

## Fund Manager Report

### Product Details

Fund Assets	\$1,906,404,221.30
Fund Inception Date	15/09/2014
Number of Securities Excluding Cash	1890
Bloomberg	FKASAAU LX
ISIN	LU1093756168
Base Currency	USD
Investment Style	Multi Strategy
Benchmark	ICE BofA US 3-Month Treasury Bill Index HFRX Global Hedge Fund Index
Morningstar Category™	Multistrategy USD
Value-at-Risk (VAR)	-3.75

### Overall Morningstar Rating™ a



### Fund Description

The Fund's investment goal is to seek capital appreciation with lower volatility relative to the broad equity markets. The Fund seeks to achieve its investment goal by allocating its assets across multiple non-traditional or "alternative" strategies.

### Performance Data

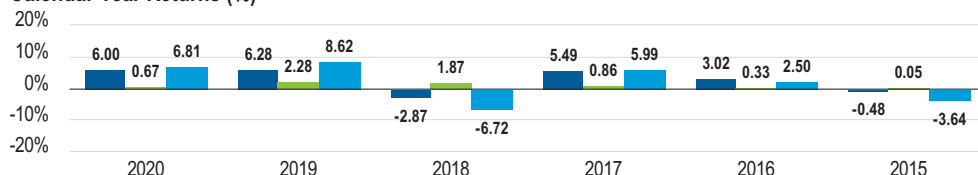
#### Discrete Annual Performance (%) as at 31/08/2021

	8/20-8/21	8/19-8/20	8/18-8/19	8/17-8/18	8/16-8/17
A (acc) USD	8.93	0.44	1.59	2.82	5.06
ICE BofA US 3-Month Treasury Bill Index USD	0.08	1.26	2.36	1.52	0.62
HFRX Global Hedge Fund Index USD	9.10	4.88	-1.12	1.54	5.59

#### Performance Net of Management Fees as at 31/08/2021 (Dividends Reinvested) (%)<sup>b,c</sup>

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (15/09/2014)
A (acc) USD	0.88	1.37	3.04	8.93	3.58	3.73	3.34
ICE BofA US 3-Month Treasury Bill Index	0.00	0.01	0.03	0.08	1.23	1.17	0.87
HFRX Global Hedge Fund Index	0.68	0.62	3.97	9.10	4.20	3.94	2.04

#### Calendar Year Returns (%)



- A (acc) USD
- ICE BofA US 3-Month Treasury Bill Index
- HFRX Global Hedge Fund Index

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

### Portfolio Manager Insight

#### Performance Review

##### ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Long/Short Equity	Chilton (Long/Short Equity)	Information Technology (Long)
	Event Driven	Bardin Hill (Event Driven)	Health Care (Long)
	Global Macro	PSAM (Event Driven)	Industrials (Long)
HURT	—	One River (Relative Value)	Equity Index Hedges
	—	—	Volatility Index Futures
	—	—	Credit Index Hedges

- Fourteen of the sixteen underlying subadvisors delivered absolute gains in August. Long equity positioning was the primary driver of absolute gains, with additional contribution from long credit positioning. Within equities, leading sector contributors were information technology, health care and materials. Financials, health care and real estate were the largest contributors within credit, driven by a combination of corporate bonds and swaps, with

particular strength in high-yield paper. Investment-grade bonds and Chinese paper also bolstered returns. Currency hedges were also an overall contributor. Positioning in all asset classes bolstered performance, partially offset by deduction from equity index hedges (S&P 500® and other developed-market indexes).

