrum, as yields reached what they viewed as attractive levels.
- Fundamentals generally remain strong in structured credit, particularly in residential MBS and consumer credit asset-backed securities. We see a generally supportive US economy, limited new issue supply, and increased certainty surrounding cash flows due to an improved payment history among borrowers as tailwinds. We find yields in the credit sector attractive relative to other fixed income instruments.

#### Manager Allocations<sup>2</sup>

	% of Invested Capital		% of Invested Capital
<b>Credit Long Short</b>		<b>Emerging Market Fixed Income</b>	
Chatham Asset Management, LLC	19.83	Emso Asset Management Limited	17.97
Apollo SA Management, LLC	22.52		
<b>Structured Credit</b>			
Medalist Partners, L.P.	19.10		
Ellington Global Asset Management, LLC	20.58		

#### Portfolio Characteristics

##### Portfolio Exposure<sup>3</sup>

Percent of Total

	%
Gross Exposure	89.08
Long Exposure	82.24
Net Exposure	75.40
Short Exposure	-6.84

## Portfolio Diversification

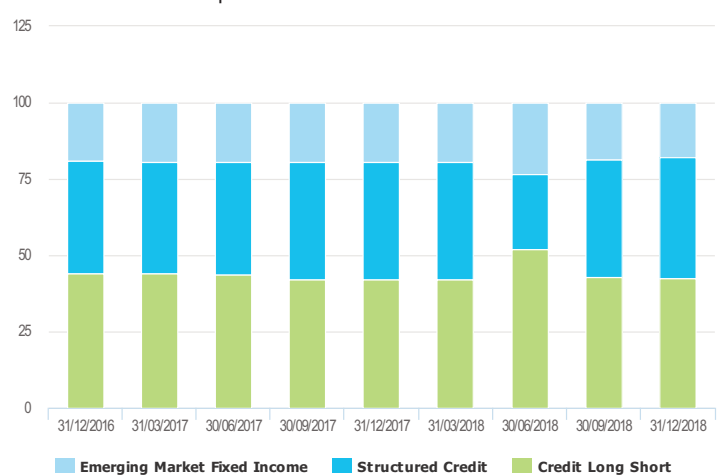
Strategy Allocation<sup>4</sup>

Percent of Invested Capital

	Target (%)	%
Credit Long Short	30 - 70	42.35
Structured Credit	20 - 60	39.68
Emerging Market Fixed Income	0 - 30	17.97

Historical Strategy Allocation<sup>5</sup>

Percent of Invested Capital

Security Type Exposure<sup>3</sup>

Gross Exposure (Percent of Total)

	%
Direct Securities	40.57
Index/Multi-Security Derivatives	36.35
Single Security Derivatives	12.17

Security Type Exposure<sup>3</sup>

Net Exposure (Percent of Total)

	%
Direct Securities	40.39
Index/Multi-Security Derivatives	34.90
Single Security Derivatives	0.12

