



Report date June 2011

FRANKLIN TEMPLETON INVESTMENT FUNDS - TEMPLETON LATIN AMERICA FUND

Sub-fund of Luxembourg domiciled Sicav - Part 1

Fund owner: Franklin Templeton

Fund manager/adviser: Franklin Templeton Investments

Named portfolio manager/adviser(s):

Mark Mobius (since launch) / Team

Peer group: Latin American Regional Equities

Location: Rio/Buenos Aires

Launch date: September 1996

Fund size (May 2011): US\$4.1bn

Contact group: +44 800 305 306 or
www.franklintempleton.co.uk

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

Investment style

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

Performance statistics

	Three years
Fund	8.1%
Standard & Poor's peer median	3.9%
Index**	-1.3%
Fund rank	69/242

Note: returns are cumulative

Three-year risk characteristics

Maximum monthly drawdown (%)	-34.4
Volatility	34.2
Correlation	1.0
Beta	1.0

Calendar year decile ranks



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

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Standard & Poor's opinion (June 2011)

Although the vastly experienced Dr Mark Mobius retains power of veto over any investment ideas and is the named manager of the Latin American equities product, day-to-day responsibility falls under the remit of four locally based investors. Marcos Mundim and Gustavo Stenzel are based in Rio de Janeiro, while Claus Born and Santiago Petri are located in Buenos Aires. All four have experience in excess of 10 years and are fully integrated within Templeton's 49-strong GEM team.

The investment process, therefore, is wholly consistent with other products managed by the broader team. The approach is purely bottom-up in its nature and the value-tilt shows a preference for cash-generative companies. Historically, this style has led to sizeable exposures to companies further down the cap-scale and although this, coupled with managing considerable emerging markets assets, does cause some concern, the long-term approach alleviates some of these liquidity and capacity fears.

Investment is across 40-50 names and as the portfolio is constructed without reference to the benchmark, sector and country deviations can be marked. Stocks listed in developed markets are also permitted provided they generate significant revenues from the region.

Returns over the longer-term remain strong, as shown by the fund's top-decile positioning within our peer group over five years, more than 22 percentage points ahead of the median.

The consistently applied approach and the strength and depth of the group's considerable resources ensure the fund's S&P AA rating is retained.

Fund manager & team

Mark Mobius heads Franklin Templeton's emerging markets team of 49 managers and analysts located in a number of regional offices and responsible for around \$40bn in assets. The four locally based Latin American managers are responsible for the day-to-day management of this product. Mobius has oversight and input into this portfolio and the right of veto on any investment decisions.

Mark Mobius - executive chairman of Templeton EM Group - PhD economics & political sciences (MIT), joined Templeton in 1986, launching the first US-listed emerging markets fund in 1987.

Claus Born - business administration (Bayreuth University), CFA, worked at Mannesmann, before joining Templeton's Buenos Aires office as an investment analyst in 2000.

Santiago Petri - MBA (London Business School), worked at Telecom Argentina, joining Templeton in 2000.

Gustavo Stenzel - MBA (University of Minnesota), CFA, worked at Exxon and Incotel, before joining Templeton as an analyst in 1998.

Marcos Mundim - engineering (Rio de Janeiro Catholic University), CFA, joined Templeton in 2000, becoming an analyst in 2002.

Management style

The portfolio is built bottom-up. An investment universe of over 11,000 stocks is screened to identify potential ideas, with valuation and liquidity criteria key. However, the team is experienced in the region and also draws on its own experience and newsflow for idea generation.

Interesting ideas are assessed in terms of financial statements going back five years, while five-year forecasts are made based on normalised earnings, cashflow or asset value potential. Company visits evaluate management quality, corporate governance and commitment to shareholder value. Analysts present their ideas to review teams and determine target prices. Consensus is sought. Price targets are strictly observed and cash levels may rise to 10% if the managers believe stocks are overvalued. The final portfolio focuses on the team's best 40-50 ideas.

Country/sector weights are products of stock selection, which incorporates top-down views. In the absence of formal limits, deviations can be substantial relative to the MSCI EM Latin America index. Individual stock positions are limited to a maximum of 10%.

Turnover is low and currency hedging and derivatives are not used.

