

**Product Details<sup>1</sup>**

Fund Assets	€411,866,035.38
Fund Inception Date	17/04/2000
Number of Securities Including Cash	171
Bloomberg	TEMHYEI LX
ISIN	LU0109395268
Base Currency	EUR
Investment Style	High Yield
Benchmark	ICE BofA Euro High Yield Constrained Index
Morningstar Category™	EUR High Yield Bond

**Asset Allocation<sup>a,b</sup>**

Market Value—Percent of Total	%
Fixed Income	95.79
Cash & Cash Equivalents	4.21

**Overall Morningstar Rating™ c**

**Fund Description**

The Fund aims to earn a high level of current income and seeks capital appreciation when consistent with its principal objective of high current income, by investing principally either directly or through the use of financial derivative instruments in Euro-denominated or Non-Euro-denominated Euro-hedged Fixed Income Debt Securities of European or Non-European issuers with Non-investment-grade ratings, or if unrated, their equivalent.

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

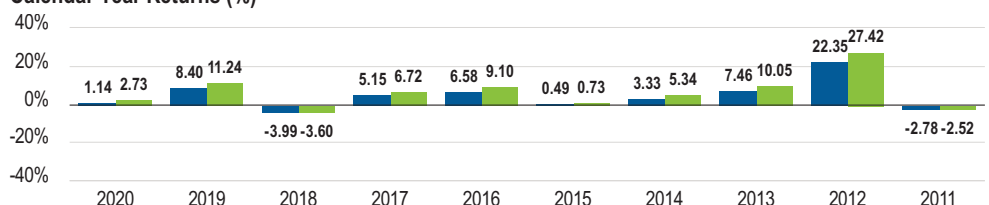
	8/20-8/21	8/19-8/20	8/18-8/19	8/17-8/18	8/16-8/17
A (Ydis) EUR	5.97	-1.15	3.80	0.05	4.49
ICE BofA Euro High Yield Constrained Index EUR	8.78	-0.26	5.71	1.03	6.72

**Performance Net of Management Fees as at 31/08/2021 (Dividends Reinvested) (%)<sup>d,e</sup>**

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	0.17	0.53	2.22	5.97	2.83	2.60	5.19	3.51
ICE BofA Euro High Yield Constrained Index	0.33	1.33	3.78	8.78	4.67	4.34	7.06	5.07

**Cumulative Performance (%)**

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (17/04/2000)
A (Ydis) EUR	0.17	0.53	2.22	5.97	8.74	13.68	65.80	108.91
ICE BofA Euro High Yield Constrained Index	0.33	1.33	3.78	8.78	14.69	23.65	97.76	187.83

**Calendar Year Returns (%)**


- A (Ydis) EUR
- ICE BofA Euro High Yield Constrained Index

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

1. All holdings are subject to change.

## Portfolio Manager Insight

## Performance Review

## ONE-MONTH KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	European Packaging Issuer	Overweight Subordinated Financials	Overweight B	Short Duration Positioning
	—	—	Underweight BB	—
	—	—	—	—
HURT	Global Media Issuer	Overweight Pharmaceutical/ Health Care	—	—
	Global Building Material Issuer	Underweight Quasi Sovereign Corporates	—	—
	—	—	—	—

- The fund slightly underperformed the benchmark due mostly to fees and trading costs—we increased our purchases in the secondary market to reallocate some of the cash returned by bond redemptions. Our short duration positioning (specifically underweight in longer duration bonds) was a major contributor to results.
- Our security selection hindered performance, led by our selection in global media and global building material issuers. Conversely, our selection in a European packaging issuer contributed to results. Our industry allocation detracted from performance, led by our overweight in the pharmaceutical/health care industry. Our underweight towards quasi-sovereign issuers, mostly driven by environmental, social and governance (ESG) requirements, also negatively impacted the performance of the fund. Conversely, our overweight in subordinated financials contributed to results—our increased exposure to Spanish and Greek subordinated debt issues positively impacted performance.
- The fund's overweight in B and underweight in BB rated credit tiers benefitted performance. Conversely, the fund's underweight duration exposure in a BB rated supermarket issuer hindered results.

