FRANKLIN TEMPLETON

Franklin K2 Alternative Strategies Fund

Franklin Templeton Investment Funds

A (acc) USD
31 July 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in July 2024 despite heightened volatility that included a rotation away from large-capitalisation, technology-related stocks worldwide—especially those focused on artificial intelligence (AI). Cooler-than-expected inflation and a softening job market in the United States increased investor expectations for interest-rate cuts, leading to a preference for small-cap stocks, rate-sensitive equities and more cyclical areas of the market. Global manufacturing activity contracted in July for the first time in 2024, while flash reports for July indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed market equities outpaced a global index, while emerging market equities trailed it. Global value stocks significantly outperformed global growth stocks, which generally declined. Most fixed income spread sectors recorded positive total returns as market sentiment improved during the month. Investors were particularly relieved to see continued disinflation in the United States, which increased expectations for a September rate cut from the US Federal Reserve. US Treasury (UST) yields declined across most maturities—led by short and intermediate rates—while the UST yield curve remained inverted. Higher-rated credits generally fared better than their lower-rated counterparts, with US and major regional bond indexes posting broadly positive returns.
- For the month, the fund's A (acc) USD shares returned 1,14%, and its benchmarks, the ICE BofA US 3-Month Treasury Bill Index and the HFRX Global Hedge Fund Index, returned 0,45% and 0,74%, respectively.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Relative Value	Jennison (Long/Short Equity)	Health Care (Long)
	Long/Short Equity	Athena (Relative Value)	Currency Hedges
	Strategic Overlay	BlueBay (Global Macro)	Industrials (Long)
HURT	—	Graham (Global Macro)	Equity Index Hedges
	—	—	Interest Rate Futures (Short)
	—	—	Materials (Long)

- All four primary strategies contributed to absolute gains in July, while nine of the 10 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 an additional, more modest contribution from currency hedges and credit positioning. Hedges made the interest-rate asset class the lone significant detractor. In contrast, interest-rate positioning weighed on returns. Within equities, long positioning in the health care and industrials sectors drove gains. The relative value and long/short equity strategies were the key drivers of positive performance, while the strategic overlay, global macro strategy and event driven strategies were modest contributors.
- Among the portfolio's strategies, the relative value strategy was the largest driver of positive performance, owing to short equity positioning—especially in the information technology (IT) sector—and long fixed income positioning. Two subadvisors, Athena and Apollo, were among the top overall contributors, with Lazard making a more modest contribution. Athena benefitted from long equity positioning, especially in IT and consumer staples. Subadvisor Apollo's long book, including a media company benefitting from guidance around its digital business, drove gains in a strong month for risk assets. Lazard's advance was driven by a richening of the basis, primarily due to lower global fixed income yields.
- The long/short equity strategy was also a substantial contributor, due almost exclusively to long equity positioning. Health care, the focus of subadvisor Jennison, was by far the top-contributing sector, followed by industrials, outweighing detraction from equity index hedges and a few sectors. Indeed, Jennison was the top overall contributing subadvisor. Jennison's strength lay in the biotechnology and life sciences, tools and services industries, as shares rallied amid slowing inflation data and rising hopes for lower interest rates. A drug developer in the biotech space was among the top contributors, with shares advancing due to solid earnings and positive study results. Subadvisors Electron and ActusRay were modest contributors.
- The strategic overlay contributed on the strength of its exposure to Standard & Poor's® 500 Index futures.
- The global macro strategy also contributed modestly. Long positioning in fixed income and currency hedges drove gains, partially offset by detraction from long equity positioning—especially a hedge against a US small-cap index—and interest-rate hedges. Subadvisor BlueBay was the top contributor in the strategy, followed by CFM. Emerging market sovereign bonds continued to drive BlueBay's gains, while currency hedges and credit default swaps helped CFM. Conversely, Graham was the month's only detractor among all subadvisors, regardless of strategy. Graham posted losses in all asset classes, with fixed income as the largest detractor, due largely to shorts in the United States and, to a lesser extent, Europe.

- The event-driven strategy was a modest contributor, fuelled by subadvisor Bardin Hill's long equity positioning in the communication services and IT materials sectors. Gains were driven primarily by a pickup in deal-making and tightening of spreads, as election uncertainty urged deals to accelerate. A UK-based packaging company was a notable contributor, amid share buybacks and good news flow around its pending strategic acquisition by a US-based competitor following a bidding war.
- During the month, the team reduced exposure to global macro subadvisor BlueBay, and at month-end, cash positioning was significantly higher than at the end of June. The team continues to consolidate the portfolio into high-conviction managers, which the team believes can combine nimble beta management while aiming to deliver consistent alpha.

