



FRANKLIN TEMPLETON
INVESTMENTS

Alternative

FRANKLIN TEMPLETON INVESTMENT FUNDS

Franklin K2 Alternative Strategies Fund

A New Alternative for Today's Investor



A New Alternative, a New Source of Returns

Even with the subsequent recovery, memories of the financial crisis of 2008–2009 may still be fresh in your mind. Given the unpredictability of financial markets, you may be seeking to reduce the impact of future market volatility and down markets on your portfolio.

Hedge fund strategies, one type of alternative investment, may help by offering investors:

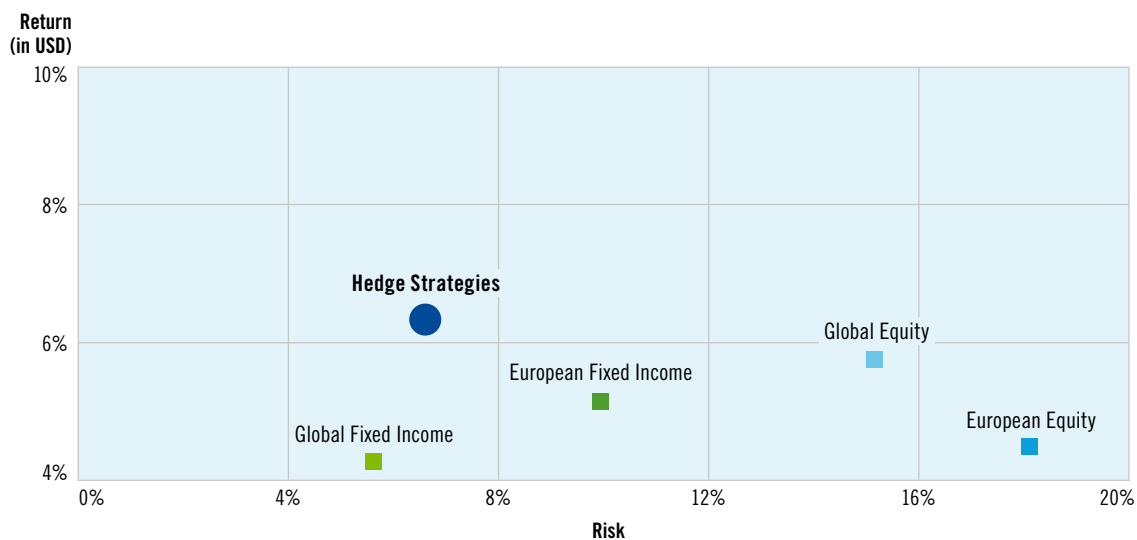
Additional Diversification

**New Sources of Returns for
Traditional Stock/Bond Portfolios**

**Potential for Improved
Risk/Return Profile**

Hedge Strategies Have Historically Offered Long-Term Equity-Like Returns with Less Risk

Risk vs. Return Comparison (20-Year Period Ending 30 June 2018)¹



*For illustrative purposes only; Hedge Strategies are represented by the HFRI Fund Weighted Composite Index and are not representative of the Fund's portfolio composition or performance. **Past performance is not an indicator or a guarantee of future performance.** For Franklin K2 Alternative Strategies Fund's standardised and most recent month-end performance, please visit franklintempleton.ch.*

Now individual investors have the ability to access hedge strategies in a mutual fund format. There are some key differences between owning hedge strategies in a mutual fund versus traditional hedge fund structure, some of which are shown below.

Characteristics of Product Structure	Mutual Fund	Traditional Hedge Fund
Daily Liquidity	■	
Regulated Vehicle	■	
Flexibility on Use of Financial Leverage		■
Ability to Short Securities	■ (via derivatives only)	■ (physical shorts permitted)
Investment Minimums	Low	High
Open to Individual Investors	■	Restricted
Typical Manager Fee Structure	Management Only	Management and Performance

