

Fund Manager Report

Product Details¹

Fund Assets	\$1,241,783,726.19
Fund Inception Date	01/07/1999
Number of Issuers	104
Bloomberg	TEMFIAI LX
ISIN	LU0098860793
Base Currency	USD
Investment Style	Income
Benchmark	Linked Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index
Morningstar Category™	USD Moderate Allocation

Asset Allocation²

Percent of Total	%
Cash & Cash Equivalents	5.37
Fixed Income	47.14
Equity	35.44
Convertibles/Equity-Linked Notes	12.04

Overall Morningstar Rating™³



Fund Description

The fund aims to maximise income while maintaining prospects for capital appreciation by investing primarily in equity securities and long- and short-term debt securities. The fund may invest up to 25% of its net assets in non-US securities.

Performance Data⁴

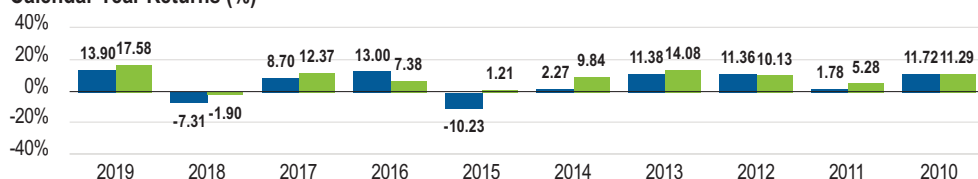
Discrete Annual Performance (%) as at 31/05/2020

	5/19-5/20	5/18-5/19	5/17-5/18	5/16-5/17	5/15-5/16
A (Mdis) USD	-3.28	-0.03	2.67	13.26	-7.97
Linked Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index	5.22	3.90	6.87	9.32	2.60

Performance Net of Management Fees as at 31/05/2020 (Dividends Reinvested) (%)^{5,6}

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (01/07/1999)
A (Mdis) USD	2.41	-4.87	-9.52	-3.28	-0.25	0.68	4.32	4.76
Linked Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index	2.71	0.15	-4.91	5.22	5.32	5.55	7.90	5.42

Calendar Year Returns (%)



- A (Mdis) USD
- Linked Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index

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

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

Portfolio Manager Insight

Performance Review

ONE-MONTH KEY PERFORMANCE DRIVERS

	Equity Holdings	Equity Sectors	Fixed Income Holdings	Fixed Income Sectors/Industries
HELPED	Dominion Energy	Information Technology (IT)	Community Health Systems	Health Care
	Rio Tinto	Consumer Discretionary	Tenet Healthcare	Materials
	Broadcom	Utilities	Mauser Packaging Solutions	Consumer Discretionary
HURT	Wells Fargo	—	Mallinckrodt	—
	Weatherford International	—	Weatherford International	—
	—	—	—	—

- All of the fund's IT equities and bonds advanced in May, led by key contributors Broadcom and Analog Devices, both of which design and manufacture semiconductor chips for a wide range of applications. Broadcom, which offered a 5% dividend yield, continued to see its business fuelled by strong demand for its data centre chips, the growth of its infrastructure software business, and strong wireless-component partnerships with the likes of Apple (also a fund holding). Broadcom generates about three-fourths of its revenue from semiconductor solutions, with the remainder owing mostly to infrastructure software and intellectual-property licenses.
- Better-than-expected first-quarter earnings led to a rally in Virginia-based electric utility Dominion Energy; all of the fund's other utilities sector equities also advanced. In the materials sector, diversified global metals producer Rio Tinto benefitted in part from ongoing cost discipline and fundamental strength in key base-metal commodities such as iron ore, copper and aluminium, underpinning the May rally in its common stock. Resilient demand for iron ore in China—the world's largest steelmaker by far—has met with potential pandemic-related output curbs by key iron ore exporters such as Brazil, which led to a 19% rally in the metal since February, including a gain of nearly 16% in May, to eight-month highs.
- The largest of a handful of minor equity-related detractors was an S&P 500 Index put option (averaging about 0.5% of total net assets), which depreciated dramatically as US equity markets soared. S&P 500 Index puts have been a regular part of our strategy over the last two years as we look for ways to protect the portfolio in periods of significant drawdowns, as well as manage underlying fund volatility.
- Within the energy sector, our common stock and high-yield bond positions in oilfield services specialist Weatherford International (comprising a mere 0.6% of total net assets) suffered considerable May price declines as the company reported very weak first-quarter revenues that were down 2% quarter-over-quarter and 10% year-on-year. Weatherford, which has struggled since oil prices crashed in 2014, once again faced significant profitability issues with the 2020 crash as its widening operating losses erode its financial profile. Amidst a wave of layoffs and asset divestitures, management has been working to turn around its operations and shore up the balance sheet.

