FRANKLIN TEMPLETON

Franklin K2 Alternative Strategies Fund

Franklin Templeton Investment Funds

A (acc) USD
30 November 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in November 2024, driven largely by a significant post-election rally in US stocks. While Donald Trump's presidential victory and the potential for additional tax cuts and expansionary fiscal policy bolstered US equities, investors outside the United States were more cautious as they were concerned about the president-elect's tariff plans and their implications on global trade. On the economic front, global manufacturing activity stabilised in November after four months of contraction, while flash reports for the same month showed signs of strength in many regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market and frontier market equities significantly underperformed it. In terms of investment style, global growth stocks outpaced global value stocks. Most fixed income spread sectors recorded positive total returns during the month, as Trump's election signalled a market-friendly and growth-focused administration from January 2025. At the same time, incoming data continued to indicate a resilient US economy and therefore increased expectations for a slower and shallower rate-cutting cycle from the US Federal Reserve. US Treasury (UST) yields declined across much of the curve, led by longer-term maturities. In the US, investment grade bonds broadly outperformed their high-yield counterparts, which in turn beat USTs on a total return basis. Aggregate bond indexes in Europe and emerging markets outperformed the US benchmark.
- For the month, the fund's A (acc) USD shares returned 1,27%, and its benchmarks, the ICE BofA US 3-Month Treasury Bill Index and the HFRX Global Hedge Fund Index, returned 0,38% and 0,84%, respectively.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Global Macro	Electron (Long/Short Equity)	Industrials (Long)
	Long/Short Equity	CFM (Global Macro)	Currency Hedges
	Event Driven	Graham (Global Macro)	Sovereign Bonds
HURT	Relative Value	Athena (Relative Value)	Information Technology (Long)
	—	—	Consumer Discretionary (Long)
	—	—	Energy (Long)

- On a gross basis, three of four strategies contributed to the portfolio's performance during November, while nine of the ten underlying managers produced positive results. The global macro and long/short equity strategies were the key drivers of the portfolio's monthly advance, with a significant contribution from cash positioning. The event driven strategy was a very slight contributor, as was the Strategic Overlay, as each posted a modest gain. In contrast, the relative value strategy weighed slightly on returns. At the asset class level, fixed income positioning, which was long overall, was the largest contributor. Nearly every asset class bolstered returns, with the exception of modest detraction from credit positioning. Within fixed income, key contributing sectors were information technology (IT, which was long overall) and communication services (long). Long futures positions in German Bunds drove notable contribution from government bonds. Currency hedges and cash positioning also contributed, while equity positioning provided a slight boost. Within equities, substantial contribution from the industrials and health care sectors was largely offset by detraction from IT and, to a lesser extent, consumer discretionary.
- The global macro strategy was the month's largest contributing strategy, with all three subadvisors ranking among the top overall contributors across the portfolio. At the asset class level, all categories contributed, led by long positioning in fixed income and equities, as well as currency hedges. CFM ranked second among all subadvisors, followed by Graham and BlueBay. CFM's positive performance was driven by gains in all asset classes, led by currency hedges, especially US dollar longs, and credit, driven by US and European index longs. Subadvisor Graham also posted gains across all asset classes. Equities was the top contributor, driven by US longs. Currency positioning also aided returns, led by US dollar longs. BlueBay benefitted from gains in high yield hard currency sovereign credit, with smaller gains in portfolio hedges and flat performance in local market debt. Short euro positioning gained strength from the US dollar rally around the election.
- Long/short equity also made a significant contribution, nearly as large as global macro, due almost exclusively to long equity positioning, especially in the industrials sector, followed by health care. Equity index hedges weighed on returns. Subadvisors Electron was the month's top overall contributor, regardless of strategy. Subadvisor ActusRay was also a substantial contributor, while Jennison provided a modest boost. Electron's portfolio featured many significant contributors, mostly driven by strong sentiment and positive earnings, as volatility cleared following the US election. A Germany-based power conglomerate shares rose sharply, especially towards the end of the month, driven by positive market sentiment and increased demand. Other long positions in US-based firms—an infrastructure company and an energy equipment company—also drove the subadvisor's gains. ActusRay's strong month was driven, roughly equally, by the quant base and the discretionary overlay. The subadvisor's recent neutralisation work on thematics such as US tariffs and China stimulus helped prevent potential losses on the discretionary side. Jennison also benefitted from post-election clarity, including a long position in a US pharmaceutical company that rallied in late November amid higher-than-expected revenues.