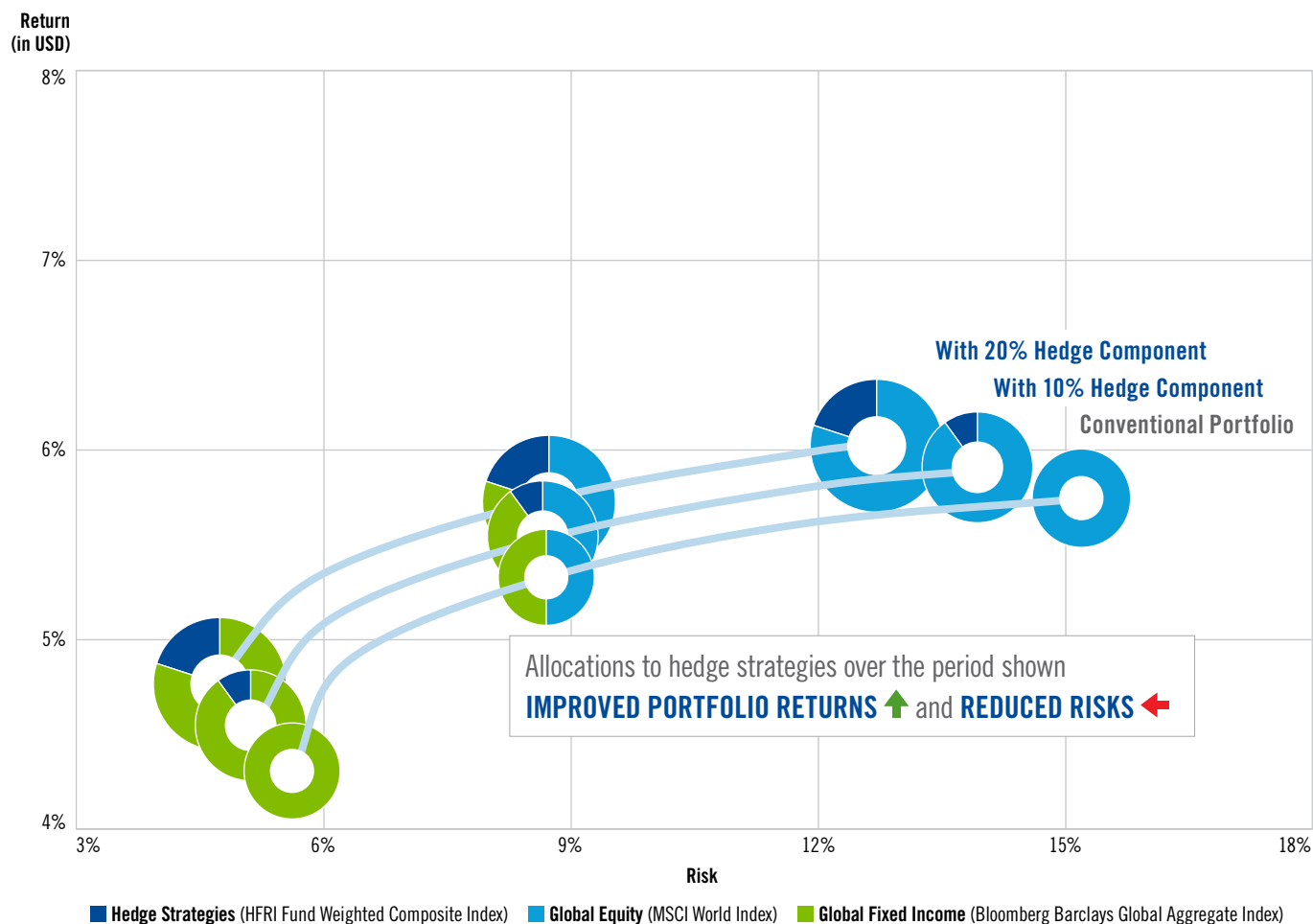
1. Source: FactSet. European Equity is represented by the MSCI Europe Index. Global Equity is represented by the MSCI World Index. European Fixed Income is represented by the J.P. Morgan Global Government Bond Index – Europe. Global Fixed Income is represented by the Bloomberg Barclays Global Aggregate Index. Hedge Strategies are represented by the HFRI Fund Weighted Composite Index. References to indices are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Unlike most asset class indexes, HFR Index returns reflect fees and expenses. While the information is based on index returns and does not represent the fund's performance, it provides a general indication of the risk/return profile of hedge fund strategies. Returns data represents average annual total returns and assumes reinvestment of interest or dividends. Risk is measured by the annualised standard deviation of monthly total returns.

