Templeton Emerging Markets Bond Fund–A (Qdis) USD

Multi-Sector Fixed Income
31 August 2021

FRANKLIN TEMPLETON

Franklin Templeton Investment Funds

Fund Manager Report

Product Details[1]

Fund Assets	$4,149,678,988.33
Fund Inception Date	05/07/1991
Number of Securities Including Cash	128
Bloomberg	TEMEMFI LX
ISIN	LU0029876355
Base Currency	USD
Investment Style	Multi-Sector
Benchmark	JP Morgan EMBI Global Index
Morningstar Category™	Global Emerging Markets Bond - Local Currency

Asset Allocation[a]
Market Value—Percent of Total

	%
Fixed Income	96.23
Cash & Cash Equivalents	3.77

Overall Morningstar Rating™ [b]

★★★

Fund Description

The fund aims to maximise total investment return, consisting of a combination of interest income, capital appreciation and currency gains by investing principally in a portfolio of fixed and floating-rate debt securities and debt obligations issued by government and government-related issuers or corporate entities located in developing or emerging-market countries.

Performance Data

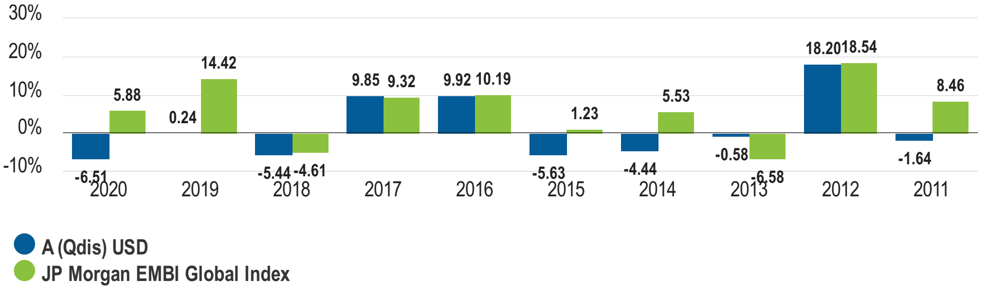
Discrete Annual Performance (%) as at 31/08/2021

	8/20-8/21	8/19-8/20	8/18-8/19	8/17-8/18	8/16-8/17
A (Qdis) USD	1.59	-5.16	0.87	-9.68	13.80
JP Morgan EMBI Global Index USD	4.20	3.82	13.11	-4.64	4.52

Performance Net of Management Fees as at 31/08/2021 (Dividends Reinvested) (%)[c,d]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (05/07/1991)
A (Qdis) USD	1.59	-0.95	-0.76	1.59	-0.95	-0.02	0.49	7.13
JP Morgan EMBI Global Index	0.91	2.36	0.45	4.20	6.96	4.05	5.23	9.61

Calendar Year Returns (%)



Past performance is not an indicator or a guarantee of future performance.

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Currencies	Duration	Credit
HELPED	Indian Rupee	Ghana	Latin America
	Colombian Peso	Indonesia	—
	Argentine Peso	Argentina	—
HURT	Chilean Peso	Chile	—
	—	Brazil	—
	—	—	—

- The US dollar (USD) saw mixed trends against emerging market currencies in August. Currency positions in Asia ex Japan and Latin America contributed to absolute fund performance (the Indian rupee, Colombian peso, Argentine peso, Indonesian rupiah and Thai baht contributed, while the Chilean peso detracted). However, currency positions in Africa (the Ghanaian cedi) detracted from absolute results. We slightly increased our position size in the Indonesian rupiah during the month; we see value in the rupiah, with Indonesia expected to regain all lost growth from 2020 and more in 2021.
- USD-denominated sovereign credit sectors continued to generate positive returns for the fifth consecutive month as spreads tightened against rising US Treasury yields in August. Lower-rated credit tiers outperformed higher-rated credit tiers, benefitting from greater spread

1. All holdings are subject to change.

compression. Amongst credit exposures, positions in Latin America contributed to absolute fund return. We continue to selectively invest in specific USD-denominated sovereign credit exposures that we deem to have appropriate levels of risk compensation, focusing on countries with undervalued growth drivers.

