



**FRANKLIN TEMPLETON
INVESTMENTS**

Templeton Asian Smaller Companies Fund

Franklin Templeton Investment Funds

A (acc) USD
31 May 2018

Fund Commentary

Performance Review

- Asia ex Japan small-cap equities dipped in May but fared better than their large-cap peers. Economic and political concerns, as well as a stronger US dollar, contributed to investors' shift away from Asian markets.
- For the month, the fund's A (acc) USD shares returned -0.26%, and its benchmark, the MSCI All Country Asia Ex-Japan Small Cap Index, returned -0.17%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Baozun Inc Sponsored ADR Class A	Consumer Discretionary (Stock Selection)	China (Stock Selection)
	Sunny Optical Technology (Group) Co., Ltd.	—	Hong Kong (Stock Selection)
	I.T Limited	—	Malaysia (Stock Selection, Underweight)
Hurt	Apollo Tyres Limited.	Real Estate (Stock Selection)	India (Overweight)
	Federal Bank Ltd. (India)	Industrials (Stock Selection)	Taiwan (Stock Selection, Underweight)
	Vieworks Co., Ltd	Materials (Stock Selection)	Thailand (Stock Selection)

- An overweight to India held back relative returns. Apollo Tyres fell despite reporting stronger quarterly earnings, as firmer oil prices signalled higher raw material costs for tyre manufacturers.
- Also in India, Federal Bank's quarterly profit was knocked by higher provisions for bad loans as it sought to comply with tighter central bank regulations.
- However, stock selection in China was a source of relative strength. E-commerce solutions provider Baozun posted an increase in first-quarter earnings on the back of stronger revenues. Lens maker Sunny Optical Technology was buoyed by higher shipments of lens sets and camera modules in April, plus expectations of stronger sales to smartphone makers.

Outlook & Strategy

- We believe that Asia will continue to grow at a strong pace, fuelled by robust trade. The rapid adoption of technology in Asian markets has further propelled their strong growth. We also continue to see improvement in the earnings power and cash flow of many Asian companies.
- The impact of rising US interest rates, China's economic restructuring, stock valuations, market volatility and political events all play a role in our analysis of the development of Asia. What we have seen so far in 2018 is a reminder that markets can be volatile, and we expect continued volatility this year.
- Nevertheless, we remain optimistic about the opportunities that we see in "new economy" sectors related to technology and consumption. In the technology sector, many Asian small-cap companies have found success collaborating with larger players or specialising in certain niches. This has created investment opportunities in Asian small caps ranging from internet firms to component manufacturers and more.
- Rising wealth in Asia is another secular driver and we expect it to continue lifting demand for a broad array of goods and services.
- Our investment approach is driven by fundamental research and rigorous stock selection, emphasising companies with sustainable earnings power and reasonable valuations. In the small-cap space, we seek companies that are under-researched and show good growth prospects.

Fund Details

Inception Date	14/10/2008
Benchmark	MSCI All Country Asia Ex-Japan Small Cap Index

Fund Description

The Fund aims to achieve long-term capital appreciation by investing primarily in small cap companies incorporated in the Asia region (except Japan) or whose principal business activity is in the Asia region. Asian small cap companies are those having a market capitalisation at the time of initial purchase within the range of the market capitalisations of companies included in the MSCI AC Asia ex-Japan Small Cap Index (Index). If the market capitalisation of companies allowed by the Index falls below USD 2 billion, a security held by the Fund will only qualify for additional purchases if its market capitalisation does not exceed USD 2 billion. The Fund has the flexibility to invest in transferable equity and fixed income securities of issuers worldwide.

Performance Data

Discrete Annual Performance (%) as at 31/05/2018

	5/17-5/18	5/16-5/17	5/15-5/16	5/14-5/15	5/13-5/14
A (acc) USD	12.57	23.44	-12.83	15.66	4.04
MSCI All Country Asia Ex-Japan Small Cap Index USD	15.44	16.73	-20.20	13.03	3.75

Performance Net of Management Fees as at 31/05/2018 (Dividends Reinvested) (%)¹

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (14/10/2008)
A (acc) USD	-0.26	0.71	1.30	12.57	6.60	7.83	18.39
MSCI All Country Asia Ex- Japan Small Cap Index	-0.17	-1.15	-0.41	15.44	2.45	4.75	11.73

Investment Team

Chetan Sehgal, CFA

Years with Firm 23

Years Experience 23

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 equity securities of smaller companies located in or doing significant business in Asia. Emerging markets have historically been subject to significant price movements, frequently to a greater extent than equity markets globally. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: currency risk, emerging markets risk, liquidity risk, derivatives risk, Shanghai-Hong Kong Stock Connect 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 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.

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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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1. Source for all information is Franklin Templeton Investments. 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.



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