Diversifying Traditional Portfolios

Whether your portfolio is invested conservatively—with a large allocation to bonds—or more aggressively—with a large portion allocated to stocks—hedge strategies can play an important supporting role in your overall investment mix.

Adding Hedge Strategies Could Have Helped Improve Portfolio Return Potential and Reduce Risk

Allocation Frontier (20-Year Period Ending 30 June 2018)²



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Important Note to Investors

Your financial advisor will guide you in how best to incorporate hedge strategies into your portfolio by considering your investment objectives and risk tolerance to determine how much to allocate to them and how to adjust your overall portfolio.

2. Source: FactSet. Initial allocations for the conventional portfolios are 100% Global Fixed Income, 50% Global Fixed Income / 50% Global Equity and 100% Global Equity. For the 50% Global Fixed Income / 50% Global Equity portfolios with hedge components added, the stated allocations to the hedge components are taken equally from the fixed income and equity portions of the portfolio, respectively. Illustration assumes monthly rebalancing. Global Equity is represented by the MSCI World Index. Global Fixed Income is represented by the Bloomberg Barclays Global Aggregate Index. Hedge Strategies are represented by the HFRI Fund Weighted Composite Index. References to indices are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Unlike most asset class indexes, HFR Index returns reflect fees and expenses. While this information is based on index returns and does not represent the fund's performance, it provides an indication of how an allocation to hedge fund strategies could affect overall portfolio performance. Returns data represents average annual total returns and assumes reinvestment of interest or dividends. Risk is measured by the annualised standard deviation of monthly total returns.

Multiple Hedge Strategies to Consider

Hedge strategies tend to focus on an objective designed to address key investor goals, such as downside protection and absolute return among others. They may invest in traditional assets, such as stocks and bonds, and non-traditional assets. Sophisticated investment techniques and derivative investments may be used to capture specific types of investing opportunities.

Two Common Objectives of Hedge Strategies

- Seek to beat a specific market's performance with less risk
- Seek to achieve positive returns regardless of general market conditions

General Hedge Strategy Goal

- Maximise participation in positive markets
- Protect in negative markets by seeking to achieve fewer/smaller negative returns

FOUR TYPES OF HEDGE STRATEGIES

LONG SHORT EQUITY

Makes long and short investments in common stocks and indices

RELATIVE VALUE

Intended to profit from pricing inefficiencies

EVENT DRIVEN

Invests in securities of companies undergoing corporate events

GLOBAL MACRO

Focuses on macroeconomic opportunities

The Challenge: Differences in Individual Strategy Behaviour Can Cause Performance Gaps

Annual Returns (% USD) Ranked in Order of Performance from Best to Worst (10-Year Period Ending 2017)³

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
GLOBAL MACRO 4.83%	RELATIVE VALUE 25.81%	EVENT DRIVEN 11.86%	RELATIVE VALUE 0.18%	RELATIVE VALUE 10.59%	LONG SHORT EQUITY 14.28%	GLOBAL MACRO 5.57%	RELATIVE VALUE -0.31%	EVENT DRIVEN 10.56%	LONG SHORT EQUITY 13.16%
RELATIVE VALUE -18.03%	EVENT DRIVEN 24.57%	RELATIVE VALUE 11.42%	EVENT DRIVEN -3.29%	EVENT DRIVEN 8.88%	EVENT DRIVEN 12.50%	RELATIVE VALUE 4.01%	LONG SHORT EQUITY -0.95%	RELATIVE VALUE 7.61%	EVENT DRIVEN 7.32%
EVENT DRIVEN -21.80%	LONG SHORT EQUITY 23.83%	LONG SHORT EQUITY 10.47%	GLOBAL MACRO -4.14%	LONG SHORT EQUITY 7.41%	RELATIVE VALUE 7.07%	LONG SHORT EQUITY 1.81%	GLOBAL MACRO -1.25%	LONG SHORT EQUITY 5.50%	RELATIVE VALUE 5.29%
LONG SHORT EQUITY -26.65%	GLOBAL MACRO 4.34%	GLOBAL MACRO 8.07%	LONG SHORT EQUITY -7.77%	GLOBAL MACRO -0.07%	GLOBAL MACRO -0.45%	EVENT DRIVEN 1.09%	EVENT DRIVEN -3.56%	GLOBAL MACRO 1.11%	GLOBAL MACRO 2.27%