Outlook & Strategy

- The COVID-19 pandemic remained fluid heading into June; troubling US-China developments and a massive wave of protests in the United States (and elsewhere) have joined the coronavirus as major investor concerns. These unforeseen events underscore the need to maintain a diversified portfolio during this historic moment in financial markets and the global economy. We could be a couple months away from pandemic data indicating containment, which would make a lasting difference in market sentiment, and we are also looking beyond the crisis. We always seek to protect the portfolio from shocks from economic growth, inflation and interest rates. For some, unexpected shocks and volatility in asset prices can provide the temptation to trade around news flow and emotion. Our investment process is designed to avoid these pitfalls and instead focus on our expertise, which centres around economic and market fundamentals. This does not mean we ignore events like the coronavirus—all regions are paying the price for the restrictions due to the virus and the attending stimulus measures, which is likely to mute growth going forward, potentially with some significant ups-and-downs during the recovery phase. We focus on how this event will affect the fundamentals and adjust the fund's asset mix accordingly. Lately we have been thinking about longer-term relative value across assets and have seen some opportunities to reposition the portfolio out of bonds and into equities during this period of dislocation.
- For investors and companies, dividends are often considered sacrosanct. The coronavirus pandemic has challenged that assumption as demand destruction ahead of the virus's containment created liquidity and corporate stress. While the fallout from the virus is fast-moving and still playing out, certain industries stand to be particularly hard hit and could face a cash crunch that would make their dividends vulnerable. There is reason to believe there will be some dividend cuts out there, particularly within industries potentially seeking government support.
- The initial phase of a US-China trade deal (signed in January) appears to have lost some of its ability to assuage the market's fears of further escalation between the two economic powerhouses, but the underlying dynamics are complex as relations deteriorated further into rivalry in May. Meanwhile, the US Federal Reserve's (Fed's) emergency pivot towards more accommodative policies has been supportive. Despite the positives of exceptional fiscal and monetary support, volatility has remained elevated and global economic growth has reversed abruptly into a "government-engineered" recession. In particular, we believe the Fed and other central bank policymakers may be reaching the outer limits of monetary policy effectiveness in this new and untested regime, and we question whether the political will exists to increase the role of fiscal policy. Additionally, the US presidential election cycle has clearly been intensifying partisan rhetoric and may foster yet more market uncertainty with an increased focus on the policy implications of potential candidates' stated agendas. We continue to believe that navigating the unique challenges the remainder of 2020 presents will require active and nimble management.
- We continue our long-held practice of rigorous focus on individual company fundamentals, as a means to both identify attractive individual investments and manage overall portfolio risk in a global economy with subdued inflation and a steady flow of pandemic-, trade- and geopolitics-focused news dominating investor sentiment, including an increased focus on risks to global supply chain continuity. Corporate earnings have suddenly faded as a support for equities, while profit margins had already peaked globally before the pandemic struck, raising new concerns about lost momentum, business profitability and capital investment plans. We have been adjusting portfolio positioning to navigate various uncertainties and incrementally reduce portfolio risk, while also taking advantage of isolated cases in which markets appear to have overreacted to the downside.

- We continuously assess our portfolio risks, both through stress-testing individual stocks and other holdings under differing assumptions, as well as performing broader-market scenario analyses. Importantly, beyond any near-term earnings impact, we think the competitive advantages of the companies we favour will re-emerge as economies and markets look to further normalise as the COVID-19 crisis fades. We seek to invest in companies with the potential for sustainable, quality earnings streams, and with strong cash flows and balance sheets that we think can withstand uncertain macro conditions.
- From early 2019 through early 2020, we had taken a more defensive stance on risk assets, having reduced equity exposure and shifted allocations between defensive and more cyclically oriented sectors. This stance has been changing as we start to lean into opportunities created by the market fallout. In particular, we recognise a potentially long-term shift in the equity market's dividend growers has occurred, with non-traditional sectors such as information technology increasingly becoming a primary source of rising dividend yields.
- On the fixed income side, we have begun selling higher quality and shorter-duration fixed income holdings given the much higher yields currently available in other segments of the fixed income market, while some of the proceeds have been redeployed into equities. With monetary policy intervention impacting valuations in various corners of the fixed income market (including Treasuries, mortgages, investment-grade corporates and municipal bonds), we will look to tactically take advantage of any dislocations that may arise; as valuations become atypically elevated in these areas, the focus shifts towards other opportunities that we believe have better risk/reward trade-offs, including increasing the portfolio's equity allocation.
- As the business cycle has become upended in its later stages, we have adopted a cautious stance on the outlook for lower-rated fixed income sectors such as high yield and bank loans, though high yield has been presenting opportunities since March given deep discounts to face value and even higher yields. Default rates—particularly within the lower ranks of the high-yield corporate bond tier—have been rising back towards their historical averages although we would expect the disruption of COVID-19 will likely pull forward pockets of distress for those sectors most impacted by the response. Bank loans, meanwhile, fared well in May but have suffered longer term from persistent outflows as the Fed has moved to reduce interest rates, and these assets are potentially vulnerable to the relaxation of loan covenants (with loans deemed “covenant lite” offering scant investor protections), while rating downgrades have also accelerated in 2020—factors that reflect greater reason for caution, in our view.

