Franklin Natural Resources Fund–A (acc) USD

Sector Equity
30 September 2021

Franklin Templeton Investment Funds

Fund Manager Report

Product Details[1]

Fund Assets	$423,080,922.26
Fund Inception Date	12/07/2007
Number of Issuers	83
Bloomberg	FTNRACU LX
ISIN	LU0300736062
Base Currency	USD
Investment Style	Sector
Benchmark	S&P North American Natural Resources Sector Index
Morningstar Category™	Sector Equity Energy

Asset Allocation[2]

Percent of Total

	%
Equity	99.33
Cash & Cash Equivalents	0.67
Fixed Income	0.00

Fund Description

The Fund aims to provide investors with capital appreciation and current income. To achieve this goal, the Fund invests in US dollar- and other currency-denominated securities in the natural resources sector in established and emerging markets.

Performance Data

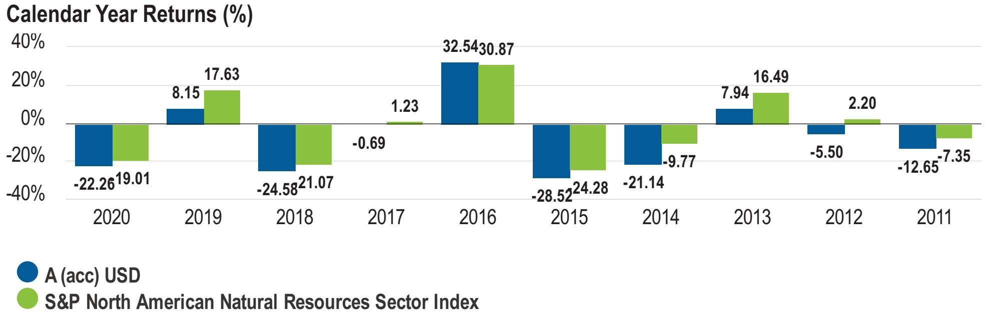
Discrete Annual Performance (%) as at 30/09/2021

	9/20-9/21	9/19-9/20	9/18-9/19	9/17-9/18	9/16-9/17
A (acc) USD	59.66	-32.89	-26.21	7.45	-1.32
S&P North American Natural Resources Sector Index USD	53.93	-26.81	-16.23	9.25	0.35

Performance Net of Management Fees as at 30/09/2021 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (12/07/2007)
A (acc) USD	4.97	-2.73	25.55	59.66	-7.53	-3.47	-3.52	-3.88
S&P North American Natural Resources Sector Index	3.97	-2.48	29.43	53.93	-1.91	0.68	1.83	0.07

Calendar Year Returns (%)



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

Portfolio Manager Insight

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Devon Energy (Significant Overweight)	Oil and Gas Exploration and Production, or E&P (Stock Selection, Overweight)
HELPED	Cabot Oil & Gas (Significant Overweight)	Integrated Oil and Gas (Stock Selection, Underweight)
HELPED	Royal Dutch Shell (Off-Benchmark Exposure)	Gold (Underweight)
HURT	Vale (Off-Benchmark Exposure)	Copper (Overweight, Stock Selection)
HURT	First Quantum Minerals (Off-Benchmark Exposure)	Steel (Off-Benchmark Exposure)
HURT	Proterra (Off-Benchmark Exposure)	Oil and Gas Storage and Transportation (Significant Underweight, Stock Selection)

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.