Best–Worst Performance Gap

31.48%	21.47%	3.80%	7.95%	10.65%	14.72%	4.49%	3.24%	9.46%	10.90%
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For illustrative purposes only; the hedge strategies shown are represented by the indices listed in the footnote below and are not representative of the Fund's portfolio composition or performance. For more information on these hedge strategy types, please refer to the current prospectus of Franklin Templeton Investment Funds. **Past performance is not an indicator or a guarantee of future performance.** For Franklin K2 Alternative Strategies Fund's standardised and most recent month-end performance, please visit franklintempleton.ch.

Key Takeaways

- Multiple individual hedge strategies may help target certain portfolio risk and/or return objectives
- Performance differences (sometimes significant) between strategies may result from distinct strategy characteristics

3. Source: FactSet. Long Short Equity is represented by HFRI Equity Hedge (Total) Index; Event Driven is represented by HFRI Event Driven (Total) Index; Global Macro is represented by HFRI Macro (Total) Index; Relative Value is represented by HFRI Relative Value (Total) Index. References to indices are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

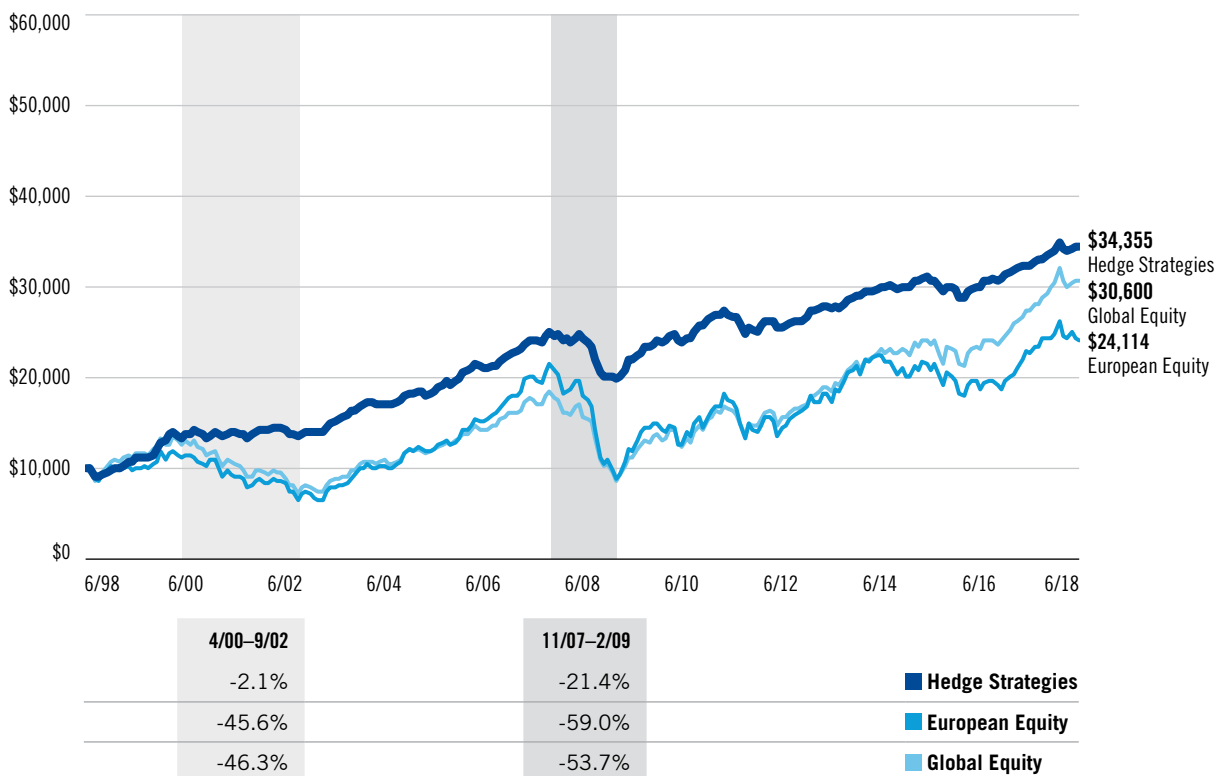
Why a Multi-Strategy Approach

To help smooth performance gaps between different types of hedge strategies, diversifying across multiple hedge strategies may make sense for some investors. Combining multiple strategies provides access to well performing strategies while reducing the impact of underperforming segments of the hedge fund market.

