



FRANKLIN TEMPLETON INVESTMENTS

Franklin High Yield Fund–A (Mdis) USD

Franklin Templeton Investment Funds

Fund Manager Report

High Yield
Fixed Income
31 January 2019

Product Details¹

Fund Assets	\$1,699,118,413.24
Fund Inception Date	01/03/1996
Number of Securities Including Cash	185
Bloomberg	TEMFHYI LX
ISIN	LU0065014192
Investment Style	High Yield
Benchmark	Credit Suisse High Yield Index
Morningstar Category™	USD High Yield Bond

Asset Allocation²

Percent of Total	%
Fixed Income	97.13
Cash & Cash Equivalents	1.96
Equity	0.90

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 principally investing either directly or through the use of financial derivative instruments in Fixed Income debt Securities of US or non-US issuers of any credit ratings, if issued by US issuers, or, if issued by non-US issuers or unrated, their equivalent.

Performance Data

Performance Net of Management Fees as at 31/01/2019 (Dividends Reinvested) (%)³

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (01/03/1996)
A (Mdis) USD	4.85	1.16	4.85	-0.17	8.85	1.54	7.52	4.68
Net of Sales Charge - A (Mdis) USD	-0.40	-3.90	-0.40	-5.16	7.01	0.50	6.97	4.45
Credit Suisse High Yield Index USD	4.46	1.16	4.46	1.38	9.52	4.44	10.50	7.02

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (01/03/1996)
A (Mdis) USD	4.85	1.16	4.85	-0.17	28.98	7.95	106.40	185.31
Net of Sales Charge - A (Mdis) USD	-0.40	-3.90	-0.40	-5.16	22.53	2.55	96.08	171.04
Credit Suisse High Yield Index USD	4.46	1.16	4.46	1.38	31.38	24.23	171.42	373.96

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Finance	Underweight in transportation	—	Yield-curve positioning
	Energy	Underweight in aerospace and defense	—	—
	Health care	Underweight in automotive	—	—
HURT	Wireless	Overweight in utility	Ratings-quality tilt	—
	—	Overweight in packaging	—	—
	—	—	—	—

- Security selection was a major contributor to relative performance, led by selection in finance, energy and health care industries amidst the backdrop of generally positive performance across sectors, particularly in energy.
- Our industry allocation also contributed to results overall, led by our underweight in the transportation, aerospace and defense and automotive industries. Conversely, our overweight positions in the utility and packaging industries detracted from performance.
- Our ratings-quality tilt hindered relative results overall.