- All four strategies posted positive returns in August, with the bulk of contribution coming from long short equity, driven primarily by long equity positioning. Within long short equity, all five subadvisors posted absolute gains, with Chilton as the largest overall contributor to portfolio performance. Wellington, Jennison and Electron also provided substantial contribution during the month. Chilton's long positioning in the materials and health care sectors bolstered returns, led by a long position in a glass jar producer whose shares rose amidst stronger-than-expected demand and robust second-quarter earnings. Subadvisor Jennison's contribution was driven largely by long positioning across several health care industries, whilst Wellington's gains were fueled by the software industry. Conversely, at the strategy level, equity index hedges in developed markets partially offset gains, especially the S&P 500® Index, which recorded multiple all-time highs.
- The event driven strategy also bolstered absolute returns, driven by long equity merger arbitrage positions, particularly in the industrials sector. Both subadvisors, Bardin Hill and PSAM, were amongst the leading overall contributors. Bardin Hill's long equity position in a financial services company, which advanced sharply amidst news that it will sell its reinsurance unit in a multi-billion-dollar transaction, was a key contributor. PSAM benefitted from news that a freight transportation company will spin off its warehousing and logistics business. Bardin Hill's long position in an American technology company was a notable detractor, as shares sold off in the wake of a sizeable lawsuit by a former executive.
- The global macro strategy also contributed on an absolute basis as all four subadvisors advanced during the period. Positive performance was primarily driven by longs in emerging markets fixed income and equity indices, and modestly offset by losses in developed markets fixed income and currency hedges. Subadvisor RV Capital was a key positive driver, due to long credit exposure, including a position in a Chinese distressed debt manager whose bonds continued to rally amidst a state-backed rescue plan. Subadvisor BlueBay benefitted from gains in emerging market hard- and local-currency credits.
- Long credit positioning drove contribution from the relative value strategy, with particular strength in the health care and communication services sectors. Four of the five subadvisors contributed, led by Lazard, whose long credit position in a biopharmaceutical company benefitted from positive news headlines and surging investor interest. In contrast, short equity positions in health care and communication services detracted from the strategy's return. Subadvisor One River weighed modestly on returns, due to equity and volatility index positioning.
- During the month, the team increased exposure to relative value subadvisor One River. The Conditional Risk Overlay (CRO) was not implemented.

### Outlook & Strategy

- With society and economies in transition, investors must underwrite to a wide range of potential outcomes. Progress on vaccinations, central banks beginning a cycle of tightening policy, and earnings growth are important variables that are difficult to gauge. Given the uncertainty embedded in the underlying core markets, we believe it is prudent to focus hedge fund investments on alpha-generating, non-directional strategies.
- Given peak valuations across many traditional risk assets, relative value strategies appear particularly attractive today due to their less directional nature and ability to benefit from pricing inefficiencies that exist at intersection points of multiple markets. We have a favourable outlook for convertible and volatility arbitrage given continued strong issuance and inefficient pricing. Our outlook for fixed income arbitrage is more muted due to central banks' success in depressing global rate volatility.
- We are bullish on opportunities in the global macro strategy. Macro developments continue to drive global markets with managers focused on these factors facing a potentially rich opportunity set over the medium term. Recent data releases have contributed to shifting market narratives around future policy paths, which may favour nimble and opportunistic trading styles.
- The current market environment has been, and will remain, challenging for long/short equity investing, in our view. Though stocks have rallied extensively this year, there have been more frequent short-term swings as investors grapple with record-high valuations and unclear monetary policy. These various uncertainties should continue to negatively impact active, long-term fundamental managers, particularly those focused on secular growth. Nonetheless, managers' elevated gross and net exposures reinforce their medium-to-long-term constructive outlooks.
- We are also neutral on event driven strategies. We expect continued strength in corporate activity to drive supply due to ample liquidity, peak valuations, and continued management team incentives to grow market share and earnings. We continue to monitor trends of increasing regulatory scrutiny in the US and China and remain mindful of potential risks to the strategy should liquidity conditions deteriorate.

### Manager Allocations<sup>d</sup>

	% of Invested Capital		% of Invested Capital
<b>Long Short Equity</b>		<b>Relative Value</b>	
Impala Asset Management, LLC	0.00	Ellington Global Asset Management, LLC	5.69
Wellington Management Company, LLP	6.03	Apollo SA Management, LLC	6.15
Electron Capital Partners, LLC	6.27	Loomis Sayles & Company, L.P.	6.36
Jennison Associates, LLC	6.69	One River Asset Management	6.72
Chilton Investment Company, LLC	7.95	Lazard Asset Management, LLC	9.61
Portland Hill Asset Management Limited	7.96		

Event Driven	% of Invested Capital
Bardin Hill Investment Partners L.P.	6.60
P. Schoenfeld Asset Management L.P.	6.69

Global Macro	% of Invested Capital
RV Capital Management Private, Ltd.	3.16
Graham Capital Management, L.P.	4.02
Emso Asset Management Limited	5.05
BlueBay Asset Management, LLP	5.06