- Sovereign bond yields moderately rose in India, Thailand, Mexico and Colombia, but declined in Indonesia, Chile and Peru. Yields rose sharply in Brazil during the month. Select duration exposures in Africa (Ghana) and Asia ex Japan (Indonesia) contributed to absolute fund performance, while select duration exposures in Latin America detracted (Chile and Brazil detracted, while Argentina contributed). We continue to focus on higher-yielding local-currency bonds in specific emerging markets that have resilient economies, healthy or improving fiscal conditions and strong trade dynamics.
- From an overall positioning standpoint, we continue to maintain low portfolio duration. We continue to emphasise select local-currency sovereign bonds in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are holding various unhedged local-currency sovereign bonds, notably in Indonesia, India, Ghana, Brazil and Colombia. We are also positioned for expected weakness in the USD, on excessive fiscal and monetary policies in the US, against currencies in countries with strong trade dynamics, current account surpluses, better fiscal management and stronger growth potential, notably in Asia. We are holding long exposures in the Chinese yuan, Indonesian rupiah, Indian rupee and Chilean peso against the USD. In credit markets, we see pockets of value in select sovereign credit exposures that have undervalued growth drivers and attractive risk-adjusted spreads, but we continue to avoid corporate credit, given stretched valuations. On the whole, we remain constructive in specific currencies and local-currency bond markets, notably in areas of Asia, as we largely expect the global recovery to continue through the second half of 2021 into 2022.

Outlook & Strategy

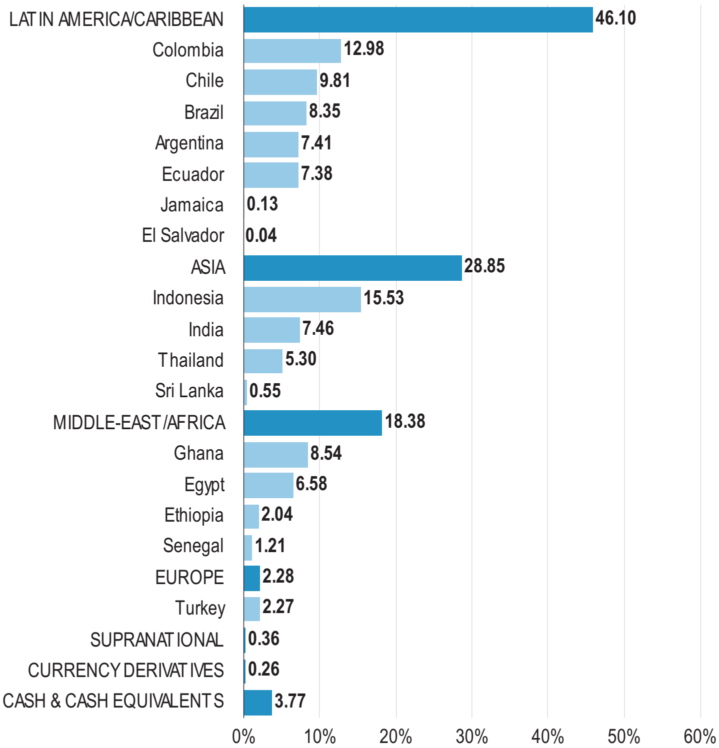
- We expect macroeconomic conditions in much of the world to continue to improve through the second half of 2021 into 2022. However, economic recoveries are likely to remain uneven as countries are at different stages of containing and adapting to the pandemic, with significant variations in vaccination rates. Several emerging markets continue to lag the rest of the world in distributing vaccines, while others, like Chile, are close to the levels of developed markets. Some countries have begun to transition towards a post-COVID order, beginning to provide third dose booster shots, and/or pivoting towards a policy stance of “living with COVID” to move beyond the volatile cycles of lockdowns and reopenings, such as in Singapore and Germany. We remain optimistic for the post-COVID recovery and the ongoing expansion of global economic activity, which we expect to be particularly supportive of specific emerging markets that have strong trade dynamics.
- We anticipate global growth above 6% for 2021, with emerging markets outpacing developed markets, though that gap has recently narrowed due to resurgent cases of COVID-19 and other economic headwinds in certain developing countries. While the growth outlook for China and India is still amongst the strongest in the world, we have moderately scaled back those growth projections from their previous forecasts, along with other areas of Asia. Concurrently, our growth forecasts for the US and other advanced economies have improved. (Note, there is no assurance that any estimate, forecast or projection will be realised.) Overall, we remain optimistic for the global recovery, but continue to monitor ongoing risks.
- Economic figures are likely to continue to be statistically noisy through the second half of 2021, given the anomalies from the extraordinary and unconventional shocks in 2020 that continue to affect the year-over-year measurements. Additionally, the divergences in the pace of reopenings and the timing of the economic recoveries in various countries are likely to add to the noise. Near-term fluctuations and spikes in a number of economic measures, notably including inflation, are likely to accompany the recovery process for several months, making it difficult to extrapolate meaningful trend lines for some time.
- We expect inflation figures to remain elevated in 2021 in many countries, driven by a combination of factors that include cyclical upswings associated with resurgent economic activity, supply bottlenecks in certain sectors and base effects off of the pandemic shocks in 2020. These factors should be largely transitory, in our view, with inflation levels eventually moderating to secular trends in 2022, given elevated unemployment and automation factors that continue to dampen wage pressures. Additionally, a handful of sector components are having outsized impacts on the inflation prints, such as new and used car prices, energy, air fares and lodging, etc. As these component effects normalise, we would expect the headline figures to come down.
- Many central banks have begun considering when and at what pace to begin normalising policy. Specific countries with inflation concerns have already begun raising rates, such as Brazil, Mexico, Chile, Peru, Russia and Hungary, while others are looking towards normalising policy to keep ahead of the curve, given strengthening economic conditions. A number of countries have indicated that rate hikes and/or asset-buying programme adjustments are likely to occur during the remainder of 2021. We expect a growing divergence on the monetary policy front as certain developed market central banks trend towards policy normalisation ahead of others, such as South Korea, while certain emerging market central banks are compelled to tighten policy to contend with rising inflationary pressures.
- We continue to be constructive in a number of regions, with a particular focus on areas of Asia that have addressed the health and economic crises more effectively. However, it remains crucial to be highly selective as there is wide variance in not only how well countries are containing COVID-19 and distributing vaccines, but also how well countries have handled fiscal and monetary policy and supported their economies. We expect staggered timelines for specific investment opportunities given the divergent conditions in regional and local markets. Risks to the global recovery include potential setbacks in vaccine distributions, particularly in emerging markets, as well as COVID-19 variants (notably the Delta variant) that have the potential to extend the duration and damage of the pandemic in certain regions. Geopolitical risks also remain omnipresent, with US-China relations likely to become increasingly contentious in the quarters ahead.

