



FRANKLIN TEMPLETON INVESTMENTS

Franklin U.S. Low Duration Fund—A (Mdis) USD

Investment Grade
Fixed Income
31 October 2018

Franklin Templeton Investment Funds

Fund Manager Report

Product Details¹

Fund Assets	\$735,544,281.49
Fund Inception Date	29/08/2003
Number of Securities Including Cash	544
Bloomberg	FRASTBALX
ISIN	LU0170467566
Investment Style	Investment Grade
Benchmark	Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index
Morningstar Category™	USD Diversified Bond – Short Term

Asset Allocation²

Percent of Total	%
Fixed Income	94.76
Cash & Cash Equivalents	5.21
Equity	0.03

Overall Morningstar Rating™ 3



Fund Description

The fund's investment objective is to provide as high a level of current income as is consistent with prudent investing, while seeking preservation of shareholders' capital.

Performance Data

Performance Net of Management Fees as at 31/10/2018 (Dividends Reinvested) (%)⁴

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/08/2003)
A (Mdis) USD	-0.27	0.09	0.16	-0.03	0.93	0.67	1.23	1.55
Net of Sales Charge - A (Mdis) USD	-5.25	-4.91	-4.85	-5.03	-0.78	-0.35	0.71	1.20
Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index USD	0.11	0.39	0.52	0.34	0.77	0.77	1.12	2.02

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/08/2003)
A (Mdis) USD	-0.27	0.09	0.16	-0.03	2.81	3.41	13.01	26.22
Net of Sales Charge - A (Mdis) USD	-5.25	-4.91	-4.85	-5.03	-2.33	-1.76	7.36	19.91
Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index USD	0.11	0.39	0.52	0.34	2.34	3.93	11.83	35.51

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Sector Exposure	Duration/Yield Curve
HELPED	Allocation to commercial mortgage-backed securities (CMBS)	US duration positioning
	—	—
	—	—
HURT	Corporate credit: particularly allocation to high-yield and investment-grade corporate bonds and senior secured floating-rate bank loans	—
	Allocation to non-agency residential mortgage-backed securities (RMBS)	—
	Allocation to Treasury Inflation Protected Securities (TIPS)	—

1. All holdings are subject to change.

- While the corporate credit sector was a major detractor from performance over the period, we nevertheless maintained our largest allocation in investment-grade corporate credit. We also kept our allocation to high-yield corporate credit and increased exposure to senior secured floating-rate loans. Although our allocation to RMBS detracted from performance amidst a volatile month for financial markets, we prefer to remain allocated to the seasoned Credit Risk Transfer and Re-performing Loan sectors, where both fundamental and technical forces remain positive.
- Our CMBS exposure contributed slightly to results; we maintained our CMBS exposure at the top of the capital structure as commercial real estate prices have surpassed pre-financial crisis levels, rent growth is slowing, and capitalisation rates are trending higher. Last, our US duration positioning also contributed to relative performance.
- We have continued to reduce our foreign-currency risk. Our foreign currency exposure is held through a basket of developed-market shorts with major positions in the euro, Canadian dollar and Australian dollar versus a basket of emerging-market longs with major positions in the Mexican peso, Brazilian real, Indian rupee and Indonesian rupiah. Foreign currency exposure was slightly negative overall for returns; positive gains from our Brazilian real and euro exposures were offset by losses from our Mexican peso exposure.

Outlook & Strategy

- The current widespread optimism about the US economy is largely justified, in our view, by its strong fundamentals, particularly the positive backdrop for consumers. If the fiscal stimulus that has likely contributed to the present elevated rate of economic expansion has also sparked some more secular growth-enhancing trends—for example, productivity gains through higher capital expenditures—then it could provide a further leg to the already prolonged economic cycle. However, we believe it is still too early to determine whether such developments are occurring.
- Despite the economy's robust growth, we do not view the recent rise in UST yields as heralding the start of a major selloff across bond markets. Inflation shows little sign of breaking out of its pattern of sluggish and limited gains, in our view, as long-term constraints such as demographics and technology continue to exert downward pressure on prices, though the recent rise in energy prices could act as an offset if sustained.
- The Trump administration's trade policies and the upcoming midterm congressional elections create further uncertainty among investors about the outlook for 2019, which we believe could serve to cap any rise in yields over the coming months.