### Portfolio Characteristics

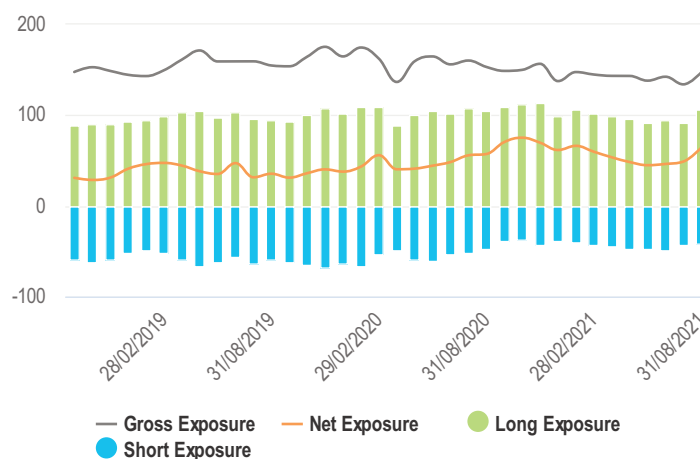
#### Portfolio Exposure<sup>e</sup>

Percent of Total

	%
Gross Exposure	147.36
Net Exposure	64.26
Long Exposure	105.81
Short Exposure	-41.55

#### Historical Portfolio Exposure<sup>f</sup>

Percent of Total



### Portfolio Diversification

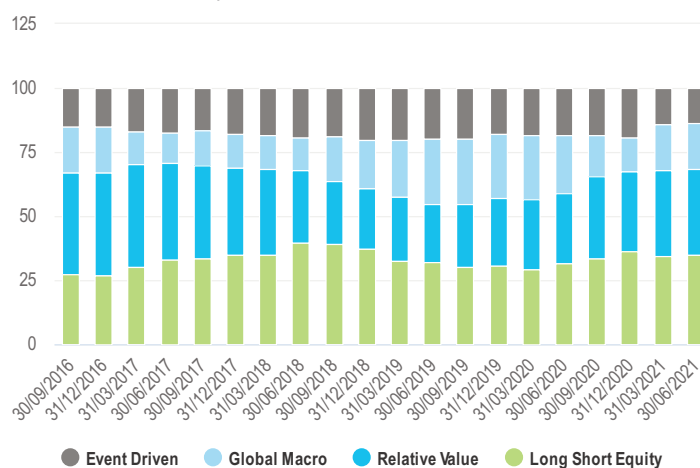
#### Strategy Allocation<sup>g</sup>

Percent of Invested Capital

	Target (%)	%
Global Macro	0 - 30	17.30
Event Driven	10 - 30	13.28
Long Short Equity	25 - 40	34.89
Relative Value	30 - 45	34.53

#### Historical Strategy Allocation<sup>h</sup>

Percent of Invested Capital



#### Performance Contribution by Strategy (% USD)<sup>i</sup>

Strategy Allocation as Ending Weight (% of Invested Capital)

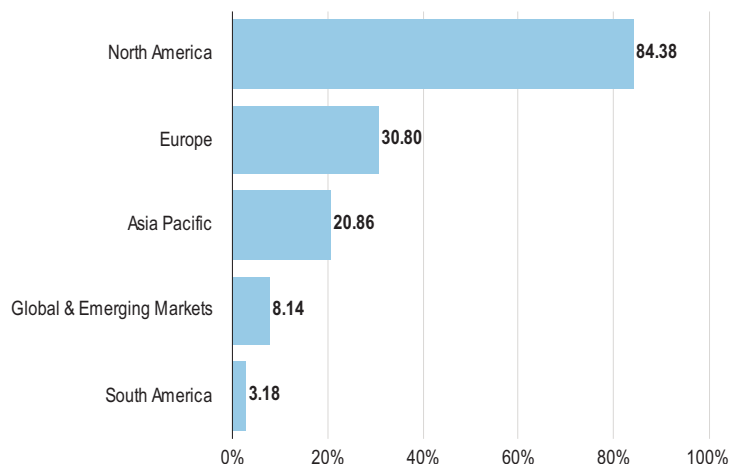
	%	1 Mth	YTD
Global Macro	17.30	0.23	0.08
Event Driven	13.28	0.25	0.87
Long Short Equity	34.89	0.49	2.93
Relative Value	34.53	0.08	1.23

