

Product Details¹

Fund Assets	\$1,370,501,951.64
Fund Inception Date	28/02/1991
Number of Securities Including Cash	1492
Bloomberg	TEMUSGI LX
ISIN	LU0029872446
Base Currency	USD
Investment Style	Government
Benchmark	Bloomberg Barclays US Government - Intermediate Index
Morningstar Category™	USD Government Bond

Asset Allocation²

Percent of Total	%
Fixed Income	96.34
Cash & Cash Equivalents	3.66

Fund Description

The Fund's investment objective is income and safety of principal. The Fund seeks to achieve its objective by investing in debt obligations issued or guaranteed by the U.S. government and its agencies, including purchasing mortgage- and asset-backed securities.

Performance Data
Performance Net of Management Fees as at 31/08/2020 (Dividends Reinvested) (%)³

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (28/02/1991)
A (Mdis) USD	-0.11	-0.55	2.57	2.42	2.21	1.55	1.64	3.67
Net of Sales Charge - A (Mdis) USD	-5.10	-5.52	-2.56	-2.70	0.48	0.52	1.12	3.49
Bloomberg Barclays US Government - Intermediate Index USD	-0.19	0.21	5.88	5.44	3.81	2.90	2.34	4.93

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (28/02/1991)
A (Mdis) USD	-0.11	-0.55	2.57	2.42	6.78	8.02	17.71	189.37
Net of Sales Charge - A (Mdis) USD	-5.10	-5.52	-2.56	-2.70	1.45	2.61	11.82	174.90
Bloomberg Barclays US Government - Intermediate Index USD	-0.19	0.21	5.88	5.44	11.87	15.35	26.00	314.09

Portfolio Manager Insight
Performance Review
ONE-MONTH KEY PERFORMANCE DRIVERS

HELPER	HELPED
	Security selection in GN II 2.5% through 4.5% and 5.0% coupon securities contributed to relative performance (especially the 3.5% coupon securities).
	Security selection in GN I 5.0% through 6.0% coupon securities benefitted results.
	—
HURT	HELPED
	Our overweight allocations to GN I 5.0% through 6.0% coupon securities detracted from performance.
	Our overweight allocation to GN II 2.5%, 3.0% and underweight to GN II 4.5% coupon securities hindered results.
	Security selection in GN I 4.0% and 4.5% coupon securities detracted from performance.

Outlook Strategy

- At period-end, we remained more heavily weighted in GNMA II securities (comprised of multiple-issuer pools), with over 80% of allocation in the sector, versus GNMA I securities (comprised of single-issuer pools). The fund's largest absolute allocation remains in GN II 3.0% coupon securities followed by 3.5% coupons.
- Historical low mortgage rates combined with historical low inventories have kept the housing demand intact with very little supply amidst the pandemic. Our model forecasts slightly positive home price appreciation (HPA) through June 2021. However, stringent underwriting, low credit availability and bad sentiments due to uncertainty about the economy continues to be headwinds for the housing sector.

1. All holdings are subject to change.

- Prepayment risk remains elevated with mortgage rates at record lows. As the economy normalises, we expect prepayments to rise, with 82% of the agency MBS universe having an incentive to refinance at current rates. Primary and secondary market spreads have remained elevated since the beginning of the year which has kept refinance activity somewhat muted. If these spreads were to normalise to historical averages, 99% of the mortgage universe would have an incentive to refinance their loans. However, forbearance requests have started to taper, which could lead to lower involuntary prepayments in the coming months. To mitigate prepayment risk over the intermediate term, we are positioned down in coupon. In general, we believe technical support from US Federal Reserve's MBS purchases will continue to bolster the sector, potentially limiting spread widening and keeping spreads rangebound which will benefit lower coupons and associated mortgage dollar rolls (MDRs).
- Similar to the global financial crisis, we are in highly uncertain times amidst the COVID-19 environment. With the upcoming US presidential election in November inching ever closer, market participants are bracing for potential far reaching policy implications. No matter which US candidate wins, we do not believe the dynamics for fixed income markets globally will change much. Given how central banks have flooded financial markets with liquidity in the COVID-19 environment, we do not foresee a massive rise in yields just because there is a change in US presidency.
- We believe central banks are committed to providing liquidity to keep markets calm and could dampen some of the volatility we would normally experience within an election cycle. While certain policies will change with a different US administration, for the time being we are not changing our approach to fixed income investing. We remain optimistic that over time the global economy will recover, albeit with significantly more debt on government balance sheets and a host of related problems to address.

