FRANKLIN TEMPLETON INVESTMENTS

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This letter is important and requires your immediate attention.

If you are in any doubt about the contents of this letter, you should seek independent professional advice.

Hong Kong, 20 December 2018

Dear Investor,

Franklin Templeton Investment Funds (the "Company")
- Changes to the name and investment policy of the Franklin U.S. Dollar Liquid Reserve Fund

This letter is intended for investors who hold shares of the Franklin U.S. Dollar Liquid Reserve Fund (this "**Fund**"), a sub-fund of the Company, via an account with (i) Franklin Templeton Investments (Asia) Limited (the "**Hong Kong Representative**") or (ii) a duly authorized intermediary for the Hong Kong market (collectively, "**Investors**").

Unless otherwise specified herein, capitalized terms used in this letter shall have the meanings assigned to such terms in the Explanatory Memorandum dated November 2018, as amended, of the Company (the "**Explanatory Memorandum**").

(1) Implementation of the Money Market Rules Regulations

The purpose of this letter is to inform you of certain changes impacting the Fund as a result of the forthcoming entry into force of the new Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds ("**MMFR**").

The MMFR requires that some changes be operated at the level of the Fund in order to comply with the MMFR requirements, no later than 21 January 2019. To this respect, additional disclosures will be required covering among other things particular eligible assets, diversification requirements, liquidity, valuation rules as well as implementation of internal procedures to ensure compliance with the MMFR. In light of the above, the following changes will be applied to the Fund with effect from 21 January 2019:

(a) This Fund shall qualify as a Short-Term Variable Net Asset Value Money Market Fund.

(b) The following additional definitions shall be added to, or amended in (as marked up where applicable), the "Definitions" section of the Explanatory Memorandum (in alphabetical order) as follows.

*““**ABCP(s)**”*	*asset backed commercial paper(s)*
*“**Mark-to-Market**”*	*the valuation of positions at readily available closing prices that are sourced independently, including exchange prices, screen price, or quotes from several independent reputable brokers*
*“**Mark-to-Model**”*	*any valuation which is benchmarked, extrapolated or otherwise calculated from one or more market inputs*
*“**Money Market Fund**”*	*any Fund qualifying as money market fund under the Money Market Fund Regulation*
*“**Money Market Fund Regulation**” **or** “**MMFR**”*	*the Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds, as it may be amended or supplemented from time to time*
*“**Money Market Instruments**”*	*instruments as defined in Article 2(1) of the UCITS Directive and as referred to in Article 3 of Commission Directive 2007/16/EC*
*“**Residual Maturity**”*	*the length of time remaining (in days) until the legal maturity of as security or asset*
*“**Weighted Average Life**”*	*the average length of time to legal maturity of all of the underlying assets in the Money Market Fund reflecting the relative holdings in each asset*
*“**Weighted Average Maturity**”*	*the average length of time to legal maturity or, if shorter, to the next interest rate reset to a money market rate, of all of the underlying assets in the Money Market Fund reflecting the relative holdings in each asset*””

All references in the Explanatory Memorandum to these previously undefined terms shall hereby be amended to reflect these defined terms.

(c) The name of the Fund will be changed from “Franklin U.S. Dollar Liquid Reserve Fund” to “Franklin U.S. Dollar Short-Term Money Market Fund”, and all references to the Fund’s name in the Explanatory Memorandum shall be revised accordingly.

(d) The Fund’s existing and revised investment objective and policy in the Explanatory Memorandum are listed out as follows:

Existing Investment Objective	**Revised Investment Objective**
“*The Fund’s investment objective is to provide Shareholders with the opportunity to invest in a portfolio of high quality securities primarily US dollar denominated, or hedged back into US dollar to avoid any currency exposure.*”	“*The Fund’s investment objective is to maintain a high degree of capital preservation and liquidity while maximising returns in the US dollar.*”

