FTIF Templeton Global Bond Fund

Sub-Fund of Franklin Templeton Investment Funds (Luxembourg-Registered SICAV)

FRANKLIN TEMPLETON INVESTMENTS

MANAGER REPORT — **31 December 2009**

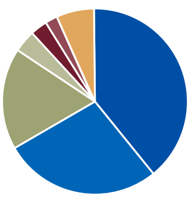
Fund Characteristics

Fund Inception Date	28.02.1991
Lead Portfolio Manager	Michael Hasenstab
Primary Benchmark	JP Morgan Global Government Bond Index
S&P Fund Management Rating	AA/V4
Morningstar Rating™	★★★★★
Base Currency	USD
Total Net Assets (USD)	15,552,087,930
Number of Holdings	161
Weighted Average Credit Quality	A
Average Duration: Fund	4.05 Yrs.
Benchmark	6.24 Yrs.
Yield to Maturity (%)/Current Yield (%)	5.89/5.89
ISIN Code	LU0029871042
Bloomberg Code	TEMGINI LX

OVERVIEW

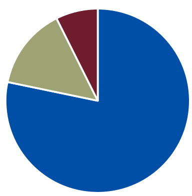
- During the final quarter of 2009, and particularly in December, participants began to price in a higher degree of differentiation between global fixed income markets, with country fundamentals moving to the fore.
- While the indiscriminant rally of previous months lost steam and many assets traded sideways during December, fund positions built in credits with strong underlying fundamentals continued to provide solid returns for FTIF Templeton Global Bond Fund and, more importantly, meant the fund not exposed to the blowups seen in some markets.
- FTIF Templeton Global Bond Fund outperformed the JPMorgan Global Government Bond Index in the fourth quarter. Relative outperformance was mainly attributable to currency positions followed by sovereign credit exposures, while interest-rate strategies contributed modestly. The currencies that contributed the most were ones in which the fund was significantly underweighted such as the euro and the Japanese yen.
- An assessment of individual countries' fundamental growth and inflation prospects will provide important guidance to our positioning in global interest rates and currencies, while different growth patterns and fiscal outlooks could provide opportunities for positioning in sovereign credit.
- As 2010 wears on, we believe that investors will be likely to charge increasing risk premiums to some developed markets with relatively low growth potential and large fiscal deficits. In some cases, such a trend may blur the traditional distinction between "developed" and "emerging" markets.

Geographic Breakdown by Issuer (%)



Asia, Non-Japan	39.13
Non-EMU Europe/Africa	27.53
Non-USA America	17.40
EMU	4.16
Supranational	2.93
USA	2.28
Japan	0.00
Cash and Other Assets	6.57

Credit Quality Breakdown (%)



Investment Grade	78.31
Non-Investment Grade	14.09
Cash and Other Assets	7.58

CUMULATIVE PERFORMANCE (%)

Historical Performance

31 December 2009

	1 Mth	3 Mths	6 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (28.02.91)
FTIF Templeton Global Bond Fund A(Mdis) USD—NAV	0.88	2.68	10.23	18.81	18.81	41.47	53.97	165.68	321.29
JP Morgan Global Government Bond Index USD	-4.99	-1.91	3.92	1.90	1.90	26.47	25.23	91.35	254.68

ANNUALIZED PERFORMANCE (%) – NET OF SALES CHARGE[2]

Historical Performance

31 December 2009

	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (28.02.91)
Templeton Global Bond Fund A(Mdis) USD—Net of Fees	12.90	10.40	7.90	9.70	7.60

Data in this report is preliminary.
For information related to the heading "Fund Characteristics", please see note regarding Fund Ratings on back page. Source for "Fund Characteristics", "Credit Quality Breakdown", "Geographic Breakdown by Issuer", "Cumulative Performance": Franklin Templeton Investments, as of 31 December 2009. **Past performance does not guarantee future results.** Where a Fund invests in emerging markets, this investment can be more risky than an investment in developed markets. Ratings are determined using the Barclays Index Rating System, which is composed of a blended rating between Standard & Poor's, Fitch, and Moody's rating services. Weightings as a percent of total.
Performance calculated as at 31 Dec 2009 in USD; NAV-NAV; dividend reinvested. Past performance is not indicative of future performance. [2]Annual average compounded return adjusted for 5% initial sales charge.