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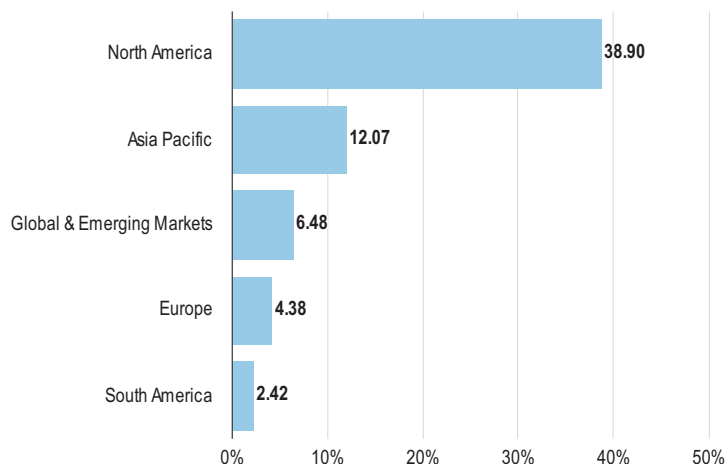
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**Geographic Exposure (Gross)<sup>e</sup>**

Percent of Total

**Geographic Exposure (Net)<sup>e</sup>**

Percent of Total

**Security Type Exposure (Gross)<sup>e</sup>**

Percent of Total

	%
Single Security Derivatives	67.67
Direct Securities	67.28
Index/Multi-Security Derivatives	12.41

**Security Type Exposure (Net)<sup>e</sup>**

Percent of Total

	%
Direct Securities	67.28
Single Security Derivatives <sup>1</sup>	-5.76
Index/Multi-Security Derivatives	2.73

**Asset Class Exposure (Gross)<sup>e</sup>**

Percent of Total

	%
Equity	76.12
Fixed Income	54.98
Currency	16.26

**Asset Class Exposure (Net)<sup>e</sup>**

Percent of Total

	%
Fixed Income	46.13
Equity	28.81
Currency <sup>2</sup>	-10.69

**Top Ten Long Exposures<sup>l</sup>**

Equity as a Percent of Total

Top Holdings	%
BALL CORP	0.75
PAYPAL HOLDINGS INC	0.70
SHERWIN-WILLIAMS CO/THE	0.68
ALPHABET INC	0.65
KANSAS CITY SOUTHERN	0.61
DANAHER CORP	0.61
SAP SE	0.57
DANONE SA	0.56
METTLER-TOLEDO INTERNATIONAL INC	0.54
MICROSOFT CORP	0.54

**Top Ten Short Exposures<sup>l</sup>**

Equity as a Percent of Total

Top Holdings	%
PHILA UTILITY INDEX	-0.83
S&P GLOBAL INC	-0.48
APOLLO GLOBAL MANAGEMENT INC	-0.31
INDUSTRIALSELECTSECTORTR	-0.30
LIBERTY MEDIA CORP	-0.23
MSCI DAILY TR WORLD GROS	-0.22
ENCORE CAPITAL GROUP INC	-0.19
INNOVATIVE INDUSTRIAL PROPERTIES INC	-0.18
ETABLISSEMENTS FRANZ COLRUYT NV	-0.17
ATLAS AIR WORLDWIDE HOLDINGS INC	-0.14

1,2. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

## Performance Statistics

Risk Statistics<sup>3</sup>

A (acc) USD

	3 Yrs	5 Yrs	Since Inception
Standard Deviation (%)	5.87	4.73	4.60
Tracking Error (%)	12.83	10.41	10.21
Information Ratio <sup>4</sup>	-0.93	-1.13	-0.83
Alpha	-1.91	-1.60	-0.66
Beta	0.30	0.30	0.29
Sharpe Ratio	0.42	0.56	0.57
R-Squared	0.83	0.82	0.76
Correlation	0.91	0.90	0.87
Upside Capture Ratio	25.15	25.78	27.68
Downside Capture Ratio	26.95	27.17	26.67
% of Positive Months	63.89	70.00	69.88
% of Negative Months	36.11	30.00	30.12
% Maximum Drawdown (Peak-to-Trough)	7.46	7.46	7.46
Drawdown Period	2019-06-30 00:00:00-2020-02-29 00:00:00	2019-06-30 00:00:00-2020-02-29 00:00:00	2019-06-30 00:00:00-2020-02-29 00:00:00

## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Brooks Ritchey	15	38
Robert Christian	11	31
Anthony M Zanolla, CFA	6	27

## 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 seeks to achieve its targeted investment objective by allocating its assets across multiple “alternative” strategies and by investing in a wide range of assets. Such assets and investment instruments have historically been subject to price movements due to such factors as general stock market volatility, sudden changes in interest rates, or fluctuations in commodity prices. The Fund will seek to limit volatility using hedged strategies. As a result, the performance of the Fund can fluctuate moderately over time. Other significant risks include: credit risk, foreign currency risk, derivative instruments risk, liquidity risk, multi-manager 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.