Portfolio Characteristics⁵

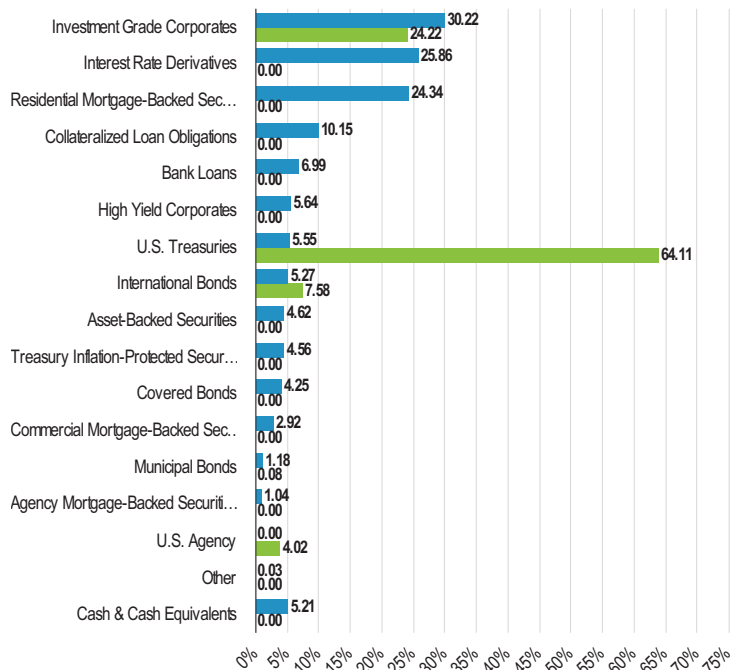
	Portfolio	Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index
Yield to Maturity	4.61%	3.03%
Yield to Worst	4.58%	3.03%
Average Duration	1.82 Yrs	1.91 Yrs
Average Credit Quality ⁶	A	AA
Average Weighted Maturity	3.38 Yrs	1.98 Yrs

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, 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.

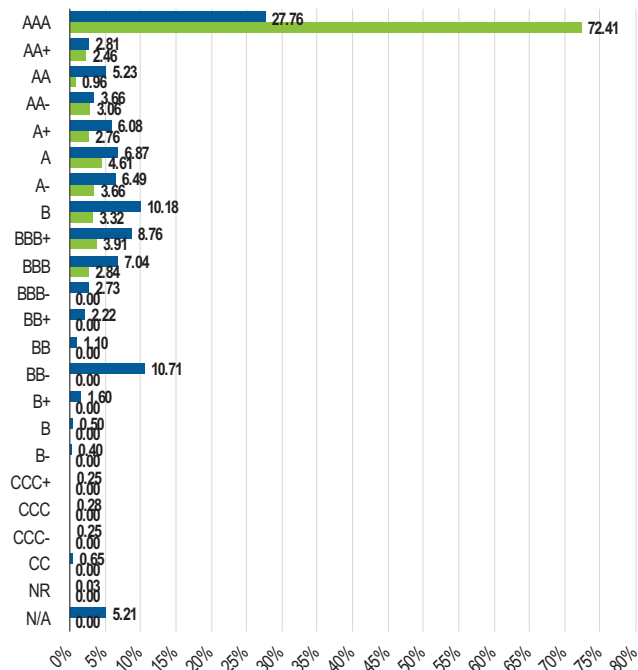
Portfolio Diversification

Sector Exposure vs. Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index^{7,8}

Percent of Total

Credit Quality Exposure vs. Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index⁹

Percent of Total



Franklin U.S. Low Duration Fund
 Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index

Franklin U.S. Low Duration Fund
 Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index

Supplemental Performance Statistics

Supplemental Risk Statistics¹⁰

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin U.S. Low Duration Fund	0.93	0.85	1.24	1.17
Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index	0.73	0.68	0.86	1.27
Tracking Error (%)	0.94	0.87	1.52	1.69
Information Ratio¹¹	0.16	-0.12	0.07	-0.28
Sharpe Ratio				
Franklin U.S. Low Duration Fund	0.03	0.15	0.73	0.26
Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index	-0.17	0.33	0.93	0.62

7. 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) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

8. Interest Rate Derivatives sector consists of Treasury, interest rate and other derivatives that are primarily used for duration management; a negative number indicates that we are seeking to hedge interest rate risk.

9. Figures are intended to estimate the portfolio's exposure to issuer credit risk, including any hedged or increased exposure through credit derivatives held in the portfolio (or their underlying reference assets), and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors. Any credit derivatives are assigned the ratings of their underlying reference assets. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

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. If listed, the NR category consists of rateable securities that have not been rated by an NRSRO. The N/A category consists of nonrateable securities (e.g., equities). Cash includes equivalents, which may be rated.