1. All holdings are subject to change.

Outlook & Strategy

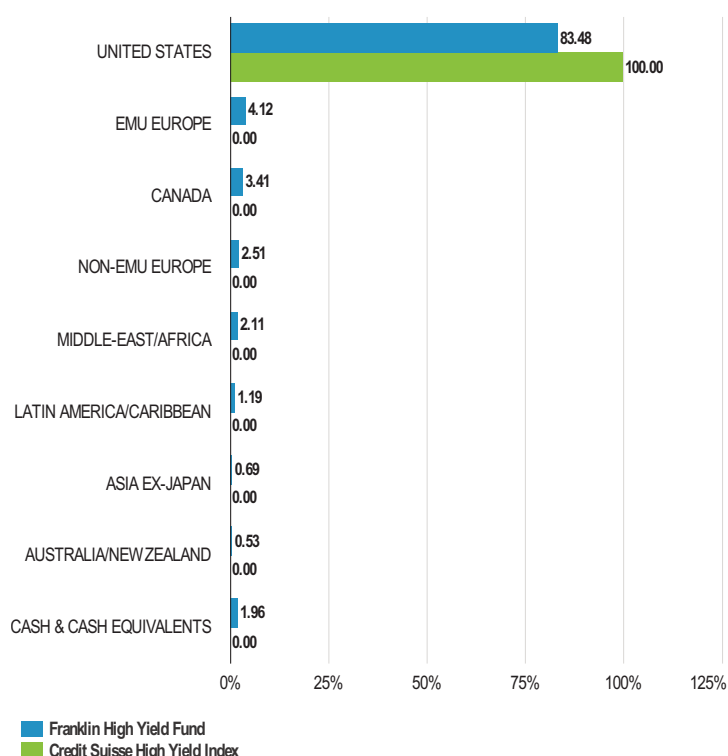
- During the month, the high-yield (HY) bond market returned 4.46%, as measured by the Credit Suisse High Yield Index. Lower-quality bonds generally outperformed during the rally and primary market sectors all posted positive results, led by energy, health care and retail. As market sentiment improved, HY issuance picked up during the month, another reversal from December and 2018 overall.
- The increase in new issue supply was well-absorbed by the market, benefitting in part from a notable increase in demand as HY retail vehicles saw positive net flows for the first time since mid-2018. Market participants were eager to put cash to work, especially after December's sentiment-driven decline helped to create attractive buying opportunities, in our opinion.
- As we have stated following December's steep decline, we maintain a positive outlook on HY market fundamentals but remain committed to our credit selection discipline. Despite a few notable exceptions in recent months, HY default rates remain low while valuations are largely undemanding (albeit less so than at the start of the year), in our view.
- A more dovish stance from the Fed and expectations for fewer rate increases this year also support a favourable backdrop for the asset class. However, while the US economy generally remains strong, we continue to believe that we are in the latter stages of the economic cycle and we also remain wary of an array of political risks that could each impact the market at any point in time. Looking ahead, we will continue to balance this complex set of risks and rewards as we look to create value for our shareholders.

Portfolio Characteristics⁴

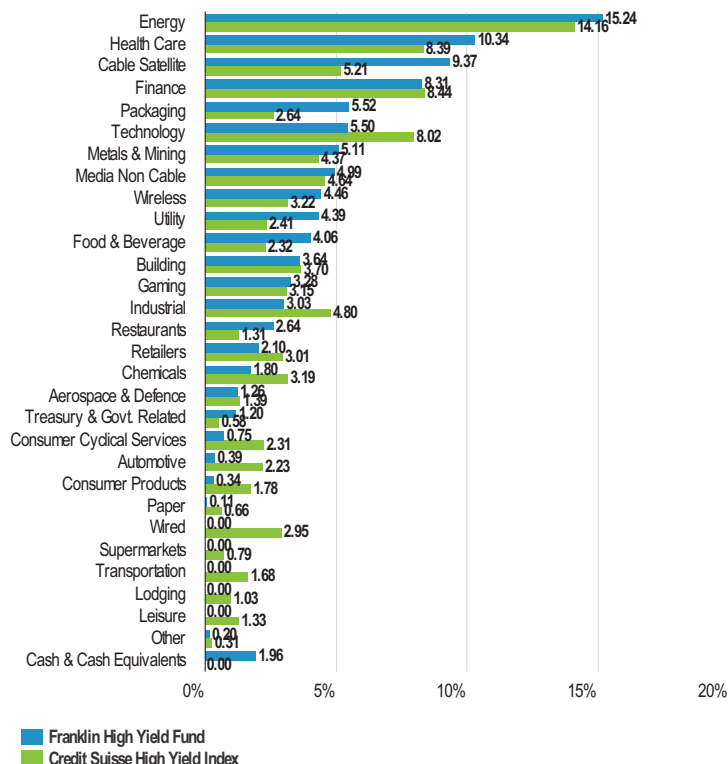
	Portfolio	Credit Suisse High Yield Index
Yield to Maturity	6.58%	7.39%
Yield to Worst	6.36%	7.03%
Average Duration	3.67 Yrs	3.68 Yrs
Average Credit Quality ⁵	B+	B+
Average Weighted Maturity	4.56 Yrs	4.98 Yrs