This diversified approach can provide the benefits that many investors seek from hedge strategies, i.e. the potential for an improved risk/return profile for their portfolios.

Reducing Negative Equity Market Impact Has Helped Smooth Performance Historically

Growth of a \$10,000 USD Investment (20-Year Period Ending 30 June 2018)⁴



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Summary—Investing in Hedge Strategies

- Some attributes of hedge strategies are becoming more readily available via mutual funds
- While hedge strategies have been shown historically to help improve portfolio risk/return profiles, selecting individual strategies may be challenging due to performance gaps between strategy types
- Diversifying across multiple hedge strategies can help to smooth out performance gaps
- A disciplined approach that seeks to identify a proper allocation and set of strategies for a given market environment should be implemented to attempt to maximise the benefits of a multi-strategy approach

4. Source: FactSet. Diversification does not guarantee a profit or protect against a loss. European Equity is represented by MSCI Europe Index. Global Equity is represented by the MSCI World Index. Hedge Strategies are represented by the HFRI Fund Weighted Composite Index. References to indices are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Unlike most asset class indexes, HFR Index returns reflect fees and expenses. Returns data represents cumulative total returns and assumes reinvestment of dividends.

Franklin K2 Alternative Strategies Fund: An Integrated Multi-Strategy Approach

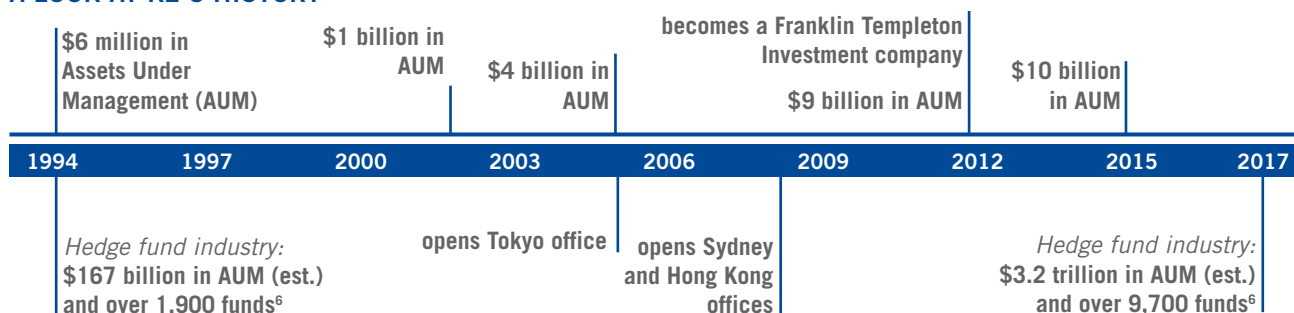
At Franklin Templeton we sought out the expertise of K2 Advisors (K2)⁵ to help create Franklin K2 Alternative Strategies Fund. The fund seeks to offer benefits to investors by:

- Providing access to an experienced team committed to excellence in hedge fund investing
- Identifying a robust pool of talented hedge fund managers to invest with
- Adjusting allocations to hedge strategies and managers as market opportunities evolve

1 | K2 Advisors: An Unwavering Focus on Hedge Fund Investing

Franklin K2 Alternative Strategies Fund is advised by K2 Advisors, an organisation with 23 years of experience focused solely on hedge fund investing. Over its history, K2 has grown into one of the largest advisors of its type, offering alternative solutions to its client base.