## Outlook &amp; Strategy

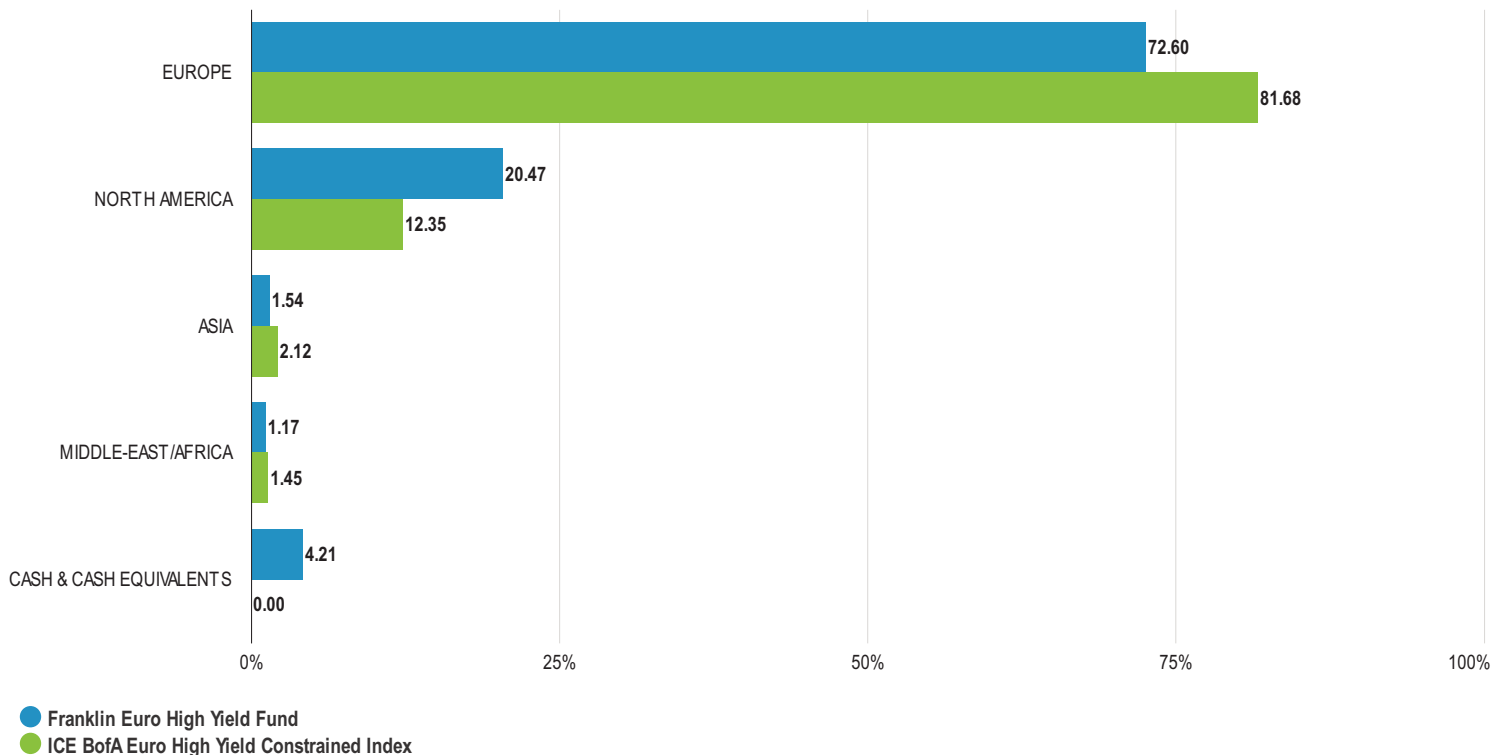
- August confirmed its reputation as a seasonally slow month in terms of market supply with only handful of cross-over names (that were rated on the cusp between high-yield and investment-grade) coming to the primary market. On the other hand, we started to see a modest increase in bond redemptions, resulting in a slight decrease in the size of the market. Nevertheless, the EHY market remained close to historically high levels, just below the €480 billion threshold. Both the net asset value and the cash balance for the fund were little changed during the month despite some late month secondary trading activities. We slightly increased our exposure to reopening sectors as the European summer unfolded with no major setbacks related to COVID-19. We believe the discount of directly-impacted COVID-19 sectors, versus more defensive ones, could narrow further in the coming months. We also finalised more trades for the fund to better conform to the European Union's Article 8 SFDR (Sustainable Finance Disclosure Regulation).
- Whilst we have become more constructive on the EHY asset class as improving economic conditions/earnings (including COVID-19 exposed issuers that have been less adversely affected by a fairly benign European summer in terms of pandemic case counts), EHY spreads have not moved meaningful during the past quarter. Furthermore, with the European Central Bank rhetoric of lower rates for longer still very much in place, we see demand for positive yielding European fixed income assets to remain stable for the foreseeable future. Consequently, we have further decreased our 12-month default expectations as we see the risk of those issuers going into restructuring strongly reduced compared to only few months ago.
