

This letter is important and requires your immediate attention.

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

Hong Kong, 20 July 2017

Dear Investor,

**Franklin Templeton Investment Funds (“FTIF” or “Company”)
Proposed merger of FTIF - Franklin Global High Income Bond Fund with FTIF - Franklin High Yield Fund**

The purpose of this letter is to inform you about the upcoming merger of FTIF - Franklin Global High Income Bond Fund (the "**Merging Fund**") with FTIF - Franklin High Yield Fund (the "**Receiving Fund**").

This letter is intended for investors who hold shares of the Receiving Fund 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.

1. Rationale and background for the merger

The FTIF - Franklin Global High Income Bond Fund was launched on 13 July 2012 and has a size of approximately USD 46.9 million as at 30 June 2017. The FTIF – Franklin High Yield Fund was launched on 1 March 1996 and has a size of approximately USD 2.466 billion as at 30 June 2017.

Because both the Merging Fund and the Receiving Fund share similar principal investment objectives, secondary investment objectives, investment universe, investment management teams, investment process, risk management process, fees and expenses, risk profiles and target investor profiles, the board of directors of the Company (the "**Board**") believes that it will be in the best interests of shareholders to merge these sub-funds and focus resources on a single portfolio, which will offer economies of scale to existing shareholders of these sub-funds.

The Board has therefore decided, in accordance with article 66(4) of the Luxembourg Law of 17 December 2010 on undertakings for collective investment, as amended (the "**2010 Law**") and Article 28 of the articles of incorporation of the Company (the "**Articles**"), to merge the Merging Fund with the Receiving Fund.

2. Impact on shareholders and shareholders' rights

The merger is not expected to have any material adverse impact on the shareholders of the Receiving Fund. There will not be any change in the investment objective or fee structure of the Receiving Fund as a result of the merger.

Shareholders of the Receiving Fund who do not wish to participate in the merger may redeem or switch their shares of the Receiving Fund, free from any charge by the Company, into shares of other sub-funds of FTIF that are authorized¹ by the SFC, details of which are disclosed in the Explanatory Memorandum dated March 2017, as amended, of the Company (the “**Current Explanatory Memorandum**”), no later than 12 October 2017 at 4.00 p.m. (Hong Kong time).

Before investing in another SFC-authorized¹ sub-fund of FTIF, please ensure that you have read and understood the investment objective, policies and fees applicable to the relevant sub-fund as described in the Current Explanatory Memorandum.

Please note that although the Company will not charge shareholders of the Receiving Fund any redemption or switching fee for redemption and switching requests that reach the Hong Kong Representative, in some cases the relevant bank, investment adviser or other intermediary may charge switching and/or transaction fees. They may also have a local dealing cut-off time which is earlier than the dealing deadline described above. Shareholders of the Receiving Fund are recommended to check with their bank, investment adviser or other intermediary (if applicable) to ensure that their instructions reach the Hong Kong Representative before the dealing deadline above.

Please also note that "free of any charge" does not apply to Class B shares of the Receiving Fund that are subject to the contingent deferred sales charge ("**CDSC**"), due to the nature of such fee. Accordingly, should shareholders decide to redeem any shares subject to a CDSC, such redemption will be subject to the applicable CDSC as more fully disclosed in the Current Explanatory Memorandum.

3. Merger Procedure

The merger is expected to become effective as of 20 October 2017 at midnight (Luxembourg time) (the "**Effective Date**").

On the Effective Date, the Merging Fund will transfer all its assets and liabilities to the Receiving Fund. The net assets of the Merging Fund will be valued as of the Effective Date in accordance with the valuation principles contained in the Current Explanatory Memorandum and the Articles of the Company. The outstanding liabilities generally comprise fees and expenses due but not paid, as reflected in the net assets of the Company. There are no outstanding unamortized preliminary expenses in relation to the Merging Fund.

It is not expected that the Merging Fund's portfolio be rebalanced in the context of the merger. As the Receiving Fund's investment focus is on USD denominated debt securities, the investment manager of the Receiving Fund has determined that a portion of the Merging Fund's portfolio (comprising non-USD denominated debt securities) is not appropriate for the Receiving Fund and the merger will be organised so that only USD denominated debt securities (comprising approximately

¹ SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

70% of the Merging Fund's portfolio) will be transferred in kind to the Receiving Fund. The residual portion of the Merging Fund's portfolio will be sold down to cash and transferred as cash to the Receiving Fund. Depending on the growth of the Merging Fund's portfolio and changes to the underlying investments within the Merging Fund's portfolio, the above percentage splits may vary (by up to 10%) depending on the performance of the Merging Fund's portfolio in the lead up to the Effective Date. Any derivative positions that cannot be transferred over will be closed out in advance of the merger.

Any accrued income in the Merging Fund at the time of the merger will be included in the calculation of its net asset value per share and such accrued income will be accounted for on an ongoing basis after the merger in the net asset value per share calculation in the relevant share class of the Receiving Fund.

4. Costs of the Merger

The expenses incurred in the merger, including legal, accounting, custody and other administrative costs will be borne by Franklin Templeton International Services S.à r.l., the management company of FTIF.

In relation to the merger, the Merging Fund will bear the market-related transaction costs associated with the disposal of any investments that would not be appropriate for the investment policy of the Receiving Fund.

5. Tax impact

The merger will not subject the Merging Fund, the Receiving Fund or FTIF to taxation in Luxembourg. Investors may however be subject to taxation in their tax domiciles or other jurisdictions where they pay taxes.

Shareholders are not liable for Hong Kong tax in respect of any income or gains made on the redemption or switching of shares in the Receiving Fund in Hong Kong, unless the redemption or switching of shares is or forms part of a trade, profession or business carried on in Hong Kong, in which case the gains forming part of such business may be subject to Hong Kong profits tax.

As is always the case, any switch or redemption of your shares may affect your tax position. You should consult your professional advisers as to the possible tax or other consequences of buying, holding, transferring or selling any shares affected by the changes described above, under the laws of your country of citizenship, residence and domicile.

6. Availability of Documents

The common merger proposal, the Current Explanatory Memorandum and the product key facts statement ("KFS") of the Receiving Fund, the Articles, the unaudited accounts of FTIF for the period ending on 31 December 2016 and the 2010 Law are available from the Hong Kong Representative of FTIF, upon request, free of charge.

Upon request, copies of the report of the approved statutory auditor of FTIF relating to the merger may be obtained free of charge from the Hong Kong Representative of FTIF.

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The Management Company and the Board accept full responsibility for the accuracy of the information contained in this letter as at the date of its publication and confirms, 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.

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,

For and on behalf of
Franklin Templeton Investments (Asia) Limited
富蘭克林鄧普頓投資(亞洲)有限公司



David Chang
Director