



FRANKLIN TEMPLETON INVESTMENTS

Franklin European Small-Mid Cap Growth Fund–A (acc) EUR

Franklin Templeton Investment Funds

Fund Manager Report

Growth Equity
31 December 2018

Product Details¹

Fund Assets	€310,176,466.06
Fund Inception Date	03/12/2001
Number of Issuers	28
Bloomberg	TEMESMA LX
ISIN	LU0138075311
Base Currency	EUR
Investment Style	Growth
Benchmark	MSCI Europe Small-Mid Cap (Net Dividends) Index
Morningstar Category™	Europe Small-Cap Equity

Asset Allocation²

Percent of Total	%
Equity	98.45
Cash & Cash Equivalents	1.55
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

Performance Net of Management Fees as at 31/12/2018 (Dividends Reinvested) (%)³

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/12/2001)
A (acc) EUR	-8.90	-20.10	-20.39	-20.39	-3.90	0.90	10.98	7.22
Net of Sales Charge - A (acc) EUR	-13.45	-24.10	-24.37	-24.37	-5.53	-0.13	10.41	6.90
MSCI Europe Small-Mid Cap (Net Dividends) Index EUR	-6.19	-15.83	-14.30	-14.30	0.18	5.15	12.12	6.54

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/12/2001)
A (acc) EUR	-8.90	-20.10	-20.39	-20.39	-11.26	4.58	183.36	228.70
Net of Sales Charge - A (acc) EUR	-13.45	-24.10	-24.37	-24.37	-15.69	-0.65	169.20	212.27
MSCI Europe Small-Mid Cap (Net Dividends) Index EUR	-6.19	-15.83	-14.30	-14.30	0.55	28.52	213.80	194.95

Portfolio Manager Insight

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Elior Group SA.	Consumer Discretionary (Stock Selection)	France (Stock Selection)
	Panalpina Welttransport (Holding) AG	Information Technology (Stock Selection)	Switzerland (Stock Selection)
	Foxtons Group PLC	—	Germany (Lack of Exposure)
HURT	Borr Drilling Ltd.	Energy (Stock Selection, Overweight)	United Kingdom (Stock Selection)
	John Wood Group PLC	Industrials (Stock Selection)	Norway (Stock Selection)
	Clarkson PLC	Utilities (Lack of Exposure)	United States (Off-benchmark Exposure)

- With crude oil prices falling sharply in the fourth quarter, both Norway-based drilling rig company Borr Drilling and UK-based oilfield services firm John Wood Group curbed relative returns. We expect both companies to see stronger demand for their services and equipment as major oil companies begin to spend more heavily on exploration and production to replace existing reserves.
- A number of industrials stocks also curbed relative performance, including UK-based shipping broker Clarkson. The stock has been weak on concerns about a slowdown in global trade, but we expect Clarkson to grow alongside a continued turnaround in shipping markets and to take market share from less financially strong competitors.
- In the consumer discretionary sector, France-based contract catering firm Elior Group bolstered relative performance on news the company was considering splitting off its concession catering business as it looks to reposition the company.

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

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Elior Group SA	Consumer Discretionary (Stock Selection)	France (Stock Selection)
	SeSa S.p.A.	Information Technology (Stock Selection)	Italy (Stock Selection)
	Foxtons Group Plc	Financials (Stock Selection)	Germany (Lack of Exposure)
Hurt	John Wood Group PLC	Energy (Stock Selection)	United Kingdom (Stock Selection)
	Clarkson PLC	Industrials (Stock Selection)	Denmark (Stock Selection)
	Borr Drilling Limited	Materials (Stock Selection)	Norway (Stock Selection, Overweight)

- Energy holdings John Wood Group and Borr Drilling remained weak in December following a sharp drop in oil prices and concerns the move could lead to a pullback in capital spending from major oil companies in the near term.
- A number of cyclical holdings in the industrials sector also weighed on relative returns amidst concerns about the global economic environment over the short run. In addition to Clarkson, detractors included Denmark-based facilities outsourcer ISS and France-based laundry services firm Elis.
- On the upside, UK-based real estate agent Foxtons Group was a contributor on a strong quarter for real estate stocks in general. We expect Foxtons, with its focus on the London housing market, to be a long-term beneficiary of a rebound in home sales in the city over the medium to longer term.

Outlook & Strategy

- Following the market selloff in the fourth quarter, we are seeing more opportunities globally for the first time in years as many high-quality companies at period-end were trading at what we view as attractive valuations.
- Generally, we believe international equities can offer better return potential than US stocks over the next few years because they are more attractively valued and because we see greater room for growth
- In terms of industries, packaging companies and industrial services companies are all looking more attractive to us than in past years.
- Furthermore, the sharp drop in crude oil prices—due to concerns about a slowing global economy and an oversupplied oil market—has, in our assessment, unfairly hurt a number of solid operators in the energy sector. We see opportunities particularly if OPEC (Organization of the Petroleum Exporting Countries) can maintain recent aggressive production cuts and if global demand for oil rises over time.
- As always, when looking at new investments for the fund we remain disciplined in seeking out attractively valued companies with durable competitive advantages that have the ability to create value over time.