Portfolio Characteristics[e,f,g]

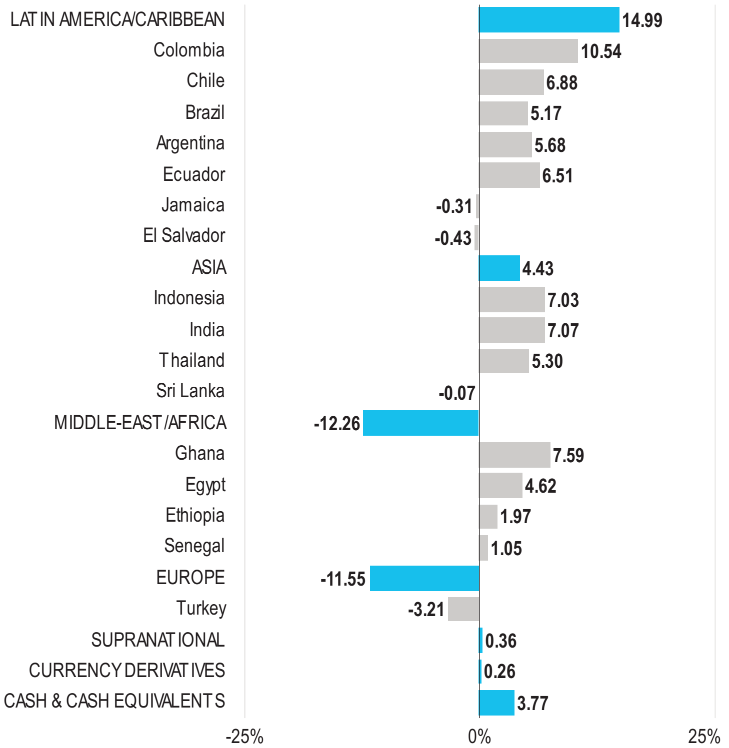
	Portfolio	JP Morgan EMBI Global Index
Yield to Maturity	8.38%	4.07%
Yield to Worst	8.38%	4.02%
Average Credit Quality[2]	BB+	BBB-
Average Duration	2.84 Yrs	8.29 Yrs
Average Weighted Maturity	3.56 Yrs	13.02 Yrs