MARKET REVIEW

For global financial markets, 2009 ended up being a tremendously positive year. The extreme pessimism that was present at the height of the crisis in the beginning of the year subsided, providing the fuel for a generally indiscriminant rally across risk assets. Going forward, we expect that as the differences between economic conditions around the world become clearer, markets will differentiate more between currencies and securities. In fact, even during a year as broadly positive as 2009, there were significant differences between periods and regions that provided opportunities for our fundamentals-based, actively managed strategies to outperform.

During the first quarter of the year, the financial crisis reached its height, with nearly all currencies selling off against the U.S. dollar, the Japanese yen and the Swiss franc, while sovereign credit spreads remaining at historically wide levels for most of the period. However, FTIF Templeton Global Bond Fund was able to provide positive returns in this extremely difficult environment. Our strategies benefited from net-negative exposure to the euro, which we had identified as being overvalued near its peak in 2008. The market was pricing in a situation where the U.S. would suffer a recession but Europe would decouple, which we considered unlikely. This widely held decoupling thesis also provided attractive entry levels for duration positions that benefited returns during the first quarter as government bond yields in places like Mexico and Chile rallied when markets belatedly priced in significant monetary easing.

Much of the rest of the year witnessed a broad-based rally in currency and credit exposures as the U.S. dollar fell indiscriminately and sovereign spreads declined from distressed levels. FTIF Templeton Global Bond Fund's outperformance during the second and third quarters of 2009 was in large part due to sovereign credit exposure, an area in which we had very little exposure before the selloff in 2008 and early 2009. Valuations for credit exposure improved dramatically during the crisis, allowing us to add exposure to countries with strong underlying fundamentals at distressed levels. Returns also benefited from currency exposure. Market volatility early in the year enabled us to build positions in currencies such as the Brazilian real, Indonesian rupiah and South Korean won at levels not seen since previous crises, even though their underlying fundamentals were much stronger than in the late 1990s. While absolute returns during the third quarter were quite strong, they were not exceptional in comparison to the broader peer group or other asset classes as the rally was very broad based. The important difference that our strategies provided during this period, though, was that they were well-positioned to capitalize on what happened next.

During the final quarter of 2009, and particularly in December, the market began to price in a higher degree of differentiation. The indiscriminant rally lost steam and many assets traded sideways. However, the positions we built in credits with strong underlying fundamentals continued to provide solid returns and, more importantly, meant that we were not exposed to the blowups in specific markets that began to take place. The Dubai World debt standstill and the downgrade of Greece were the biggest headlines during the final quarter, but other overleveraged countries in Europe also suffered, and realization dawned that certain government bond issues faced very difficult economic outlooks even as the global economy began to recover. Nonetheless, data from emerging markets in Asia as well as select developed and Latin American economies confirmed our thesis that a recovery was underway.

One important outcome from the December recognition of economic differentiation was the rise in the U.S. dollar against the Japanese yen. In December, the more optimistic outlook for the U.S. economy led government bond yields there to rise. At the same time, Japanese domestic demand remains very weak, the economy is still in deflation and prospects for interest rate hikes are remote. This led to an increase in the interest rate-differential between the U.S. and Japan that favored the U.S. dollar.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

FTIF Templeton Global Bond Fund generated a net return of +2.68% (A (Mdis) shares in U.S. dollars) for the quarter ended 31 December 2009, significantly outperforming the JP Morgan Global Government Bond Index (GGBI), which returned -1.91%.

Regarding absolute performance. In the fourth quarter of 2009, FTIF Templeton Global Bond Fund predominantly benefited from currency positions followed by sovereign credit exposures, while interest-rate strategies slightly detracted from performance. On the currency side, brighter economic data and growth prospects in the U.S. relative to the eurozone and Japan have supported the U.S. dollar against the yen and euro but not versus most peripheral and emerging currencies. As a result, our net-negative positions in the euro and Japanese yen were particularly beneficial to absolute performance. Additionally, our exposures to peripheral and emerging currencies such as the Polish zloty, Indonesian rupiah, Indian rupee, Malaysian ringgit, South Korean won, Brazilian real, Chilean peso and Mexican peso contributed to performance. Among the fund's key interest-rate strategies, duration exposures in the Americas detracted from performance and offset modest gains in Europe and Asia. The fund's sovereign credit exposure generated strong returns in the fourth quarter, led by Argentina, Russia, Hungary and Indonesia.