A LOOK AT K2'S HISTORY



K2 ADVISORS

- 100+ K2 employees in offices around the world
- Experience in developing institutional products and customised solutions
- Benefits from the global risk management, compliance, trading, technology and operations resources at Franklin Templeton Investments
- An average of 32 years of industry experience between the fund's portfolio managers (as of 30 June 2018)

PORTFOLIO MANAGERS

DAVID C. SAUNDERS

Founding Managing Director
35 Years Experience

BROOKS RITCHEY

Sr. Managing Director
34 Years Experience

ROBERT CHRISTIAN

Sr. Managing Director
28 Years Experience

A Pioneer in Risk Transparency

At K2, the core philosophy around risk is "you can't manage what you can't see". As a result, K2 has been at the forefront of demanding holdings-based transparency from underlying managers.

In the hedge fund industry, where holdings information is often tightly guarded, this level of visibility is the first step in providing valuable insight to K2 portfolio managers.

Robust proprietary systems have been developed to analyse holdings data to make it actionable, helping the portfolio managers identify where potential risk exposure exists as they construct portfolios.

5. K2/D&S Management Co., LLC, is the legal entity doing business as K2 Advisors.

6. Source for industry AUM and fund count: Hedge Fund Research, Inc.

2 | Identifying the Right Managers Makes the Difference

The potential benefits of the Franklin K2 Alternative Strategies Fund begin with the talent of the hedge strategies managers. The quality of these managers is a key driver of value for the fund, but selecting and monitoring them requires experience, skill and significant resources.

Our solution? An organisation committed to rigorous review of managers, with five independent teams at K2 each performing due diligence on (and with the power to veto) potential managers. This process is enhanced by proprietary systems designed for monitoring sources of return, portfolio exposures and risks.

Five Independent Teams Analyse Potential Managers for Fit

Research Team	Portfolio Construction Team	Risk Management Team	Operational Due Diligence Team	Legal and Compliance Team
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K2 Uses Its Skills, Resources and Proprietary Systems to Find Talented Managers

3,500+

Managers contained in K2 research database

1,000+

Annual manager meetings conducted by K2 on average

100+

Managers on K2 platform are approved and continually monitored

8–20

Managers available for use in Franklin K2 Alternative Strategies Fund

LONG SHORT EQUITY

- Chilton Investment Company, LLC
- Impala Asset Management LLC
- Jennison Associates LLC
- Portland Hill Asset Management Limited
- Wellington Management Company, LLP

RELATIVE VALUE

- Basso Capital Management, L.P.
- Chatham Asset Management LLC
- Lazard Asset Management LLC
- Loomis Sayles & Company, L.P.

EVENT DRIVEN

- P. Schoenfeld Asset Management L.P.
- Halcyon Capital Management L.P.

GLOBAL MACRO

- Graham Capital Management, L.P.
- Emso Asset Management Limited

Manager roster as of 30 June 2018.

Manager roster includes managers that have been appointed as co-managers or managers of investment funds. K2 may determine in its sole discretion to not allocate to one or more of the managers and/or to add new managers. Accordingly, the manager roster is presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio, which may change at any time.

3 | Tactical Flexibility to Enhance Diversification

Beyond hedge strategy manager selection, the Franklin K2 Alternative Strategies Fund also seeks to add value to investors by providing the portfolio managers the flexibility to allocate assets across different types of hedge strategies and managers.

Rather than using a passive allocation approach, K2 actively allocates and diversifies across four main hedge strategies. These active allocations are a result of its ongoing research and analytical efforts on identifying factors that influence returns and risks of the different strategies across market cycles.

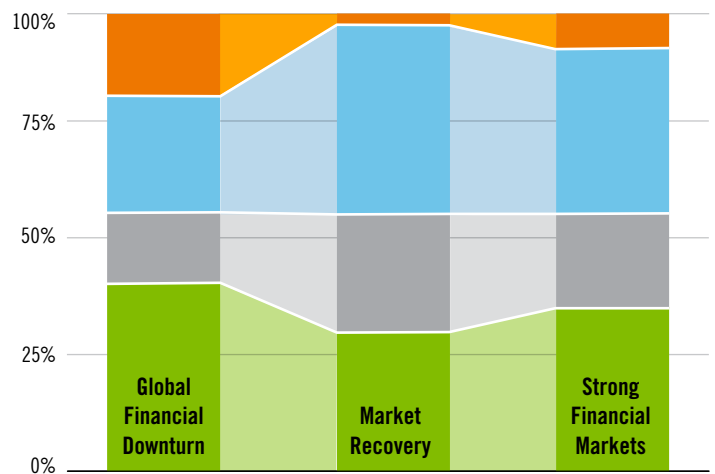
Each of the Four Main Hedge Strategies Has a Flexible Allocation Range