10. Information Ratio and Tracking Error information are displayed for the product versus the Hybrid: Bloomberg Barclays US Treasury (1-3 Y) Index to 30 Sep 2014 then Bloomberg Barclays US Government & Credit (1-3 Y) Index.

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Investment Philosophy

We believe that applying a disciplined process to investing across fixed income sectors, seeking opportunities to add value in the market cycles ahead, should result in attractive risk-adjusted returns over the long term for the fund. The fund's investment goal is to provide a high level of current income as is consistent with prudent investing, while seeking preservation of capital. Under normal market conditions, the fund invests primarily in investment-grade debt instruments. The fund focuses on government and corporate debt securities and mortgage- and asset-backed securities, floating rate corporate loans and municipal securities, targeting an estimated average portfolio duration of three (3) years or less.

Investment Process

Research Driven

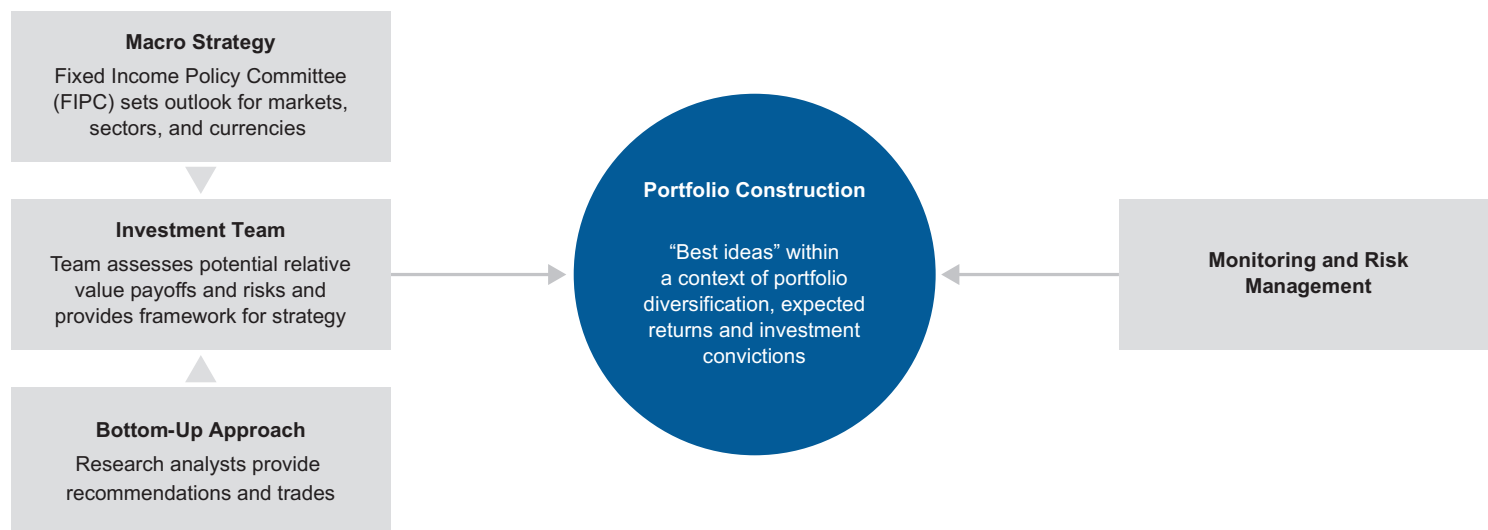
- Conduct independent fundamental analysis
- Utilise proprietary quantitative models
- Examine global macroeconomic and sector-specific factors

Disciplined

- Adhere to long-term strategy through changing market environments
- Strategically and actively allocate resources to expand opportunity sets for integration into strategy

Risk Focused

- Seek to reduce investment risk by integrating risk management tools and techniques at the portfolio construction level



Investment Team

Portfolio Manager	Years with Firm	Years Experience
Roger Bayston, CFA, SVP / Director, Investment Grade Fixed Income	27	32
Kent Burns, CFA, SVP/ Portfolio Manager	24	25
David Yuen, CFA, SVP/Head of Quantitative Portfolio Management Group	22	30

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 in relatively short-term debt securities mainly in the U.S., but may invest up to 25% in non-U.S. issuers. 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 to a small degree over time. Other significant risks include: credit risk, currency 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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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. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

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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).

11. 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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INVESTMENTS**

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