



FRANKLIN TEMPLETON INVESTMENTS

Franklin European Total Return Fund—A (Mdis) EUR

Franklin Templeton Investment Funds

Fund Manager Report

Investment Grade
Fixed Income
31 January 2019

Product Details¹

Fund Assets	€278,789,741.13
Fund Inception Date	29/08/2003
Number of Securities Including Cash	51
Bloomberg	TEMTRAD LX
ISIN	LU0170473531
Base Currency	EUR
Investment Style	Investment Grade
Benchmark	Bloomberg Barclays Euro Aggregate Index
Morningstar Category™	EUR Diversified Bond

Asset Allocation

Market Value—Percent of Total	%
Fixed Income	96.65
Cash & Cash Equivalents	3.35

Overall Morningstar Rating™²



Fund Description

The fund aims to maximise total investment return consisting of a combination of interest income, capital appreciation and currency gains by investing in a portfolio of fixed and floating rate debt securities and debt obligations of governments, government-related or corporate issuers in Europe.

Performance Data

Performance Net of Management Fees as at 31/01/2019 (Dividends Reinvested) (%)³

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/08/2003)
A (Mdis) EUR	0.54	0.81	0.54	-0.70	1.09	2.69	5.16	2.68
Net of Sales Charge - A (Mdis) EUR	-4.49	-4.23	-4.49	-5.66	-0.63	1.64	4.62	2.34
Bloomberg Barclays Euro Aggregate Index EUR	0.96	1.86	0.96	1.83	1.27	3.05	4.31	4.12

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/08/2003)
A (Mdis) EUR	0.54	0.81	0.54	-0.70	3.29	14.20	65.32	50.31
Net of Sales Charge - A (Mdis) EUR	-4.49	-4.23	-4.49	-5.66	-1.87	8.49	57.06	42.79
Bloomberg Barclays Euro Aggregate Index EUR	0.96	1.86	0.96	1.83	3.85	16.18	52.42	86.35

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Selection & Allocation	Duration	Currencies	Non-Eurozone Market Exposure
HELPED	French government bond selection	Poland overweight	Norwegian krone overweight	—
	Eurozone corporate investment-grade financial bond selection	Denmark overweight	—	—
	Eurozone corporate investment-grade industrial bond selection	—	—	—
HURT	Polish government bond selection	Eurozone underweight	Swedish krona overweight	Poland overweight
	Lithuanian government bond overweight	United Kingdom underweight	—	—
	Romanian government bond overweight	—	—	—

- The fund's underweight duration positioning in Eurozone bonds detracted from relative performance against a background of continuing flattening in sovereign yield curves.
- The fund's holdings in interest rate derivatives also detracted from relative returns.
- In contrast, the fund's overweight positioning in the Norwegian krone added to relative results, as the currency strengthened on the back of rising oil prices.

1. All holdings are subject to change.

Outlook & Strategy

- Given the impasse in the UK parliament, the chances of a chaotic “no deal” Brexit have risen, and this outcome continues to be a threat to growth in both the United Kingdom and European Union (EU).
- We estimate the impact of a “no deal” Brexit on EU growth at 0.2% to 0.3%, and given the European Central Bank’s estimate of 1.7% for 2019 this would represent a significant drop.
- However, in the event of such an outcome, we believe that both parties would be strongly motivated to move quickly towards normalised trading relations.

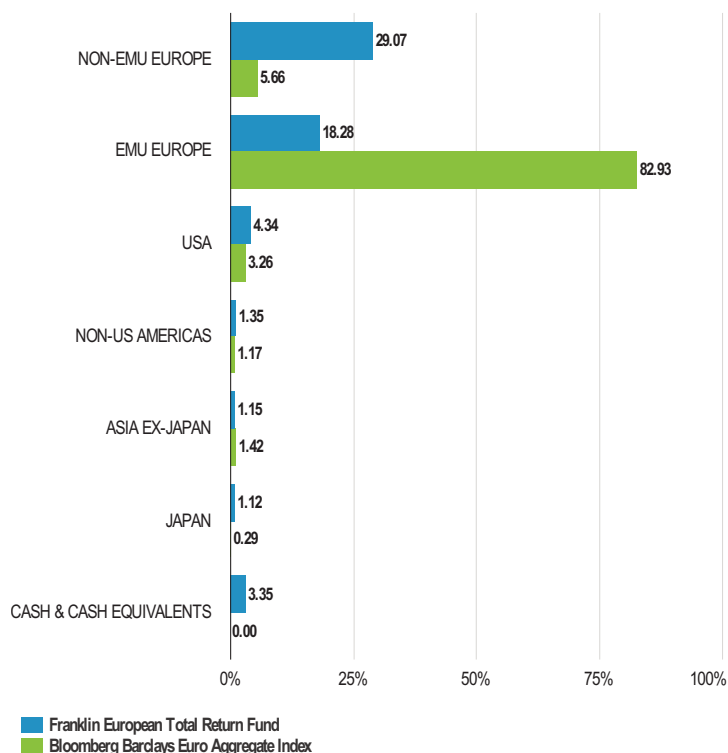
Portfolio Characteristics⁴

	Portfolio	Bloomberg Barclays Euro Aggregate Index
Yield to Maturity	1.30%	0.68%
Yield to Worst	1.28%	0.68%
Average Duration	4.09 Yrs	6.83 Yrs
Average Credit Quality ⁵	A	AA-
Average Weighted Maturity	8.94 Yrs	7.97 Yrs