Regarding relative performance. In the fourth quarter of 2009, FTIF Templeton Global Bond Fund's relative outperformance was mainly attributable to currency positions followed by sovereign credit exposures, while interest-rate strategies modestly contributed. On the currency side, the U.S. dollar strengthened over the quarter, particularly relative to other major currencies but not against most peripheral and emerging currencies. As a result, the currencies that contributed the most to relative performance were ones in which the fund was significantly underweighted such as the euro and the Japanese yen. Positions in the Polish zloty, Indonesian rupiah, Indian rupee, Malaysian ringgit, South Korean won, Mexican peso, Chilean peso, and Brazilian real were also beneficial. The fund's sovereign credit exposure in Russia, Argentina, Indonesia and Hungary delivered strong relative returns over the quarter. Among the fund's key interest-rate strategies, duration exposures in Europe and Asia added to relative performance, while duration positions in the Americas slightly detracted.

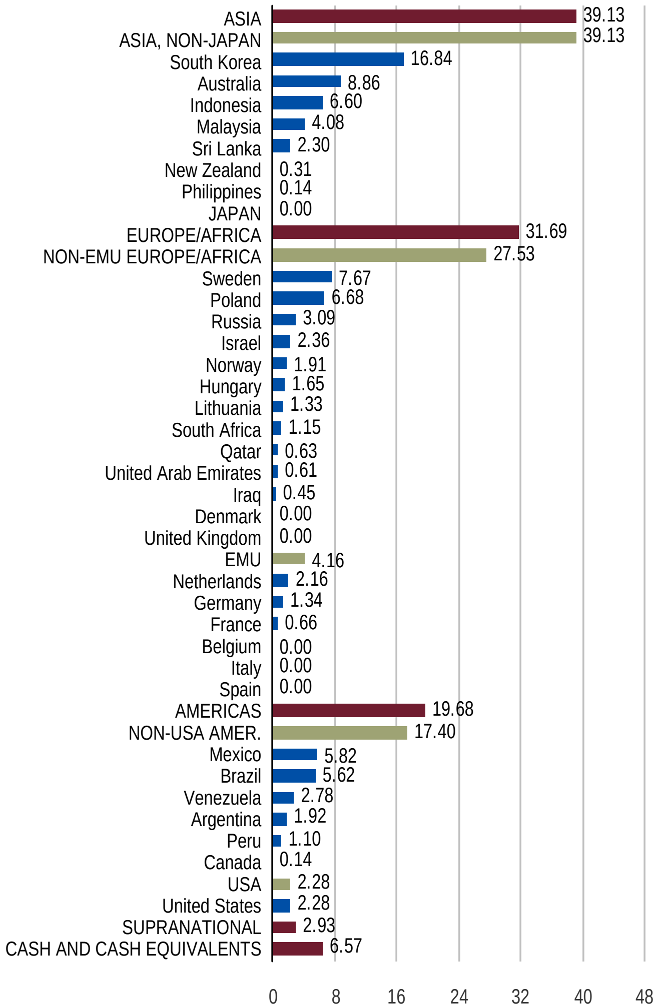
PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE *(continued)*