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Portfolio & performance analysis (May 2011)

In keeping with the group's long-term investment style, the overall complexion of the fund was little changed from our last review. Indeed with an annual turnover figure of 10%, activity was even low relative to the fund's history. It remained reasonably concentrated - invested across 42 names compared to 49 previously. The top 10 holdings accounted for 56% of assets with nine of the 10 remaining in place from last year - Metalurgica Gerdau the exception.

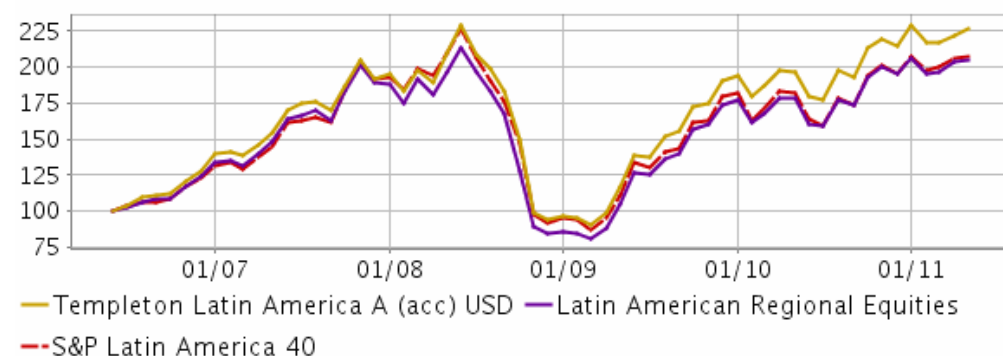
At the country level the underweight to Brazil was increased to an index -7% position. Although this benefited performance from an asset allocation perspective in 2010, stock returns were mixed as the underweight to telecoms names hurt, while the reduction of Petrobras was positive. Exposure to Chile remains 2% below the index level on valuation concerns, but the team has found attractive ideas in internationally listed names such as Antofagasta, which trades at a discount to the local stock. The team has also added US-listed Avon, and Spanish-listed Repsol, as both generate significant revenues from the LatAm region.

Deviation at the sector level was not significant. The largest overweights were to industrials (+3.2%) and materials (+2.8%) offsetting underweights to consumer discretionary (-4.4%) and energy (-2%). At -1%, the underweight to financials was less prominent, but three of the five largest active bets were in the sector - Itausa, Bradespar and Credicorp.

Cumulative performance remains strong within our peer group. The fund is just outside the top quartile over three years but is comfortably top decile on a five-year view. Returns are 4 and 22 percentage points ahead of the median respectively.

The fund recovered from 2008's collapse by delivering a return in excess of 100% in 2009, but a higher cash position due to strong inflows caused it to lag the competition. Top-quartile performance was seen in 2010 while inflation concerns have helped some of the defensive names this year.

Cumulative performance



Discrete performance (calendar years)

	2007		2008		2009		2010		YTD 29/04/2011	
	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank
Fund	39.7	132/205	-50.6	29/236	101.3	172/293	18.2	79/325	-1.3	216/321
Index**	47.0		-50.8		91.8		14.1		-0.2	
Median	40.7		-54.1		104.4		15.7		-0.6	

** S&P Latin America 40

Fund benchmark: MSCI EM Latin America index

Share class screened: LU0128526570 (A Acc)

STANDARD & POOR'S



Portfolio characteristics (1 May 2011)

No. of holdings	42
Turnover ratio (%)	10
% in top 10	56

Top 10 holdings

	%
Itausa - Investimentos Itau *	9.2
America Movil *	7.6
Bradespar *	6.5
Petrobras *	6.5
Ambev *	5.8
Vale *	5.6
Marfrig Alimentos *	4.0
Itau Unibanco *	3.6
Credicorp *	3.5
Antofagasta	3.4

* In top 10 holdings a year ago

Country allocation

	%
Argentina	4.9
Brazil	60.9
Canada	1.9
Chile	5.0
Mexico	12.0
Panama	2.0
Peru	5.3
Spain	1.3
United Kingdom	3.4
United States	2.1
Cash	1.2

Sector allocation

	%
Consumer discretionary	1.0
Consumer staples	15.4
Energy	14.5
Financials	19.9
Industrials	7.7
Information technology	1.2
Materials	26.3
Telecommunication services	8.1
Utilities	4.7
Cash	1.2

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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.