

Fund Manager Report

Product Details¹

Fund Assets	€438,534,378.60
Fund Inception Date	17/04/2000
Number of Securities Including Cash	177
Bloomberg	TEMHYEI LX
ISIN	LU0109395268
Base Currency	EUR
Investment Style	High Yield
Benchmark	ICE BofA Euro High Yield Constrained Index
Morningstar Category™	EUR High Yield Bond

Asset Allocation^{2,3}

Market Value—Percent of Total	%
Fixed Income	94.23
Cash & Cash Equivalents	5.77

Overall Morningstar Rating™⁴



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 investing principally either directly or through the use of financial derivative instruments in Euro-denominated or Non-Euro-denominated Euro-hedged Fixed Income Debt Securities of European or Non-European issuers with Non-investment-grade ratings, or if unrated, their equivalent.

Performance Data

Performance Net of Management Fees as at 31/08/2020 (Dividends Reinvested) (%)⁵

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	1.42	5.49	-2.44	-1.15	0.88	2.39	4.71	3.39
Net of Sales Charge - A (Ydis) EUR	-3.66	0.21	-7.32	-6.09	-0.83	1.34	4.18	3.13
ICE BofA Euro High Yield Constrained Index EUR	1.43	5.18	-1.99	-0.26	2.12	3.86	6.22	4.89

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	1.42	5.49	-2.44	-1.15	2.67	12.54	58.51	97.15
Net of Sales Charge - A (Ydis) EUR	-3.66	0.21	-7.32	-6.09	-2.47	6.91	50.59	87.29
ICE BofA Euro High Yield Constrained Index EUR	1.43	5.18	-1.99	-0.26	6.51	20.86	82.84	164.59

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Italy-based Entertainment Issuer	Overweight Industrial Issuers	CCC Selection	Short Duration Positioning
	Italian Telecommunications Operator	Overweight Subordinated Financials (Italian and Iberian Banks)	Distressed Credit Exposure	—
	—	—	—	—
HURT	Global Media Issuer	Underweight Retail	Investment-Grade Exposure	—
	—	Overweight Health Care	BB Selection	—
	—	—	—	—

- Despite a high cash balance that detracted from relative results, the fund nevertheless performed in line with the benchmark and outperformed its peers owing mainly to strong security selection. Security selection in an Italy-based entertainment issuer and telecommunications operator benefitted results. Conversely, our selection in a global media issuer hindered performance.
- Our industry allocation detracted from results, led by underweight in the retail sector and overweight in the health care industry. Conversely, our overweight in the industrial sector (particularly those with single-B ratings) contributed to performance, as did our overweight to subordinated financials in Italian and Iberian banks.

1. All holdings are subject to change.

- Our ratings-quality tilt hindered results, led by our investment-grade exposure and security selection amongst double-B rated bonds. Conversely, our selection in triple-C rated credits and exposure to distressed credits contributed to performance. Our short duration positioning also benefitted results.

Outlook & Strategy

- During the month, solid low-yielding credits that performed strongly in the second quarter underperformed in a reversal from July. Likewise, defensive sectors such as utility and health care that were in strong demand from March to May underperformed during the summer months as investors switched into more cyclical sectors with high beta. Total returns were highly positive as credit spreads tightened sharply and most bond prices trended upwards during the month. The small number of bonds that had posted negative monthly returns had name-specific issues. The fund's trading activity was muted as bid-ask spreads widened due to low liquidity. We only slightly increased our exposure to floating-rate notes (FRNs) due to their past underperformance versus fixed-rated bonds.
- In general, demand for higher-yielding products further increased during August. We believe abundant liquidity is mainly responsible for the elevated demand. Public equity markets seemed willing to underwrite capital increases for companies operating in challenging sectors such as aviation. Furthermore, buoyant equity markets pushed equity multiples higher and, as a result, helped distressed bond prices remain above historic average levels.
- Against the backdrop of strong technical conditions, fundamental considerations were secondary for most investors. While economic momentum had indeed sharply improved since the end of May, there were signs the recovery had slowed in August. With the summer season coming to an end in the northern hemisphere, we think the return to school and normal working conditions across several sectors are likely to drive infection rates higher. We believe, however, that declining death rates and possible developments on COVID-19 vaccine could act as a counter-balance. The extent and speed of economic recovery will depend on the resolution between opposing market forces, in our view.
- As EHY spreads have already tightened sharply, we maintain our cautious stance, while remaining open to higher beta opportunities with attractive upside potential on a selective basis.