- We are agnostic on ratings at this point of the financial cycle. Whilst BB bonds should continue to benefit from the demand of non-dedicated EHY accounts, both their recent outperformance and longer duration compared to the rest of the EHY market are likely to limit further outperformance. We have become more constructive on lower-rated issues based on improving average earnings, high liquidity buffers and expected increase in demand from EHY accounts which, until now, had been unwilling to increase their single B and CCC positions. We would recommend a B credit rating overweight mostly through seasoned B rated issuers as we have not always been comfortable with the offering memorandum figures/covenants included in recent bond offerings.
- The recent underperformance of B rated new issues is likely to decrease appetite for future primary issuance (which is expected to remain stable based on recent mergers and acquisitions (M&A) transactions from the more speculative investors, which hopefully should increase EHY investors bargaining power when it comes to leverage calculations, pricing and covenants. Up until now, there has been a lot of market talk regarding future primary supply that is expected to remain high because of increasing M&A activity. We would note that market supply, historically, had little impact on EHY spreads as corporate issuers time their bond issuance according to the strength of the market. We, on the other hand, believe tightening EHY spreads lead to higher primary issuance (and vice versa).
- Sector-wise we continue to like selected financial subordinated bonds because of their higher average spread (versus market average) and improving capital ratios within the banking sector. Furthermore, we see financials as comparatively well placed to deal with increased ESG scrutiny from investors and regulators. Manufacturing sectors, on the other hand, that performed very strongly in the second half of 2020, may come under modest selling pressure in light of persistent supply-side issues and unfavourable comparisons with similar sectors.

