



FRANKLIN TEMPLETON INVESTMENTS

Templeton Emerging Markets Smaller Companies Fund—A (acc) USD

Value
Equity
28 February 2019

Franklin Templeton Investment Funds

Fund Manager Report

Product Details¹

Fund Assets	\$989,586,550.31
Fund Inception Date	18/10/2007
Number of Issuers	108
Bloomberg	TEMCACU LX
ISIN	LU0300738514
Base Currency	USD
Investment Style	Blend
Benchmark	MSCI Emerging Markets Small Cap Index
Morningstar Category™	Global Emerging Markets Small/Mid-Cap Equity

Asset Allocation²

Percent of Total	%
Equity	93.68
Cash & Cash Equivalents	6.32
Fixed Income	0.00

Overall Morningstar Rating™³



Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in equity securities and depository receipts of small-cap companies registered or performing a substantial part of their business in emerging markets or holding a substantial part of their participations in small-cap companies registered in emerging markets. Emerging markets small cap companies are those having a market capitalisation at the time of initial purchase within the range of the market capitalisations of companies included in the MSCI Emerging Markets Small Cap Index (Index).

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 (18/10/2007)
A (acc) USD	3.74	5.15	7.28	-9.91	9.82	5.49	13.54	1.35
Net of Sales Charge - A (acc) USD	-1.44	-0.11	1.92	-14.41	7.95	4.41	12.96	0.89
MSCI Emerging Markets Small Cap Index USD	1.30	5.12	6.77	-14.04	9.37	2.31	12.06	1.01

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (18/10/2007)
A (acc) USD	3.74	5.15	7.28	-9.91	32.42	30.64	255.96	16.40
Net of Sales Charge - A (acc) USD	-1.44	-0.11	1.92	-14.41	25.80	24.11	238.16	10.58
MSCI Emerging Markets Small Cap Index USD	1.30	5.12	6.77	-14.04	30.79	12.11	212.30	12.14

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Hoa Phat Group JSC	Information Technology (Stock Selection)	China (Stock Selection, Overweight)
	Bajaj Holdings & Investment Limited.	Financials (Stock Selection)	Vietnam (Off-benchmark Exposure)
	Fila Korea Ltd	Consumer Discretionary (Stock Selection)	India (Stock Selection)
Hurt	Tata Chemicals Limited	Health Care (Stock Selection)	Greece (Lack of Exposure)
	Glenmark Pharmaceuticals Limited	—	Hungary
	Chemical Works of Gedeon Richter Plc	—	Malaysia (Stock Selection, Underweight)

- Hoa Phat Group, which is one of Vietnam's largest steel producers, gained amidst an upswing in investor sentiment towards the country. The company's construction steel sales also rose sharply in January. We continue to see long-term growth potential in Hoa Phat as it expands its production capacity and solidifies its market-leading position.
- India-based Bajaj Holdings & Investment advanced. It has a range of investments in the financial services and auto industries, including a stake in Bajaj Auto, which posted a surge in vehicle sales for January. We like Bajaj Holdings for the exposure it offers to India's fast-growing financial services market at an attractive valuation, in our view.

1. All holdings are subject to change. Holdings of the same issuers have been combined.

- Meanwhile, Hungary-based pharmaceutical company Chemical Works of Gedeon Richter was hampered by disappointing quarterly results, after European regulators placed restrictions on the use of its uterine fibroid drug. Nonetheless, Gedeon Richter remains focused on building a pipeline of treatments, especially in the area of women’s health, and we find the stock attractively valued.

Outlook & Strategy

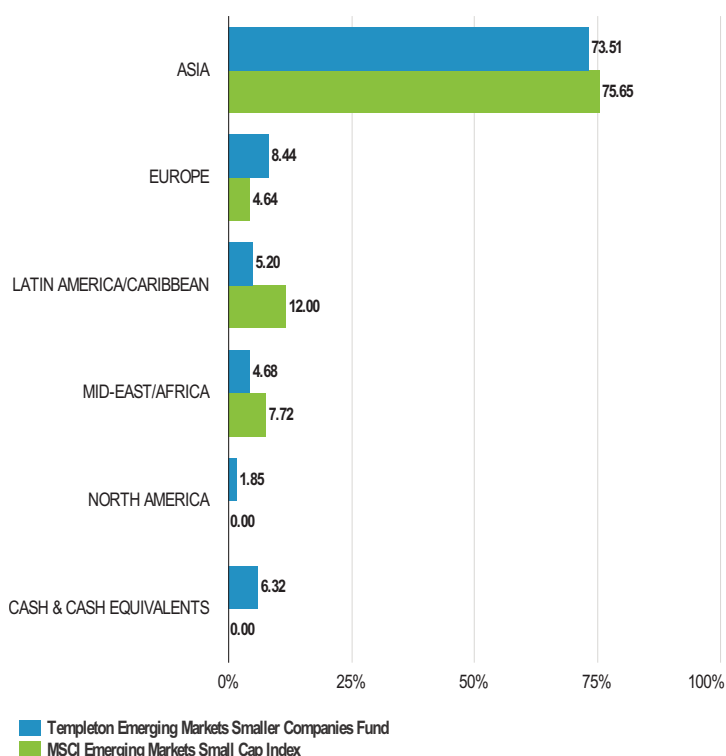
- US interest rate hike expectations have declined, spurring gains in EM currencies and equities, as well as large investor flows into the EM asset class. Easing global trade tensions have further boosted market sentiment. However, we believe that for the market rally to be sustainable, corporate earnings need to strengthen. Improving corporate governance in EMs could also contribute to a longer-term rerating.
- EM small caps have started to regain pace relative to their large-cap counterparts. We continue to view EM small caps as a compelling asset class. Many of these companies have a greater domestic focus compared with large caps and are uniquely positioned to benefit from local economic activity and other growth drivers, in our view.
- The fund’s key holdings include companies that offer exposure to the structural themes of consumption, technology and health care in EMs. A growing middle class is amongst major drivers of increasing consumer demand. Meanwhile, we expect technology to continue reshaping EMs, as numerous companies embrace innovation to stay competitive. The health care landscape is also changing, with aging populations and growing consumer awareness fuelling medical and wellness needs.
- We believe the EM small-cap universe offers plenty of investment opportunities, and we favour companies in which we have confidence in management’s ability to deliver sustainable growth that the market may be mispricing.

