

Fund Manager Report

Product Details¹

Fund Assets	€188,017,724.11
Fund Inception Date	10/11/1997
Number of Issuers	44
Bloomberg	TEMEAEI LX
ISIN	LU0078277505
Base Currency	EUR
Investment Style	Blend
Benchmark	MSCI EM Europe Index-NR
Morningstar Category™	Emerging Europe Equity

Asset Allocation²

Percent of Total	%
Equity	99.82
Cash & Cash Equivalents	0.18
Fixed Income	0.00

Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in listed equity securities of issuers organised under the laws of or having their principal activities within the countries of Eastern Europe, as well as the New Independent States, i.e. the countries in Europe and Asia that were formerly part of or under the influence of the Soviet Union.

Performance Data^{3,4}

Performance Net of Management Fees as at 31/12/2020 (Dividends Reinvested) (%)^a

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (10/11/1997)
A (acc) EUR	5.89	19.60	-15.33	-15.33	-3.04	5.23	-3.01	4.38
Net of Sales Charge - A (acc) EUR	0.60	13.62	-19.56	-19.56	-4.69	4.16	-3.51	4.15
MSCI EM Europe Index-NR EUR	8.09	17.36	-19.73	-19.73	0.03	6.50	-0.88	4.84

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (10/11/1997)
A (acc) EUR	5.89	19.60	-15.33	-15.33	-8.85	29.04	-26.36	169.84
Net of Sales Charge - A (acc) EUR	0.60	13.62	-19.56	-19.56	-13.41	22.59	-30.04	156.35
MSCI EM Europe Index-NR EUR	8.09	17.36	-19.73	-19.73	0.10	37.00	-8.48	198.55

Portfolio Manager Insight

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Allegro.eu SA	Consumer Discretionary (Stock Selection)	Russia (Stock Selection)
	Wizz Air Holdings Plc	Communication Services (Stock Selection, Underweight)	Poland (Stock Selection)
	Kaspi.kz JSC Sponsored GDR RegS	Energy (Stock Selection)	Turkey (Stock Selection)
HURT	Qivi Plc Sponsored ADR Class B	Information Technology (Off-benchmark Exposure)	Moldova (Off-benchmark Exposure)
	Mail.ru Group Ltd. Sponsored GDR	Consumer Staples (Stock Selection)	—
	Purcari Wineries Public Co., Ltd.	—	—

- Two new positions in the fund, e-commerce company Allegro.eu and technology-driven bank Kaspi.kz, delivered relative gains. Both companies completed their public listings during the quarter. Poland-based Allegro.eu reported higher third-quarter sales as it attracted new customers and saw increased user spending. We think there is longer-term growth potential for the company in an underpenetrated market.
- Kazakhstan-based Kaspi.kz's third-quarter earnings grew amidst heavier usage of its "super app", which bundles its payment, marketplace, and financial technology platforms. It also launched an online travel platform. Kaspi.kz stands out to us for its market-leading app, which offers services in segments that we find underserved and could support the company's longer-term prospects.

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. MSCI EM Europe Index-NR reflects performance of the MSCI EM Europe (gross returns) from fund inception through 31 December 2000 and MSCI EM Europe Index-NR thereafter.

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

- Meanwhile, Moldova-based Purcari Wineries retreated. The wine and brandy maker posted a mixed set of results for the third quarter as sales improved but earnings declined. We believe Purcari has a long runway of growth in Central and Eastern Europe, where sales could catch up with levels in Western Europe.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Aksa Akrilik Kimya Sanayi A.S.	Communication Services (Underweight)	Turkey (Overweight)
	Kaspi.kz JSC Sponsored GDR RegS	Consumer Discretionary (Overweight)	Greece (Stock Selection)
	CCC SA	—	—
HURT	Qivi Plc Sponsored ADR Class B	Materials (Stock Selection)	Russia (Stock Selection)
	United Company RUSAL international PJSC	Information Technology (Off-benchmark Exposure)	Slovenia (Off-benchmark Exposure)
	Halyk Savings Bank of Kazakhstan JSC Sponsored GDR RegS	Financials (Stock Selection)	Poland (Stock Selection)