- Our off-index positions in iron ore producer Vale, along with copper-focused miners First Quantum and Lundin Mining, generally pulled back in August and September following a prolonged rally that began in the latter half of 2020 and extended through July of this year. These companies were negatively impacted by tumbling metals prices across the global base metals complex. In particular, iron ore and nickel—key inputs for steelmaking and the focus of Vale's operations—retreated from this year's record highs, with iron ore giving up all of its 2021 price gains by the end of August (before falling another 24% in September) on worries over increasingly restrictive Chinese steel output policies (in a bid to reduce pollution and cool commodity prices) and the pace of global growth amidst the spreading COVID-19 Delta variant. Nonetheless, such companies have not only recovered all of their prior pandemic losses, but elevated profits have allowed them to dramatically pay down debt and better position themselves to return surplus cash flow to shareholders through increased dividends and share repurchases, led by globally diversified miners such as BHP, Anglo American and Rio Tinto (all of which are owned by the fund).
- A small non-core position in electric battery and bus electrification specialist Proterra shed more than third of its equity value. This summer, Proterra went public through a special purpose acquisition company (SPAC) merger in June with ArcLight Clean Transition, which was a fund holding ahead of the transaction. In general, investors have begun closely scrutinising publicly traded electric vehicle (EV) company business plans. The historic infrastructure package under discussion in the US Congress includes US$15 billion for EV infrastructure and electric buses and transit, but those investments were not guaranteed to be part of the final version of this legislation. However, electrification seems inevitable to us, and Proterra looks well positioned to benefit if the trend comes to fruition.
- Amongst the key contributors, US E&P firm Devon Energy rebounded solidly late in the period after initially facing headline risks tied to potential mergers & acquisitions (M&A) and fears that the company would seek to increase its crude oil position in the Permian Basin by making an expensive acquisition. Despite this concern, Devon remained focused on generating free cash flow while pursuing its debt reduction and asset rationalisation strategy. Devon also recently increased its variable dividend to shareholders, which is paid on a quarterly basis and provides a more rapid return of cash flow.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Coterra (Formerly Cabot Oil & Gas; Significant Overweight)	E&P (Overweight, Stock Selection)
	Devon Energy (Significant Overweight)	Paper Packaging (Significant Underweight)
	Lucid Group (Off-Benchmark Exposure)	Gold (Underweight)
HURT	Anglo American (Off-Benchmark Exposure)	Diversified Metals and Mining (Stock Selection)
	BHP Group (Off-Benchmark Exposure)	Copper (Overweight)
	Vale (Off-Benchmark Exposure)	Steel (Off-Benchmark Exposure)

- Although energy and materials companies were stock market laggards for the quarter as a whole, their returns in the month of September were wildly divergent: energy shares boomed while all 10 other sectors sold off in the month, including a last-place finish for materials stocks. The stark differential between energy and materials companies was supportive in relative terms as energy shares comprised nearly two-thirds of the overall portfolio—and we kept overweighted exposures to some of the best-performing energy sub-industries. In particular, an emerging shortfall in global energy supplies spilled into natural gas and crude oil markets in September, pushing Brent crude front-month futures, the global benchmark, to their highest price levels in three years. Natural gas prices spiked to record highs in Europe and Asia, while September-end US benchmark natural gas futures prices of US$5.87 per million BTUs were substantially inflated compared with historical values closer to US$3.00—and were up 34.0% in September alone, capping a year-to-date rise of 131.1%.
- Coterra and other E&Ps focused on natural gas output rallied solidly as prices came out of a multi-year slumber. Coterra is the new company name arising from the merger of Cabot Oil & Gas (owned by the fund) and industry peer Cimarex Energy (not owned by the fund). Despite the addition of Cimarex's Permian Basin oil assets, Coterra remained levered primarily to natural gas and was one of the few gas-focused E&Ps which did not lock in natural gas hedges this past summer at lower prices. This left Coterra with significant free cash-flow leverage to the upside in natural gas prices amongst this cohort of producers. A few of our off-benchmark investments in green-energy plays also fared well and further boosted the fund's relative gains, led by big rallies in Lucid Group, a California-based luxury electric vehicle start-up moving into production with a plan to eventually offer charging services; and Li-Cycle, which specialises in lithium-ion battery recycling.
- Most of the key detractors for the month were metals and mining firms, some of which showed a leveraged response to falling precious and industrial metals prices. Anglo American was exposed to the selloffs in platinum, palladium and rhodium which were impacted by auto production weakness due to semiconductor chip shortages, at the same time that copper, nickel and iron ore prices were negatively impacted by potentially weaker industrial demand following the curtailment of global vehicle manufacturing and disclosure of financial strains in the Chinese property market. BHP, the world's largest mining company, received some support from its petroleum operations but suffered from easing demand in two of its other primary operational units—copper and iron ore.

