Templeton Emerging Markets Bond Fund–A (Qdis) USD

Multi-Sector Fixed Income
31 July 2020

Franklin Templeton Investment Funds

Fund Manager Report

Product Details[1]

Fund Assets	$6,431,519,433.98
Fund Inception Date	05/07/1991
Number of Securities Including Cash	235
Bloomberg	TEMEMFI LX
ISIN	LU0029876355
Base Currency	USD
Investment Style	Multi-Sector
Benchmark	JP Morgan EMBI Global Index
Morningstar Category™	Global Emerging Markets Bond - Local Currency

Asset Allocation[2]

Market Value—Percent of Total

	%
Fixed Income	89.89
Cash & Cash Equivalents	10.11

Overall Morningstar Rating™ [3]

★★★

Fund Description

The fund aims to maximise total investment return, consisting of a combination of interest income, capital appreciation and currency gains by investing principally in a portfolio of fixed and floating-rate debt securities and debt obligations issued by government and government-related issuers or corporate entities located in developing or emerging-market countries.

Performance Data

Performance Net of Management Fees as at 31/07/2020 (Dividends Reinvested) (%)[4]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (05/07/1991)
A (Qdis) USD	-0.12	1.83	-8.40	-12.86	-4.38	0.66	1.40	7.36
Net of Sales Charge - A (Qdis) USD	-5.11	-3.26	-12.98	-17.21	-6.00	-0.37	0.88	7.17
JP Morgan EMBI Global Index USD	3.70	12.84	1.76	4.08	4.34	5.79	5.77	9.82

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (05/07/1991)
A (Qdis) USD	-0.12	1.83	-8.40	-12.86	-12.57	3.35	14.89	687.71
Net of Sales Charge - A (Qdis) USD	-5.11	-3.26	-12.98	-17.21	-16.94	-1.82	9.15	648.32
JP Morgan EMBI Global Index USD	3.70	12.84	1.76	4.08	13.58	32.55	75.30	1,423.11

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	Japanese Yen (Net-Positive Position)	Argentina	—
	Chilean Peso	Indonesia	—
	Mexican Peso	Ghana	—
HURT	Argentine Peso	—	—
	Australian Dollar (Net-Negative Position)	—	—
	Indonesian Rupiah	—	—

- The US dollar broadly weakened against most currencies during the month, with some notable exceptions. Currency positions in Latin America and Asia ex Japan detracted from absolute fund performance (the Argentine peso and Indonesian rupiah detracted, while the Chilean peso and Mexican peso contributed).
- The fund's net-negative position in the Australian dollar detracted from absolute results, while its net-positive position in the Japanese yen contributed. We continued to hold net-negative positioning in the Australian dollar to hedge broad-based beta risk across emerging markets. We continued to maintain a net-positive position in the Japanese yen for its fundamental value and perceived safe haven characteristics, given Japan's strong external balances.
- Sovereign bond yields largely declined across much of Europe, Asia and Latin America. Select duration exposures in Latin America (Argentina and Colombia), Asia ex Japan (Indonesia) and Africa (Ghana) contributed to absolute fund performance. We held select duration exposures in countries with relatively higher yields that we believe have varying degrees of economic resilience to external shocks.

