

Sub-fund of Luxembourg domiciled Sicav - Part 1
 Fund owner: Franklin Templeton
 Fund manager/adviser: Franklin Templeton Investments

Named portfolio manager(s):
 Michael Hasenstab (since launch) / Team
Peer group: global bonds in USD unhedged

Location: San Mateo (California)
Launch date: August 2003
Fund size (January 2011): US\$13.8bn
Contact group: +44 800 305 306 or
www.franklintempleton.lu

Further information on S&P's fund coverage can be found at www.FundsInsights.com



Report date March 2011

Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Performance statistics

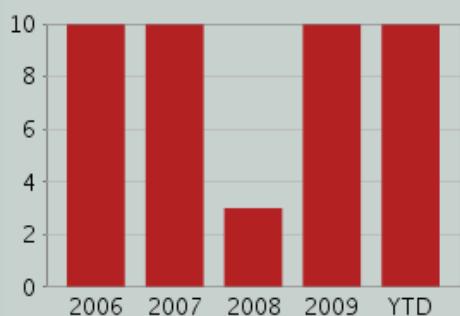
	Three years
Fund	52.1%
Standard & Poor's peer median	17.2%
Index**	18.9%
Fund rank	6/292
Volatility Adjusted Ranking	26/292

Note: returns are cumulative

Three year risk characteristics

Maximum monthly drawdown (%)	-9.0
Volatility	12.6
Correlation	0.4
Beta	1.1

Calendar year decile ranks



Decile ranking in discrete annual periods. First decile shown as rank 10, second decile as rank 9, with tenth decile as rank 1.

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Standard & Poor's opinion (March 2011)

This fund is referenced against the BarCap Global Multiverse index, but fund manager Michael Hasenstab adopts an active, benchmark-agnostic approach, commensurate with controlling absolute risk and delivering positive returns. It can invest across the entire fixed income spectrum, including up to 50% in high yield. The key performance drivers are duration, country, currency and credit strategies. The latter distinguishes this fund from the Templeton Global Bond Fund, which does not generally invest at all in corporate credit.

The investment team remains stable, although Sonal Desai's responsibilities have recently extended beyond research and she now acts as back-up manager on this fund as well as other global mandates.

The team continues to like emerging markets currencies, but is sticking to shorter-dated emerging debt bonds to limit interest rate risk. They are wary of rising yields, and the fund's duration, at 3.3 years, is as low as it has been for some time. For this reason, the manager has been maintaining his allocation to high yield, while trimming exposure to more interest rate-sensitive investment grade credits.

Despite a dip in performance in 2008, the fund's long-term track record is outstanding, ranking top decile over three and five years cumulatively, while delivering +1010bps and +890bps (before fees) of annualised excess return against the benchmark over these respective time periods.

The quality of the team, together with the track record of the fund, enables retention of the S&P AA/V4 rating.

Fund manager & team

The international fixed income team, headed by Michael Hasenstab and John Beck, comprises more than 20 investment professionals. The team is based in both San Mateo and London and is fully integrated with Franklin Templeton's global fixed income resources of over 100 investment professionals.

Michael Hasenstab - senior vice president, portfolio manager, co-director - international bond department - PhD economics (Australia National University), joined Franklin Templeton in 1995. He specialises in macroeconomic modelling, country selection and sovereign credit analysis.

John Beck - co-director of international fixed income - PPE (Oxford University), began his career in 1987 at Saudi International Bank. He moved to Fiduciary Trust (now part of Franklin Templeton) in 1990 as a fixed income portfolio manager.

Sonal Desai - PhD economics (Northwestern University), joined Franklin Templeton in 2009 as a director of research in the international bond department. Her duties extended to portfolio management in 2011. Desai began her career in the mid-1990s and has previous experience at the IMF, Dresdner Kleinwort Wasserstein, and more recently at Thames River Capital.

Management style

The fund's objective is to maximise risk-adjusted total returns. It is benchmarked against the BarCap Global Multiverse index, but often takes large active positions in the pursuit of downside risk protection and positive absolute performance.

The process is more top-down than bottom-up and asset allocation and currency strategies are important return drivers. Other sources of alpha include duration, country selection and bottom-up security selection. Currency is actively managed and often independent of interest rate strategy.

The fund can invest in all fixed income asset classes, including high yield corporate bonds, mortgage-backed and investment grade corporate bonds. Derivatives may be used when liquidity in the cash market is poor. Swaps are only entered into with those banks where an ISDA is in place and all exposures over \$500,000 are collateralised. The fund manager delegates bottom-up security selection to the relevant specialist teams for these asset classes.

Average credit quality lies between A and BBB+. The fund's target volatility is 4-10%.