Portfolio Diversification⁴

Geographic Weightings vs. Credit Suisse High Yield Index
Percent of Total



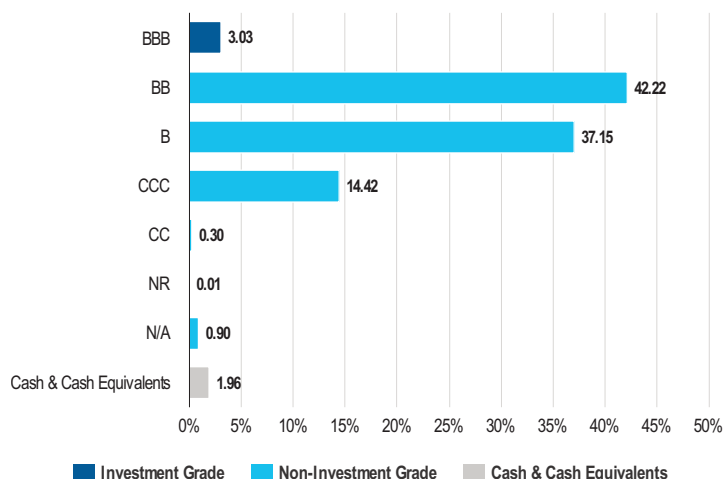
Sector Weightings vs. Credit Suisse High Yield Index
Percent of Total



5. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate the average credit rating of the portfolio's underlying investments and generally ranges from AAA (highest) to D (lowest). For unrated bonds, cash and equivalents, ratings may be assigned based on the ratings of the issuer, the ratings of the underlying holdings of a pooled investment vehicle, or other relevant factors. The ACQ is determined by assigning a sequential integer to all credit ratings AAA to D, taking a simple, asset-weighted average of investments by market value and rounding to the nearest rating. The risk of default increases as a bond's rating decreases, so the ACQ provided is not a statistical measurement of the portfolio's default risk because a simple, weighted average does not measure the increasing level of risk from lower-rated bonds. The ACQ may be lower if cash and equivalents are excluded from the calculation. The ACQ is provided for informational purposes only. Derivative positions are not reflected in the ACQ.

Credit Quality Ratings⁶

Percent of Total

**Top Ten Holdings⁷**

Percent of Total

Top Holdings	%
SPRINT COMMUNICATIONS INC	2.75
HCA INC	2.14
CSC HOLDINGS LLC	2.11
NAVIENT CORP	1.91
T-MOBILE USA INC	1.75
CCO HOLDINGS LLC / CCO HOLDING	1.75
CHENIERE CORPUS CHRISTI HOLDIN	1.63
ENERGY TRANSFER LP	1.59
CRESTWOOD MIDSTREAM PARTNERS L	1.52
TENET HEALTHCARE CORP	1.45

Supplemental Performance Statistics**Supplemental Risk Statistics⁸**

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin High Yield Fund	5.66	6.98	7.80	9.02
Credit Suisse High Yield Index	4.97	5.48	6.97	7.95
Tracking Error (%)	1.14	1.93	1.78	2.06
Information Ratio⁹	-0.59	-1.50	-1.68	-1.14
Beta	1.12	1.25	1.09	1.11
Sharpe Ratio				
Franklin High Yield Fund	1.37	0.13	0.91	0.28
Credit Suisse High Yield Index	1.70	0.69	1.45	0.61

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Betsy Hofman, CFA, VP/Portfolio Manager	37	36
Glenn Voyles, CFA, SVP/Director of Portfolio Management, Corporate Credit	25	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 invests mainly in debt securities of any quality issued principally by corporations located in the U.S. 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 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.

6. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.

8. Beta, Information Ratio and Tracking Error information are measured against the Credit Suisse High Yield Index.

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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.

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

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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.

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2. 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.

3. 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.

4. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

7. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

9. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).



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