Existing Investment Policy	**Revised Investment Policy**
"*The Fund consists principally of transferable securities and money market instruments issued or guaranteed by the governments of any nation worldwide and eligible securities of corporate issuers of any nation. The portfolio is invested in a manner that the average remaining maturity of all securities and instruments comprised in the portfolio of the Fund does not exceed twelve months. For the purpose of calculating the residual maturity of each single security or instrument, the financial instruments attached thereto shall be taken into account. For the securities or instruments whose terms of issue provide for an adjustment of their interest rate by reference to market conditions, the residual maturity until the date on which the rate is adjusted shall be considered.* *The Fund does not intend to invest extensively or primarily in financial derivative instruments for investment purposes.*"	"*The Fund seeks to achieve its objective by investing in a portfolio of high-quality USD-denominated debt and debt-related Money Market Instruments.* *The Fund invests principally in high-quality Money Market Instruments, which consist primarily of short-term fixed and floating-rate debt securities, commercial papers, floating-rate notes and certificates of deposit of credit institutions, which shall all comply with MMFR. The Fund may also, to a lesser extent, invest in eligible securitisation and asset-backed commercial paper ("ABCP") as well as deposits and cash denominated in US dollar.* *These investments shall be denominated in US dollar and up to 100% may be issued or guaranteed by sovereign governments of member states of the OECD and/or related entities, supranational entities, including most prominently instruments issued or guaranteed by the United States Treasury or the U.S. Federal Reserve, including the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (Freddie Mac).* *In addition to receiving a favourable assessment of their credit quality pursuant to the Management Company's internal credit quality assessment procedure, all investments at the time of purchase shall have a minimum long-term rating of A or better by Standard & Poor's Corporation ("S&P") or Moody's Investors Service, Inc. ("Moody's") or similar rating by any other internationally recognised statistical rating organisation, corresponding to a short-term rating of A-1 by S&P /P-1 by Moody's or equivalent or, if unrated, be declared to be of comparable quality by the Investment Manager.* *The Fund will maintain a Weighted Average Maturity not exceeding 60 days. The Fund only holds securities which at the time of acquisition have an initial or residual maturity not exceeding 397 days.*

Existing Investment Policy	Revised Investment Policy
	The Fund may also invest in repurchase and/or reverse repurchase agreements within the limits described below. *The Fund may use financial derivative instruments only for the purpose of hedging the interest rate or exchange rate risks inherent in other investments of the Fund."*

(e) The following paragraph shall be added immediately below the "Investment Policy" of the Fund:

"***Important Note***

Purchase of a Share in this Fund is not the same as placing funds on deposit with a bank or deposit-taking company. The Management Company has no obligation to redeem Shares at the offer value. This Fund is not subject to the supervision of the Hong Kong Monetary Authority."

(f) The following disclosure shall be added immediately below the "Important Note" section referred to in (e) above in relation to the exposure of the Fund to repurchase and/or reverse repurchase agreements:

"***Exposure to repurchase agreements***

The expected level of exposure that could be subject to repurchase agreements amounts to 10% of the Fund's net assets, subject to a maximum of 10%.

Exposure to reverse repurchase agreements

The expected level of exposure that could be subject to reverse repurchase agreements amounts to 20% of the Fund's net assets, subject to a maximum of 35%. The aggregate amount of cash provided to the same counterparty in reverse repurchase agreements shall not exceed 15% of the net assets of the Fund."

(g) The investor's profile of the Fund will be revised as follows:

"***Investor's Profile***

The Fund is suitable for investors:

- *seeking current income and high degree of capital protection~~safety of principal and current income~~; and*
- *seeking investments in a portfolio of high-quality USD-denominated debt and debt-related securities, Money Market Instruments and cash ~~primarily US dollar~~ denominated in ~~or hedged back to the~~ US dollar; and*
- *planning to hold their investments for the short term.*"

(h) As a result of the changes in the investment policy for the Fund as detailed above, the Fund will be subject to the following additional risks:

- Risks pertaining to the Fund's repurchase and/or reverse repurchase transactions. Please refer to the sub-section on "Repurchase and Reverse Repurchase Transactions risk" under the "Risk Considerations" section of the Explanatory Memorandum for details;
- Risks associated with the Fund's investments in eligible securitisations, which will be added to the Explanatory Memorandum under the "Risk Considerations" section as follows:

"***Securitisation risk***

A securitisation, as defined in the article 2 of Regulation (EU) 2017/2402 of the European Parliament and of the council of 12 December 2017 is a transaction or scheme, whereby the credit risk associated with an exposure or a pool of exposures is tranched, having all of the following characteristics: (i) payments in the transaction or scheme are dependent upon the performance of the exposure or of the pool of exposures; (ii) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme; (iii) the transaction or scheme does not create exposures which possess all of the characteristics listed in Article 147(8) of Regulation (EU) No 575/2013.

Securitisation encompasses a wide-range of assets including "Asset-backed Securities", "Collateralised Debt Obligations" and "Mortgage-backed Securities".

A Securitisation is composed of multiple tranches, usually spanning from the equity tranche (highest risk) to the senior tranche (the lowest risk). The performance of each tranche is determined by the performance of the underlying assets or "collateral pool".