Portfolio Characteristics^{7,8,9,10}

Equity Characteristics

	Portfolio
Price to Earnings (12-Month Trailing)	15.62x
Price to Book	1.86x
Price to Cash Flow	8.09x
Market Capitalisation (Millions in USD)	184,885
Dividend Yield	3.94%

Fixed Income Characteristics

	Portfolio
Yield to Maturity	5.62%
Yield to Worst	5.54%
Average Duration	2.95 Yrs
Average Credit Quality ¹¹	BBB-
Average Weighted Maturity	3.89 Yrs

11. 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, is provided to indicate the average credit rating of the portfolio's underlying bonds and generally ranges from AAA (highest) to D (lowest). For unrated bonds ratings may be assigned based on the ratings of the issuer 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 debt holdings 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 is provided for informational purposes only. Derivative positions are not reflected in the ACQ.

Portfolio Diversification

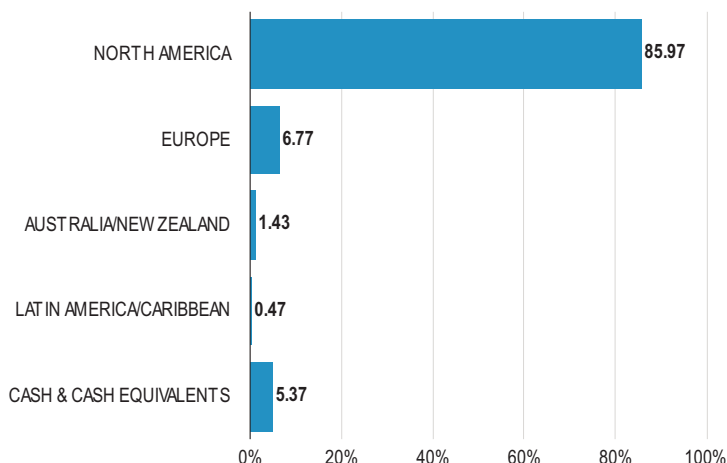
Top Ten Holdings¹²

Percent of Total

Top Holdings	%
GOVERNMENT OF THE UNITED STATES OF AMERICA	6.66
COMMUNITY HEALTH SYSTEMS INC	5.74
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	3.65
TENET HEALTHCARE CORP	3.63
JPMORGAN CHASE & CO	2.69
T-MOBILE US INC	2.15
APPLE INC	2.09
THE SOUTHERN CO	1.94
DOMINION ENERGY INC	1.92
TEXAS INSTRUMENTS INC	1.83

