

## Fund Manager Report

### Product Details<sup>1</sup>

Fund Assets	€109,322,093.13
Fund Inception Date	03/12/2001
Number of Issuers	29
Bloomberg	TEMESMA LX
ISIN	LU0138075311
Base Currency	EUR
Investment Style	Growth
Benchmark	MSCI Europe Small-Mid Cap Index-NR
Morningstar Category™	Europe Small-Cap Equity

### Asset Allocation<sup>2</sup>

Percent of Total	%
Equity	96.84
Cash & Cash Equivalents	3.16
Fixed Income	0.00

### Fund Description

The Fund aims to achieve long-term capital appreciation by investing principally in equity and/or equity-related securities of small and mid-cap companies (those with market capitalisation above Euro 100 million and below Euro 8 billion) in Europe.

### Performance Data<sup>3</sup>

#### Performance Net of Management Fees as at 31/07/2020 (Dividends Reinvested) (%)<sup>4</sup>

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/12/2001)
A (acc) EUR	-2.29	-0.92	-33.37	-27.06	-11.51	-6.83	3.27	5.45
Net of Sales Charge - A (acc) EUR	-7.17	-5.87	-36.71	-30.71	-13.01	-7.79	2.75	5.16
MSCI Europe Small-Mid Cap Index-NR EUR	0.65	7.66	-13.23	-2.76	0.82	2.09	8.32	6.68

#### Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/12/2001)
A (acc) EUR	-2.29	-0.92	-33.37	-27.06	-30.72	-29.82	38.03	169.30
Net of Sales Charge - A (acc) EUR	-7.17	-5.87	-36.71	-30.71	-34.18	-33.33	31.13	155.83
MSCI Europe Small-Mid Cap Index-NR EUR	0.65	7.66	-13.23	-2.76	2.48	10.91	122.36	234.25

### Portfolio Manager Insight

#### Performance Review

#### ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Devro plc	Energy (Stock Selection)	Netherlands (Stock Selection)
	Brenntag AG	—	Italy (Stock Selection)
	I.M.A. Industria Macchine Automatiche S.p.A.	—	Germany (Stock Selection)
HURT	HEXPOL AB Class B	Real Estate (Stock Selection)	Sweden (Stock Selection)
	Total Produce Plc	Materials (Stock Selection)	Spain (Stock Selection, Overweight)
	SEB SA	Industrials (Stock Selection)	United Kingdom (Stock Selection)

- Sweden-based Hexpol, a polymer manufacturer, detracted from relative returns, as its business continues to remain under pressure due to the weakness in the automotive industry. The slump in auto production has led to weaker demand for rubber compounds, but we saw signs of an improvement in demand in June, after a much weaker April and May.
- Total Produce, an Ireland-based fresh produce distributor, weighed on relative performance. The company's food service business has faced challenges during the lockdowns, but its recent trading update indicated that sales have largely remained resilient as consumer sales of fruits and vegetables have remained robust.
- Brenntag, a Germany-based chemicals distributor, supported relative returns, after it released stronger-than-expected earnings for the latest quarter. We believe the company has been able to use its size and scale to get better pricing on a range of chemicals, such as those used in household products, which have been in strong demand during the COVID-19 outbreak.

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

2. Percentage may not equal 100% due to rounding. All holdings are subject to change.

3. Net Returns (NR) include income net of tax withholding when dividends are paid.

**Outlook & Strategy**

- We believe that economies in Europe will continue to recover from the COVID-19 pandemic over the coming months, supported by massive stimulus efforts from central banks and governments around the world.
- Additionally, we expect expensive companies in the information technology and health care sectors generally to continue garnering the most market interest due to the limited impact COVID-19 is likely to have on their businesses. In fact, the valuation gap between growth stocks and value stocks is the widest it has been since 2000, by our analysis. This disparity is likely to decrease over time, in our view, putting valuation-oriented investors like us in a potentially strong position to see a benefit as the economy turns around and business activity picks back up.
- We have taken advantage of the market volatility to add several new quality companies with high returns on capital to the portfolio at what we viewed as attractive valuations. We believe the overall portfolio consists of solid operators with leading market positions in industries we find appealing, such as cash transit, waste management, industrial laundry and chemicals distribution. Although many of these businesses have defensive attributes in normal times, the market has overlooked them in the current environment.
- We believe that recent changes to the portfolio have better positioned it for potential long-term success. We are optimistic that as market and economic conditions normalise, our portfolio companies can stand out.

**Portfolio Characteristics<sup>5</sup>**

	Portfolio	MSCI Europe Small-Mid Cap Index-NR <sup>6</sup>
Market Capitalisation (Millions in EUR)	1,986	6,758
Price to Earnings Growth Ratio	1.81x	1.99x
3-Year Sales Growth	7.26%	12.28%
Estimated 3-5 Yr EPS Growth	7.88%	8.12%
Price to Earnings (12 Month Forward)	15.67x	19.59x

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>7,8</sup>**

	3 Yrs	5 Yrs	10 Yrs	Since Inception
<b>Standard Deviation (%)</b>				
Franklin European Small-Mid Cap Fund	23.86	20.79	17.28	17.56
MSCI Europe Small-Mid Cap Index-NR	17.72	16.13	14.50	16.83
<b>Tracking Error (%)</b>	9.35	8.70	7.68	7.49
<b>Information Ratio<sup>9</sup></b>	-1.32	-1.03	-0.66	-0.15
<b>Beta</b>	1.27	1.19	1.07	0.94
<b>Sharpe Ratio</b>				
Franklin European Small-Mid Cap Fund	-0.46	-0.30	0.20	0.25
MSCI Europe Small-Mid Cap Index-NR	0.08	0.17	0.59	0.33

**Investment Team**

Portfolio Manager	Years with Firm	Years Experience
Ed Lugo, CFA	19	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 mainly in equity and equity-related securities of small- and mid-cap companies located in or doing significant business in European countries. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: foreign currency 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.

7. Beta, Information Ratio and Tracking Error information are measured against the MSCI Europe Small-Mid Cap Index-NR.

8. Net Returns (NR) include income net of tax withholding when dividends are paid.

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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**Important Legal Information**

Franklin European Small-Mid Cap 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.

**Effective 17 May 2019, Franklin European Small-Mid Cap Growth Fund was renamed Franklin European Small-Mid Cap Fund.**

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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. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalisation figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: Factset. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. The Estimated 3-5 Year EPS Growth uses simple weighted average means. There can be no assurance that the Estimated 3-5 Year EPS Growth will be realised. All holdings are subject to change.

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