- The event driven strategy was a very modest contributor, as gains from real estate and currency hedges were partially offset by a slight detraction from long equity positioning. Performance was primarily driven by modestly tightening spreads, as merger-and-acquisition volumes increased slightly after the US election. Top individual contributors included a Mexico-based REIT (real estate investment trust) that has been the subject of a bidding war, as the deal was wrapping up.
- The Strategic Overlay was a slight contributor as long positioning in NASDAQ 100 Index futures was partially offset by a short position in Standard & Poor's 500 Index futures.
- In contrast, the relative value strategy was a slight detractor, due largely to equity positioning, which was modestly long overall. Short positioning in IT, industrials and consumer discretionary weighed the most on returns. Equity losses were largely offset by gains from long fixed income positioning, especially in the IT sector. Athena was the month's lone detracting subadvisor, due to weakness across much of its equity portfolio, especially in the IT and consumer discretionary sectors. Subadvisors Apollo and Lazard were modest contributors. November was a strong month for Apollo, with performance largely keeping pace with the broader risk-on market despite the subadvisor's defensive portfolio. Lazard's positive performance was driven by gains in the volatility yield, carry, special situations, and basis factors of the portfolio, which were partially offset by losses in macro hedges.
- During November, the team reduced exposure to the long/short equity strategy, through subadvisors ActusRay and Electron. At month-end, the portfolio's cash position was significantly higher than at the end of October.

Outlook & Strategy

- Globally, positive fundamentals for growth, inflation and interest rates, as well as the absence of significant imbalances or credit misallocation, offer favourable preconditions for positive returns across most asset classes and regions. The re-election of President Donald Trump, accompanied by a Republican "clean sweep" that has given the party legislative majorities in the US Senate and House of Representatives, should provide markets with strong support into 2025. We believe earnings-friendly tax cuts and deregulation, accompanied by supportive macroeconomic fundamentals, should set the stage for solid returns.
- Before investors turned their attention to the policy implications stemming from the US election, the US Federal Reserve 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 U.K., 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.
- We believe two caveats must be kept in mind. First, a continuation of the extraordinary US equity market returns of the past two years requires broader market participation. Narrow leadership must give way to more balanced returns. That rotation has been underway, albeit haltingly, for the past six months. Durable rotation is now required.
- Second, a combination of stronger US demand, courtesy of surging business investment, tax cuts and fiscal easing, may not be accompanied by an increase in the economy's supply side, especially if a combination of tariffs and immigration restrictions reduce foreign inputs of goods and labour supply. The support equity markets have garnered from falling inflation and falling interest rates could erode over the next 12–24 months. That is a risk factor we think investors should consider across portfolios.
- 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. However, this dynamic may change in the coming months following political changes in the US and the possibility of a looser regulatory environment.

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 30.11.2024

	11/23 11/24	11/22 11/23	11/21 11/22	11/20 11/21	11/19 11/20	11/18 11/19	11/17 11/18	11/16 11/17	11/15 11/16	11/14 11/15
A (acc) USD	10,74	1,32	-8,14	3,59	4,54	3,62	-0,27	5,72	1,06	0,78
ICE BofA US 3-Month Treasury Bill Index USD	5,32	4,91	1,10	0,05	0,80	2,32	1,80	0,79	0,32	0,02
HFRX Global Hedge Fund Index USD	6,71	1,63	-3,89	5,69	5,53	5,25	-4,19	6,12	0,28	-3,07

Performance Net of Management Fees as at 30.11.2024 (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	1,27	2,65	9,51	10,74	1,01	2,22	2,19	2,44
ICE BofA US 3-Month Treasury Bill Index	0,38	1,20	4,83	5,32	3,75	2,41	1,73	1,69
HFRX Global Hedge Fund Index	0,84	1,12	5,25	6,71	1,39	3,06	1,92	1,72

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

Investment Team

Lillian Knight, CFA	Art Vinokur	Robert Christian
Years with Firm 20	Years with Firm 20	Years with Firm 14
Years Experience 33	Years Experience 20	Years Experience 34

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 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 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.

FRANKLIN TEMPLETON

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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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