Outlook & Strategy

- Natural resource sector volatility that began in August continued through September, driven in large part by concerns of slower-than-expected economic growth both in the United States and China related to a rise in COVID-19 cases during the summer months, and Chinese efforts to tame commodity prices and reduce emissions. We believe economic weakness tied to the virus's spread will prove to be a short-term headwind. Vaccination programmes continued apace, while cases have been declining in several countries and appear to be plateauing in others.
- Despite goals of limiting property market excesses and moderating commodity inflation while reducing pollution, we think China is unlikely to accept a significant deceleration in economic growth and may take steps to soften the impact of its policy moves over the past year. While these factors may slow demand growth for commodities in the near term, we believe several trends will continue to support prices, such as stimulus-driven consumption and a reduction in supply chain impediments that should boost manufacturing.
- Long-term demand trends remain firmly in place with infrastructure and energy transition spending likely to drive consumption of base metals while developing-market demand for energy continues to grow. These trends, when combined with ongoing supply limitations, keep us constructive on natural resource equities and we therefore saw the pullback in September as an opportunity to add to positions at more attractive levels. However, selectivity has been critical given the wide divergence in commodity price movements with some prices plummeting (iron ore) and others reaching all-time highs (metallurgical coal and European natural gas).

- Other than a brief swoon in late August, oil markets have been relatively stable as OPEC+ continued to take a measured approach in bringing curtailed production back to the market in conjunction with the recovery in demand. Inventories have declined significantly since the depths of the pandemic and are now below pre-pandemic levels, which has helped support prices. On the supply side, energy companies have continued to embrace spending discipline and shareholder returns while some large integrated oil and gas companies are pivoting away from traditional oil and gas investment in a move towards broader energy strategies that include renewables and other low carbon fuels. Combined with free cash flow yields above 10% for many companies, we believe this presents an attractive investment opportunity. Once OPEC+ spare capacity is absorbed, which will likely occur over the next year, oil prices will need to remain at levels high enough to incentivise additional investment, which should continue to support producer equity values.
- Rising natural gas and power prices in Europe made headlines in September as the potential for an energy crisis this winter became more widely understood. Natural gas prices in Europe reached more than US$20 per million BTUs (compared to under US$6 in the US) as European countries began to compete more aggressively to secure supplies, including bidding against China for LNG cargoes, with recent prices reportedly as high as US$30 per million BTUs. In addition to impacting industries that use natural gas as a feedstock, such as fertiliser, the rally has also given rise to the potential for switching from natural gas to petroleum for power generation, which could meaningfully increase demand for oil and provide further support for oil prices. Although US producers have historically responded to such price signals with increases in drilling and production, pricing hedges as well as pressure from activists and shareholders are deterring spending increases.
- The mining sector was negatively impacted by China's efforts to moderate commodity prices and reduce pollution, which gained greater attention following news of a potential default by large property developer China Evergrande (not owned by the fund). Several stocks declined more than 10% during the month as metals prices retreated. Iron ore prices, which had already been falling since mid-July, experienced another significant drop before partially recovering by month-end.
- Adding to concerns of slowing economic growth, China is facing potential power shortages this winter due to low coal inventories and competition for imported natural gas, which led authorities in Beijing to order energy-intensive industries to close or reduce production temporarily. We believe these headwinds will be short-lived and prices remain at attractive levels for producers while the companies' equity valuations are now more attractive. However, assessing the extent and magnitude of the impact on commodity prices is challenging, and uncertainty may continue to put pressure on the sector through the winter. We are therefore taking a cautious approach with respect to further investment in mining equities and looking for equity values that appear to reflect commodity prices at or below the marginal cost of supply.

