FRANKLIN TEMPLETON

Franklin K2 Alternative Strategies Fund

A (acc) USD
31 May 2024

Franklin Templeton Investment Funds

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities rallied in May 2024 amid investor optimism about the economic growth outlook and expectations for interest-rate cuts in Europe and the United States this summer. Generally robust corporate earnings results reported during the month and enthusiasm about artificial intelligence further bolstered investor sentiment. Global manufacturing activity expanded in May for the fourth consecutive month, while flash reports for May indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market equities underperformed it. In terms of investment style, global growth stocks significantly outperformed global value stocks. As financial market sentiment improved, most fixed income spread sectors recorded positive total returns during the month. US Treasury (UST) yields declined across most maturities and the UST yield curve remained inverted. Option-adjusted spreads broadly tightened. In the US, there was no clear distinction between the performance of higher-rated credits versus their lower-rated counterparts, but high-yield bonds broadly outperformed in Europe.
- For the month, the fund's A (acc) USD shares returned 1,64%, and its benchmarks, the ICE BofA US 3-Month Treasury Bill Index and the HFRX Global Hedge Fund Index, returned 0,48% and 0,60%, respectively.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Long/Short Equity	Electron (Long/Short Equity)	Industrials (Long)
	Relative Value	Jennison (Long/Short Equity)	Health Care (Long)
	Strategic Overlay	Athena (Relative Value)	Utilities (Long)
HURT	Global Macro	Graham (Global Macro)	Currency Hedges
	—	CFM (Global Macro)	Government Bond Futures (especially US, Long)
	—	—	Volatility Index Hedges

- Three of the four primary strategies contributed to absolute gains in May, while eight of the ten underlying subadvisors posted positive results. At the asset class level, long equity positioning was the key contributor. Fixed income positioning (long) and cash holdings also contributed, with additional, slight contribution from real estate. In contrast, currency hedges weighed on returns. Within equities, long positioning in the industrial, health care and utilities sectors drove gains. The Strategic Overlay, formerly known as the Conditional Risk Overlay (CRO), also contributed meaningfully, given its long exposure to S&P 500® Index futures as the index advanced.
- Among the portfolio's strategies, the long/short equity strategy was the key driver of positive performance during the month, due almost exclusively to long equity positioning. The strongest contributing sectors were industrials, health care and utilities. Subadvisors Electron and Jennison were the top two overall contributors, regardless of strategy, with ActusRay finishing in the top four. Electron sharply outpaced the MSCI World Utilities Sector Index during the month, as demand for energy to meet AI and electric vehicle needs led to a focus on core sectors of utilities, infrastructure and renewables. Gains in the month were driven by a Texas-based power producer and retail energy provider, an infrastructure construction firm and a Maryland-based electric utility, each of which beat and raised earnings early in the month. Jennison continued to outpace its benchmark on a year-to-date basis, driven in May by its long book. Top contributors included a diabetes medical device firm and a health insurance company on the strength of better-than-expected earnings. The ActusRay strategy faced a more challenging environment in May as investors globally shifted focus to macroeconomic factors such as US inflation and interest rates. The manager was pleased with a modestly positive return.
- The relative value strategy was a notable contributor to absolute returns, led by long fixed income positioning. Subadvisor Athena was among the top overall contributors, led by long equity positioning. Subadvisors Apollo and Lazard were more modest contributors. Apollo's portfolio was up in what was generally a risk-on month, aided by a media company whose earnings provided optimism around its digital business. Lazard's positive performance was driven by tailwinds in the credit and the interest rate portion of the portfolio.
- The event driven strategy posted a modest gain in May but its contribution was minimal. Gains on the month were driven by the manager's positioning in a European digital marketplace operator, which received an additional proposal from a US-based alternative asset manager, and a France-based fabless semiconductor company that recovered some losses from a deal that collapsed in early 2024.
- Conversely, the global macro strategy detracted meaningfully. Currency hedges were the largest driver, and, long fixed income positioning also weighed on returns. Subadvisors Graham and CFM were among the whole portfolio's largest detractors. Graham's negative performance was driven by currency positioning (primarily due to US dollar longs) and fixed income (US shorts). CFM also lost ground in fixed income and currencies, as its core macro and short-term trend sub-strategies were negative. In contrast, subadvisor BlueBay was a modest contributor, fuelled by gains in hard currency debt and local currency rates.

- During the month, three strategies underwent some substantial adjustments, especially the event driven strategy, through the lone subadvisor, Bardin Hill. The team also significantly increased exposure to the relative value strategy—adding to subadvisors Athena and Lazard, while lowering Apollo's weighting.