Portfolio Characteristics<sup>b,f,2</sup>

	Portfolio	ICE BofA Euro High Yield Constrained Index
Yield to Maturity	3.42%	2.86%
Yield to Worst	2.54%	2.44%
Average Credit Quality <sup>3</sup>	BB-	BB-
Average Duration	2.49 Yrs	3.39 Yrs
Average Weighted Maturity	2.86 Yrs	4.61 Yrs

Portfolio Diversification<sup>b</sup>Geographic Allocation vs. ICE BofA Euro High Yield Constrained Index<sup>a</sup>

Market Value—Percent of Total



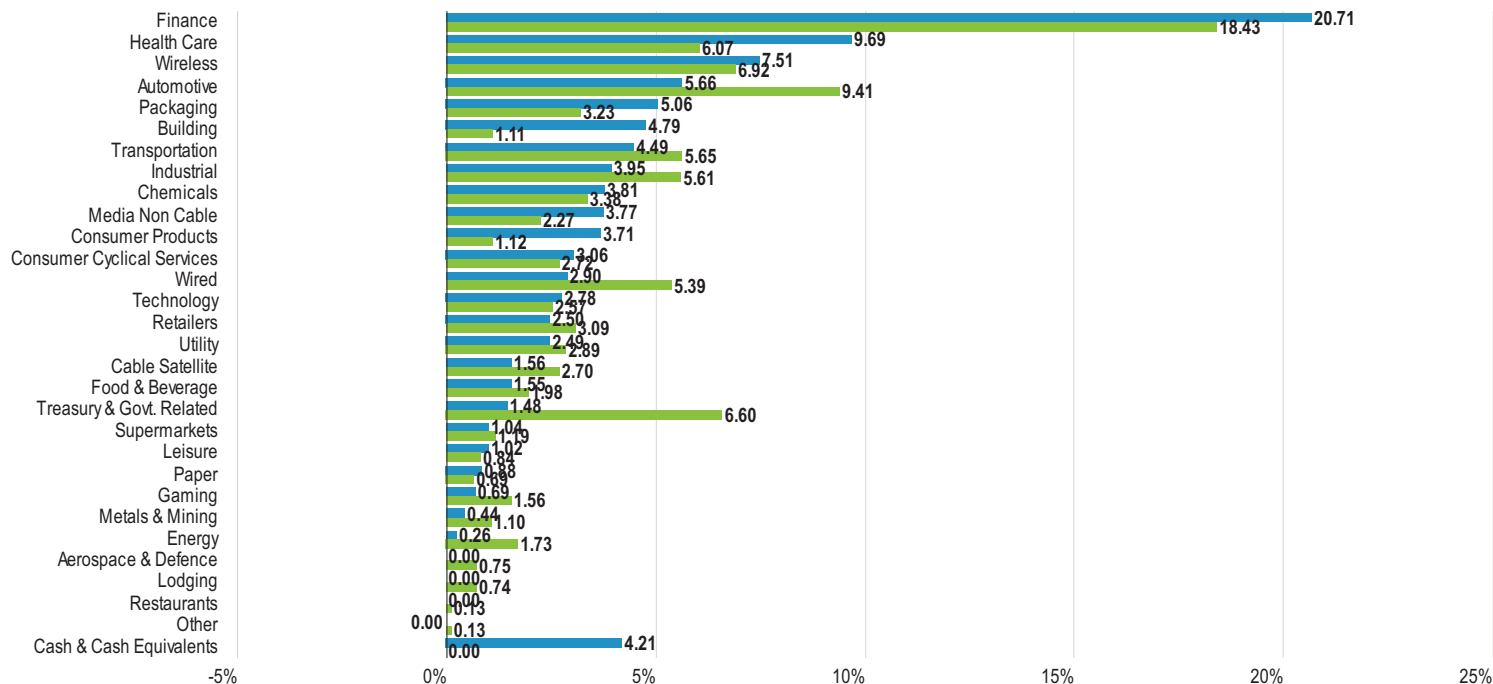
2. Yield figures quoted should not be used as an indication of the income that has or will be received. Yield figures are based on the portfolio's underlying holdings and do not represent a payout of the portfolio. **Past performance is not an indicator or a guarantee of future performance.**

3. The average credit quality (ACQ) rating may change over time. The portfolio itself has not been rated by an independent rating agency. The letter rating, which may be based on bond ratings from different agencies (or internal ratings for unrated bonds, cash and equivalents), is provided to indicate the average credit rating of the portfolio's underlying investments and generally ranges from AAA (highest) to D (lowest). For unrated bonds, cash and equivalents, ratings may be assigned based on the ratings of the issuer, the ratings of the underlying holdings of a pooled investment vehicle, or other relevant factors. The ACQ is determined by assigning a sequential integer to all credit ratings AAA to D, taking a simple, asset-weighted average of investments by market value and rounding to the nearest rating. The risk of default increases as a bond's rating decreases, so the ACQ provided is not a statistical measurement of the portfolio's default risk because a simple, weighted average does not measure the increasing level of risk from lower-rated bonds. The ACQ may be lower if cash and equivalents are excluded from the calculation. The ACQ is provided for informational purposes only. Derivative positions are not reflected in the ACQ.

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**Sector Allocation vs. ICE BofA Euro High Yield Constrained Index<sup>3</sup>**

