

Fund Manager Report
Product Details¹

Fund Assets	€100,479,085.65
Fund Inception Date	03/12/2001
Number of Issuers	47
Bloomberg	TEMESMA LX
ISIN	LU0138075311
Base Currency	EUR
Investment Style	Growth
Benchmark	MSCI Europe Small-Mid Cap Index-NR
Morningstar Category™	Europe Small-Cap Equity

Asset Allocation²

Percent of Total	%
Equity	95.61
Cash & Cash Equivalents	4.39
Fixed Income	0.00

Fund Description

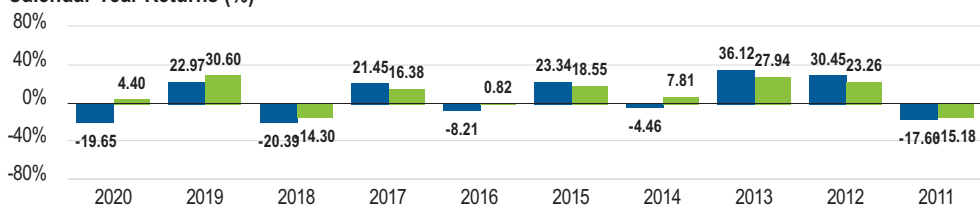
The Fund aims to achieve long-term capital appreciation by investing principally in equity and/or equity-related securities of small and mid-cap companies (those with market capitalisation above Euro 100 million and below Euro 8 billion) in Europe.

Performance Data³
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) EUR	38.50	-21.26	-12.86	1.71	23.66
MSCI Europe Small-Mid Cap Index-NR EUR	33.62	-0.39	0.23	3.67	18.29

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 (03/12/2001)
A (acc) EUR	-1.64	4.15	20.38	38.50	-1.68	3.63	8.49	7.12
MSCI Europe Small-Mid Cap Index-NR	-4.32	1.23	16.23	33.62	10.08	10.34	12.96	8.09

Calendar Year Returns (%)


- A (acc) EUR
- MSCI Europe Small-Mid Cap Index-NR

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

Portfolio Manager Insight
Performance Review
QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Rolls-Royce Holdings plc	Industrials (Stock Selection)	United Kingdom (Stock Selection, Overweight)
	Stock Spirits Group Plc	Consumer Staples (Stock Selection)	Germany (Stock Selection)
	Clarkson PLC	Consumer Discretionary (Stock Selection)	Netherlands (Stock Selection)
HURT	Loomis AB	Health Care (Stock Selection)	Spain (Stock Selection)
	Tecnicas Reunidas SA	Financials (Underweight)	Sweden (Stock Selection)
	Prosegur Cash SA	Information Technology (Underweight)	United States (Off-benchmark Exposure)

- UK aerospace engineering firm Rolls-Royce surged late in the quarter as a combination of stock-specific news (contract wins and an asset disposal), a healthy value rebound, and the imminent reopening of international air travel following COVID restrictions all created strong tailwinds. Rolls has been an unpopular stock given the direct impact of COVID lockdowns as well as the firm's exposure to a wide-body aircraft market that is currently facing challenges.

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.
 3. Net Returns (NR) include income net of tax withholding when dividends are paid.

However, management has an aggressive plan to cut costs and shed non-core assets and expects to turn free cash flow positive by the end of the year. Given the firm's cheap valuations and elevated short interest in the stock, additional restructuring progress or macro improvements could see Rolls post further meaningful gains.

- Stock Spirits Group (SSG) is the leading manufacturer and distributor of spirits in Central and Eastern Europe, and the third largest in all of Europe. The company manufactures and distributes 45 brands, as well as distributes third party brands for Diageo and Beam Suntory given SSG's local market capabilities in Central and Eastern Europe. In mid-August, a private equity firm announced an all-cash offer for SSG.
- Shares of Loomis, a Sweden-based cash management company, curbed relative performance after a Danish court issued an appealable decision against the company in a lawsuit filed by a competitor. We believe this issue is transient and that Loomis' new omni-channel payment solution should help better position the company for declining cash usage over the longer term.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Rolls-Royce Holdings plc	Industrials (Stock Selection)	United Kingdom (Stock Selection)
	CTS Eventim AG & Co. KGaA	Consumer Discretionary (Stock Selection)	France (Stock Selection)
	Elis SA	Communication Services (Stock Selection)	Germany (Stock Selection)
HURT	Loomis AB	Financials (Stock Selection)	Norway (Stock Selection, Underweight)
	Prosegur Cash SA	—	Italy (Stock Selection)
	Coats Group plc	—	Austria (Lack of Exposure)

