



FRANKLIN TEMPLETON INVESTMENTS

Franklin Euro High Yield Fund–A (Ydis) EUR

Franklin Templeton Investment Funds

Fund Manager Report

High Yield
Fixed Income
28 February 2019

Product Details¹

Fund Assets	€531,958,719.60
Fund Inception Date	17/04/2000
Number of Securities Including Cash	167
Bloomberg	TEMHYEI LX
ISIN	LU0109395268
Base Currency	EUR
Investment Style	High Yield
Benchmark	ICE BofAML Euro High Yield Constrained Index
Morningstar Category™	EUR High Yield Bond

Asset Allocation^{2,3}

Market Value—Percent of Total	%
Cash & Cash Equivalents	9.96
Fixed Income	89.97
Equity	0.07

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 28/02/2019 (Dividends Reinvested) (%)⁴

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	1.17	2.54	3.07	-0.42	4.29	2.46	9.03	3.52
Net of Sales Charge - A (Ydis) EUR	-3.89	-2.58	-2.09	-5.40	2.52	1.42	8.47	3.24
ICE BofAML Euro High Yield Constrained Index EUR	1.84	3.76	4.18	0.72	6.06	3.94	12.46	5.04

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	1.17	2.54	3.07	-0.42	13.43	12.93	137.33	92.13
Net of Sales Charge - A (Ydis) EUR	-3.89	-2.58	-2.09	-5.40	7.76	7.28	125.46	82.52
ICE BofAML Euro High Yield Constrained Index EUR	1.84	3.76	4.18	0.72	19.28	21.29	223.65	152.84

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Exposure to a Central European Utility issuer	Technology overweight	BB underweight	—
	—	—	—	—
	—	—	—	—
HURT	Exposure to a small Packaging issuer	Underweight Italian Financials	CCC underweight	Underweight long duration bonds
	—	Underweight Metals and Mining	—	—
	—	Cash	—	—

- The fund underperformed its benchmark and peers because of an underweight in CCC rated credits and a high cash balance. Although our security selection was good and we managed to avoid most large underperformers of the month, these were not enough to compensate for the performance drag stemming from our more defensive approach.
- We decreased our exposure to smaller issuers and corporate hybrids as cash prices rebounded sharply. Conversely, we increased our exposure towards Spanish financials. We remained underweight to Spain and subordinated financial paper. Last, we adopted a neutral position in Germany and the UK while keeping our large overweight towards US-domiciled issuers. Against the backdrop of weak primary issuance until the last week of February, we participated in a non-rated issue from a publicly traded leisure company.

1. All holdings are subject to change.

Outlook & Strategy

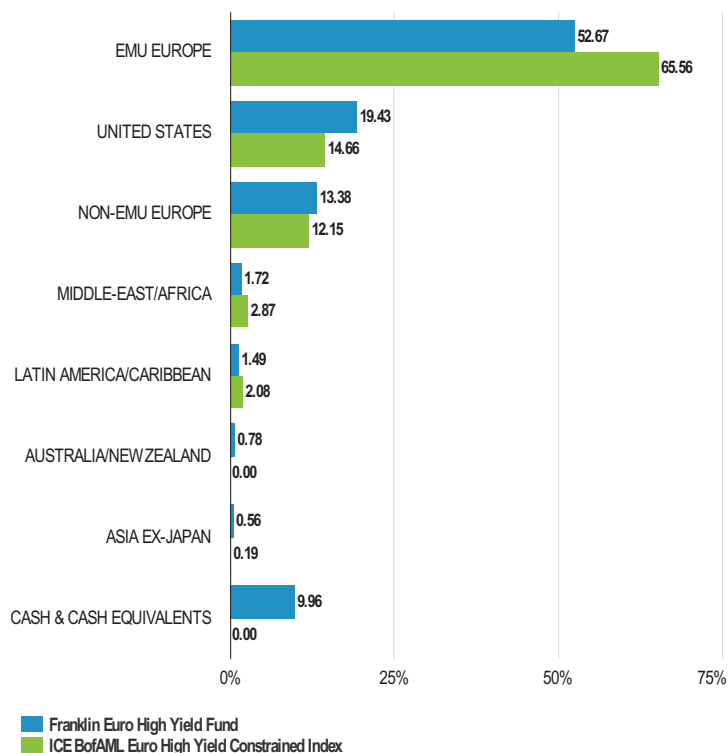
- During the month, market demand was particularly strong for long duration/large cap BB issuers. B and CCC credits outperformed BBs as expected in a tightening market, however, we also noticed increased performance dispersion within lower-rated issues. There was an increase in issuers preparing for restructuring talks with creditors via advisors; such a trend suggested that investors were slightly more cautious towards increasing exposure to lower-rated issues, in our view. While we believe such investor cautiousness should have marginal impact on the default rate (as lower-rated issues have a small weighting in the EHY benchmark), it stressed the need for increased due diligence when investing in less liquid/more risky credits.
- We feel EHY spreads have tightened beyond fair level as can happen when sentiment changes quickly and liquidity is poor. There is a tendency to add/decrease risk quickly, either through indices or through large cap issuers. We believe longer-dated euro sovereign bonds, all trading close to 12 months high relative to Italian government bonds, should move lower from here.
- At a European macro level, there is a hope that the economic slowdown experienced in Q418 (and likely in the first quarter of 2019) will be followed by stronger quarters. However, we believe that 2019 economic growth in the continent is likely to remain well below what was recorded in 2018, not to mention the record growth experienced in 2017. In such a context, we expect highly leveraged capital structures to deleverage as planned.
- While we think that refinancing volume for 2019 and 2020 remains manageable, we may see more issuers breaching leverage covenants on existing Revolving Credit Facilities leading to potential credit crunch for those issuers. As a result, we continue to maintain a higher cash balance than average while waiting for either more primary market supply to materialise or profit taking to take place in the secondary market.

