FRANKLIN TEMPLETON

Templeton Emerging Markets Dynamic Income Fund

A (Qdis) USD
31 October 2021

Franklin Templeton Investment Funds

Fund Commentary

Performance Review

- Continued economic growth and robust corporate earnings globally supported equity investor sentiment in October. Emerging market (EM) equities rose, although monetary policy tightening in several countries kept the asset class behind developed market stocks. Sovereign bond yields continued to rise across much of the world during the month as central banks continued to veer towards monetary tightening cycles, following the highly correlated global easing cycle in 2020 and early 2021. Yield curve shifts were most pronounced in specific EMs that have high inflation and central banks that are pursuing aggressive rate hikes, notably in Latin America and eastern Europe. The yield on the 10-year US Treasury note finished the month seven basis points higher at 1.56%.
- For the month, the fund's A (Qdis) USD shares returned 1.30%, and its benchmark, the Linked 50% MSCI EM-NR + 50% JPMorgan GBI-EM Global Diversified Index, returned -0.17%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Equity	Fixed Income
HELPED	Financials (Stock Selection)	Russian Ruble
	India (Stock Selection)	Duration Exposure in Argentina
	China (Stock Selection)	Colombian Peso
HURT	South Korea (Overweight)	Argentine Peso
	Materials (Stock Selection)	Brazilian Real
	Brazil (Overweight)	Indian Rupee

- In the equity portfolio, shares of ICICI Bank advanced. The Indian private-sector lender's quarterly earnings surged, thanks to strong loan growth and increased margins. We believe that ICICI Bank's healthy capital buffer, strong deposit franchise and risk-conscious practices have enabled it to weather the pandemic well, which could position it for market share gains as the crisis recedes. We also expect structural changes within the bank to drive its pursuit of sustainable and profitable growth over the longer run.
- Conversely, shares of South Korean semiconductor and consumer electronics company Samsung Electronics fell. A soft near-term market outlook for memory chip demand and prices weighed on the stock, even though the company's quarterly profit increased. We continue to expect healthy longer-term demand for memory chips. In addition, tight supply in foundry capacity should benefit Samsung.
- The US dollar (USD) generally weakened in October, albeit with some pockets of strength and more idiosyncratic directional moves against specific currencies than seen in the more broad-based trends of prior months. Currency positions in Latin America detracted from the fixed income portfolio's absolute performance (the Argentine peso and Brazilian real detracted, while the Colombian peso contributed). The fixed income portfolio's net-negative position in the Australian dollar also detracted from absolute results, as did its position in the Turkish lira. However, its position in the Russian ruble contributed to absolute performance, as did currency positions in Asia ex Japan (the Indonesian rupiah and South Korean won contributed, while the Indian rupee detracted). During the month, 10-year sovereign bond yields rose sharply across much of Latin America, including Brazil, Chile and Colombia, and in areas of eastern Europe. Trends were more mixed in Asia, where 10-year yields rose moderately in India and Thailand, but declined in Indonesia. Select duration exposures in Africa and Latin America detracted from the fixed income portfolio's absolute results (Brazil, Ghana and Chile detracted, while Argentina contributed). However, select duration exposures in Asia ex Japan (Indonesia) contributed to the fixed income portfolio's absolute performance. We continue to focus on higher-yielding local-currency bonds in specific EMs that have resilient economies, healthy or improving fiscal conditions and strong trade dynamics. Credit exposures in Asia ex Japan contributed to the fixed income portfolio's absolute return.
- From an overall fixed income positioning standpoint, we continue to maintain low portfolio duration. We continue to emphasise select local-currency sovereign bonds in countries that we view as having resilient fundamentals and attractive risk-adjusted yields. We are holding various unhedged local-currency sovereign bonds, notably in South Korea, Indonesia, India, Ghana, Brazil and Colombia. We are also focusing on value opportunities in specific currencies, particularly in countries with strong trade dynamics, current account surpluses, better fiscal management and stronger growth potential, notably in Asia. We are holding long exposures in the Chinese yuan, South Korean won, Indonesian rupiah, Indian rupee and Chilean peso against the USD. In credit markets, we see pockets of value in select sovereign credit exposures that have undervalued growth drivers and attractive risk-adjusted spreads, but we continue to avoid corporate credit, given stretched valuations. On the whole, we remain constructive in specific currencies and local-currency bond markets, notably in areas of Asia, as we largely expect the global recovery to continue through the remainder of 2021 into 2022.

Outlook & Strategy

- Signs of the COVID-19 Delta outbreak potentially peaking in some countries, along with continued economic reopenings and accelerating vaccine rollouts, have supported the global economic recovery. Although some EMs have tightened monetary policies amidst rising inflationary pressures, we believe that accommodative monetary conditions in most markets should continue to provide a conducive environment for global equities. EM equities, in particular, offer an attractive investment opportunity from our point of view.