Strategy and Activity

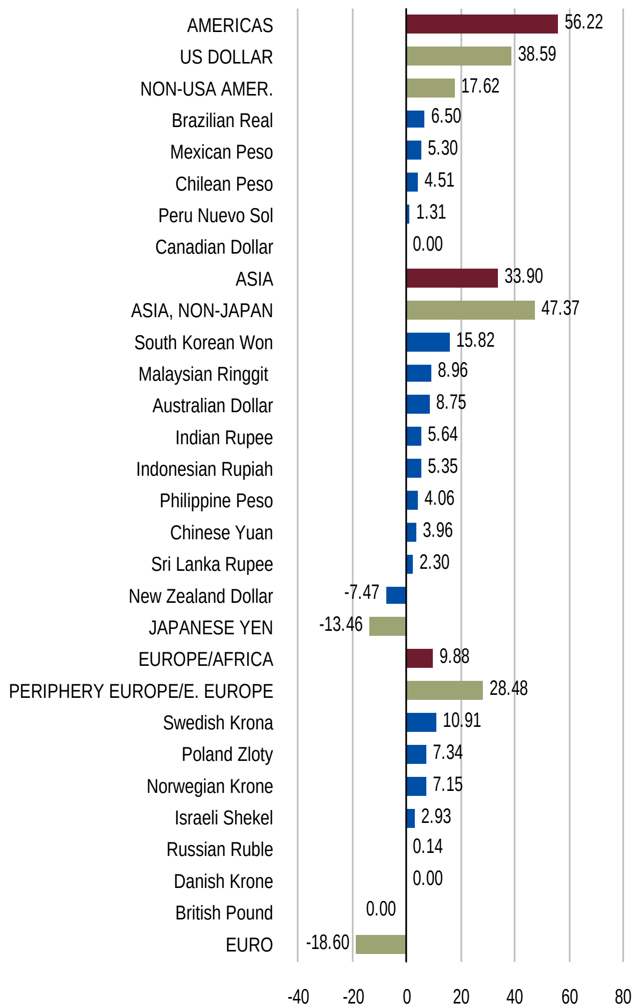
We expect the differences between the prospects for individual economies will be an important driver of financial markets in 2010 as domestic demand recovers robustly in some economies while others lack a driver to sustain a recovery and continue to struggle with deleveraging. Across developed and emerging markets, different growth patterns and fiscal outlooks could provide opportunities for positioning in sovereign credit. While emerging market sovereign bond spreads have narrowed from crisis-driven levels, we continue to find value in the sector. Indeed, the slow growth environment has created financing needs in some countries with solid credit fundamentals that have not issued in several years. An assessment of individual countries' fundamental growth and inflation prospects will also provide important guidance to our positioning in global interest rates and currencies. In particular, we would expect Asian currencies to be supported over the medium term against the G-3 (the U.S., Japan and the eurozone), in light of the far stronger recovery in Asia relative to much of the developed world.

We also continue to expect that higher fiscal deficits in the U.S. will result in higher Treasury yields. We hold no U.S. Treasuries and very little duration exposure in other developed government bonds. Further, we are pursuing ways that will allow our portfolios to be not only cushioned against rising yields but also to potentially capitalize on them. This could take the form of negative duration exposure through derivative instruments or currency positioning. For example, there is a strong correlation between U.S. and Japan treasury yield differentials and the Japanese yen exchange rate. The narrowing of the U.S.-Japan interest-rate differential supported the yen against the dollar through much of 2009, but if U.S. yields rise, reversing the interest-rate convergence, the yen may weaken. Thus, our negative exposure to the yen serves as an indirect hedge against the potential rise in U.S. yields. We also like being long commodity currencies (such as the Norwegian krone and the Australian dollar), which we expect to outperform due to stronger domestic economies. These currencies could also outperform in an environment of rising interest rates caused by higher global growth.

Geographic Weightings (%)