## Glossary

**Alpha:** Alpha measures the difference between a fund’s actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund’s beta. Some investors see alpha as a measurement of the value added or subtracted by a fund’s manager.

**Beta:** A measure of the magnitude of a portfolio’s past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

**Correlation:** The linear relationship between two return series. Correlation shows the strength of the relationship between two return series. The higher the relationship, the more similar the returns.

**Gross Exposure:** Gross exposure is the sum of the absolute value of all exposures, directly or through derivatives, as a percentage of total assets. The sum of the percentage of long positions and short (in absolute terms) positions.

**Long Exposure:** Sum of the long exposures, directly or through derivatives, as a percentage of total assets.

**Net Exposure:** Net exposure is the sum of the total value of all exposures, directly or through derivatives, as a percentage of total assets. The percentage value of the long positions less the percentage value of the short positions.

3. Alpha, Beta, Correlation, R-Squared, Upside and Downside Capture Ratios information are displayed for the product versus the MSCI World Index. The MSCI World Index is solely utilised as a reference benchmark to illustrate difference in behaviour between global equity markets and the fund. However, the MSCI World Index is not fully reflective of the risk profile of the fund, which is not limited to investing solely for long global equity market exposures.

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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**R-Squared:** A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

**Sharpe Ratio:** To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Short Exposure:** Sum of the short exposures, directly or through derivatives, as a percentage of total assets.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Value at Risk (VaR):** A measure of potential loss in value for a portfolio over a defined period of time at a given confidence level. This statistic reflects an estimated one-month VaR exposure calculated at the 95% confidence level, which implies there is a 5% chance the portfolio will lose that VaR amount or more over that time period, assuming that portfolio holdings remain the same. **It's important to note that the actual risk an investment experiences may be higher or lower than the projected VaR estimate, as both portfolio positions and market volatility levels are subject to change.**

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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.

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c. 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.

d. Source: HedgeMark. Weightings as a percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. Manager allocation includes managers that have been appointed as sub-advisors or managers of investment funds. K2 may determine in its sole discretion to not allocate to one or more of the managers and/or to add new managers. Accordingly, the allocation is presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. All holdings are subject to change.



Franklin Templeton International Services, S.à r.l.  
8A, rue Albert Borschette  
L-1246 Luxembourg  
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- e. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. All holdings are subject to change.
- f. Source: HedgeMark. 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.
- g. Source: HedgeMark. Actual Allocation is a percentage of invested capital into fund managers (sub-advisors or co-advisors) as of the end of the period. Percentage may not equal 100% due to rounding. Target Allocations are as of the end of the period. The Fund may shift allocations among strategies at any time. K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly, the Target Allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. All holdings are subject to change.
- h. Source: HedgeMark. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. The Fund may shift allocations among strategies at any time. Further, K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly the above target allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the fund's portfolio (and its managers), which may change at any time.
- i. A decomposition of the fund's strategy-level performance that depicts each strategy's approximate contribution to the fund's absolute gross returns, based on each strategy's daily returns and weights for the periods shown. The gross returns do not reflect the impact of fees, expenses, or sales charges on performance. If that impact were taken into account, the performance shown would have been lower. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. All holdings are subject to change.
- j. The Top Ten Long and Short Exposures represent the ten largest long and short equity issuer exposures of Franklin K2 Alternative Strategies Fund as of the date indicated. Issuer exposures include actual security holdings and single security exposures obtained through the use of derivatives. Direct security holdings and derivatives exposures are combined for calculation purposes. These direct holdings and derivatives do not represent all of the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in securities of the issuers listed was or will be profitable. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included in the top holdings list. The information provided is not a recommendation to purchase, sell, or hold any particular security. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. All holdings are subject to change.



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