Portfolio Characteristics^{3,5}

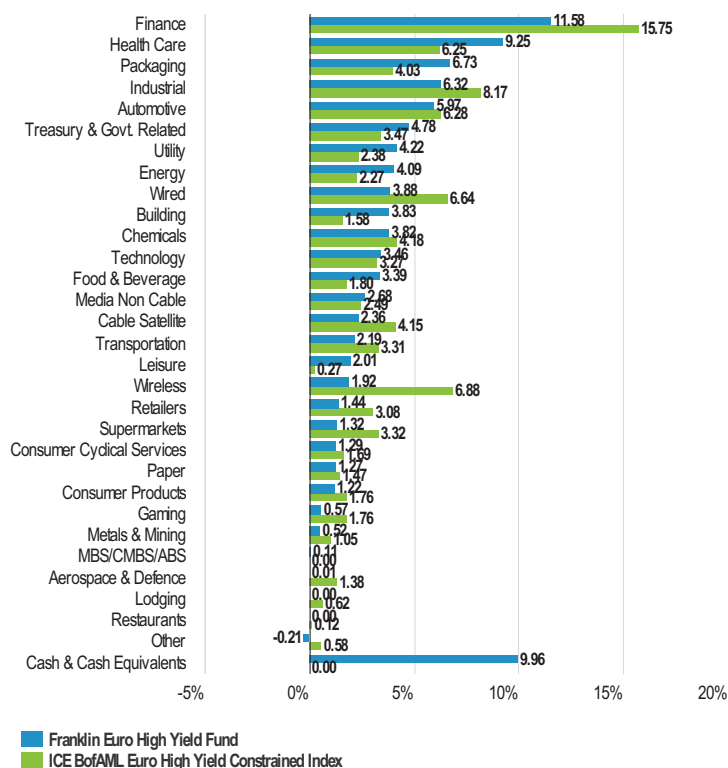
	Portfolio	ICE BofAML Euro High Yield Constrained Index
Yield to Maturity	3.70%	4.13%
Yield to Worst	2.86%	3.70%
Average Duration	2.85 Yrs	3.53 Yrs
Average Credit Quality ⁶	BB+	BB-
Average Weighted Maturity	3.28 Yrs	4.85 Yrs

Portfolio Diversification³

Geographic Allocation vs. ICE BofAML Euro High Yield Constrained Index²
Market Value—Percent of Total



Sector Allocation vs. ICE BofAML Euro High Yield Constrained Index²
Market Value—Percent of Total

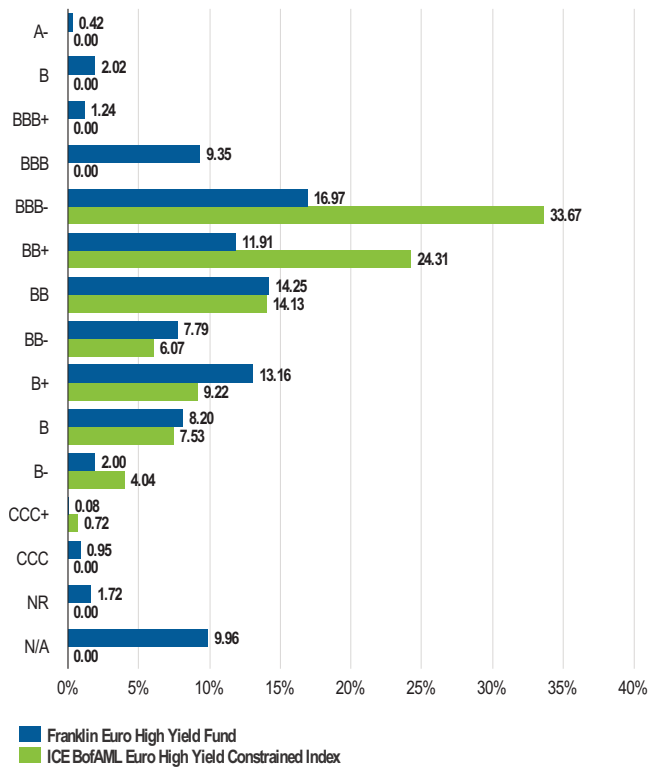


6. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate 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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Credit Quality Allocation vs. ICE BofAML Euro High Yield Constrained Index^{2,7}

Market Value—Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics⁸**

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin Euro High Yield Fund	3.66	3.74	7.64	10.16
ICE BofAML Euro High Yield Constrained Index	4.05	4.28	9.12	11.73
Tracking Error (%)	0.89	1.10	2.71	3.58
Information Ratio⁹	-1.99	-1.34	-1.27	-0.44
Beta	0.88	0.85	0.81	0.83
Sharpe Ratio				
Franklin Euro High Yield Fund	1.36	0.79	1.19	0.20
ICE BofAML Euro High Yield Constrained Index	1.67	1.04	1.38	0.31

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Patricia O'Connor, CFA, VP/Portfolio Manager	21	23
Piero del Monte, VP/ Research Analyst/ Portfolio Manager	11	20
Rod MacPhee, CFA, VP Portfolio Manager/Research Analyst	5	12
Emmanuel Teissier, VP/ Research Analyst/ Portfolio Manager	10	16

7. 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 ICE BofAML Euro High Yield Constrained Index.

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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, 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.

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

4. 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.

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

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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