1. All holdings are subject to change.

Outlook & Strategy

- We think it is still too early to pursue additional risk as the world is still in the first phase of the economic repercussions. The recent rallies across risk assets reflect an under appreciation of the risks for successive waves of infections and a second leg down in financial markets, in our view. We're currently focusing on specific perceived safe-haven investments, while emphasising a select set of higher-yielding emerging markets that have relatively resilient domestic economies. We're aiming to derive alpha from different sources than the low-to-negative yielding developed fixed income markets, which have limited upside potential left as yields grind to historic lows.
- Our aim is to position our strategies to be uncorrelated to vulnerable asset classes while delivering high income and defending capital. We are also emphasising elevated levels of cash and short-term US Treasuries to be able to quickly pursue opportunities as they arise. We employed a similar playbook during the global financial crisis (GFC), as we built a defensive stance heading into the peak of the crisis and then shifted to an opportunistic pursuit of price distortions in the early phases of the eventual recovery.
- Some areas of the markets appear to be expecting a V-shaped growth recovery, as we had after the 2008 GFC—that's not likely in our view. We are expecting a more gradual recovery with the potential for multiple stages of relief rallies and corrections in financial markets before a sustainable growth recovery takes hold. There are still unknowns over how long the pandemic will last and what the impacts will be from rising cases after economies reopen.
- It also remains unclear how governments will pay for the massive relief programmes underway, as existing fiscal deficits deepen throughout the world. Unorthodox policies such as modern monetary theory and debt monetisation are likely to see greater political interest. There is a strong likelihood of significant structural changes to the global economy and everyday life around the world. All of these concerns will shape financial markets in the post-COVID-19 era.
- Adding to the complexity of the crisis is the precarious state of the world that existed before the COVID-19 pandemic. Escalating geopolitical risks, rising trade tensions and political polarisations have made it highly difficult for countries to find the collective goodwill needed to address both domestic and international challenges. In the United States, an increasingly divided population and polarised politics have undercut the cohesion and compromise needed to solve critical issues. These types of political polarisations are occurring around the world, making it difficult to design collaborative solutions to the most profound economic crisis in the post-war era.
- We currently remain cautious on the broad outlook for emerging markets as a whole, but we see risk-adjusted value in specific countries. It remains crucial to be selective. Tragically, the COVID-19 pandemic will be significantly worse for many emerging markets than advanced economies due to weaker health care systems and less-developed infrastructure. Countries that were in stronger fundamental shape before the crisis generally have better prospects to endure the substantial economic headwinds. A number of countries have inherent resiliencies while others remain highly vulnerable to external and internal shocks. On the whole, several domestically oriented economies have comparatively better prospects than externally dependent economies, given the collapse in global aggregate demand and diminished levels of trade. We continue to monitor conditions and expect that the impacts of the COVID-19 pandemic could persist for multiple quarters, potentially pushing out the timeline for when certain investment opportunities may become suitable.

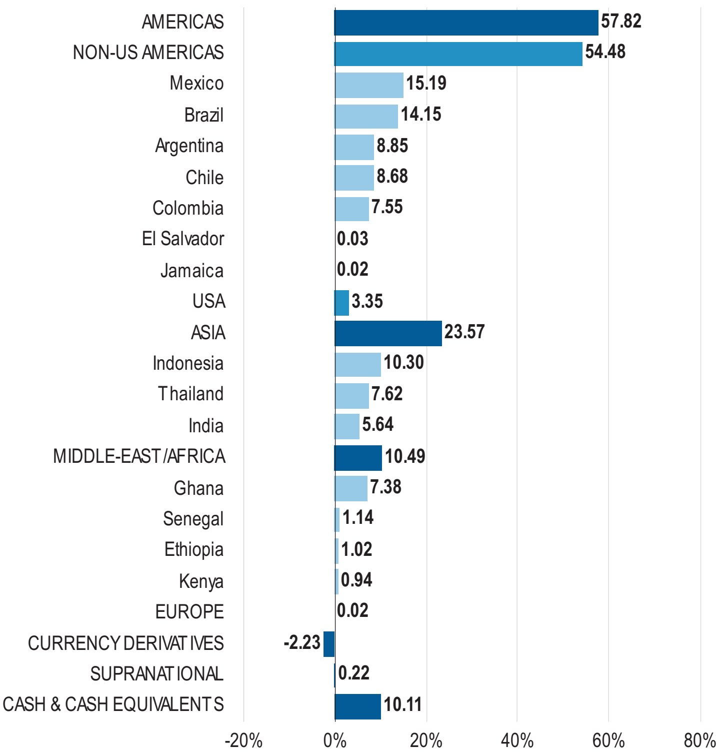
Portfolio Characteristics[5,6,7]

	Portfolio	JP Morgan EMBI Global Index
Yield to Maturity	4.31%	4.41%
Yield to Worst	4.31%	4.39%
Average Credit Quality[8]	BBB-	BBB-
Average Duration	1.72 Yrs	8.37 Yrs
Average Weighted Maturity	2.11 Yrs	13.21 Yrs