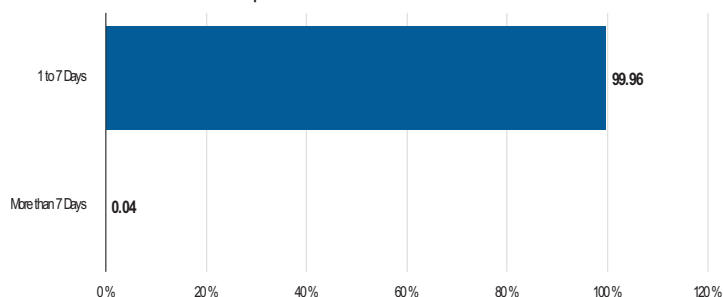
Sector Exposure<sup>3</sup>

Percent of Total

	Net Exposure	Long Exposure	Short Exposure
<b>North America</b>	<b>69.98</b>	<b>72.64</b>	<b>-2.66</b>
Government	-0.14	1.31	-1.45
Commercial Mortgage Backed Securities	5.21	5.21	-
Investment Grade Corporates	3.27	3.27	-
Equity	2.38	2.73	-0.35
High Yield Corporates	29.07	29.07	-
Asset-Backed Securities	4.71	4.71	-
Credit Default Swaps / Credit Default Swap Index	-0.43	0.44	-0.86
Emerging Market Corporates	0.58	0.58	-
Residential Mortgage Backed Securities	25.33	25.33	-
<b>Asia Pacific</b>	<b>-0.28</b>	<b>-</b>	<b>-0.28</b>
Credit Default Swaps / Credit Default Swap Index	-0.01	-	-0.01
Government	-0.27	-	-0.27
<b>Europe</b>	<b>-0.53</b>	<b>1.30</b>	<b>-1.84</b>
Emerging Market Sovereign	0.09	0.09	-
Currencies	-0.84	-	-0.84
Credit Default Swaps / Credit Default Swap Index	-0.01	-	-0.01
Equity	0.01	0.01	-
High Yield Corporates	1.20	1.20	-
Government	-0.99	-	-0.99
<b>Global and Emerging Markets</b>	<b>6.24</b>	<b>8.30</b>	<b>-2.06</b>
Government	0.23	1.30	-1.08
Credit Default Swaps / Credit Default Swap Index	0.81	0.90	-0.09
Emerging Market Sovereign	3.65	3.65	-
Emerging Market Corporates	1.15	1.15	-
Currencies	0.40	1.30	-0.89

**Liquidity Breakdown<sup>3,6</sup>**

Percent of Total Gross Exposure

**Performance Contribution by Strategy<sup>7</sup>**

Strategy Allocation as Ending Weight (% of Invested Capital)

	%	1 Mth	YTD
Credit Long Short	42.35	-0.29	0.99
Structured Credit	39.68	-0.00	1.33
Emerging Market	17.97	-0.00	-0.01
Fixed Income			

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>8</sup>**

A (acc) USD

	Since Inception
<b>Standard Deviation (%)</b>	
Franklin K2 Long Short Credit Fund	1.04
Bloomberg Barclays Global Aggregate Index	3.37
<b>Alpha</b>	-0.27
<b>Beta</b>	0.04
<b>Sharpe Ratio</b>	-0.21
<b>R-Squared</b>	0.00
<b>Correlation</b>	0.05
<b>Upside Capture Ratio</b>	11.15
<b>Downside Capture Ratio</b>	-12.03
<b>% of Positive Months</b>	70.83
<b>% of Negative Months</b>	29.17
<b>% Maximum Drawdown (Peak-to-Through)</b>	1.33
Drawdown Period	2018-08-31 00:00:00-2018-11-30 00:00:00

**Investment Team**

Portfolio Manager	Years with Firm	Years Experience
Charmaine Chin	10	16
Jeff Schmidt	5	37
Robert Christian	8	29

**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 total return over a full market cycle by allocating its assets across multiple “alternative” Long/Short strategies and by investing in a wide range of assets, with the ability to actively use financial derivative instruments. Such securities and investment instruments have historically been subject to price movements due to such factors as sudden changes in interest rates, changes in the financial outlook or perceived credit worthiness of securities issuers, or fluctuations in currency markets. As a result, the performance of the Fund can fluctuate moderately over time. Other significant risks include: counterparty risk, credit risk, currency risk, derivatives risk, emerging markets risk, liquidity risk, operational 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.

**Glossary**

**Gross Exposure:** Gross exposure is the sum of the absolute value of all exposures, directly or through derivatives, as a percentage of total assets. The sum of the percentage of long positions and short (in absolute terms) positions.

**Long Exposure:** Sum of the long exposures, directly or through derivatives, as a percentage of total assets.

**Net Exposure:** Net exposure is the sum of the total value of all exposures, directly or through derivatives, as a percentage of total assets. The percentage value of the long positions less the percentage value of the short positions.

**Short Exposure:** Sum of the short exposures, directly or through derivatives, as a percentage of total assets.

8. Alpha, Beta, Correlation, R-Squared and Upside and Downside Capture Ratios information is displayed for the product versus the Bloomberg Barclays Global Aggregate Index. The Bloomberg Barclays Global Aggregate Index is solely utilised as a reference benchmark to illustrate difference in behaviour between global fixed income markets and the fund. However, the Bloomberg Barclays Global Aggregate Index is not fully reflective of the risk profile of the fund, which is not limited to investing solely for long global fixed income market exposures.