Target Allocation Ranges as of 30 June 2018⁷

LONG SHORT EQUITY	25%–40%
RELATIVE VALUE	30%–45%
EVENT DRIVEN	10%–30%
GLOBAL MACRO	0%–30%

Portfolio Allocations Are Shifted to Capitalise on Changing Market Opportunities

Hypothetical scenario illustrating how the fund may rebalance based on market conditions⁸



“By dynamically allocating among strategies and institutional alternative managers, we aim to maximise participation in up markets while seeking to reduce risks in down markets.”

DAVID SAUNDERS, Founding Managing Director, Portfolio Manager

7. Target Allocations reflect end of period target allocations. The Fund may shift allocations among strategies at any time. Further, K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly, the above target allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the fund’s portfolio (and its managers), which may change at any time.

8. Hypothetical investment scenario only. For illustrative purposes only. Actual allocations may vary.

Looking to Invest in Hedge Strategies via a Mutual Fund?

If you're at the point where you're ready to invest in a mutual fund that uses hedge strategies, here's a checklist of some of the key considerations you should discuss with your financial advisor before making your decision.

- Is the fund providing access to **multiple strategies** or is it a single-strategy product?
- How experienced is the fund's management team with **working with hedge strategies** prior to managing the fund?
- When it comes to selecting managers to invest fund assets with, how robust is the manager **due diligence process**?
- If the fund provides access to multiple strategies, what is the approach to allocating the fund's assets to those strategies?
 - Is there an approach to **shifting allocations** as market opportunities emerge or is it a more static (set) allocation strategy?
- Am I clear on both the **potential benefits and risks** of investing in a mutual fund utilising multiple types of hedge strategies?

WHAT ARE THE KEY RISKS?

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments.

The Fund seeks to achieve its targeted investment objective by allocating its assets across multiple "alternative" strategies and by investing in a wide range of assets. Such assets and investment instruments have historically been subject to price movements due to such factors as general stock market volatility, sudden changes in interest rates, or fluctuations in commodity prices. The Fund will seek to limit volatility using hedged strategies. As a result, the performance of the Fund can fluctuate moderately over time. Other significant risks include: credit risk, derivatives risk, liquidity risk, operational risk, targeted return risk. For full details of all of the risks applicable to this Fund, please refer to the "Risk Considerations" section of the Fund in the current prospectus of Franklin Templeton Investment Funds.

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Franklin Templeton Investments

At Franklin Templeton Investments, we're dedicated to one goal: delivering exceptional asset management for our clients. By bringing together multiple, world-class investment teams in a single firm, we're able to offer specialised expertise across styles and asset classes, all supported by the strength and resources of one of the world's largest asset managers. This has helped us to become a trusted partner to individual and institutional investors across the globe.

Focus on Investment Excellence

At the core of our firm, you'll find multiple independent investment teams—each with a focused area of expertise—from traditional to alternative strategies and multi-asset solutions. And because our portfolio groups operate autonomously, their strategies can be combined to deliver true style and asset class diversification.

All of our investment teams share a common commitment to excellence grounded in rigorous, fundamental research and robust, disciplined risk management. Decade after decade, our consistent, research-driven processes have helped Franklin Templeton earn an impressive record of strong, long-term results.

Global Perspective Shaped by Local Expertise

In today's complex and interconnected world, smart investing demands a global perspective. Franklin Templeton pioneered international investing over

60 years ago, and our expertise in emerging markets spans more than a quarter of a century. Today, our investment professionals are on the ground across the globe, spotting investment ideas and potential risks firsthand. These locally based teams bring in-depth understanding of local companies, economies and cultural nuances, and share their best thinking across our global research network.

Strength and Experience

Franklin Templeton is a global leader in asset management serving clients in over 150 countries.* We run our business with the same prudence we apply to asset management, staying focused on delivering relevant investment solutions, strong long-term results and reliable, personal service. This approach, focused on putting clients first, has helped us to become one of the most trusted names in financial services.



*As of 31 December 2017. Clients are represented by the total number of shareholder accounts.



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