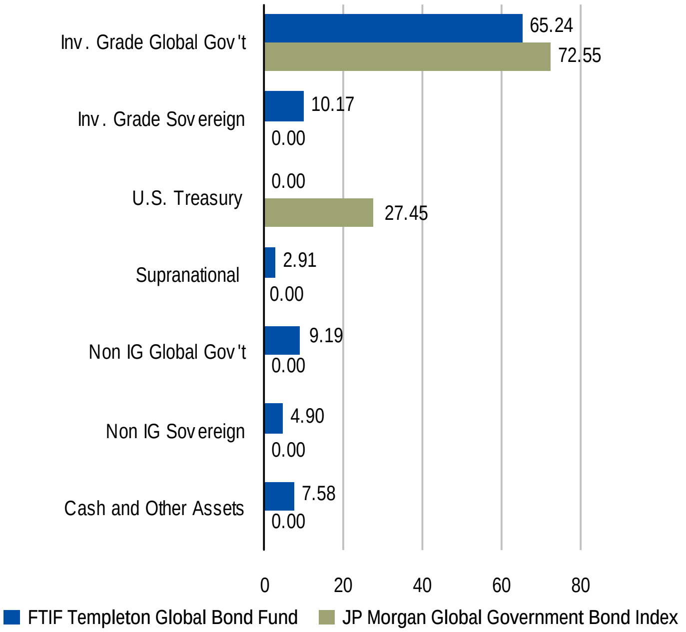


Currency Weightings (%)



Source for the above figures: Franklin Templeton Investments as of 31 December 2009. Weightings as a percent of total.

Sector Weightings vs. Benchmark (%)



Top Ten Holdings

Security	Percent of Total
Korea Treasury Bond, 0400-1206, 4.00%, 6/10/12	8.13
Government of Sweden, 5.25%, 3/15/11	7.67
Government of Australia, TB123, 5.75%, 4/15/12	4.19
Korea Treasury Bond, 0475-1112, 4.75%, 12/10/11	3.82
Government of Mexico, M 20, 10.00%, 12/05/24	3.20
Government of Russia, senior bond, Reg S, 7.50%, 3/31/30	3.09
Government of Poland, 4.75%, 4/25/12	2.69
Government of the Netherlands, 4.50%, 7/15/17	2.16
Government of Malaysia, 3.756%, 4/28/11	2.07
Government of Argentina, senior bond, FRN, .943%, 8/03/12	1.92
Total	38.94

INVESTMENT OUTLOOK

December data releases have broadly confirmed our overall outlook. The continuing signs of stabilization in the labor and housing markets support our view that the U.S. recovery might well surprise on the upside in the first half of 2010. Moreover, as the pace of job cutting has been extremely aggressive by historical standards, pushing productivity to record high levels, it appears quite possible that employment may soon stabilize, which in turn could give precious support to consumption. However, uncertainty remains elevated and, with U.S. consumers still in a deleveraging phase, growth may lose steam in the latter part of the year as fiscal policy is tightened again and the inventory cycle begins to wane.

The opposite scenario may face Europe, where the labor market has adjusted much less than in the U.S., as governments have pushed various schemes of partial employment and/or shorter working weeks to limit job-shedding. While such measures may have helped to cushion the blow of the recession, they imply that productivity is very low, leaving little potential for a recovery in employment. European growth is still driven mostly by Germany. However, the largest proportion of exports (even German exports) goes to other European countries, where growth prospects look anemic. Moreover, the banking sector still poses a risk to the eurozone as a whole. Indeed, the European Central Bank (ECB) has flagged its strong concern that a late-stage credit crunch might materialize as banks get hit by rising nonperforming loans.

Our view continues to hold that Japan is set to be the main underperformer among the major industrial countries. Indeed, the Bank of Japan recently opted for a further sizable liquidity injection into the commercial banking system to counter increased risks to growth and greater deflation pressures. This suggests that interest rates in Japan are likely to remain at extremely low levels even after the U.S. Federal Reserve and other central banks have begun raising policy rates. Such a development would mean the Japanese yen once again assumes the role of a funding currency and, therefore, depreciates against a number of other currencies, particularly the U.S. dollar.

December events have also supported our view that differentiation is going to be an increasingly important factor in financial markets, and country fundamentals should be a major driver of such differentiation. Fiscal developments and growth potentials are two of the most relevant factors in this regard. The crisis has triggered a significant increase in fiscal deficits and public debt ratios in a number of countries, and the size and distribution of this deterioration might lead to a significant change in the way that markets assess the creditworthiness of many countries. First of all, on average, the fiscal deterioration has been much more severe in developed countries than in emerging markets, as the former have had to transfer much of the losses incurred by the private financial sector onto the public balance sheet. As developed markets, in general, also have lower growth potential, they will find it harder and more painful to improve their fiscal balances. Markets are therefore likely to charge increasing risk premiums to some of these developed markets, and this might in some cases blur the traditional distinction between “developed” and “emerging” markets. This is evident in Europe, with the difficulties currently faced by Greece a specific case in point.