Portfolio Characteristics[c]

	Portfolio	S&P North American Natural Resources Sector Index
Market Capitalisation (Millions in USD)	53,566	71,063
Price to Earnings Growth Ratio	0.65x	0.86x
3-Year Sales Growth	-0.74%	-1.03%
Estimated 3-5 Yr EPS Growth	16.86%	12.47%
Price to Earnings (12 Month Forward)	13.68x	14.83x

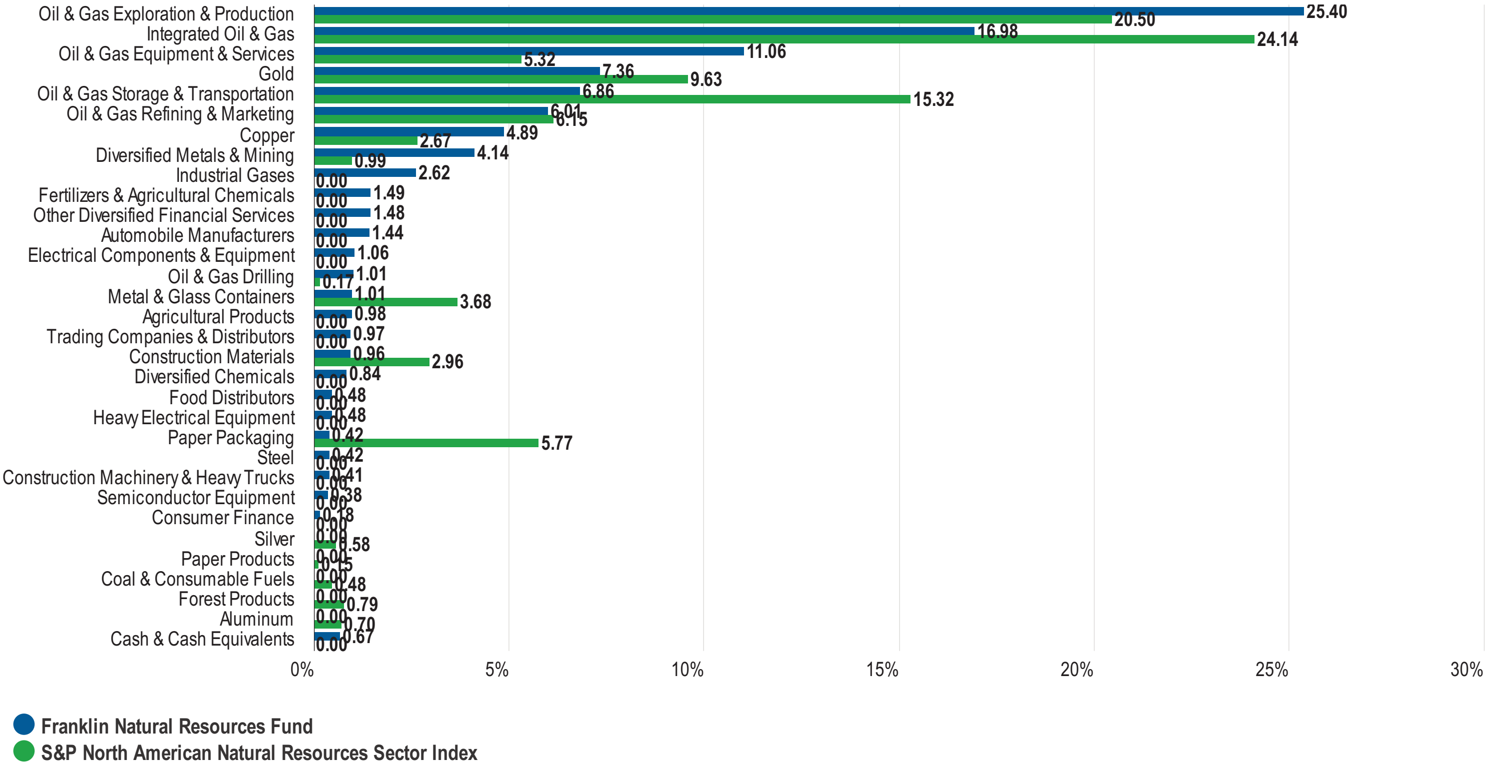
Portfolio Diversification

Top Ten Holdings[d]