FRANKLIN TEMPLETON INVESTMENT FUNDS - TEMPLETON GLOBAL TOTAL RETURN FUND

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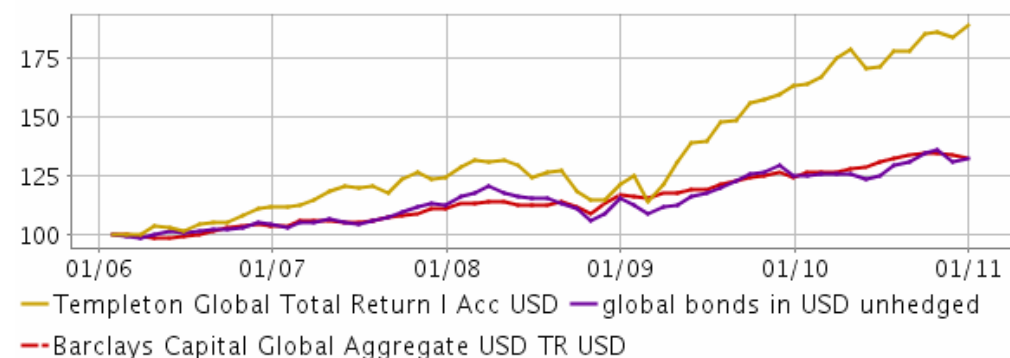
Portfolio & performance analysis (January 2011)

The team's cautious stance on interest rate risk is reflected in a low duration exposure of 3.3 years (three years short of the benchmark). Emerging markets contribute almost one-third of the portfolio's duration, although the manager is targeting short-dated bonds as he generally prefers the currency story in emerging markets; 62% of FX exposure is in emerging markets currencies.

South Korea (13%) represents the largest country weighting on a market value basis. Elsewhere, the fund has 11% in US and 6% each in Australia, the Ukraine, Malaysia and Hungary where the manager cites important reforms. The team also likes Sweden and Poland because of economic ties to Germany. The PIIGS countries have been avoided for the past year. The team is underweight Japanese yen as it believes rising US Treasury yields will put downward pressure on the currency. In the corporate credit space, investment grade exposure has been reduced, while the team has maintained the weighting in high yield credit because of the lower interest rate sensitivity.

Cumulative performance ranks top decile over three and five years. The fund underperformed the Templeton Global Bond Fund in 2008 because of the corporate credit exposure, which, together with the underweight in G3 duration and overweight in EMD, meant it also lagged the peer group median and benchmark (-520bps gross). Subsequent performance has been exceptional, with relative gains against the benchmark in 2009 and 2010 of +2720bps and +1115bps, respectively (before fees). Corporate credit exposure and currency strategies were the primary performance drivers in 2009, while an underweight in the eurozone periphery, exposure to Scandinavia and a defensive duration stance in Q4 all added value in 2010. Elsewhere, the underweight to Japanese yen weighed slightly on performance.

Cumulative performance



Discrete performance (calendar years)

	2006		2007		2008		2009		YTD 31/12/2010	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	17.4	5/229	10.7	21/260	-2.3	207/293	34.2	17/321	16.0	9/349
Index**	4.3		7.0		5.3		6.0		6.5	
Median	5.4		8.1		2.1		8.4		5.6	

** Barclays Capital Global Aggregate USD TR USD
Fund Benchmark: BarCap Global Multiverse index
Share class screened: LU0195953152 (I acc)

STANDARD & POOR'S



Sources of return

	Low	Average	High
Portfolio duration		██████████	
Credit spreads		██████████	
Country / sectors			██████████
Yield curve positioning		██████████	
Currency exposure			██████████
Derivatives	██████████		

Portfolio characteristics * (1 January 2011)

Effective duration (years)	3.3
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Credit rating breakdown

	Long	Short	Net
AAA	0.16	0.00	0.16
AA	0.15	0.00	0.15
A	0.61	0.00	0.61
BBB	1.15	0.00	1.15
BB	0.58	0.00	0.58
B	0.56	0.00	0.56
CCC & below	0.08	0.00	0.08
Unrated securities	0.01	0.00	0.01

Duration breakdown

	Long	Short	Net
0-3 years	0.65	0.00	0.65
3-5 years	0.47	0.00	0.47
5-10 years	1.69	0.00	1.69
10+ years	0.49	0.00	0.49

Asset allocation

	Long	Short	Net
Governments/supranationals	2.51	0.00	2.51
Corporate bonds	0.78	0.00	0.78
Other	0.01	0.00	0.01

Regional breakdown

	Long	Short	Net	Curr %
Emerging markets debt	1.04	0.00	1.04	62.14
Europe ex UK	0.44	0.00	0.44	-1.51
Japan	0.00	0.00	0.00	-16.63
North America	1.74	0.00	1.74	46.19
UK	0.00	0.00	0.00	0.01
Other	0.08	0.00	0.08	9.81

* Credit rating exposures are expressed in spread duration terms. All others expressed in interest rate duration years.

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Symbols and definitions

Long-only fund ratings

AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Fund-of-hedge-funds ratings

Absolute return fund ratings

Specialist fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Ucits III flexible beta fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

All fund ratings

Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

(New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months' relevant investment management experience required to be eligible to be considered for a rating.

Long-term fund management rating LTFMR The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.

V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.