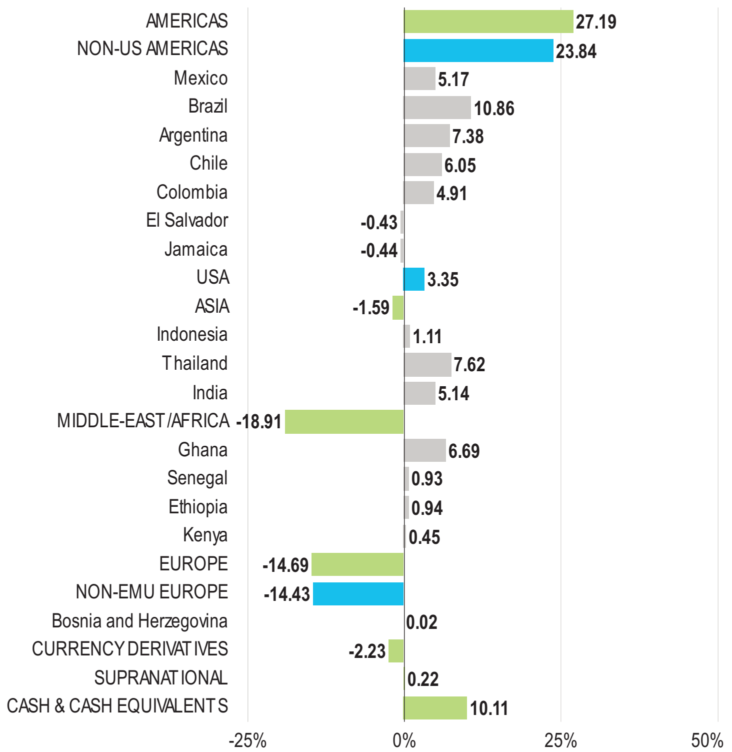
8. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate 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.

Portfolio Diversification[6]

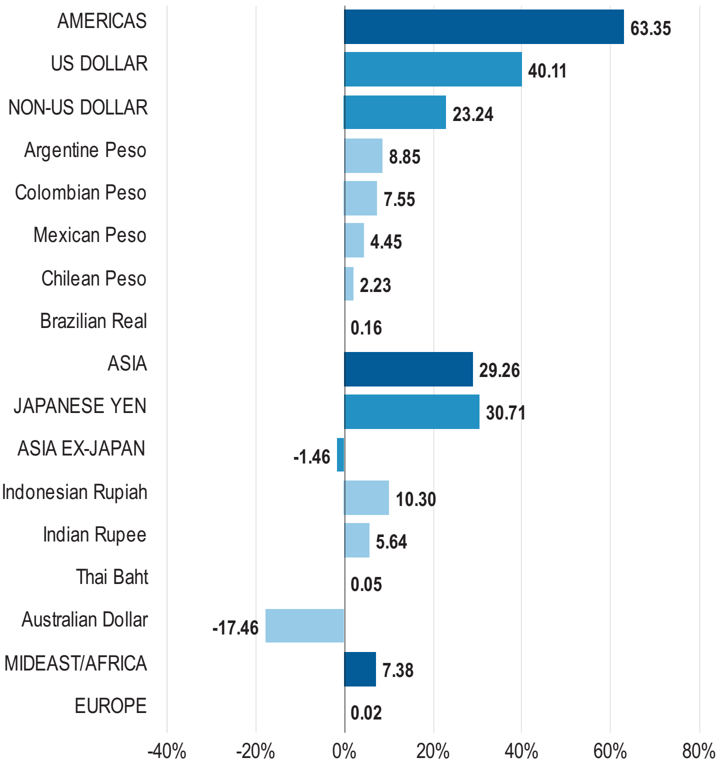
Geographic Allocation[2]
Market Value—Percent of Total