Portfolio Characteristics^{3,6,7}

	Portfolio	ICE BofA Euro High Yield Constrained Index
Yield to Maturity	3.92%	4.09%
Yield to Worst	3.56%	3.94%
Average Credit Quality ⁸	BB	BB-
Average Duration	3.15 Yrs	3.69 Yrs
Average Weighted Maturity	3.81 Yrs	4.65 Yrs

7. 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.**

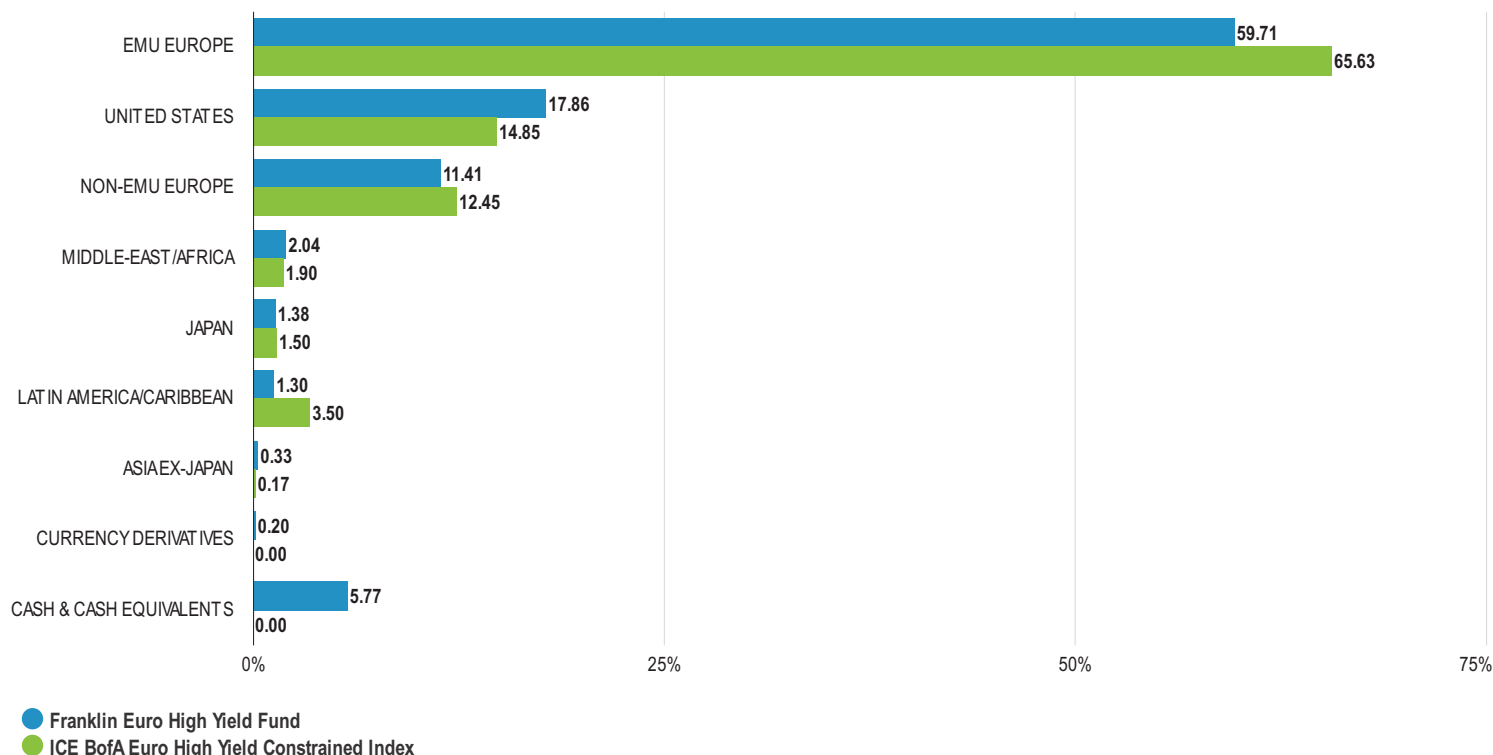
8. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate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