- EM equities have traded at a discount to the developed world despite their strong growth potential. Valuations in eastern Europe and Latin America look especially compelling—not just on an absolute basis, but also relative to their own history. In China, ongoing regulatory changes in the internet and other industries have led to lower market valuations. Cash flows are another reason why we remain positive on EM companies. In the last decade, free cash flows have been improving (in both absolute terms and relative to developed markets), and the trend has accelerated in the last year. EM companies have generated more free cash flows because commodity-oriented and technology-oriented companies have been doing well. As cash flows increase, we believe this could help propel stock reratings.
- From a global fixed income perspective, we expect macroeconomic conditions in much of the world to continue to improve through the remainder of 2021 into 2022. However, economic recoveries are likely to remain uneven as countries are at different stages of handling the pandemic and/or have varying vulnerabilities to high inflation and monetary tightening cycles. Several countries have transitioned towards policy stances of "living with COVID" to move beyond the damaging cycles of lockdowns and reopenings. Risks to the global recovery include potential setbacks in vaccinations, particularly in EMs, as well as COVID-19 variants that have the potential to extend the duration and damage of the pandemic in certain regions.
- Many central banks have begun considering when and at what pace to begin normalising policy. Specific EMs with inflation concerns—such as Brazil, Mexico, Chile, Peru, Russia and Hungary—have been assertively raising rates in the second half of 2021, while other countries are looking towards normalising policy to keep ahead of the curve, given strengthening economic conditions. We expect a growing divergence on the monetary policy front as certain developed market central banks trend towards policy normalisation ahead of others, such as Norway, South Korea and New Zealand, while certain EM central banks are compelled to tighten policy to contend with rising inflationary pressures.

Fund Details

Inception Date	29/04/2011
Benchmark	Linked 50% MSCI EM-NR + 50% JPMorgan GBI-EM Global Diversified Index, MSCI Emerging Markets Index-NR, JP Morgan GBI-EM Global Diversified Index

Fund Description

The Fund's investment objective is to maximise, consistent with prudent investment management, a combination of capital appreciation and income. The Fund seeks to achieve its objective by investing principally in a diversified portfolio of equity and debt securities by issuers located, incorporated or have their principal business activities in developing or Emerging Market countries. The Fund will typically invest at least 25% of its assets in Emerging Market equity securities and at least 25% of its assets in debt securities.

Performance Data[1,2]

Discrete Annual Performance (%) as at 31/10/2021

	10/20-10/21	10/19-10/20	10/18-10/19	10/17-10/18	10/16-10/17
A (Qdis) USD	6.64	3.65	8.85	-11.43	22.21
Linked 50% MSCI EM-NR + 50% JPMorgan GBI-EM Global Diversified Index USD	8.77	2.27	15.18	-8.78	15.81

Performance Net of Management Fees as at 31/10/2021 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/04/2011)
A (Qdis) USD	1.30	-1.80	-2.78	6.64	6.36	5.43	1.86	0.96
Linked 50% MSCI EM-NR + 50% JPMorgan GBI-EM Global Diversified Index	-0.17	-2.22	-3.90	8.77	8.61	6.24	4.87	4.06

Investment Team

Chetan Sehgal, CFA
Years with Firm 26
Years Experience 29

Michael Hasenstab, Ph.D.
Years with Firm 22
Years Experience 26

Vivek Ahuja
Years with Firm 15
Years Experience 25

Subash Pillai
Years with Firm 3
Years Experience 24

1. The benchmark performance shown is derived from a combination of the Blended 50% MSCI Emerging Markets-NR + 50% JPMorgan EMBI Global Index from the Fund's inception to 31st August 2019 and the Blended 50% MSCI EM-NR + 50% JPMorgan GBI-EM Global Diversified Index from 1 September 2019 to current reporting period.
2. Net Returns (NR) include income net of tax withholding when dividends are paid.

For Professional Client Use Only. Not for distribution to Retail Clients.

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 debt and equity securities issued by entities located in emerging countries. Such securities have historically been subject to price movements, generally due to interest rates, market factors or movements in the equity and bond markets. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: Chinese market risk, credit risk, foreign currency risk, derivative instruments risk, emerging markets 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.

Important Legal Information

Effective 2 September 2019, Templeton Emerging Markets Balanced Fund was renamed Templeton Emerging Markets Dynamic Income 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.

References to indexes are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown.

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.

CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

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. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Sales charges and other commissions, taxes and other relevant costs paid by investor are not included.
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.

FRANKLIN TEMPLETON

Franklin Templeton International Services, S.à r.l.
8A, rue Albert Borschette
L-1246 Luxembourg
franklintempleton.lu

For Professional Client Use Only. Not for distribution to Retail Clients.