The collateral pool can encompass securities with different credit qualities, including high-yield securities and junk bonds, and the credit rating of the tranche is not reflective of the quality of the underlying assets.

Mortgage-backed securities differ from conventional debt securities in that principal is paid back over the life of the security rather than at maturity, as the underlying mortgages are subject to unscheduled pre-payments of principal before the security's maturity date due to voluntary prepayments, refinancings or foreclosures on the underlying mortgage loans. To the Fund this means a loss of anticipated interest, and a portion of its principal investment represented by any premium the Fund may have paid over par at the time of purchase. Mortgage pre-payments generally increase when interest rates fall.

Mortgage-backed securities also are subject to extension risk. An unexpected rise in interest rates could reduce the rate of pre-payments on mortgage-backed securities and extend their life. This could cause the price of the mortgage-backed securities to be more sensitive to interest rate changes. Issuers of asset-backed securities may have limited ability to enforce the security interest in the underlying assets, and credit enhancements provided to support the securities, if any, may be inadequate to protect investors in the event of default.

Collateralised Mortgage Obligations (CMOs) are securities backed by a pool of mortgage pass-through securities or actual mortgage loans that are structured into *various tranches with varying maturities and varying priorities in terms of their access to the principal and interest payments from the underlying assets. Such securities will have, depending on the tranches, varying degrees of pre-payment risk and credit risk, depending on their priority in the capital structure. The shorter, more senior tranches will generally be lower risk than the longer dated, more junior tranches.*

Mortgage-backed securities may be offered as interest only (IO) or principal only (PO) strips, where only the interest or the principal of the underlying mortgages in the pool is passed on to the security holders. These types of securities are highly sensitive to the pre-payment experience associated with the underlying mortgages and will behave in opposite ways to the same trend in pre-payments. For IO securities, early pre-payments within the pool will mean less than expected interest payments since the mortgages will have terminated, adversely affecting security holders. For PO securities, early pre-payments within the pool will mean quicker repayment of principal than expected, benefiting security holders. Because of the highly sensitive nature of these securities, the possibility of sharp declines in prices is much greater compared to conventional mortgage-backed securities.

Mortgage- and asset-backed securities may be structured as synthetic securities. For example, the CMBX is a credit default swap on a basket of CMBS bonds, constituting in effect a CMBS index. By purchasing such an instrument, the Fund is buying protection (i.e. the ability to get par for the bonds in the event of an unfavourable credit event), allowing the Fund to hedge its exposure or go short the CMBS sector. By selling such an instrument short and holding cash against the potential obligation to purchase it, the Fund is selling protection and effectively getting long exposure to the CMBS sector more quickly and efficiently than purchasing individual bonds. The risks associated with such synthetic instruments are comparable to those of the underlying ABS or MBS securities that the instruments are seeking to replicate, in addition to the risk that the synthetic instruments themselves do not perform as intended due to adverse market conditions.

Asset-backed securities are very similar to mortgage-backed securities, except that the securities are collateralised by other types of assets besides mortgages, such as credit card receivables, home-equity loans, manufactured homes, automobile loans, student loans, equipment leases, or senior bank loans, among others. Like mortgage-backed securities, asset-backed securities are subject to pre-payment and extension risks.

Collateralised Loan/Debt Obligations (CLOs/CDOs) are similar to ABS/MBS type of securities. The main difference being the nature of the collateral pool, which is not constituted of debt securities or mortgages but rather leveraged loans issued by corporates.

In addition to the normal risks associated with debt securities and asset backed securities (e.g., interest rate risk, credit risk and default risk), CDOs and CLOs carry additional risks including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or quality or go into default or be downgraded; (iii) a Fund may invest in tranches of a CDO or CLO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results."

(i) The Fund will comply with specific investment restrictions, portfolio rules as well as specific provisions relating to the calculation of the Net Asset Value per Share applicable to Short-Term Variable Net Asset Value Money Market Funds, the main features of which are described in the Appendix to this letter.

After the proposed changes as detailed above, apart from (i) specific new investment restrictions as introduced by the MMFR; (ii) the introduction of repurchase and/or reverse repurchase agreements as part of the Fund's revised investment policy; and (iii) certain differences in how assets in the Fund will be valued, as detailed herein, there will be no change to the operation and/or the manner in which the Fund will be managed. The changes and classification of the Fund as a Short Term Variable Net Asset Value Money Market Fund pursuant to the MMFR will enable investors to invest in short-term cash in USD with the investor protection offered by the MMFR, which the Investment Manager believes will be a positive development for investors in all jurisdictions where the Fund is offered, including Hong Kong. Other than as disclosed above, there will be no change to the features of the Fund following the implementation of the proposed changes to the Fund.