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Portfolio Diversification³

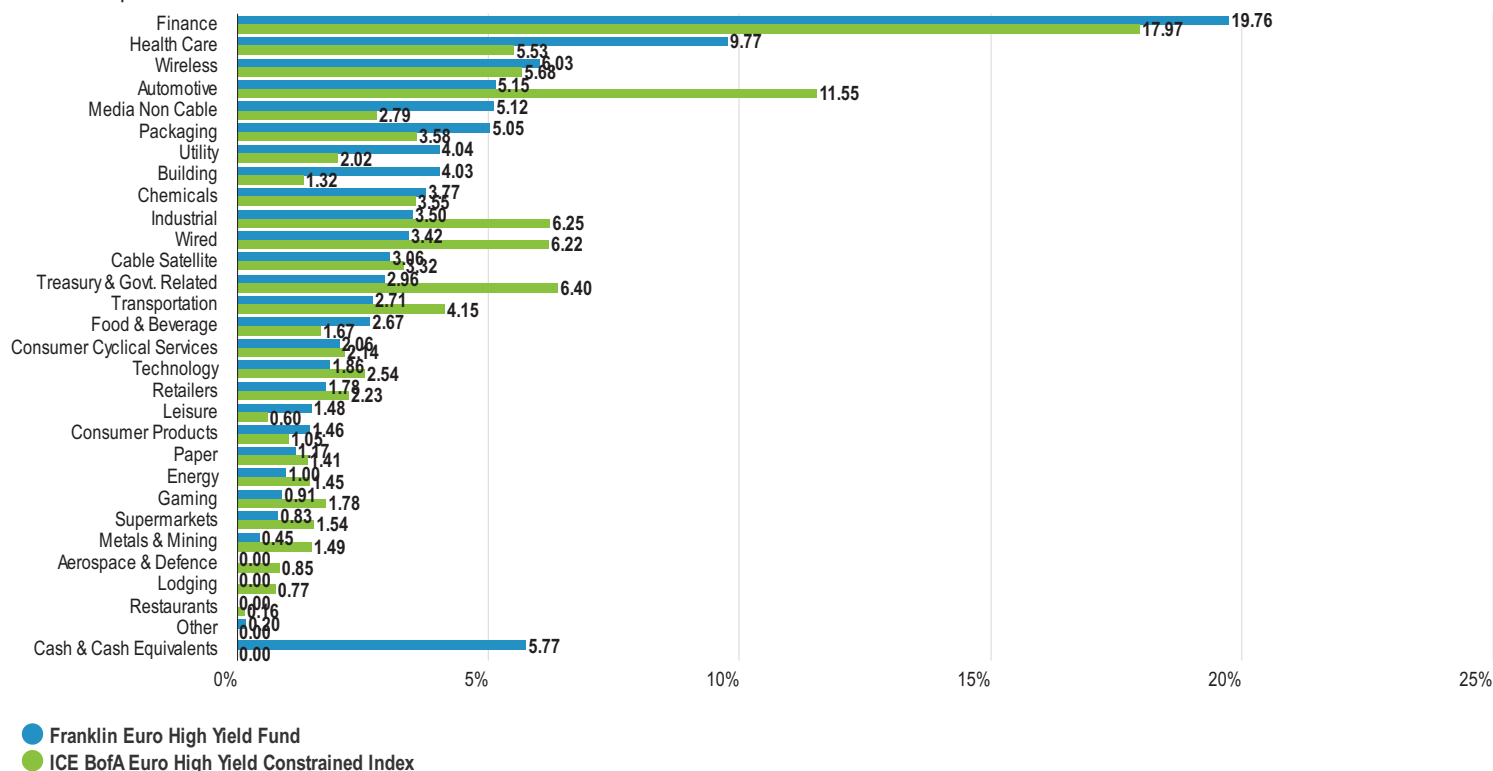
Geographic Exposure vs. ICE BofA Euro High Yield Constrained Index⁹