Outlook & Strategy

- The trajectory of interest rates is beginning to level off as inflationary pressures ease. Nonetheless, there's a growing sentiment that rate cuts may not materialise as swiftly as investors are predicting, and our perspective remains that fluctuating expectations will likely mark the rest of 2024. AI, clean energy and cloud computing stand out to us as significant macroeconomic factors that are likely to provide momentum to worldwide economies.
- Entering 2024, we anticipated a number of issues would characterise the market, including a pendulum of expectations about growth and monetary policy, swinging from prospects of subdued growth and reduced future interest rates to scenarios of strong growth with consistent rates and possibly even to vigorous growth with renewed inflationary pressures. This pendulum swing in expectations is expected to continue to create numerous alpha opportunities across different investment factors, regions, asset classes and trading strategies.
- We still believe that the technology sector will likely dominate the market's overall performance. As this dominance begins to fade, we might observe a shift in trading focus towards the end of 2024. Indeed, the journey ahead is lined with the potential for obstacles and sudden changes. During this quarter, we anticipate that investors will closely monitor the earnings cycle, economic expansion and the statements of central bankers. Through November, the US election cycle is expected to dominate the spotlight, with attendance being free but the repercussions potentially expensive.
- Our greatest concerns hinge on the possibility that economic growth, inflation and interest rates may remain elevated longer than currently anticipated by the market. We are actively questioning how these risks might come to fruition. Could AI have a more significant and rapid impact than expected? Is the growth in immigration in the United States contributing to the nation's economic engine? Geopolitical tensions continue to rise, but for the most part, the global markets have looked through such events with local and direct markets taking the brunt of the selling. Could there be an incident that triggers a lasting move away from risk? Should interest rates not decrease rapidly, what implications might this have for real estate, private credit, banks and less-regulated financial entities?
- We have added equity market neutral to our preferred strategies, believing there is untapped value in today's market related to the narrowing breadth of the equity rally. There's an interesting dynamic playing out in equity markets, with low volatility at the index level but high levels of dispersion among stocks. What's driving this? The path forward for inflation and rates has narrowed dramatically over the past few months. There just isn't a major difference for stocks between one rate cut later this year or two. On the other hand, plenty is happening at the company level. Higher-for-longer rates are starting to impact individual names differently, which is something managers have been looking forward to for a long time. At the same time, the AI theme is dominant and is producing many winners and losers. These winners and losers are largely cancelling themselves out at the index level but provide plenty of potential opportunities for stock pickers.
- We continue to endorse our strategic focus on discretionary global macro for all the reasons we've discussed over the last year or so. Markets have been highly reactive to new data in anticipation of policy shifts and political elections. This environment may continue to favour tactical strategies over long-term thematic approaches with a greater frequency of trading opportunities as well as event risks. Investors should consider diversifying strategies and top-down-driven global macro to complement their long-only portfolios, which are increasingly becoming interrelated.
- We upgraded our long/short equity strategy to neutral, given higher sustained levels of dispersion. Idiosyncratic risk is driving price action, and high gross exposures reflect managers' confidence in their portfolios. AI represents a massive product cycle to create winners and losers.
- We have a neutral outlook for traditional event-driven strategies, with a continued overweight for activism. Merger arbitrage and special situations investing are benefitting from a pickup in activity, offset by higher regulatory and political risks. Activism represents a bright spot given favourable sentiment and a busy campaign calendar.
- Turning to the relative value strategy, we are underweight for fixed income and convertible arbitrage, and neutral for volatility trading. Significant excess liquidity has compressed volatility and dispersion across many asset classes, limiting opportunities for relative-value trading but offering attractive entry points for a potential volatility increase.
- It seems wise to anticipate future returns and risk distributions to be broader, with more pronounced extremes on both the upside and downside. Active asset managers, particularly hedge funds known for their agility and dynamism, may need to play a more significant role in asset owners' portfolios.

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 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 31.07.2024

	7/23 7/24	7/22 7/23	7/21 7/22	7/20 7/21	7/19 7/20	7/18 7/19	7/17 7/18	7/16 7/17	7/15 7/16	7/14 7/15
A (acc) USD	6,51	1,66	-7,86	9,49	-1,21	2,22	2,73	4,98	-1,41	-
ICE BofA US 3-Month Treasury Bill Index USD	5,45	3,95	0,21	0,08	1,46	2,34	1,43	0,54	0,22	0,01
HFRX Global Hedge Fund Index USD	5,65	1,29	-4,19	10,03	3,69	-1,05	1,38	5,45	-4,24	-0,21

Performance Net of Management Fees as at 31.07.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (15.09.2014)
A (acc) USD	1,14	1,72	6,42	6,51	-0,08	1,53	2,23
ICE BofA US 3-Month Treasury Bill Index	0,45	1,34	3,09	5,45	3,18	2,21	1,58
HFRX Global Hedge Fund Index	0,74	1,66	3,65	5,65	0,84	3,18	1,62

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 41

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.

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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