Portfolio Diversification[f]

Geographic Allocation[a]
Market Value—Percent of Total

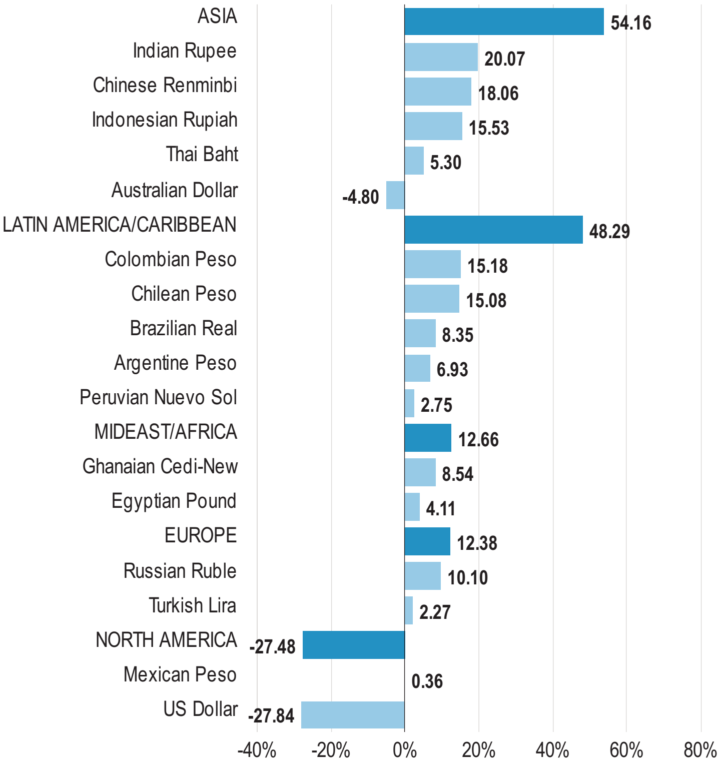


Geographic Allocation vs. JP Morgan EMBI Global Index[a]
Market Value—Percent of Total

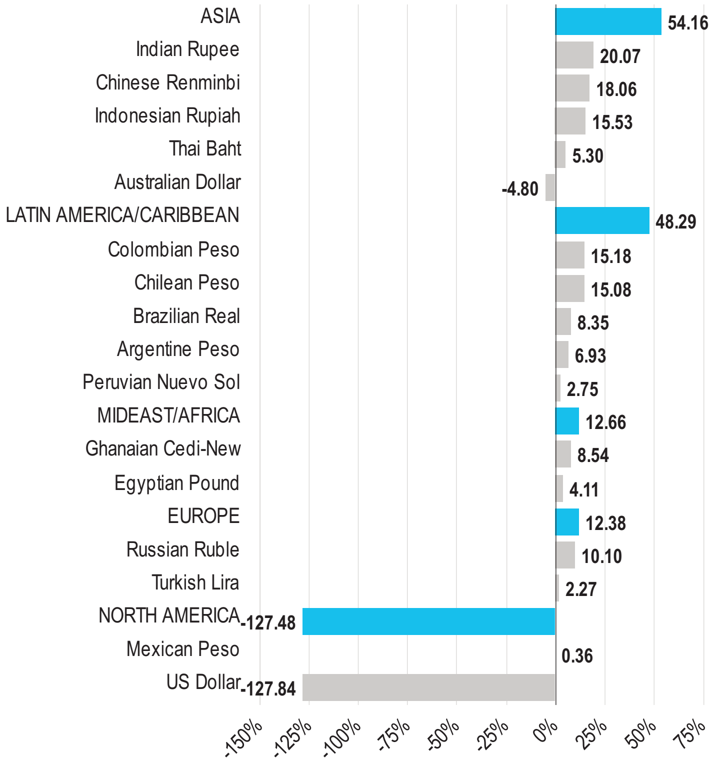


2. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate 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.