Outlook & Strategy

- As we have been alluding to for approximately a year, the Federal Reserve (Fed) remains laser-focused on inflation. Not too long ago, they suggested that there may very well be five to six rate cuts in 2024 since inflation inputs appeared to be showing signs of relief. Apart from the Fed's actual course of action, the world is full of Fed forecasters, which we find ironic since even the Fed itself has indicated that they are taking each data point and meeting one at a time and find forecasting a challenging task in this unique historical environment. Our ongoing concern is that the neutral rate may very well be higher than the Fed and market expect, potentially causing a re-pricing of risk.
- We expect that the rest of 2024 will be an oscillation of expectations, with outlooks shifting from a state of weak growth and lower future interest rates to a state of solid growth and steady rates, and even possibly a state of very strong growth and resurfacing inflationary pressures. This "oscillation of expectations" will likely provide many alpha opportunities across numerous investment factors, regions, asset classes, and trading strategies.
- We continue to think that the technology sector will be the leader of overall market strength. As that strength wanes, we may see more of a rotation trade towards the end of 2024. Of course, there are many potential potholes and sharp curves in the road ahead. Over the course of this quarter, we expect investors to take strong note of the earnings cycle, economic growth, and central bank rhetoric. Over the summer, the US election cycle should be front and centre stage, where tickets are free but the after party has the potential to be costly.
- Items of most concern include the possibility that economic growth/inflation/interest rates will stay higher for longer than the market is currently discounting. We are asking ourselves lots of questions about ways that these risks could materialise. Will artificial intelligence (AI) have a more powerful and/or quicker impact than many think? Is immigration growth in the US strengthening, thereby fuelling the country's growth engine? Geopolitical pressures continue to rise. While today's market environment has had the tendency to look through these events relatively quickly, will there be a situation that causes a sustainable risk-off liquidation? If interest rates do not fall quickly, what will the consequences be for real estate, private credit, banks, as well as less regulated financial institutions? What does recent strength in the metals complex mean?
- We believe investors need to seek diversifying strategies and top-down-driven global macro as a complement to their long-only portfolios, which are only becoming more and more correlated to one another. We think that investors need to think of future returns and risk distributions as being wider and having fatter tails to both the upside and downside. Active asset managers, of which hedge funds are the most agile and dynamic, need to be a larger component of asset owners' portfolios for the foreseeable future, in our view.
- The environment remains constructive for global macro managers, especially those that can trade tactically around major political and policy events. Tactical macro managers may find ample trading opportunities as we approach the US election and possible turning points in central bank policy paths. Domestic and international markets are likely to react to election campaign developments, and several discretionary managers have already begun discussing election probabilities and structuring trades that may profit in a range of scenarios. Meanwhile, monetary policy setters continue to focus on the complex mix of inflation, unemployment, and seemingly not-yet-challenged growth data.
- We hold a neutral outlook for traditional event-driven strategies, with a notable overweight for activism. We see momentum for activist strategies as a record-breaking number of campaigns in 2023 indicate fresh portfolios with material upside potential. Furthermore, a pick-up in deal activity and a reversion in the performance gap between small- and large-caps could benefit activist portfolios. Elsewhere, Merger arbitrage and special situations investing are benefitting from a pickup in activity, offset by higher regulatory and political risks.
- Although we maintain an underweight rating, we think prospects for long/short equity managers are trending in the right direction. Sentiment largely continues to be driven by AI, and volatility remains extremely low. However, we are starting to see some more favorable dispersion as the stock market focuses a bit more on idiosyncratic developments and perhaps less on the rates picture. We believe that historically high gross exposures among long/short equity managers corroborate that view as managers demonstrate confidence in their portfolios.
- Our outlook for relative value strategies remains mixed, with a neutral rating on volatility arbitrage and underweight for fixed income arbitrage and convertible arbitrage sub-strategies. Regulatory uncertainty and excess capital negatively impact our outlook for fixed income and convertible arbitrage, respectively. Volatility arbitrage is suffering from low realised and implied volatility levels but presents an attractive entry point to be long protection in case of unexpected market moves.

