



FRANKLIN TEMPLETON INVESTMENTS

Templeton Frontier Markets Fund–A (acc) USD

Franklin Templeton Investment Funds

Fund Manager Report

Value
Equity
31 December 2018

Product Details¹

Fund Assets	\$527,467,665.47
Fund Inception Date	14/10/2008
Number of Issuers	61
Bloomberg	TEMFMAU LX
ISIN	LU0390136736
Base Currency	USD
Investment Style	Value
Benchmark	MSCI Frontier Emerging Markets Select Countries Capped Index
Morningstar Category™	Global Frontier Markets Equity

Asset Allocation²

Percent of Total	%
Equity	97.02
Cash & Cash Equivalents	2.98
Fixed Income	0.00

Fund Description

The Fund aims to achieve long-term capital appreciation by investing principally in transferable equity securities of companies incorporated and/or having their principal business activities in the frontier markets countries across the market capitalisation spectrum.

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 (14/10/2008)
A (acc) USD	-1.92	-5.88	-19.41	-19.41	2.13	-2.64	5.75	5.23
Net of Sales Charge - A (acc) USD	-6.83	-10.58	-23.44	-23.44	0.40	-3.64	5.21	4.70
MSCI Frontier Emerging Markets Select Countries Capped Index USD	-2.14	-4.14	-12.71	-12.71	5.46	1.56	5.38	0.94

Cumulative Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (14/10/2008)
A (acc) USD	-1.92	-5.88	-19.41	-19.41	6.52	-12.53	74.87	68.23
Net of Sales Charge - A (acc) USD	-6.83	-10.58	-23.44	-23.44	1.20	-16.90	66.13	59.81
MSCI Frontier Emerging Markets Select Countries Capped Index USD	-2.14	-4.14	-12.71	-12.71	17.29	8.05	68.93	10.06

Portfolio Manager Insight

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Metropolitan Bank & Trust Co.	Financials (Stock Selection)	Saudi Arabia (Off-benchmark Exposure)
	Global Telecom Holding S.A.E.	Energy (Stock Selection)	Colombia (Stock Selection)
	InRetail Peru Corp.	Communication Services (Stock Selection, Underweight)	Peru (Stock Selection)
Hurt	Delta Corporation Limited	Consumer Staples (Overweight)	Zimbabwe (Off-benchmark Exposure)
	DHG Pharmaceutical Joint Stock Company	Health Care (Stock Selection)	Vietnam (Stock Selection)
	Binh Minh Plastics JSC	Real Estate (Lack of Exposure)	Argentina (Stock Selection, Underweight)

- Zimbabwe-based Delta Corporation was the top detractor from relative returns. Though the beverage maker's business remains strong and has generated higher sales and earnings, macroeconomic challenges in Zimbabwe were a headwind. We continue to monitor the situation closely.
- Vietnam-based drug maker DHG Pharmaceutical was held back by subdued quarterly earnings due to lower sales and tax adjustments. Nonetheless, the company continues to be a leader in Vietnam's pharmaceutical industry, thanks to its extensive distribution network.

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

- In contrast, Metropolitan Bank advanced. It is one of the largest lenders in the Philippines and reported a higher quarterly net income on the back of increased loans and margins. Index provider MSCI also raised the stock's weighting in one of its indexes as part of a regular review.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Metropolitan Bank & Trust Co.	Financials (Stock Selection)	Saudi Arabia (Off-benchmark Exposure)
	Mouwasat Medical Services Co.	Health Care (Stock Selection, Overweight)	Romania (Underweight)
	Saudia Dairy & Foodstuff Co.	Real Estate (Lack of Exposure)	Vietnam (Stock Selection)
HURT	Delta Corporation Limited	Consumer Staples (Stock Selection)	Zimbabwe (Off-benchmark Exposure)
	YPF SA Sponsored ADR Class D	Materials (Stock Selection)	Morocco (Lack of Exposure)
	United Bank Limited	Communication Services (Stock Selection)	Senegal (Overweight)