Portfolio Characteristics^{5,6}

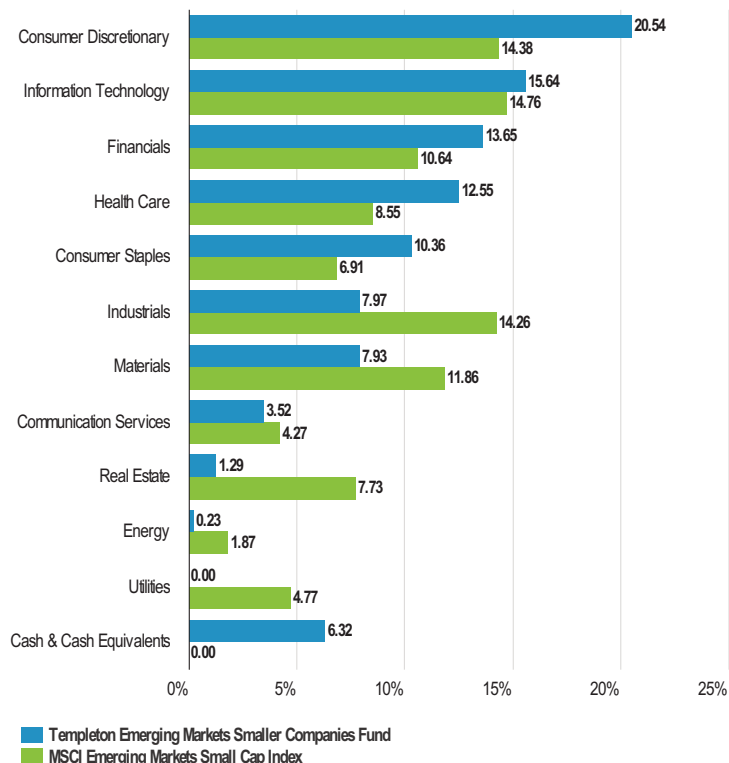
	Portfolio	MSCI Emerging Markets Small Cap Index
Price to Earnings (12-Month Trailing)	14.16x	16.41x
Price to Book	1.80x	1.32x
Price to Cash Flow	10.33x	8.85x
Market Capitalisation (Millions in USD)	2,327	1,232
Dividend Yield	2.26%	2.69%

Portfolio Diversification

Geographic Weightings vs. MSCI Emerging Markets Small Cap Index²
Percent of Total



Sector Weightings vs. MSCI Emerging Markets Small Cap Index²
Percent of Total



Top Ten Holdings⁷

Percent of Total

Top Holdings	Sector	Country	%
BAJAJ HOLDINGS & INVESTMENT LTD	Diversified Financials	India	4.00
BAOZUN INC	Retailing	China	2.83
FILA KOREA LTD	Consumer Durables & Apparel	South Korea	2.69
HOA PHAT GROUP JSC	Materials	Vietnam	2.29
HEALTH & HAPPINESS H&H INTERNATIONAL HOLDINGS LTD	Food, Beverage & Tobacco	China	2.14
APOLLO TYRES LTD	Automobiles & Components	India	2.05
NOVATEK MICROELECTRONICS CORP	Semiconductors & Semiconductor Equipment	Taiwan	1.86
IMAX CORP	Media & Entertainment	United States	1.85
MERIDA INDUSTRY CO LTD	Consumer Durables & Apparel	Taiwan	1.74
MEDY-TOX INC	Pharmaceuticals, Biotechnology & Life Sciences	South Korea	1.73

Supplemental Performance Statistics**Supplemental Risk Statistics⁸**

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Templeton Emerging Markets Smaller Companies Fund	11.65	11.60	18.63	22.82
MSCI Emerging Markets Small Cap Index	13.42	14.01	20.04	23.65
Tracking Error (%)	5.03	5.41	5.72	6.01
Information Ratio⁹	0.09	0.59	0.26	0.08
Beta	0.81	0.77	0.89	0.93
Sharpe Ratio				
Templeton Emerging Markets Smaller Companies Fund	0.74	0.41	0.71	0.03
MSCI Emerging Markets Small Cap Index	0.61	0.12	0.58	0.01

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Chetan Sehgal, CFA, Senior Management Director, Director of Portfolio Management, Emerging Markets Equities	23	24
	Number of Members	Average Years Experience
Portfolio Managers/Analysts	7	21

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 the equity securities of smaller companies in emerging markets. Such securities have historically been subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: currency risk, emerging markets risk, liquidity risk, operational risk, Shanghai-Hong Kong Stock Connect 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.

8. Beta, Information Ratio and Tracking Error information are measured against the MSCI Emerging Markets Small Cap Index.

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

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5. Source: FactSet. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted.
6. The dividend yield quoted here is the yield on securities within the portfolio and should not be used as an indication of the income received from this portfolio.
7. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.
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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