While the U.S. also faces a difficult fiscal situation, its better growth prospects relative to the eurozone and Japan are an important asset, and should help the U.S. dollar reverse its recent weakness against the yen and euro. The possible recovery of the U.S. dollar against other major currencies would be driven by stronger confidence in the sustainability of the U.S. recovery and would be consistent with healthy levels of risk appetite in markets.

Source for the above figures: Franklin Templeton Investments as of 31 December 2009. Weightings as a percent of total.

INVESTMENT OBJECTIVE

FTIF Templeton Global Bond Fund's principal investment objective is to maximise total return, consisting of a combination of interest income and capital appreciation and currency gains by investing in fixed income securities worldwide.

INVESTMENT PHILOSOPHY

Franklin Templeton's Fixed Income Group fosters an active management approach, based on top-down, in-depth research of macroeconomic factors, combined with bottom-up fundamental valuations and portfolio construction.

The managers of FTIF Templeton Global Bond Fund believe that applying a fundamental, research-driven approach focused on identifying potential sources of high current income worldwide and seeking to capitalize on global interest rates and currency trends provides the best potential for superior risk-adjusted returns. Our strategies are run independently of their benchmarks, allowing the managers to hold positions they feel will benefit performance. This is a high alpha global strategy that may include allocations to both developed and emerging markets. We seek out securities that we believe offer superior relative value and actively manage duration, currency, and credit exposure. Our funds employ a mix of credits; however, we tend to favor credits with solid fundamentals.

PORTFOLIO MANAGEMENT TEAM

Dr. Michael Hasenstab is senior vice president, co-director and portfolio manager for the international bond department of the Franklin Templeton Fixed Income Group. He co-directs all investment strategies within the International Fixed Income Group and co-manages the portfolio management team. In addition, he is a member of the Fixed Income Policy Committee and Global Investment Forum and is a portfolio manager for numerous Franklin Templeton funds as well as separate accounts.

Dr. Hasenstab initially joined Franklin Templeton Investments in July of 1995. After a leave of absence to obtain his Doctor of Philosophy (Ph.D) degree, he rejoined the company in April of 2001. He specializes in global macroeconomic analysis with a focus on currency, interest rate, and sovereign credit analysis of developed and emerging market countries. Dr. Hasenstab has worked and traveled extensively in Asia, published research on China's financial market, and consulted global companies on Asia Pacific investments and strategy.

Dr. Hasenstab holds a Ph.D. in economics from the Asia Pacific School of Economics and Management at Australian National University, a master's degree in economics of development from the Australian National University and a Bachelor of Arts degree in international relations/political economy from Carleton College in the United States.

EXPLANATORY NOTES

Fund Ratings: S&P Fund Management Ratings © 2009, McGraw-Hill Companies, Ltd. trading as Standard & Poor's ("S&P"). Morningstar Rating™ © 2009, Morningstar, Inc.

Fund performance data include reinvested dividends, and is net of management fees. Sales charges, other commissions, taxes and other relevant costs to be aid by the investor are not included.

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Performance figures are not based on audited financial statements and assume reinvestment of interest and dividends. When comparing the performance of Franklin Templeton Investment Funds ("FTIF" or the "Fund") with a benchmark index, it is important to note that the securities in which FTIF invests may be substantially different than those represented by the benchmark index. Furthermore, an investment in FTIF represents an investment in a managed investment company in which certain charges and expenses, including management fees, are applicable. These charges and expenses are not applicable to indices. Lastly, please note that indices are unmanaged and are not available for direct investment. Certain data and other information shown have been supplied by outside sources. While we consider that information to be reliable, we give no assurance that such data and information is accurate or complete.

The indices are provided only to show the investment environment during the specific periods shown. The performance of each index does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund. The indices include a greater number of securities than those held in the Fund. An index is unmanaged and one cannot invest directly in an index. **Past performance is no guarantee of future results.**

Top ten holdings may differ for individual accounts within the composite. In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. For the most current information on the composite, please contact your Franklin Templeton marketing representative.

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