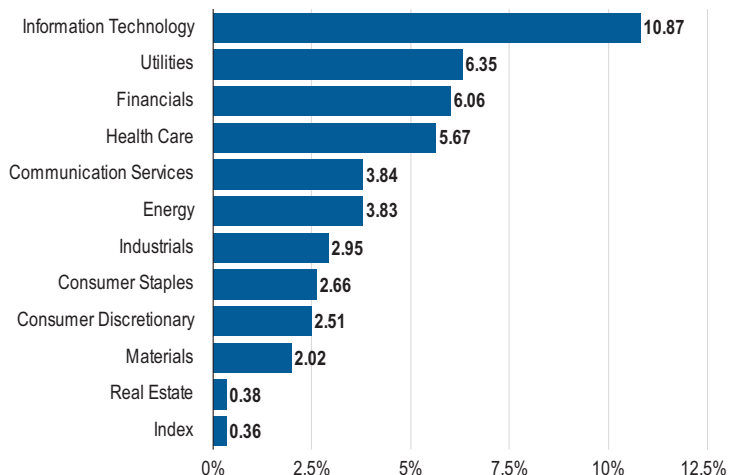
Geographic Allocation²

Percent of Total



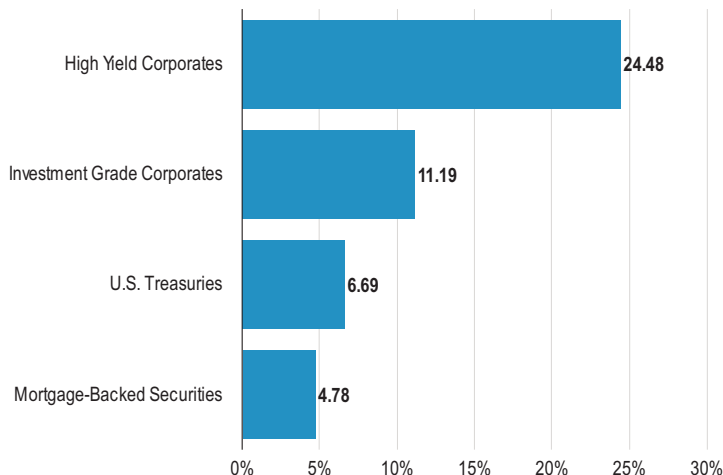
Sector Allocation²

Equity as a Percent of Total



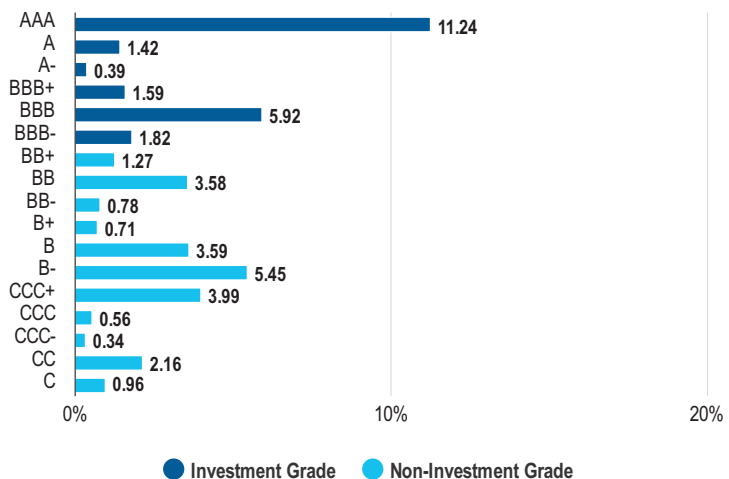
Sector Allocation⁹

Fixed Income as a Percent of Total



Credit Quality Ratings¹³

Fixed Income as a Percent of Total



13. 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 NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash and equivalents are excluded from this breakdown.

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Supplemental Performance Statistics

Supplemental Risk Statistics¹⁴

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin Income Fund	10.30	9.80	9.37	10.39
Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index	9.30	8.27	7.34	8.73
Tracking Error (%)	3.10	3.50	3.80	4.99
Information Ratio¹⁵	-1.79	-1.61	-1.25	-0.34
Beta	1.06	1.11	1.18	1.04
Sharpe Ratio				
Franklin Income Fund	-0.19	-0.04	0.40	0.30
Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index	0.39	0.63	1.16	0.55

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Edward D. Perks, CFA	27	27
Brendan Circle, CFA	5	9
Todd Brighton, CFA	19	19

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 a diversified portfolio of U.S. equity, equity-related and debt securities. Such securities have historically been subject to price movements that may occur suddenly due to equity market- and bond market-specific factors. 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: derivatives risk, credit risk, currency 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.

14. Beta, Information Ratio and Tracking Error information are measured against the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate index.

15. 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).

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.ftdocuments.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.

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.

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. 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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- 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.
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- Effective 1 February 2019, the Fund's benchmark is Linked Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index. The benchmark performance shown is derived from a combination of the Custom 50% S&P 500 + 50% Bloomberg Barclays US Aggregate Index from the fund's inception to 31 January 2019 and the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index from 1 February 2019 to current reporting period.
- 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.
- 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.
- 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



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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. Average Credit Quality, Average Duration, Average Weighted Maturity, Yield to Maturity and Yield to Worst data points pertain to the fixed income component of the fund. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

8. 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.**

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

10. 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.**

12. 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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