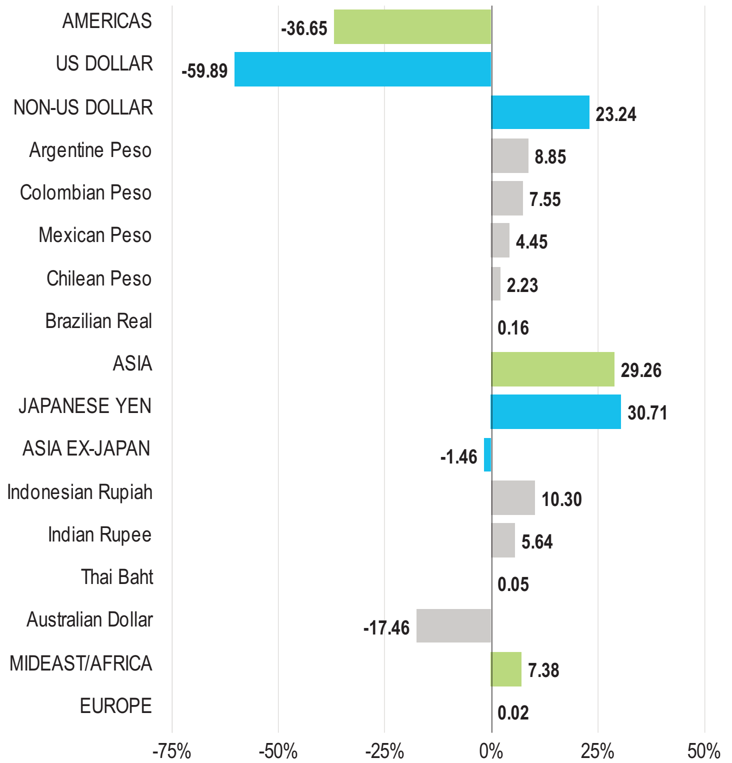
Geographic Allocation vs. JP Morgan EMBI Global Index[2]
Market Value—Percent of Total



Currency Exposure[9]
Notional Exposure—Percent of Total



Currency Exposure vs. JP Morgan EMBI Global Index[9]
Notional Exposure—Percent of Total