- Germany-based live events and ticketing company CTS Eventim contributed to relative performance. Although social distancing restrictions across Europe have significantly impacted its business, the company has a strong balance sheet and we believe it can weather the current downturn until live events are able to resume as more people become vaccinated.
- France-based industrial laundry services provider Elis also boosted relative performance. A strong first-half earnings result supported its shares during the period. An eventual rebound in travel following ongoing vaccinations could give Elis's hotel laundry services business a lift after the COVID-19 related slowdowns in 2020.
- UK-based thread manufacturer Coats Group detracted from relative returns. Coats is the clear market leader with one in five garments worldwide held together by its thread. The company has a global asset base with relationships with a majority of global brands and subcontractors to the textiles industry. Longer term, we think the company has an opportunity to gain market share and increase its sales growth rate over time.

Outlook & Strategy

- We continue to see attractive investment opportunities in Europe ahead of an expected ramp-up in economic activity. We believe that while the virus continues to weigh on economic growth in 2021, rising vaccination rates should eventually allow economies to reopen more fully. Disbursement from the European Union's recovery fund began this quarter, and we expect those payments could create favourable conditions for long-term investors. We are also monitoring price and wage pressures, with a particular eye on price increases in energy markets. We remain selective in where we see opportunity currently, given the overall exuberance in the market, and are focused on four key areas.
- First, we look for high-quality companies with strong positions in their markets that will benefit from the rebound in economic activity, where valuations remain fair relative to fundamental expectations, in our assessment. We believe that excess savings are likely to shift from buying consumer goods to buying consumer experiences and have positioned our portfolios accordingly. These companies came under pressure again during the second quarter, due to rising concerns about the coronavirus variants, providing us with attractive entry points.
- Second, as rates moved higher, long-duration equities sold off, irrespective of the underlying fundamentals. We are actively looking for good businesses supported by sustained profitable growth and have been successful in initiating positions in a handful of companies at what we consider attractive prices. We have recently reduced our exposure to industrials, while adding exposure to quality companies in the health care and consumer staples sectors. We also believe the small- and mid-cap space offers some compelling opportunities.
- Third, we like companies that are not pure-play ESG companies, but which do have clear plans to become cleaner, healthier versions of themselves. They may also be investing in divisions that are direct beneficiaries of capital allocation into clean energy and better consumer health.
- And finally, the post-Brexit era may also be creating investment opportunities. Although Brexit may raise constrain UK growth, we believe there are excellent investment opportunities in businesses with limited exposure to Brexit costs that sold off with the rest of the UK equity market during the drawn-out negotiations. The UK market remains one of the world's cheapest and many of the country's companies are truly global.
- Our continued efforts towards diversifying and upgrading the quality of the portfolio are intended to help us succeed in the challenging environment ahead. After all, uncertainty can be favourable for active investment managers with a long-term horizon and global opportunity set. We are applying all our energies and talents to uncovering what we view as the best ideas in this environment, and then integrating them into a sensible and balanced portfolio suitable for a future of increasing adversity and complexity.

Portfolio Characteristics^c

	Portfolio	MSCI Europe Small-Mid Cap Index-NR ^d
Market Capitalisation (Millions in EUR)	4,167	8,983
Price to Earnings Growth Ratio	0.66x	0.89x
3-Year Sales Growth	-0.24%	7.14%
Estimated 3-5 Yr EPS Growth	29.80%	16.78%
Price to Earnings (12 Month Forward)	13.84x	17.43x

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Performance Statistics

Risk Statistics^{4,5}

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Templeton European Small-Mid Cap Fund	26.86	21.53	17.99	17.70
MSCI Europe Small-Mid Cap Index-NR	19.95	16.24	14.47	16.80
Tracking Error (%)	10.23	8.69	7.84	7.54
Information Ratio⁶	-1.15	-0.77	-0.57	-0.12
Beta	1.28	1.24	1.13	0.95
Sharpe Ratio				
Templeton European Small-Mid Cap Fund	-0.04	0.20	0.49	0.35
MSCI Europe Small-Mid Cap Index-NR	0.54	0.68	0.92	0.42

Investment Team

Portfolio Manager	Years with Firm	Years Experience
John Reynolds	1	14
Tian Qiu, CFA	24	24

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 and equity-related securities of small- and mid-cap companies located in or doing significant business in European countries. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: foreign 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.

4. Beta, Information Ratio and Tracking Error information are measured against the MSCI Europe Small-Mid Cap Index-NR.

5. Net Returns (NR) include income net of tax withholding when dividends are paid.

6. 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

Effective 15 April 2021, Franklin European Small-Mid Cap Fund was renamed Templeton European Small-Mid Cap Fund.

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.

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