- Russia-based aluminium producer Rusal fell in December. Concerns of potential US sanctions against the company caused it to pull back from a rally in November as aluminium prices increased. We are monitoring political developments closely. We view Rusal's world-leading aluminium business and its stake in metals company Norilsk Nickel as some of its key strengths.
- Halyk Savings Bank of Kazakhstan faced profit-taking pressure following its advance in November, when it had surged alongside bank stocks globally on a brightening economic outlook. We favour the exposure that Halyk offers to Kazakhstan's longer-term economic growth, given its position as a leading financial services group in the country. The bank's fundamentals also appear strong to us.
- Conversely, Turkey-based acrylic fibre producer Aksa Akrilik rallied amidst an upswing in the local stock market. Investors gained confidence in the Turkish central bank's fight against inflation as it announced a larger-than-expected interest rate hike. We believe Aksa Akrilik is attractively valued and offers a high dividend yield.

Outlook & Strategy

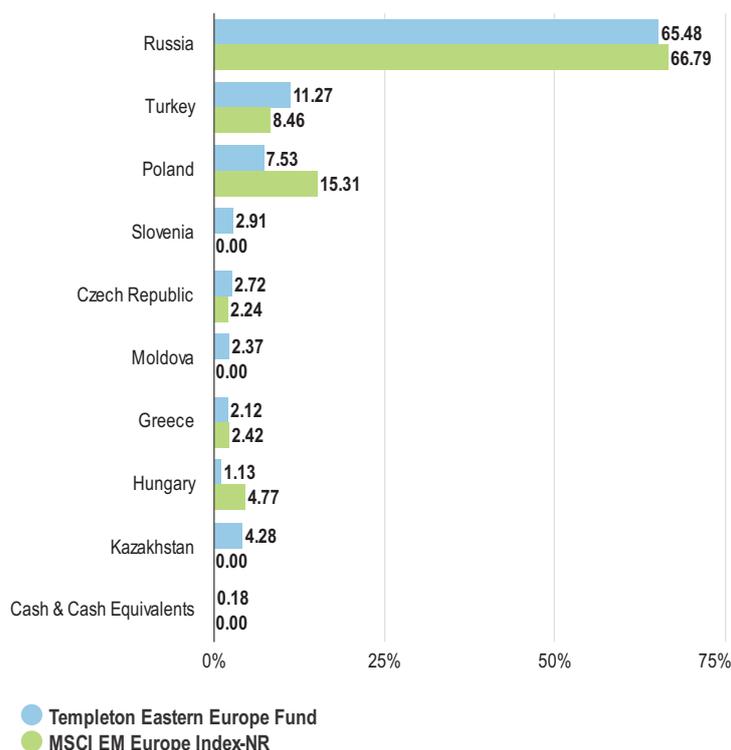
- Emerging European markets as a whole recorded a strong fourth quarter in what was otherwise a tough year for the asset class. In our view, many companies showed resilience in the face of the pandemic and should emerge from the crisis with stronger competitive positions. We continue to closely monitor the pace of recovery in what we consider to be good-quality companies that have corrected significantly beyond the limited near-term impact to their intrinsic values.
- The challenges of 2020 have highlighted structural advantages and other beneficial secular trends in emerging Europe that we believe bode well for 2021. For instance, the pandemic has accelerated technology adoption across various sectors. The banking industry has largely seen higher online activity from the current client base, on top of a new wave of digital customers. E-commerce has also gained pace.
- However, we expect COVID-19 to remain prevalent in 2021. While some countries have already started inoculation, the production and distribution of vaccines in sufficient scale are challenges equal to their development. As a result, we expect many countries to continue experiencing sporadic COVID-19 outbreaks, which could add volatility to the underlying trend of economic and market recovery. Poland, for example, tightened COVID-19 restrictions in December. We believe consumer confidence in the region could start to improve closer to spring in 2021, when pandemic concerns potentially ease.
- Amidst shifting winds, our investment focus remains on companies that demonstrate sustainable earnings power, trading at discounts to our assessment of their intrinsic worth. We see diverse investment opportunities in emerging Europe. Our portfolio has exposures not just to old-economy commodity companies, but also to new-economy companies riding on technology and innovation. The portfolio's key holdings include top-tier commodity producers with strong balance sheets and low-cost business models, digitally enabled retailers, as well as banks that appear well-positioned to capture the region's longer-term economic growth.

