FRANKLIN TEMPLETON

Franklin K2 Alternative Strategies Fund

Franklin Templeton Investment Funds

A (acc) USD
30 September 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities ended the third quarter of 2024 collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve (Fed), the European Central Bank, the People's Bank of China and other central banks further bolstered equities worldwide. In this environment, 10 out of the 11 global equity sectors the MSCI All Country World Index of stocks advanced in US-dollar terms, amid a continued widening of market breadth, with real estate and utilities significantly outpacing other sectors. As measured by MSCI indexes, emerging market equities outperformed a global index, while developed market equities underperformed it. Global value stocks significantly outpaced global growth stocks. Fixed income spread sectors largely generated positive absolute returns as investors oscillated between fears around the possibility of a US recession and relief at the Fed's initial, outsized interest-rate cut. Spreads broadly tightened, and in the US market, higher-rated credits generally fared better than their lower-rated counterparts.
- For the quarter, the fund's A (acc) USD shares returned 3,17%, and its benchmarks, the ICE BofA US 3-Month Treasury Bill Index and the HFRX Global Hedge Fund Index, returned 1,37% and 2,12%, respectively.

QUARTERLY KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Long/Short Equity	Electron (Long/Short Equity)	Industrials (Long)
	Relative Value	CFM (Global Macro)	Health Care (Long)
	Global Macro	Athena (Relative Value)	Emerging Market Sovereign Bonds (Long)
HURT	—	Graham (Global Macro)	Currency Hedges
	—	—	Energy (Long)
	—	—	—

- On a gross basis, all four strategies contributed to the portfolio's performance in the third quarter, while nine of the 10 underlying managers produced positive results. Gains were driven by the long/short equity and relative value strategies and by cash positioning, with additional contribution from the global macro strategy and, more modestly, the event-driven strategy. The Strategic Overlay also contributed modestly. At the asset-class level, long equity positioning was the key contributor. Long fixed income positioning and cash holdings also substantially aided returns. Currency positioning, which remained short overall, was the only meaningful detractor among asset classes. Within equities, long positioning in industrials, health care and utilities were key drivers. Positioning in the energy sector weighed on returns.
- Among the portfolio's strategies, long/short equity was the largest driver of positive performance, due almost exclusively to long equity positioning, especially in industrials, health care and utilities. Subadvisor Electron was the quarter's top overall contributor across all strategies. Long positions in US-based electric utilities and related industrials firms drove gains, on the strength of strong first-half, year-over-year revenue growth and news around rising energy demand for artificial intelligence (AI). One utility's shares rallied as the company announced plans to partner with a mega-capitalisation software firm to develop a carbon-free data centre. Subadvisors ActusRay and Jennison were lesser but still meaningful contributors. Cash positioning helped ActusRay. Despite a challenging quant environment, the subadvisor's discretionary overlay was additive, especially in protecting or avoiding short squeezes. Jennison's long positions in the pharmaceuticals, biotechnology and life sciences industries drove gains amid slowing inflation data and rising hopes for lower interest rates, followed by the rate cut.
- The relative value strategy was also a significant contributor, owing to long fixed income and equity positioning. In fixed income, the health care, financials and consumer discretionary sectors drove gains. Within equities, long positioning in industrials and US equity indexes (especially the S&P 500 Index), together with short positioning in information technology names, were key contributors. Two subadvisors, Athena and Apollo, were among the top overall contributors, with additional substantial contribution from Lazard. Athena benefitted from long equity positioning, especially in consumer staples, as well as a long position in the CBOE Volatility Index (VIX), which surged in early August. Currency positioning also drove gains. Apollo's long book within fixed income, especially a convertible position in a Germany-based online food delivery platform operator, as well as some bonds that benefitted from the Fed's interest-rate cuts. The German company posted strong earnings and announced that they are preparing for an initial public offering of one of their subsidiaries.
- The global macro strategy also aided performance during the quarter, powered by gains from fixed income and equity positioning. Subadvisors BlueBay and CFM were among the top contributors. BlueBay's gains were concentrated in fixed income, especially Ukrainian and Argentinian sovereign bonds. CFM's long equity positioning was the subadvisor's leading contributor, powered by long equity index positions in China and Hong Kong. In contrast, subadvisor Graham was the quarter's lone detractor, posting losses in all asset classes (excepting cash), with currency and equity positioning as the largest detractors. Shorts against the Australian dollar weighed on returns, along with long index positioning in Japan.