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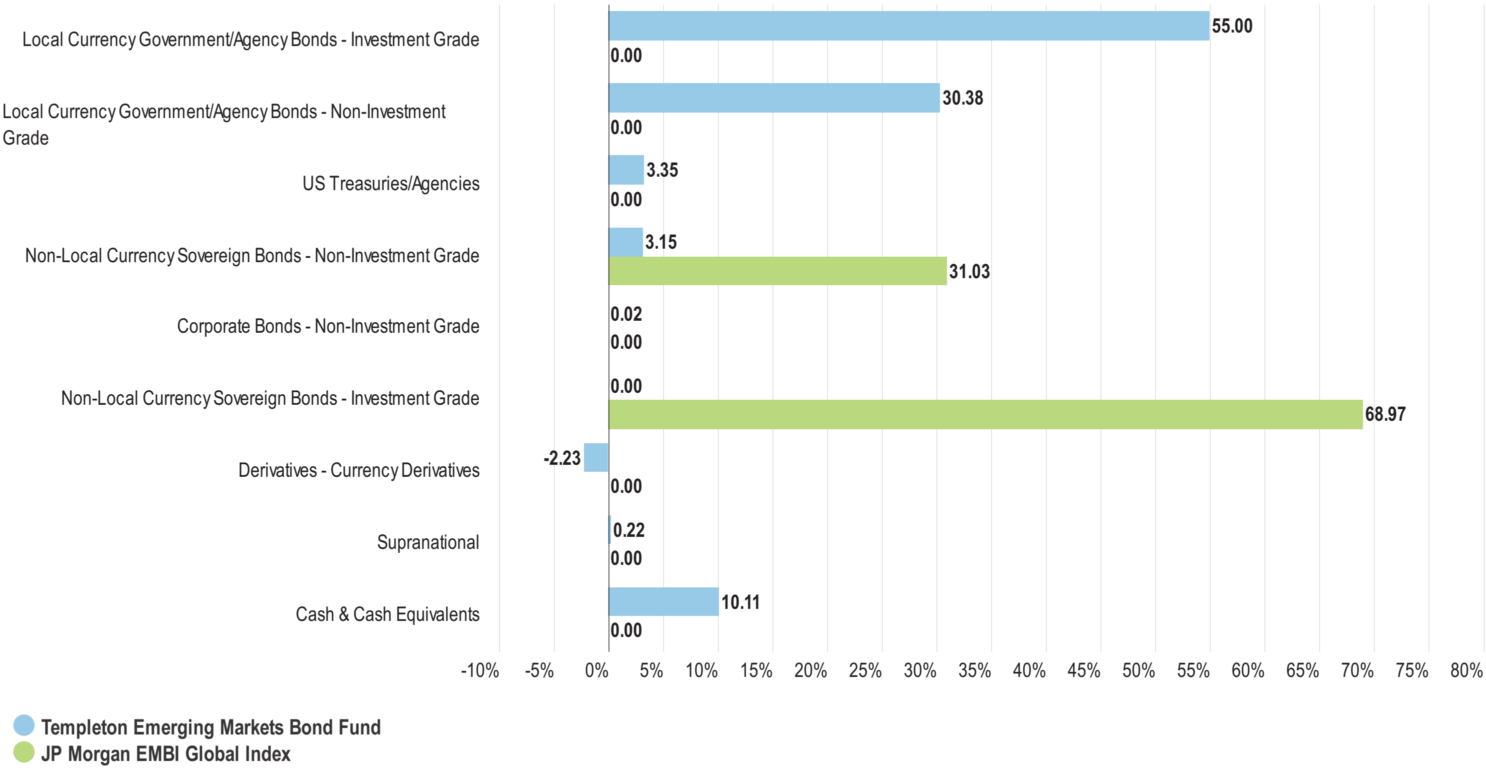
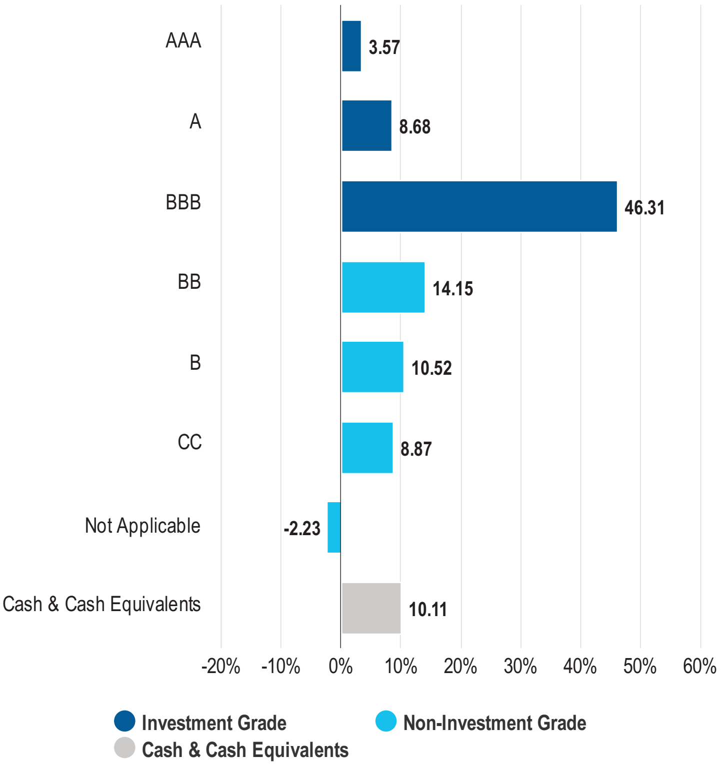
Sector Allocation vs. JP Morgan EMBI Global Index[2]
Market Value—Percent of Total



Credit Quality Allocation [2,10]
Market Value —Percent of Total



10. 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 Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.

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Supplemental Performance Statistics

Supplemental Risk Statistics[11]

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Templeton Emerging Markets Bond Fund	10.76	10.12	9.39	11.84
JP Morgan EMBI Global Index	9.71	8.48	7.79	11.94
Tracking Error (%)	9.17	8.34	6.94	6.31
Information Ratio[12]	-0.95	-0.62	-0.63	-0.40
Sharpe Ratio				
Templeton Emerging Markets Bond Fund	-0.56	-0.04	0.09	0.40
JP Morgan EMBI Global Index	0.28	0.55	0.67	0.61

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Michael Hasenstab, Ph. D.	21	25
Calvin Ho, Ph. D.	15	15

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 by entities located in developing and emerging markets. Such securities have historically been subject to price movements, generally due to interest rates, market factors 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: Chinese market risk, credit risk, derivative instruments risk, emerging markets 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.

11. Information Ratio and Tracking Error information are displayed for the product versus the JP Morgan EMBI Global Index.
12. 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

Templeton Emerging Markets Bond Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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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. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
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6. All holdings are subject to change.
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