- Saudi Arabia-based hospital operator Mouwasat Medical Services rebounded from what we consider to be oversold territory. The stock had been held back by sector concerns around other operators, which do not demonstrate the strong capabilities and prospects of Mouwasat, in our view. Mouwasat is one of the most profitable operators in Saudi Arabia and we believe it has a superior margin and return-on-equity profile over the coming years. We also expect strong growth for the company from its new brownfield hospitals.
- Also in Saudi Arabia, Saudia Dairy & Foodstuff (Sadafco) rose as it gained approval from its shareholders to repurchase its shares. The stock extended its rally from November, when the milk product manufacturer first announced the buyback plan. Sadafco is a leading player in Saudi Arabia's milk industry.
- Conversely, Argentina-based integrated energy company YPF declined. Weaker oil prices and Argentina's continued economic slowdown weighed on YPF, even though its latest quarterly results reflected an improvement in its business. The company has been making progress in developing its significant shale resources, which we view as a long-term strength.

Outlook & Strategy

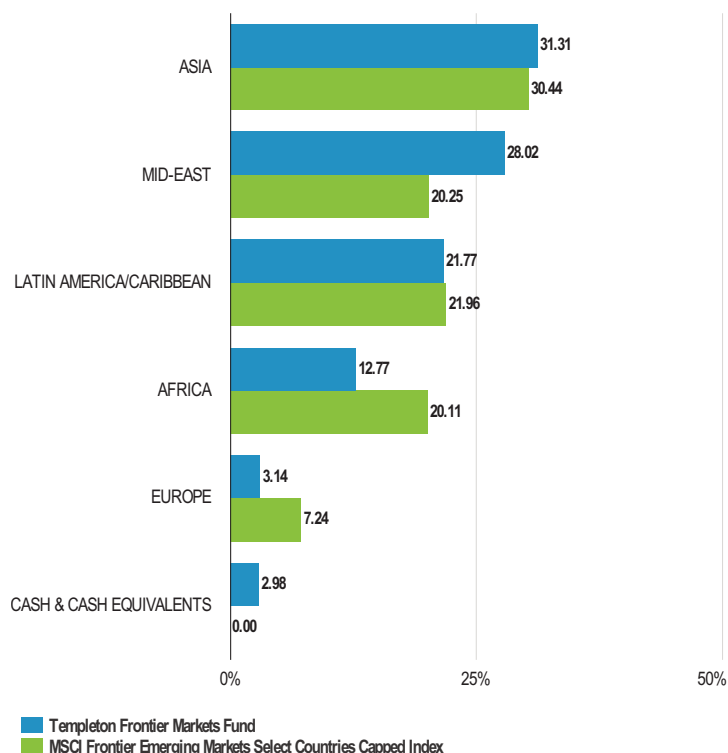
- In 2018 the world economy—and global relations—entered unfamiliar territory, with rising geopolitical and policy risks. Against this backdrop, frontier-market equities finished the year lower.
- Investor sentiment has been affected by the increased perception of crisis, driven by much-publicised challenges in specific countries such as Argentina. However, we do not foresee broader macroeconomic contagion, given the extent to which these countries have been outliers in terms of financing requirements and policymaking.
- Meanwhile, frontier markets as a whole continue to demonstrate strong economic potential. High population growth, rapid urbanisation and ongoing reforms are amongst prominent economic drivers, and we believe there are numerous opportunities for companies to benefit from a growing domestic consumer market.
- As value-oriented and long-term investors, we continue to seek companies that demonstrate sustainable earnings power and trade at a discount relative to their intrinsic value and other investments available in the market.