- The event-driven strategy was a modest contributor, fuelled by subadvisor's Bardin Hill's long equity positioning. Key contributors included a France-based fabless semiconductor firm whose shares benefitted from an agreement to sell the company's 4G Internet of Things (IoT) technologies to an industry giant, and a UK-based packaging company bolstered by share buybacks and good news around its pending strategic acquisition by a US-based competitor, following a bidding war.
- The Strategic Overlay was a modest contributor, owing to its exposure to Standard & Poor's 500 Index (S&P 500) futures.
- During the quarter, the team increased exposure to the event-driven strategy through subadvisor Bardin Hill. Exposure to cash was significantly lower at quarter-end than at the end of June.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Global Macro	CFM (Global Macro)	Equity Index Futures (especially S&P 500)
	Long/Short Equity	Electron (Long/Short Equity)	Industrials (Long)
	Relative Value	Graham (Global Macro)	Emerging Market Sovereign Bonds (Long)
HURT	Event Driven	Jennison (Long/Short Equity)	Health Care (Long)
	—	—	Energy (Long)
	—	—	Materials (Long)

- Eight of the 10 underlying subadvisors delivered absolute gains in September, while three of the four primary strategies contributed to performance. The Strategic Overlay was a modest contributor. At the asset-class level, long equity positioning was the key contributor, followed by long fixed income and cash positioning. Currency hedges detracted.
- The global macro strategy was the strongest performer, posting positive returns across all asset classes, led by long positioning in equities—especially indexes in China, Hong Kong and the United States. Long fixed income positioning, led in part by sovereign bonds in Germany, also bolstered returns. All three subadvisors were notable contributors, led by subadvisor CFM, the month's largest contributor regardless of strategy. Subadvisors Graham and BlueBay ranked in the top five. CFM's positive performance was driven by gains in equities, especially China longs. Fixed income also contributed, driven by gains in Europe and US longs. Subadvisor Graham's fixed income portfolio also benefitted from longs in Europe and the US, as well as long equity positioning in Hong Kong. BlueBay's positive performance was driven by gains in hard-currency sovereign credit and local-currency rates. The largest contributor was Argentina.
- The long/short equity strategy was also a substantial contributor, on the strength of long equity positioning, particularly in the industrials sector. Subadvisor Electron was the month's second-largest contributor. Long positions in US-based electric utilities and related industrials firms drove gains. In contrast, Jennison was the only subadvisor to detract from returns. Health care stocks pulled back after a sharp run-up as investors shifted back towards growth stocks during the month.
- The relative value strategy made a slight contribution, driven by long fixed income positioning. Subadvisor Apollo was a leading contributor during a strong month for credit markets as several more levered names—including a US telecommunications provider and a Canada-based pharmaceutical firm—did well following the Fed's decision to cut interest rates. Subadvisors Lazard and Athena were more modest contributors. Lazard benefitted from the richening of the basis, with the carry and volatility portions of the portfolio contributing to performance as well.
- The event driven strategy posted a modest negative return despite improving mergers and acquisitions volumes, largely due to two volatile names, especially a long position in a mass media firm. The position detracted due to heightened volatility, which triggered puts and forced an exit.
- During September, the team increased exposure to the event-driven strategy through subadvisor Bardin Hill and reduced cash positioning.