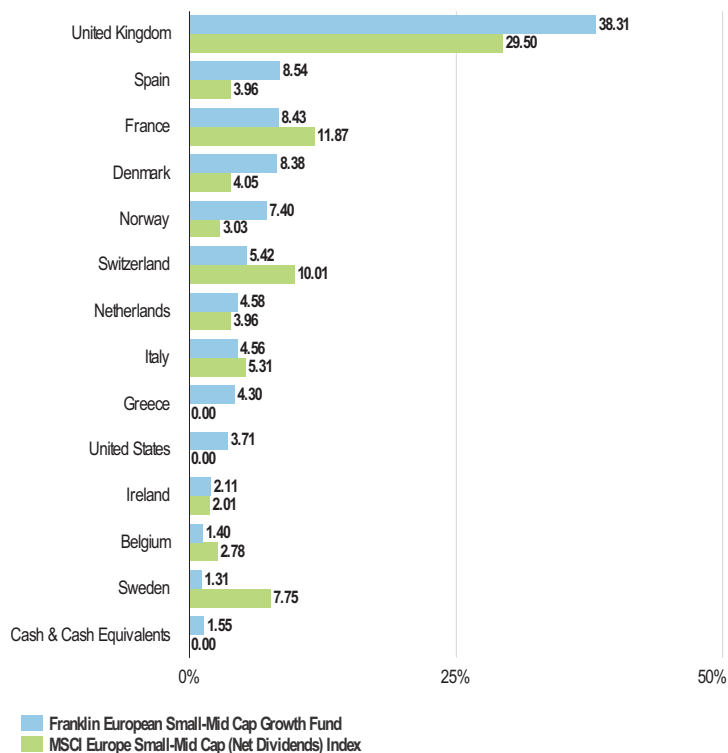
Portfolio Characteristics⁴

	Portfolio	MSCI Europe Small-Mid Cap (Net Dividends) Index
Market Capitalisation (Millions in EUR)	1,725	6,814
Price to Earnings Growth Ratio	1.28x	1.28x
3-Year Sales Growth	10.49%	9.56%
Estimated 3-5 Yr EPS Growth	10.78%	10.85%
Price to Earnings (12 Month Forward)	12.75x	13.67x

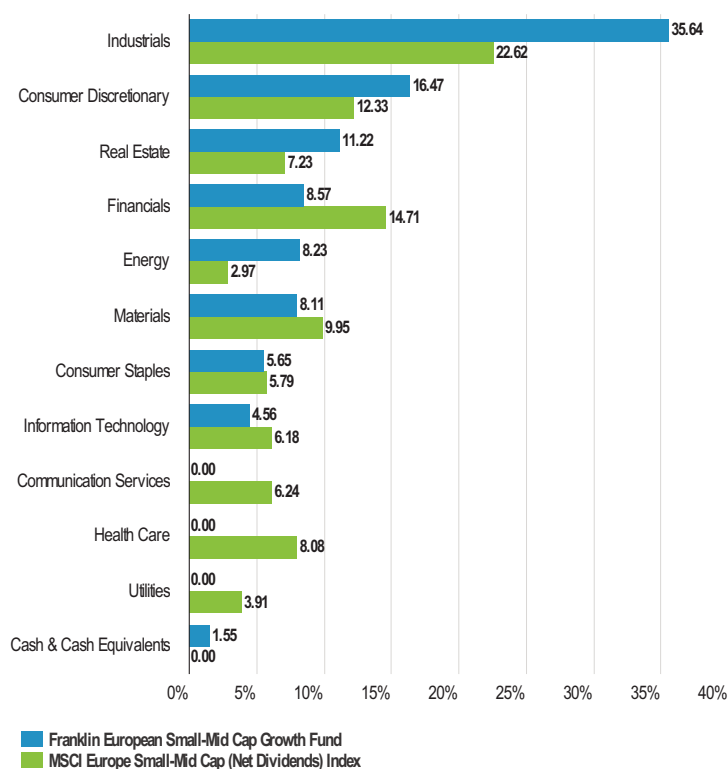
Portfolio Diversification

Geographic Weightings vs. MSCI Europe Small-Mid Cap (Net Dividends) Index²

Percent of Total

Sector Weightings vs. MSCI Europe Small-Mid Cap (Net Dividends) Index²

Percent of Total

Top Ten Holdings⁵

Percent of Total

Top Holdings	Sector	Country	%
ELIOR GROUP SA	Consumer Services	France	5.55
PANALPINA WELTTRANSPORT HOLDING AG	Transportation	Switzerland	5.42
JOHN WOOD GROUP PLC	Energy	United Kingdom	5.10
ZARDOYA OTIS SA	Capital Goods	Spain	4.63
GRANDVISION NV	Retailing	Netherlands	4.58
SESA SPA	Technology Hardware & Equipment	Italy	4.56
CLARKSON PLC	Transportation	United Kingdom	4.50
HEADLAM GROUP PLC	Retailing	United Kingdom	4.47
RPC GROUP PLC	Materials	United Kingdom	4.41
HELLENIC EXCHANGES - ATHENS STOCK EXCHANGE SA	Diversified Financials	Greece	4.30

Supplemental Performance Statistics

Supplemental Risk Statistics⁶

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin European Small-Mid Cap Growth Fund	14.43	13.82	13.74	15.75
MSCI Europe Small-Mid Cap (Net Dividends) Index	11.72	12.21	14.44	16.28
Tracking Error (%)	6.46	6.43	7.17	6.84
Information Ratio⁷	-0.63	-0.66	-0.16	0.12
Beta	1.11	1.00	0.83	0.88
Sharpe Ratio				
Franklin European Small-Mid Cap Growth Fund	-0.22	0.10	0.80	0.38
MSCI Europe Small-Mid Cap (Net Dividends) Index	0.08	0.46	0.84	0.32

6. Beta, Information Ratio and Tracking Error information are measured against the MSCI Europe Small-Mid Cap (Net Dividends) Index.

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Investment Team

Portfolio Manager	Years with Firm	Years Experience
Ed Lugo, CFA, Senior Vice President	18	29
	Number of Members	Average Years Experience
Franklin Global Small Cap Analysts	3	11

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: 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.

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

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2. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.
3. 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.
4. 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. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
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7. 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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