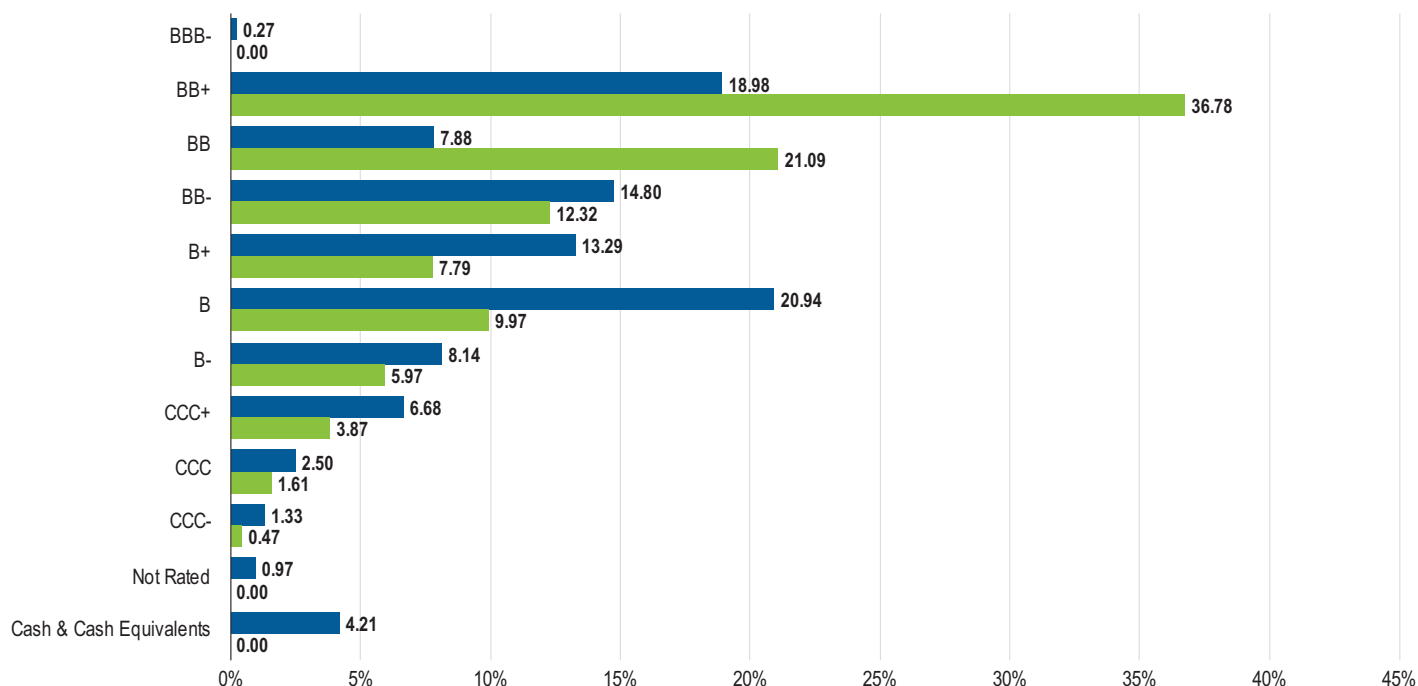
Market Value—Percent of Total



● Franklin Euro High Yield Fund  
● ICE BofA Euro High Yield Constrained Index

**Credit Quality Allocation vs. ICE BofA Euro High Yield Constrained Index<sup>4</sup>**

Market Value—Percent of Total



● Franklin Euro High Yield Fund  
● ICE BofA Euro High Yield Constrained Index

4. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.

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## Performance Statistics

Risk Statistics<sup>5</sup>

	3 Yrs	5 Yrs	10 Yrs	Since Inception
<b>Standard Deviation (%)</b>				
Franklin Euro High Yield Fund	8.59	6.86	6.83	10.05
ICE BofA Euro High Yield Constrained Index	9.61	7.64	7.46	11.56
<b>Tracking Error (%)</b>	1.46	1.22	1.29	3.40
<b>Information Ratio<sup>6</sup></b>	-1.26	-1.43	-1.45	-0.47
<b>Beta</b>	0.89	0.89	0.90	0.84
<b>Sharpe Ratio</b>				
Franklin Euro High Yield Fund	0.40	0.48	0.82	0.23
ICE BofA Euro High Yield Constrained Index	0.55	0.65	1.00	0.34

## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Patricia O'Connor, CFA	23	25
Piero del Monte	13	23
Rod MacPhee, CFA	8	14
Emmanuel Teissier	13	18

## 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 lower-quality debt securities denominated in euro. Such securities have historically been subject to price movements, generally due to interest rates or movements in the bond market in general. As a result, the performance of the Fund can fluctuate over time. The Fund may distribute income gross of expenses. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital. Other significant risks include: credit risk, derivative instruments risk, 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.

5. Beta, Information Ratio and Tracking Error information are measured against the ICE BofA Euro High Yield Constrained Index.

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**

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](http://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.

**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. 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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- a. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
- b. All holdings are subject to change.
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- d. 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.
- e. 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.
- f. Yield to Maturity, Yield to Worst, Average Duration and Average Weighted Maturity reflect certain derivatives held in portfolio (or their underlying reference assets).



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