Portfolio Diversification

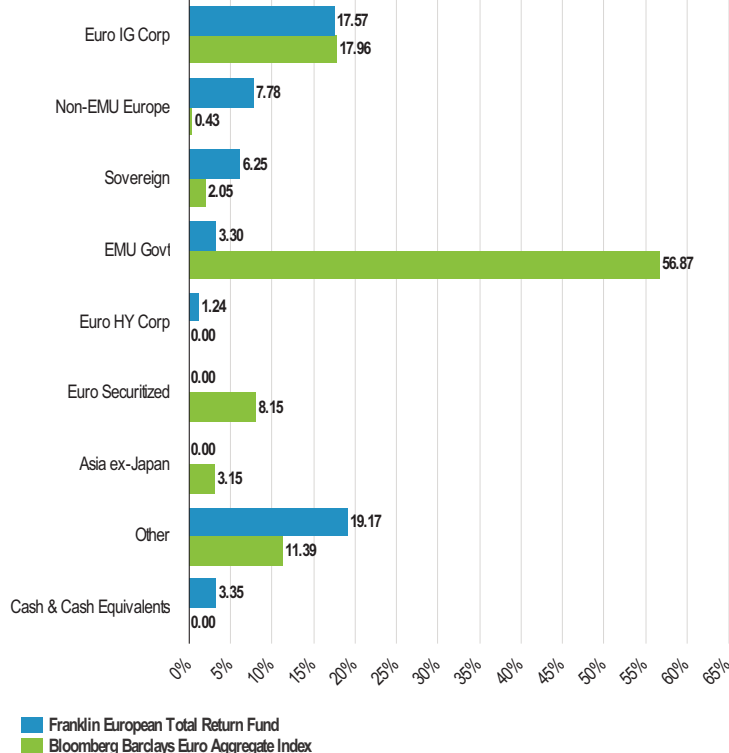
Geographic Exposure vs. Bloomberg Barclays Euro Aggregate Index⁶

Notional Exposure—Percent of Total



Sector Exposure vs. Bloomberg Barclays Euro Aggregate Index⁶

Notional Exposure—Percent of Total



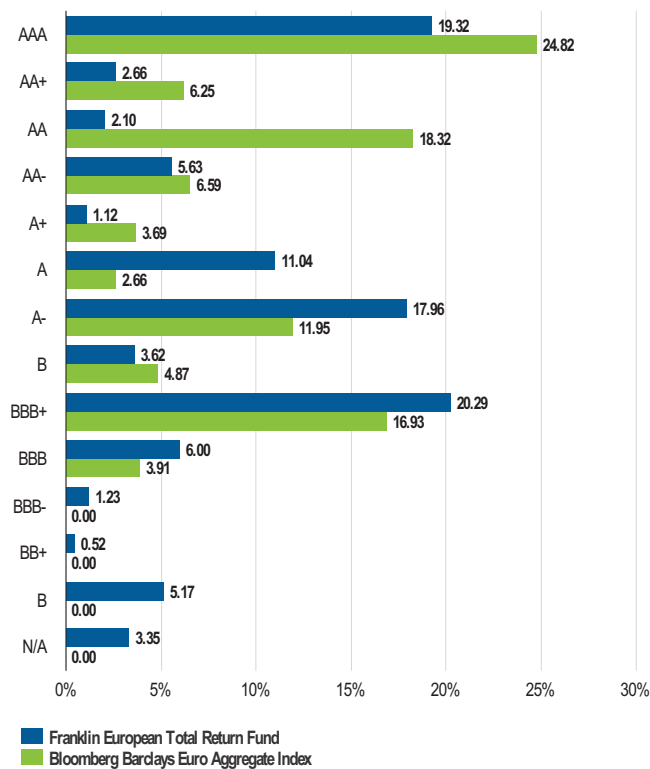
5. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate the average credit rating of the portfolio’s underlying investments and generally ranges from AAA (highest) to D (lowest). For unrated bonds, cash and equivalents, ratings may be assigned based on the ratings of the issuer, the ratings of the underlying holdings of a pooled investment vehicle, or other relevant factors. The ACQ is determined by assigning a sequential integer to all credit ratings AAA to D, taking a simple, asset-weighted average of investments 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 may be lower if cash and equivalents are excluded from the calculation. The ACQ is provided for informational purposes only. Derivative positions are not reflected in the ACQ.

7. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

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Credit Quality Allocation vs. Bloomberg Barclays Euro Aggregate Index⁸

Market Value—Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics⁹**

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin European Total Return Fund	2.52	3.45	4.74	5.18
Bloomberg Barclays Euro Aggregate Index	2.62	3.03	3.35	3.26
Tracking Error (%)	2.20	2.25	3.56	4.46
Information Ratio¹⁰	-0.04	-0.13	0.25	-0.32
Beta	0.61	0.87	0.93	0.87
Sharpe Ratio				
Franklin European Total Return Fund	0.71	0.92	1.10	0.33
Bloomberg Barclays Euro Aggregate Index	0.75	1.17	1.31	0.97

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Sonal Desai, Ph. D., EVP/CIO Head of U.S. Fixed Income	9	25
David Zahn, CFA, SVP Head of European Fixed Income	12	25
John Beck, SVP/Dir-Global Fixed Income	28	32

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 European higher-quality debt securities issued by any type of entity. 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 moderately over time. The Fund may distribute income gross of expenses. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital. 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.

9. Beta, Information Ratio and Tracking Error information are measured against the Bloomberg Barclays Euro Aggregate Index.

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The Fund may utilise financial derivative instruments for hedging purposes and/or efficient portfolio management.

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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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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. Yield to Maturity, Yield to Worst, Average Duration and Average Weighted Maturity reflect certain derivatives held in portfolio (or their underlying reference assets).

6. Notional exposure 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). Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

8. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

10. 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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