Franklin European Growth Fund

Franklin Templeton Investment Funds

A (acc) EUR
31 December 2018

Fund Commentary

Performance Review

- European stock markets fell sharply in the fourth quarter as signs of weaker economic growth, concerns about the impact of the ongoing US-led trade war and political wrangling over Brexit drove stocks lower.
- For the quarter, the fund's A (acc) EUR shares returned -14,14%, and its benchmark, the MSCI Europe Index, returned -11,27%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Glanbia Plc	Health Care (Stock Selection)	Germany (Stock Selection)
	Ashmore Group plc	Consumer Staples (Stock Selection)	Ireland (Stock Selection)
	Coats Group plc	Consumer Discretionary (Stock Selection)	Belgium (Lack of Exposure)
Hurt	Maisons du Monde SA	Energy (Stock Selection)	Italy (Stock Selection)
	Hunting PLC	Materials (Stock Selection)	United Kingdom (Stock Selection)
	FinecoBank SpA	Utilities (Lack of Exposure)	Norway (Overweight)

- France-based home goods and furniture retailer Maisons du Monde was weak in the consumer discretionary sector as concerns about a softer market environment in France, given the recent economic deceleration, weighed on the stock. The company is still seeing more robust growth in online and international sales.
- With oil prices tumbling during the quarter, UK-based energy stock Hunting, an oilfield services firm, undermined relative performance. We believe the company should see better growth longer term as the growth of US shale oil and an eventual increase in exploration and production activity elsewhere bolster demand.
- On the upside, Ireland-based cheese and nutritional supplements manufacturer Glanbia outperformed on strong demand for more defensive names during a volatile quarter. Moreover, the company continues to demonstrate solid fundamentals and announced an acquisition of SlimFast to broaden its nutritional supplement product offering.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
Helped	Glanbia Plc	Consumer Staples (Stock Selection)	Germany (Stock Selection)
	Prysmian S.p.A.	Health Care (Stock Selection)	Ireland (Stock Selection)
	Coats Group plc	Industrials (Stock Selection)	Italy (Overweight)
Hurt	Sbanken ASA	Information Technology (Stock Selection)	France (Stock Selection)
	Maisons du Monde SA	Energy (Stock Selection)	Norway (Overweight)
	Capgemini SE	Financials (Stock Selection)	Denmark (Stock Selection)

- In financials, Norwegian internet bank Sbanken was a detractor despite continuing to post strong loan growth as well as higher fee and commission income. We expect the online lender to gain greater market share from larger competitors as its strong customer service and technological advantages lure new customers.
- Information technology stocks came under pressure during the month, and Capgemini, a France-based outsourcer, hampered relative performance. Worries about the possible impact of a deceleration in economic growth on companies' technology budgets pressured the stock. However, we see more robust growth over the longer term as companies continue to outsource technology services.
- In the consumer discretionary sector, industrial threads manufacturer Coats Group outperformed following a strong trading update in which it reiterated its full-year guidance due to strong demand from apparel, footwear and performance material customers.

Outlook & Strategy

- Looking ahead, we see scope for continued moderate global growth as China is likely to undertake stimulus measures and as the US Federal Reserve and European Central Bank navigate their respective economic cycles.
- Volatility is likely to remain elevated given rising late-cycle risks, and the resultant dislocations should continue to present opportunities for disciplined stock-pickers.
- The policy backdrop is also an important consideration given nascent efforts to normalise what has been extraordinarily accommodative central bank policy. In security analysis, applying a low discount rate to high future cash flows maximises the net present value of an asset. That is effectively what central bank policies have done this cycle—keep discount (i.e., interest) rates low and profit expectations high.

- Unsurprisingly, the effects have been most acute where expectations have been the highest: in the United States, due to President Trump's pro-cyclical fiscal stimulus, and in the technology sector, due to optimistic growth assumptions and long-dated cash flows. It stands to reckon then that these would be the segments most vulnerable to a withdrawal of extraordinary stimulus.
- Going forward, we continue to believe that the process of monetary policy normalisation is likely to drive a rotation away from expensive growth stocks, to the benefit of laggards like European equities.

Fund Details

Inception Date	29/12/2000
Benchmark	MSCI Europe Index

Fund Description

The Fund aims to achieve long-term capital appreciation by investing principally in equity and/or equity-related securities of companies of any market capitalisation in European countries.

Performance Data

Discrete Annual Performance (%) as at 31/12/2018

	12/17-12/18	12/16-12/17	12/15-12/16	12/14-12/15	12/13-12/14
A (acc) EUR	-16,90	7,22	4,12	6,67	-2,55
MSCI Europe Index EUR	-10,00	10,88	3,22	8,78	7,40

Performance Net of Management Fees as at 31/12/2018 (Dividends Reinvested) (%)[1,2]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (29/12/2000)
A (acc) EUR	-6,75	-14,14	-16,90	-16,90	-2,47	-0,73	9,63	1,87
MSCI Europe Index	-5,51	-11,27	-10,00	-10,00	0,99	3,77	8,90	2,66

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. Performance details provided are in share class currency, net income reinvested, gross of tax, net of management fees. Sales charges and other commissions, other taxes and relevant costs to be paid by an investor are not included in the calculations. Performance may also be affected by currency fluctuations. Up to date performance figures can be found on our local website.

Investment Team

Dylan Ball
Years with Firm 11
Years Experience 19

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 and equity-related securities of companies of any market capitalisation located in or doing significant business in European countries. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: currency risk, credit risk, liquidity 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.

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2. 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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