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

**Value at Risk (VaR):** A measure of potential loss in value for a portfolio over a defined period of time at a given confidence level. This statistic reflects an estimated one-month VaR exposure calculated at the 95% confidence level, which implies there is a 5% chance the portfolio will lose that VaR amount or more over that time period, assuming that portfolio holdings remain the same. **It's important to note that the actual risk an investment experiences may be higher or lower than the projected VaR estimate, as both portfolio positions and market volatility levels are subject to change.**

**Important Legal Information**

**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.**

Copyright© 2019 Franklin Templeton Investments. All rights reserved.

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

**The Fund may utilise financial derivative instruments for hedging, efficient portfolio management and/or investment purposes.**

Securities mentioned in this report are not a solicitation to purchase those securities, and are examples of some securities which performed well. Not all securities in the portfolio performed well. These securities do not represent all the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in the security listed was or will be profitable. Holdings are subject to change, holdings of the same issuer have been combined. The information provided is not a recommendation to purchase, sell or hold any particular security. The security identified does not represent the Fund's entire holdings and in the aggregate, may represent a small percentage of such holdings. There is no assurance that security purchased will remain in the Fund, or that security sold will not be repurchased. In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are examples of some stocks which performed well. Not all stocks in the portfolio performed as well. For the most current information on the fund, please contact your Franklin Templeton marketing representative.

Performance figures are not based on audited financial statements and assume reinvestment of interest and dividends. When comparing the performance of Franklin Templeton Investment Funds (the "Fund") with a benchmark index, it is important to note that the securities in which the Fund invests may be substantially different than those represented by the benchmark index. Furthermore, an investment in Franklin Templeton Investment Funds represents an investment in a managed investment company in which certain charges and expenses, including management fees, are applicable. These charges and expenses are not applicable to indices. Lastly, please note that indices are unmanaged and are not available for direct investment. Certain data and other information shown have been supplied by outside sources. While we consider that information to be reliable, we give no assurance that such data and information is accurate or complete.

The indices include a greater number of securities than those held in the Fund.

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

The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use. See [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com) for a full copy of the Disclaimer.

Source: Hedge Fund Research, Inc. - [www.hedgefundresearch.com](http://www.hedgefundresearch.com). The HFR indices are being used under license from Hedge Fund Research, Inc., which does not endorse or approve of any of the contents of this report. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://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 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.
2. Source: HedgeMark. Weightings as a percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. Manager allocation includes managers that have been appointed as sub-advisors or managers of investment funds. K2 may determine in its sole discretion to not allocate to one or more of the managers and/or to add new managers. Accordingly, the allocation is presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
3. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
4. Source: HedgeMark. Actual Allocation is a percentage of invested capital into fund managers (sub-advisors or co-advisors) as of the end of the period. Percentage may not equal 100% due to rounding. Target Allocations are as of the end of the period. The Fund may shift allocations among strategies at any time. K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly, the Target Allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition



**FRANKLIN TEMPLETON  
INVESTMENTS**

[www.franklintempleton.com.sg](http://www.franklintempleton.com.sg)

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

of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

5. Source: HedgeMark. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. The Fund may shift allocations among strategies at any time. Further, K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly the above target allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the fund's portfolio (and its managers), which may change at any time.

6. Source: HedgeMark. Liquidity estimates assume the quantity of portfolio securities sold each day is equal to the current 90-day average trading volume of each security when available. If average trading volume is not available, liquidity is estimated by the applicable Sub-Manager based on the Sub-Manager's knowledge of applicable security and market factors. Estimates received from Sub-Managers are subject to independent verification from K2 Advisors.

7. A decomposition of the fund's strategy-level performance that depicts each strategy's approximate contribution to the fund's absolute gross returns, based on each strategy's daily returns and weights for the periods shown. The gross returns do not reflect the impact of fees, expenses, or sales charges on performance. If that impact were taken into account, the performance shown would have been lower. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.



FRANKLIN TEMPLETON  
INVESTMENTS

[www.franklintempleton.com.sg](http://www.franklintempleton.com.sg)

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

© 2019 Franklin Templeton Investments. All rights reserved.