Outlook & Strategy

- The Fed affirmed to the market that interest-rate cuts are in the cards for the near future when they decided to cut rates by 50 basis points in September 2024. Some central banks had already moved in the direction of lowering interest rates, including the United Kingdom, eurozone and Canada, while others were waiting to draft off the US move. For now, it appears that inflationary pressures are in the rearview mirror of central banks, with economic growth and financial stability on the dashboard. Investors are now focused on the US presidential election, congressional seats and the expected resulting policy implications.
- We would argue that geopolitical tensions have increased in recent months despite markets being rather complacent about the risks. We continue to think that AI, the clean energy transition, and cloud computing are significant macroeconomic factors likely to provide momentum to worldwide economies. Potential downside catalysts include a flareup in geopolitical tensions, a variation of economic weakness/slower growth/reduced spending, as well as a cascading risk-reduction event. Increased dispersion and volatility are opportunities for active investment management, of which hedge funds are the ultimate expression.
- Based on these factors, we continue to favour discretionary global macro as a strategy that's well-positioned to monetise cross-asset volatility in response to policy shifts and political changes. Given the binary nature of many outcomes and the nonlinear impact of such changes on various asset classes, such as currencies, rates and commodities, we continue to believe that an actively traded strategy is better suited to capitalise on these types of events.
- We upgraded our outlook for long/short credit strategies. Despite credit market conditions appearing benign, there is a significant amount of dispersion at the individual-issuer level. In fact, high-yield issuer-level dispersion in recent months has been consistent with levels typically seen during meaningful credit dislocations such as the 2015 energy crisis or the 2020 COVID crash. We expect dispersion in credit to remain elevated in the coming quarters due to a preponderance of economic, political and technical market risks, presenting a favourable environment for long/short credit managers who can capitalise on such relative value opportunities.

- Several other strategies saw modest upgrades or improvement in outlook this quarter, including equity market neutral, convertible arbitrage and systematic macro. A common theme among these strategies—and long/short credit—is the fact that they are all focused on relative valuations or active trading—consistent with our expectation for continued elevated volatility or increasing dispersion across and within asset classes. In contrast, strategy downgrades include certain commodity sectors, structured credit and merger arbitrage—typically strategies that are more likely to be less dynamic or more directional.
- Our outlook for long/short equity strategies is neutral but improving. given higher sustained levels of dispersion. Fundamentals are 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 modestly upgraded our outlook for relative value strategies, prompted by modest improvements in each of the substrategies due to potential for higher volatility across asset classes, increased dispersion in central bank policies, and a busier new-issue calendar. Volatility remains depressed across most asset classes, but the recent VIX flash-crash shows a significant undercurrent of fragility in the equity volatility markets, with the potential for explosive upside moves in case of real dislocations. Similarly, volatility in other asset classes feels artificially depressed considering the significant forward-looking uncertainty across economic and geopolitical factors.
- We are maintaining a neutral weight for event-driven strategies, with minimal changes at the strategy level. The environment for activism and special situations investing remains favourable due to easing monetary policy. Merger arbitrage continues to face deal-specific regulatory risks, favouring active deal selection and trading due to high dispersion of outcomes.

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
Green	3	Global inflation year-over-year levels will decline
Red	4	US earnings growth outlook will improve
Red	5	Global geopolitical tensions will improve
Green	6	Real estate prices will be stable or rise
Green	7	Technological advances will improve corporate productivity
Green	8	Financial conditions will become 'easier'
Red	9	Unemployment rates will decline
Yellow	10	The regulatory environment regarding mergers and monopolistic company pressures
Yellow	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 30.09.2024

	9/23 9/24	9/22 9/23	9/21 9/22	9/20 9/21	9/19 9/20	9/18 9/19	9/17 9/18	9/16 9/17	9/15 9/16	9/14 9/15
A (acc) USD	9,98	2,31	-8,74	6,74	1,32	0,62	3,27	4,37	2,43	3,22
ICE BofA US 3-Month Treasury Bill Index USD	5,46	4,47	0,62	0,07	1,10	2,39	1,59	0,66	0,27	0,03
HFRX Global Hedge Fund Index USD	6,86	1,55	-4,49	8,87	4,23	0,01	0,25	5,64	0,72	-4,74

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Performance Net of Management Fees as at 30.09.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (15.09.2014)
A (acc) USD	1,77	3,17	8,56	9,98	0,88	2,12	2,44	2,39
ICE BofA US 3-Month Treasury Bill Index	0,43	1,37	4,03	5,46	3,49	2,32	1,65	1,64
HFRX Global Hedge Fund Index	0,95	2,12	5,08	6,86	1,20	3,30	1,80	1,73

Investment Team

Lillian Knight, CFA
Years with Firm 19
Years Experience 33

Art Vinokur
Years with Firm 19
Years Experience 19

Robert Christian
Years with Firm 14
Years Experience 34

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.

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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.

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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