Portfolio Characteristics^{b,c}

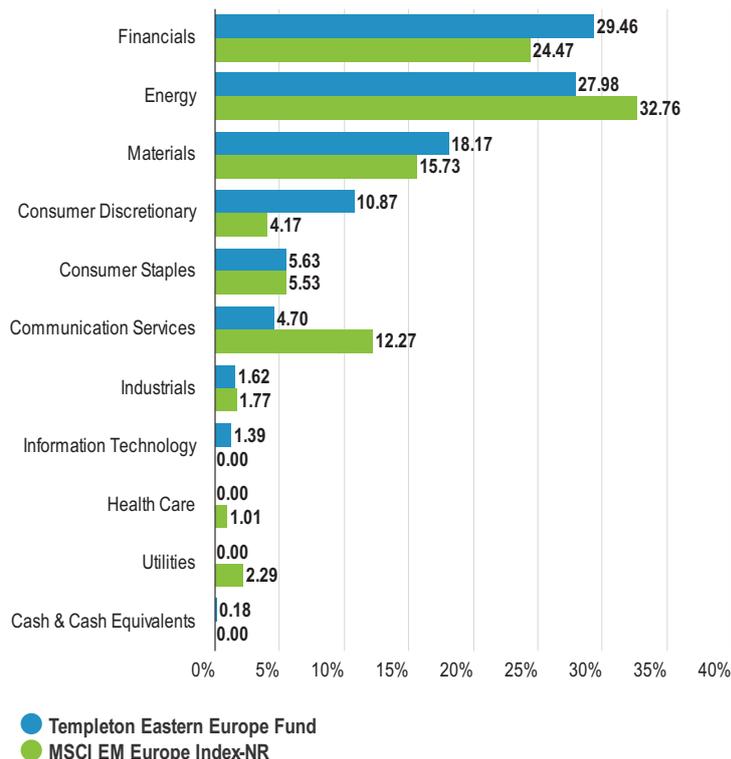
	Portfolio	MSCI EM Europe Index-NR
Price to Earnings (12-Month Trailing)	12.62x	16.84x
Price to Book	1.12x	1.09x
Price to Cash Flow	4.01x	8.10x
Market Capitalisation (Millions in EUR)	21,574	12,983
Dividend Yield	4.88%	4.01%

Portfolio Diversification

Geographic Weightings vs. MSCI EM Europe Index-NR^d
Percent of Total



Sector Weightings vs. MSCI EM Europe Index-NR^d
Percent of Total



Top Ten Holdings^e

Percent of Total

Top Holdings	Sector	Country	%
SBERBANK OF RUSSIA PJSC	Banks	Russia	9.61
LUKOIL PJSC	Energy	Russia	8.33
GAZPROM PAO	Energy	Russia	6.60
TATNEFT PAO	Energy	Russia	6.58
MMC NORILSK NICKEL PJSC	Materials	Russia	5.48
DETSKY MIR PJSC	Retailing	Russia	4.59
NOVATEK PJSC	Energy	Russia	4.55
UNITED CO RUSAL INTERNATIONAL PJSC	Materials	Russia	4.06
TCS GROUP HOLDING PLC	Banks	Russia	3.04
NOVA LJUBLJANSKA BANKA DD	Banks	Slovenia	2.91

Supplemental Performance Statistics

Supplemental Risk Statistics⁵

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)			
Templeton Eastern Europe Fund	26.91	21.87	20.41
MSCI EM Europe Index-NR	25.19	21.18	20.75
Tracking Error (%)	6.14	6.83	7.51
Information Ratio⁶	-0.50	-0.19	-0.28
Beta	1.02	0.97	0.91
Sharpe Ratio			
Templeton Eastern Europe Fund	-0.09	0.27	-0.13
MSCI EM Europe Index-NR	0.03	0.34	-0.03

5. Beta, Information Ratio and Tracking Error information are measured against the MSCI EM Europe Index-NR.

6. 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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Investment Team

Portfolio Manager	Years with Firm	Years Experience
Alexey Ilin, CFA	12	15

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 securities of companies located in or doing significant business in Eastern Europe, many of which are emerging markets and subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: Chinese market risk, credit risk, foreign currency risk, derivative instruments risk, emerging markets 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.

Important Legal Information

Templeton Eastern Europe Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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

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- b. 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. All holdings are subject to change.
- c. 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. **Past performance is not an indicator or a guarantee of future performance.**
- d. Percentage may not equal 100% due to rounding. All holdings are subject to change.
- e. 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 reserves the right to withhold release of information with respect to holdings that would otherwise be included.

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