Notional Exposure—Percent of Total



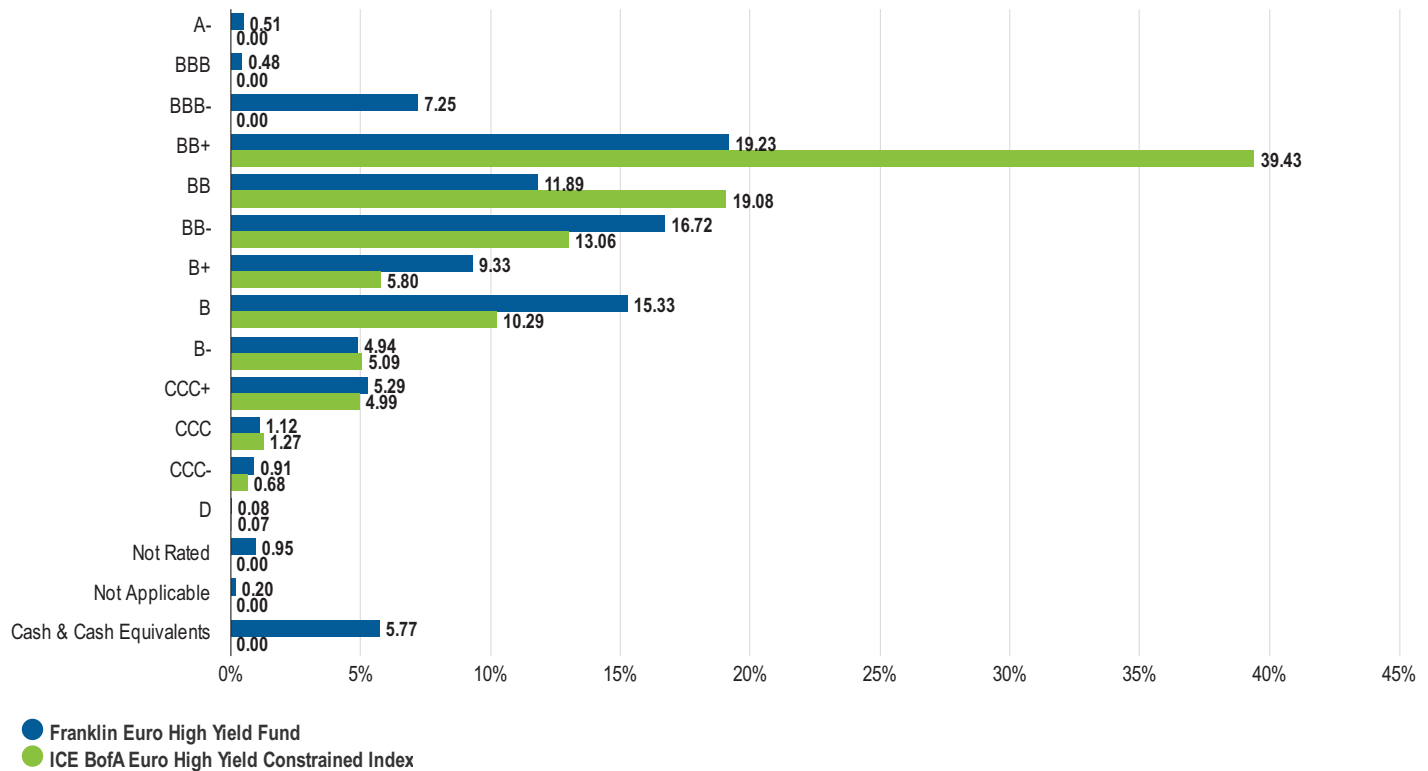
Sector Exposure vs. ICE BofA Euro High Yield Constrained Index⁹

Notional Exposure—Percent of Total



Credit Quality Allocation vs. ICE BofA Euro High Yield Constrained Index^{2,10}

Market Value—Percent of Total



Supplemental Performance Statistics

Supplemental Risk Statistics¹¹

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin Euro High Yield Fund	8.47	7.18	7.21	10.27
ICE BofA Euro High Yield Constrained Index	9.44	8.02	7.97	11.81
Tracking Error (%)	1.45	1.39	1.52	3.48
Information Ratio¹²	-0.86	-1.06	-0.99	-0.44
Beta	0.89	0.89	0.89	0.84
Sharpe Ratio				
Franklin Euro High Yield Fund	0.18	0.42	0.69	0.20
ICE BofA Euro High Yield Constrained Index	0.29	0.56	0.81	0.31

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Patricia O'Connor, CFA	22	24
Piero del Monte	12	22
Rod MacPhee, CFA	7	13
Emmanuel Teissier	12	17

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.

11. Beta, Information Ratio and Tracking Error information are measured against the ICE BofA Euro High Yield Constrained 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).

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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 lower-quality debt securities denominated in euro. Such securities have historically been subject to price movements, generally due to interest rates or movements in the bond market in general. As a result, the performance of the Fund can fluctuate moderately 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, derivative instruments 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.

Important Legal Information

Franklin Euro High Yield Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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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.

3. All holdings are subject to change.

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6. Yield to Maturity, Yield to Worst, Average Duration and Average Weighted Maturity reflect certain derivatives held in portfolio (or their underlying reference assets).

9. Notional exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). 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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