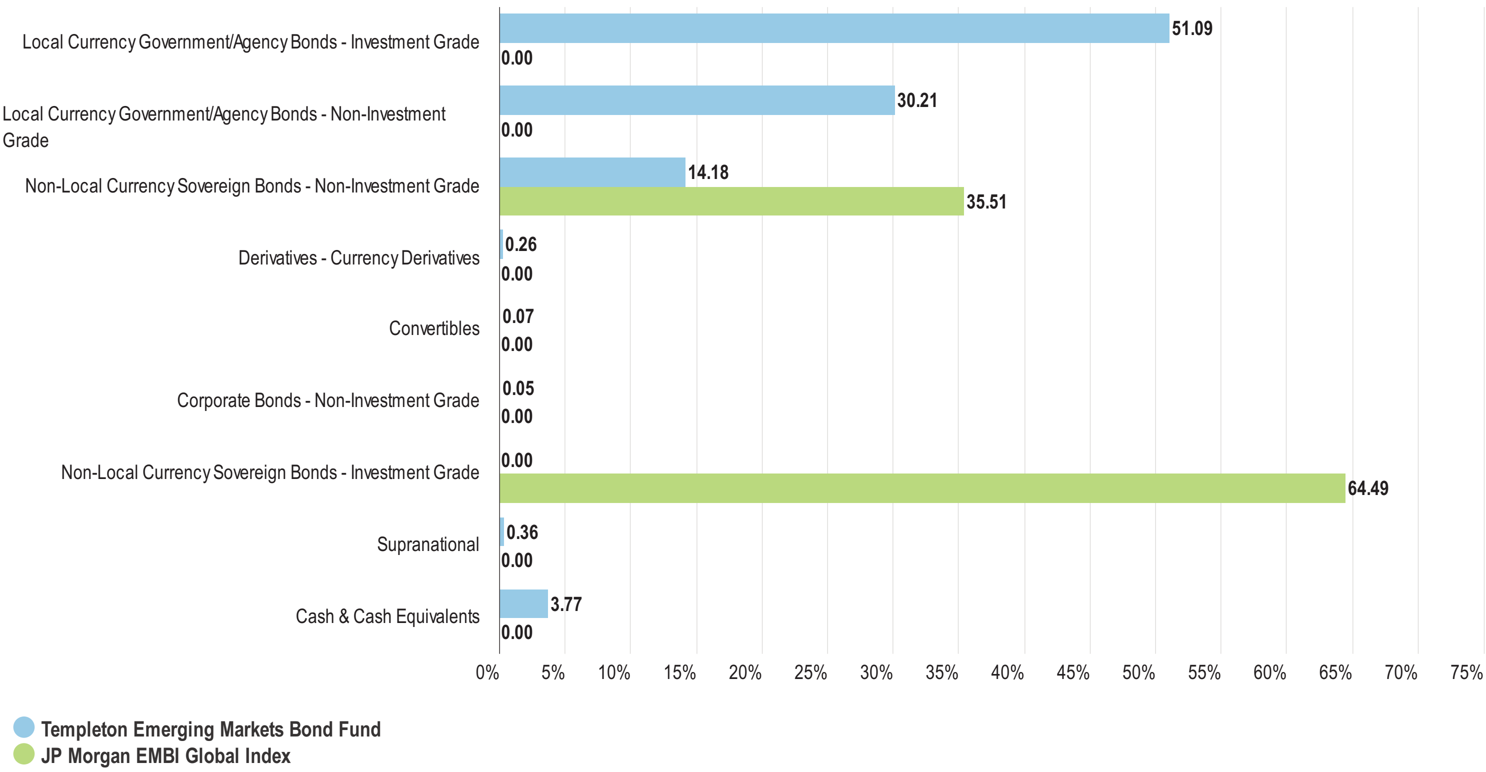
Currency Exposure[h]
Notional Exposure—Percent of Total



Currency Exposure vs. JP Morgan EMBI Global Index[h]
Notional Exposure—Percent of Total



Sector Allocation vs. JP Morgan EMBI Global Index[a]
Market Value—Percent of Total



