

**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, 17 January 2018

Dear Investor,

**Franklin Templeton Investment Funds (the “Company”)  
- Changes to certain sub-funds (“Funds”)**

This letter is intended for investors who hold shares 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**”).

The purpose of this letter is to inform Investors of:

- (1) a revision to the investment policy of the Franklin Income Fund, which will take effect on 28 February 2018;
- (2) a reduction in the investment management fee of the Templeton Emerging Markets Fund, which will take effect on 2 April 2018; and
- (3) an update regarding the Franklin Strategic Income Fund’s expected level of exposure to total return swaps.

Unless otherwise specified herein, capitalized terms used in this letter shall have the meanings assigned to such terms in the Explanatory Memorandum dated September 2017, as amended, of the Company (the “**Explanatory Memorandum**”).

**(1) Revision to the investment policy of the Franklin Income Fund**

The current investment policy of the Franklin Income Fund does not include the use of financial derivative instruments.

The investment policy of the Fund is proposed to be amended to disclose that the Fund may utilise financial derivative instruments for hedging, efficient portfolio management and/or investment purposes. These financial derivative instruments may include, *inter alia*, swaps, forwards, futures contracts as well as options. In this context, the Fund may seek exposure to, *inter alia*, commodities or exchange-traded funds (ETFs) through the use of financial derivative instruments, cash-settled structured products or fixed income securities where the security is linked to or derives its value from another reference asset.

This enhancement will allow the Fund, in addition to its current investment powers, to invest in financial derivative instruments (financial contracts whose value is linked to the price of an underlying asset) for hedging, efficient portfolio management purposes (*i.e.*, with the purpose of either managing the Fund’s risks, reducing the costs of managing the Fund or generating additional capital or income at an appropriate level of risk for the Fund) and/or investment purposes. The Fund does not intend to use financial derivative instruments extensively for investment purposes.†

The Investment Manager of the Fund believes that the wider investment powers will be beneficial for the Fund as it will allow the Investment Manager to access a broader range of instruments to implement investment ideas in a cost-efficient manner and ultimately better enable the Fund to achieve its investment objective, whilst managing risk. For details of the relevant risk considerations pertaining to the Fund’s use of financial derivative instruments, please refer to the risk disclosure on “Derivative Instruments risk” under the “RISK CONSIDERATIONS” section of the Explanatory Memorandum.

Other than as described above, the Investment Manager of the Fund believes that the change will not result in any additional risks or impact the investment strategy of the Fund. There is no change to the operation and/or the manner in which the Fund is being managed.

**(2) Reduction in the investment management fee of the Templeton Emerging Markets Fund**

Effective 2 April 2018, the investment management fee applicable to Class A, B and N Shares of the Templeton Emerging Markets Fund will be reduced by 0.45% per annum while the investment management fee applicable to Class I Shares of the Templeton Emerging Markets Fund will be reduced by 0.10% per annum.

The resulting lower investment management fees are listed in the table below:

<b>Share Class</b>	<b>Existing Investment Management Fee (per annum; based on the applicable adjusted daily net asset value of the Shares)</b>	<b>Reduced Investment Management Fee with effect from 2 April 2018 (per annum; based on the applicable adjusted daily net asset value of the Shares)</b>
Class A Shares	1.60%	1.15%
Class B Shares	1.60%	1.15%
Class I Shares	1.10%	1.00%
Class N Shares	1.60%	1.15%

Apart from the reduction in investment management fees described above, there is no change in the fee structure of the Fund.

**(3) Update regarding the Franklin Strategic Income Fund’s expected level of exposure to total return swaps**

Paragraph (4) of our letter to investors dated 25 September 2017 (*Re: Elaboration on the investment policy of Franklin Strategic Income Fund to disclose the expected proportion of the Fund’s net assets that could be subject to total return swap transactions*) stated that the expected proportion of the Franklin Strategic Income Fund’s net assets that could be subject to total return swap transactions (unfunded) was 9% of the Fund’s net assets, subject to a maximum of 15%.

Subsequently, the expected proportion of the Franklin Strategic Income Fund’s net assets that could be subject to total return swaps (unfunded) increased to 12% of the Fund’s net assets. For the avoidance

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† The expected maximum commitment leverage of the Fund is 45%.

of doubt, there is no change to the Fund's expected maximum exposure to total return swaps, which remains as 15% of the Fund's net assets.

The increase in the Fund's expected exposure to total return swaps does not result in any additional risks or impact the investment strategy of the Fund. There is no impact on the Fund's current expected level of leverage or expected maximum level of leverage as disclosed in the Explanatory Memorandum. There is no change to the operation and/or the manner in which the Fund is being managed.

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Other than as set out above, 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 Funds, or any additional costs and expenses for Shareholders of the Company. Any additional costs and expenses arising from the changes (other than the cost of publishing this letter, which is estimated to be approximately HKD 300,000 and which will be charged to the relevant Funds) will be borne by the Management Company.

The changes set out in this letter will not have any material adverse impact on the interests of the Funds' investors and are not expected to materially prejudice the rights or interests of Shareholders of the Funds. Shareholders of the Franklin Income Fund who do not agree with the changes set out in this letter in relation to the Franklin Income Fund may redeem or switch their shares free from any charge by the Company, into shares of other Funds that are authorized<sup>‡</sup> by the SFC, details of which are disclosed in the Explanatory Memorandum, during the period commencing on 17 January 2018 and ending on 27 February 2018 at 4.00 p.m. (Hong Kong time).

Before investing in another SFC-authorized<sup>‡</sup> Fund, please ensure that you have read and understood the investment objective, policies and fees applicable to the relevant Fund as described in the Explanatory Memorandum.

Please note that although the Company will not charge Shareholders any redemption or switching fee for redemption and switching requests that reach the Hong Kong Representative of the Company, 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 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 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 Explanatory Memorandum.

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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.

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<sup>‡</sup> 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.

The Explanatory Memorandum and the product key facts statements of the relevant Funds (which are available for download from the Hong Kong Representative's website at [www.franklintempleton.com.hk](http://www.franklintempleton.com.hk)<sup>§</sup>) will be updated for the changes described above. 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

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<sup>§</sup> The information in the website has not been reviewed by the Securities and Futures Commission.