Thematic Update

Current View	Macro Elements (And K2's Views of Current Impact on "Risk-On" Market Sentiment)	
Yellow	1	Global GDP growth will improve or remain stable at strong levels
Green	2	Central banks' interest rate policies will be in 'stable' or in 'easing' mode
Yellow	3	Global inflation year-over-year levels will decline
Yellow	4	US earnings growth outlook will improve
Red	5	Global geopolitical tensions will improve
Yellow	6	Real estate prices will be stable or rise
Green	7	Technological advances will improve corporate productivity
Red	8	Financial conditions will become 'easier'
Red	9	Unemployment rates will decline
Yellow	10	The global regulatory environment regarding mergers and monopolistic company pressures
Red	11	The US Dollar will decline
Yellow	12	Corporate and individual investors risk appetite will improve

KEY:	
Green	Positive Level or Trend That Might Support Positive Investor "Risk On" Assets
Yellow	Neutral Level or Trend (Or Pending Event) That Might Drive Investor Uncertainty
Red	Negative Level or Trend That Might Foster An Investor "Risk-Off" Environment

Fund Details

Inception Date	15.09.2014
Benchmark	ICE BofA US 3-Month Treasury Bill Index, HFRX Global Hedge Fund Index
EU SFDR Category	Article 8

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[1]

Past performance does not predict future returns.

Discrete Annual Performance (%) as at 31.05.2024

	5/23 5/24	5/22 5/23	5/21 5/22	5/20 5/21	5/19 5/20	5/18 5/19	5/17 5/18	5/16 5/17	5/15 5/16	5/14 5/15
A (acc) USD	8,85	-1,64	-6,45	11,11	-0,97	0,89	2,57	6,45	-3,58	-
ICE BofA US 3-Month Treasury Bill Index USD	5,45	3,14	0,14	0,11	1,84	2,26	1,28	0,44	0,15	0,03
HFRX Global Hedge Fund Index USD	5,89	-1,26	-3,01	13,54	2,95	-3,68	2,88	5,98	-6,99	1,11

Performance Net of Management Fees as at 31.05.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (15.09.2014)
A (acc) USD	1,64	3,50	6,34	8,85	0,06	1,96	2,26
ICE BofA US 3-Month Treasury Bill Index	0,48	1,36	2,21	5,45	2,89	2,12	1,51
HFRX Global Hedge Fund Index	0,60	1,31	2,57	5,89	0,46	3,46	1,54

Investment Team

Robert Christian
Years with Firm 14
Years Experience 34

Art Vinokur
Years with Firm 19
Years Experience 19

Lillian Knight, CFA
Years with Firm 19
Years Experience 33

Brooks Ritchey
Years with Firm 18
Years Experience 40

Anthony M Zanolla, CFA
Years with Firm 9
Years Experience 30

1. The fund's returns may increase or decrease as a result of changes to foreign exchange rates.

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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. There is no guarantee that the Fund will meet its objective. 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.

Important Legal Information

This fund meets the requirements under Article 8 of the EU Sustainable Finance Disclosure Regulation (SFDR); the fund has binding commitments in its investment policy to promote environmental and/or social characteristics and any companies in which it invests should follow good governance practices. Further information in relation to the sustainability-related aspects of the Fund can be found at www.franklintempleton.lu/SFDR. Please review all of the fund's objectives and characteristics before investing.

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. A copy of these documents can be found, on our website www.franklintempleton.ch or can be obtained, free of charge, from Franklin Templeton Switzerland Ltd, a member of Franklin Templeton Investments, Stockerstrasse 38, CH-8002 Zurich, Tel +41 44 217 81 81 / Fax +41 44 217 81 82, info@franklintempleton.ch. Paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Issued by Franklin Templeton Switzerland Ltd, a company authorized and regulated by the Swiss Financial Market Supervisory Authority FINMA as representative of Franklin Templeton Investment Funds.The Fund's documents are available in English, Arabic, French, German, Italian, Polish and Spanish or can be requested via FT's European Facilities Service available at https://www.eifs.lu/franklintempleton.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.For the avoidance of doubt, if you make a decision to invest, you will be buying units/shares in the Fund and will not be investing directly in the underlying assets of the Fund.

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 Information Document/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.

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Benchmarks provided for additional performance comparison are for informational purposes only; the fund manager does not intend for the portfolio to track them. The Bank of America Merrill Lynch 3-Month US Treasury Index is provided as an absolute return benchmark. The HFRX Global Hedge Fund Index represents a measure of a broad universe of hedge fund strategies. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

Effective 1 November 2021, the Fund's benchmark is Euro Short-Term Rate (ESTR). The Linked Euro Short-Term (ESTR) performance shown is derived from a combination of the ICE LIBOR 3-Month (EUR) Index from the Fund's inception to 31st October 2021 and Euro Short-Term Rate (ESTR) thereafter.

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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.

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