Apart from the additional risks associated with eligible securitisations and repurchase and/or reverse repurchase agreements, there will be no material change or increase in the overall risk profile of the Fund following the proposed changes. There will also not be any material adverse impact on the interests of investors.

The changes set out in this letter are not expected to give rise to any change in the fee level or fee structure of the Fund, or any additional costs and expenses for Shareholders of the Fund (other than the cost of publishing this letter, which is estimated to be approximately HKD 2,000 and which will be charged to the Fund). Any additional costs and expenses arising from the changes will be borne by the Management Company.

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The Management Company and the Board of Directors accept full responsibility for the accuracy of the information contained in this letter as at the date of its publication and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement misleading.

An updated version of the Hong Kong offering documents of the Company will also be made available at the office of the Hong Kong Representative in due course. If you require further information, please do not hesitate to contact your investment consultant, call our Investor Hotline at +852 2805 0111 or contact the Hong Kong Representative at 17/F, Chater House, 8 Connaught Road Central, Hong Kong. If you are not a duly authorized intermediary for the Hong Kong market, please be advised that you are not required to forward this letter to your end clients.

Yours faithfully,
Franklin Templeton Investments (Asia) Limited
富蘭克林鄧普頓投資(亞洲)有限公司
As Hong Kong Representative of the Company

APPENDIX

New portfolio rules, main features of the new investment restrictions as well as specific changes to the provisions relating to the calculation of the Net Asset Value per Share applicable to the Fund:

I. New portfolio rules

(i) Portfolio is to have at all times a Weighted Average Maturity of no more than 60 days;

(ii) Portfolio is to have at all times a Weighted Average Life of no more than 120 days, subject to the provisions of the MMFR;

(iii) At least 7.5% of its assets are to be comprised of daily maturing assets, reverse repurchase agreements (if any) which can be terminated by giving prior notice of one working day, or cash which can be withdrawn by giving prior notice of one working day;

(iv) At least 15% of its assets are to be comprised of weekly maturing assets, reverse repurchase agreements (if any) which can be terminated by giving prior notice of five working days, or cash which can be withdrawn by giving prior notice of five working days. For the purpose of the calculation referred to in the previous sentence, Money Market Instruments or units or shares of other Money Market Funds may be included within the weekly maturing assets to a limit of 7.5% provided they are able to be redeemed and settled within five working days.

II. Main features of the new investment restrictions

(i) The Fund will invest no more than 5% of its assets in Money Market Instruments, securitisations and asset-backed commercial paper ("ABCPs") issued by the same body.

(ii) The Fund may not invest more than 10% of its assets in deposits made with the same credit institution, unless the structure of the Luxembourg banking sector is such that there are insufficient viable credit institutions to meet that diversification requirement and it is not economically feasible for the Fund to make deposits in another EU Member State, in which case up to 15% of its assets may be deposited with the same credit institution.

(iii) By way of derogation from (i) above, the Fund may invest up to 10% of its assets in Money Market Instruments, securitisations and ABCPs issued by the same body provided that the total value of such Money Market Instruments, securitisations and ABCPs held by the Fund in each issuing body in which it invests more than 5% of its assets does not exceed 40% of the value of its assets.

The full detailed list of specific investment restrictions applicable to the Fund will be reflected in an updated version of the Explanatory Memorandum.

III. Specific changes to the provisions relating to the calculation of the Net Asset Value per Share

(i) Assets will be valued at Mark-to-Market or Mark-to-Model where the use of Mark-to-Market is not possible or the market data is not of sufficient quality;

(ii) The value of any cash on hand or on deposit and accounts receivable, prepaid expenses, cash dividends and interest declared or accrued as aforesaid, and not yet received shall be deemed to be the full amount thereof, unless, however, the same is unlikely to be paid or received in full, in which case the value thereof shall be determined conservatively by using Mark-to-Model;

(iii) Shares or units of underlying Money Market Fund(s) shall be valued at their last available net asset value as reported by such fund(s);

(iv) Any assets or liabilities in currencies other than the Fund's Base Currency will be converted using the relevant spot rate quoted by a bank or other recognised financial institution.

As a result of the above, the Fund will no longer use amortised costs approach in relation to the determination of the value of the shares of the Fund.