Percent of Total

Top Holdings	%
CONOCOPHILLIPS	5.18
CHEVRON CORP	4.40
DEVON ENERGY CORP	4.22
EXXON MOBIL CORP	3.60
EOG RESOURCES INC	3.48
COTERRA ENERGY INC	3.32
SUNCOR ENERGY INC	3.08
PIONEER NATURAL RESOURCES CO	2.78
NEWMONT CORP	2.45
CANADIAN NATURAL RESOURCES LTD	2.44

Sector Weightings vs. S&P North American Natural Resources Sector Index[e]
Percent of Total



Performance Statistics

Risk Statistics[3]

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin Natural Resources Fund	38.02	31.29	27.63	28.87
S&P North American Natural Resources Sector Index	33.01	27.16	23.78	25.32
Tracking Error (%)	7.20	6.20	5.80	6.12
Information Ratio[4]	-0.78	-0.67	-0.92	-0.66
Beta	1.14	1.14	1.15	1.12
Sharpe Ratio				
Franklin Natural Resources Fund	-0.23	-0.15	-0.15	-0.15
S&P North American Natural Resources Sector Index	-0.09	-0.01	0.05	-0.01

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Fred Fromm, CFA	29	29
Steve Land, CFA	24	24
Matthew Adams, CFA	16	23

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 of the natural resources sector worldwide, including emerging markets. Such securities have historically been subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate very significantly over relatively short time periods. Other significant risks include: foreign currency risk, emerging markets risk, liquidity risk, securities lending 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.

3. Beta, Information Ratio and Tracking Error information are measured against the S&P North American Natural Resources Sector Index.
4. 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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Important Legal Information

This document does not constitute legal or tax advice nor is it investment advice or an offer for shares of Franklin Templeton Investment Funds (the "Fund"). Subscriptions to shares of the Fund can only be made on the basis of the current prospectus and, where available, the relevant Key Investor Information Document, accompanied by the latest available audited annual report and the latest semi-annual report accessible on our website www.ftidocuments.com or which can be obtained, free of charge, from Franklin Templeton International Services, S.à r.l. - 8A, rue Albert Borschette, L-1246 Luxembourg. The Fund's documents are available in English, Arabic, Czech, Danish, Dutch, Estonian, Finnish, French, German, Greek, Hungarian, Icelandic, Italian, Latvian, Lithuanian, Norwegian, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish. In addition, a Summary of Investor Rights is available from franklintempleton.lu. The summary is available in English. The sub-funds of FTIF are notified for marketing in multiple EU Member States under the UCITS Directive. FTIF can terminate such notifications for any share class and/or sub-fund at any time by using the process contained in Article 93a of the UCITS Directive.

Past performance is not an indicator or a guarantee of future performance. 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. Investment in the Fund entails risks which are described in the Fund's prospectus and, where available, in the relevant Key Investor Information Document or any other relevant offering document. Special risks may be associated with a Fund's investment in certain types of securities, asset classes, sectors, markets, currencies or countries and in the Fund's possible use of derivatives. References to particular industries, sectors or companies are for general information and are not necessarily indicative of a fund's holdings at any one time. Currency fluctuations may affect the value of overseas investments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations. Where a Fund invests in emerging markets, this investment can be more risky than an investment in developed markets. No shares of the Fund may be directly or indirectly offered or sold to residents of the United States of America.

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.

In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are examples of some stocks which performed well. Not all stocks in the portfolio performed as well. 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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Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

a. 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.

b. 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.

c. 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, Refinitiv. There can be no assurance that the Estimated 3-5 Year EPS Growth figure, based on Institutional Brokers Estimate System (IBES) consensus estimates, will be realised. All holdings are subject to change.

d. 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.

e. Percentage may not equal 100% due to rounding. All holdings are subject to change.

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