Portfolio Characteristics⁴

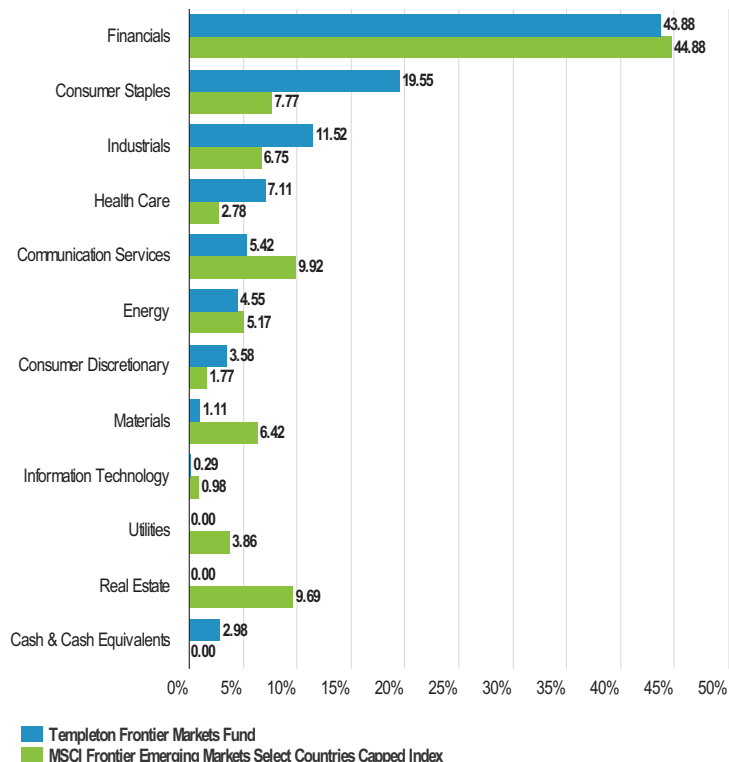
	Portfolio	MSCI Frontier Emerging Markets Select Countries Capped Index
Price to Earnings (12 Month Trailing)	11.36x	12.33x
Price to Book	1.65x	1.73x
Price to Cash Flow	6.89x	8.97x
Market Capitalisation (Millions in USD)	5,679	2,962
Dividend Yield	3.17%	3.69%

Portfolio Diversification

Geographic Weightings vs. MSCI Frontier Emerging Markets Select Countries Capped Index²
Percent of Total



Sector Weightings vs. MSCI Frontier Emerging Markets Select Countries Capped Index²
Percent of Total



Top Ten Holdings⁵

Percent of Total

Top Holdings	Sector	Country	%
NATIONAL BANK OF KUWAIT SAKP	Banks	Kuwait	6.47
YPF SA	Energy	Argentina	3.48
HUMAN SOFT HOLDING CO KSC	Consumer Services	Kuwait	3.11
GLOBAL TELECOM HOLDING SAE	Telecommunication Services	Egypt	2.86
BINH MINH PLASTICS JSC	Capital Goods	Vietnam	2.83
HATTON NATIONAL BANK PLC	Banks	Sri Lanka	2.80
INRETAIL PERU CORP	Food & Staples Retailing	Peru	2.74
ARAMEX PJSC	Transportation	United Arab Emirates	2.61
GRUPO FINANCIERO GALICIA SA	Banks	Argentina	2.60
DELTA CORP LTD	Food, Beverage & Tobacco	Zimbabwe	2.38

Supplemental Performance Statistics

Supplemental Risk Statistics⁶

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Templeton Frontier Markets Fund	11.06	11.17	14.83	14.98
MSCI Frontier Emerging Markets Select Countries Capped Index	10.57	11.22	15.25	15.99
Tracking Error (%)	6.42	6.15	7.90	8.69
Information Ratio⁷	-0.52	-0.68	0.05	0.23
Beta	0.87	0.85	0.84	0.79
Sharpe Ratio				
Templeton Frontier Markets Fund	0.10	-0.29	0.36	0.30
MSCI Frontier Emerging Markets Select Countries Capped Index	0.42	0.08	0.33	0.16

6. Beta, Information Ratio and Tracking Error information are measured against the MSCI Frontier Emerging Markets Select Countries Capped Index.

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Investment Team

Portfolio Manager	Years with Firm	Years Experience
Bassel Khatoun, Managing Director, Director of Portfolio Management, Frontier and MENA	11	16
Ahmed Awny, CFA, Senior Vice President	11	21
David Haglund, Senior Vice President	11	14
	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 equity securities of frontier markets around the world that are subject to significant price movements, frequently to a greater extent than equity markets generally or emerging markets. As a result, the performance of the Fund can fluctuate over time. Other significant risks include: currency risk, emerging markets risk, liquidity risk, operational 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 Fund may utilise financial derivative instruments for hedging purposes and/or efficient portfolio management.

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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. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
5. 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.
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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