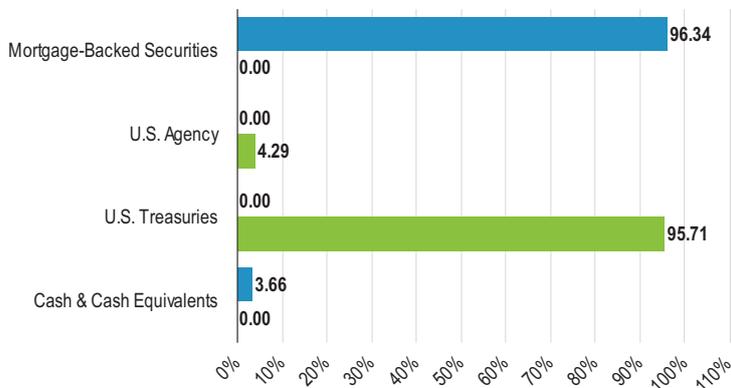
Portfolio Characteristics^{2,4}

	Portfolio	Bloomberg Barclays US Government - Intermediate Index
Yield to Maturity	0.56%	0.26%
Yield to Worst	0.56%	0.26%
Average Credit Quality ⁵	AAA	AA+
Average Duration	0.92 Yrs	3.76 Yrs
Average Weighted Maturity	2.70 Yrs	3.94 Yrs

Portfolio Diversification²

Sector Weightings vs. Bloomberg Barclays US Government - Intermediate Index

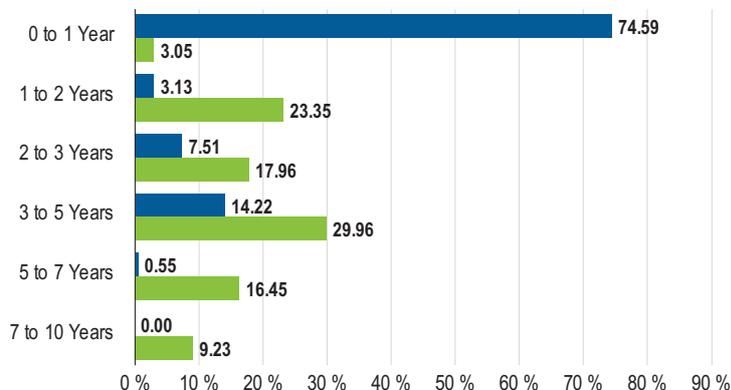
Percent of Total



● Franklin U.S. Government Fund
● Bloomberg Barclays US Government - Intermediate Index

Duration Breakdown vs. Bloomberg Barclays US Government - Intermediate Index

Percent of Total



● Franklin U.S. Government Fund
● Bloomberg Barclays US Government - Intermediate Index

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, is provided to indicate the average credit rating of the portfolio's underlying bonds and generally ranges from AAA (highest) to D (lowest). The ACQ is determined by assigning a sequential integer to all credit ratings AAA to D, taking a simple, asset-weighted average of debt holdings 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 is provided for informational purposes only. Derivatives are excluded from this breakdown.

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Supplemental Performance Statistics

Supplemental Risk Statistics⁶

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin U.S. Government Fund	1.99	1.78	1.84	2.80
Bloomberg Barclays US Government - Intermediate Index	2.54	2.43	2.25	2.93
Tracking Error (%)	1.21	1.20	1.30	1.65
Information Ratio⁷	-1.32	-1.12	-0.53	-0.77
Sharpe Ratio				
Franklin U.S. Government Fund	0.31	0.25	0.57	0.40
Bloomberg Barclays US Government - Intermediate Index	0.87	0.73	0.78	0.81

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Paul Varunok	19	28
Neil Dhruv	18	18

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 issued or guaranteed by the U.S. government and its agencies. Such securities have historically proven to present some stability over time and have benefitted from a limited exposure to interest rates or movements in the bond market. As a result, the performance of the Fund can fluctuate to a small degree over time. Other significant risks include: mortgage and asset-backed securities 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. Information Ratio and Tracking Error information are displayed for the product versus the Bloomberg Barclays US Government - Intermediate Index.

7. 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).

Important Legal Information

Franklin U.S. Government Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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

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2. 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. Yield figures quoted should not be used as an indication of the income that has or will be received. Yield figures are based on the portfolio's underlying holdings and do not represent a payout of the portfolio. **Past performance is not an indicator or a guarantee of future performance.**

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