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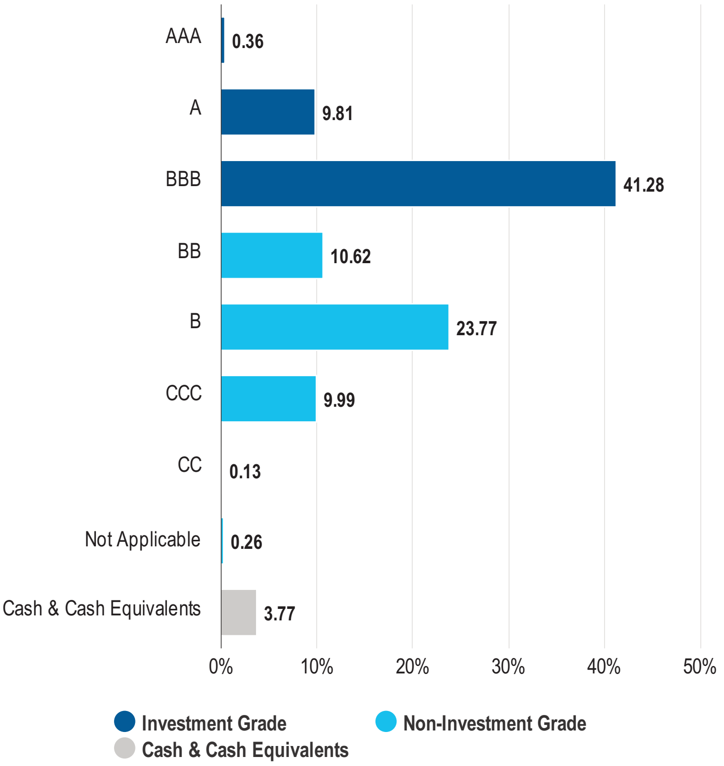
Credit Quality Allocation [a,3]
Market Value —Percent of Total



Performance Statistics

Risk Statistics[4]

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Templeton Emerging Markets Bond Fund	9.27	9.22	9.33	11.66
JP Morgan EMBI Global Index	9.86	8.35	7.84	11.78
Tracking Error (%)	8.35	7.95	6.91	6.25
Information Ratio[5]	-0.95	-0.51	-0.69	-0.40
Sharpe Ratio				
Templeton Emerging Markets Bond Fund	-0.22	-0.12	-0.01	0.40
JP Morgan EMBI Global Index	0.59	0.35	0.59	0.61

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Michael Hasenstab, Ph. D.	22	26
Calvin Ho, Ph. D.	16	16

3. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.
4. Information Ratio and Tracking Error information are displayed for the product versus the JP Morgan EMBI Global Index.
5. 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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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 debt securities of any quality issued by entities located in developing and emerging markets. Such securities have historically been subject to price movements, generally due to interest rates, market factors or movements in the bond market. As a result, the performance of the Fund can fluctuate 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, derivative instruments risk, emerging markets risk, liquidity risk, Chinese market 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 information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

Securities mentioned in this report are not a solicitation to purchase those securities, and are examples of some securities which performed well. Not all securities in the portfolio performed well. These securities do not represent all the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in the security listed was or will be profitable. Holdings are subject to change, holdings of the same issuer have been combined. The information provided is not a recommendation to purchase, sell or hold any particular security. The security identified does not represent the Fund's entire holdings and in the aggregate, may represent a small percentage of such holdings. There is no assurance that security purchased will remain in the Fund, or that security sold will not be repurchased. In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. For the most current information on the fund, please contact your Franklin Templeton marketing representative.

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.

References to indexes are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. The indices include a greater number of securities than those held in the Fund. An index is unmanaged and one cannot invest directly in an index. The performance of the index does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund. **Past performance is not an indicator or a guarantee of future performance.**

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c. Source for all information is Franklin Templeton. Benchmark related data provided by FactSet. **Past performance is not an indicator or a guarantee of future performance.** Periods greater than one year are shown as average annual total returns. Fund performance data include reinvested dividends, and is net of management fees. Sales charges, other commissions, taxes and other relevant costs to be paid by the investor are not included. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.
d. When performance for either the portfolio or its benchmark has been converted, different foreign exchange closing rates may be used between the portfolio and its benchmark.
e. Yield to Maturity, Yield to Worst, Average Duration and Average Weighted Maturity reflect certain derivatives held in portfolio (or their underlying reference assets).
f. All holdings are subject to change.
g. Yield figures quoted should not be used as an indication of the income that has or will be received. Yield figures are based on the portfolio's underlying holdings and do not represent a payout of the portfolio. **Past performance is not an indicator or a guarantee of future performance.**
h. 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.

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