



FRANKLIN TEMPLETON  
INVESTMENTS

# Templeton Global Total Return Fund

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

MANAGER REPORT

31 January 2010

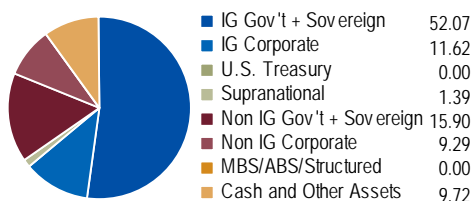
## Fund Characteristics

Fund Inception Date	29.08.2003
Lead Portfolio Manager	Michael Hasenstab
Primary Benchmark	Barclays Capital Multiverse Index
S&P Fund Management Rating	AAV5
Morningstar Rating™	★★★★★
Base Currency	USD
Total Net Assets (USD)	4,731,239,852
Number of Holdings	373
Weighted Average Credit Quality	A-
Average Duration: Fund	4.88 Yrs.
Benchmark	5.37 Yrs.
Yield to Maturity (%)/Current Yield (%)	7.20/6.76
ISIN Code	LU0170475585
Bloomberg Code	TGTRFAD LX

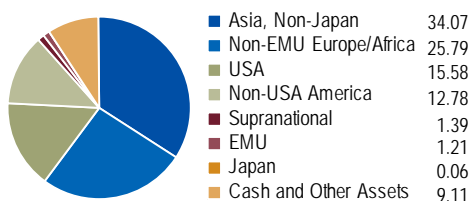
## OVERVIEW

- January saw a rise in risk aversion, fueled by rising fears about the recovery, high fiscal deficits and rising debt burdens in several peripheral eurozone members, especially Greece.
- Although the increasing backlash against Wall Street bonuses and greater concern over potential regulatory tightening weighed on the financial sector, particularly bank credits late in the month, corporate credit performance was positive in January.
- FTIF Templeton Global Total Return Fund slightly underperformed the Barclays Capital Multiverse Index in January. Relative performance suffered predominantly from the fund's credit sector exposures, while currency and interest-rate strategies contributed positively. Within the fund's credit sector allocation, sovereign credit exposures were the biggest detractors.
- We expect that differentiation between country fundamentals, including fiscal developments and growth potential, is going to be an increasingly important factor in financial markets in the months ahead. As a result, we may see a blurring of the traditional distinction between developed and emerging markets.
- As a possible rise in the U.S. dollar against other major currencies would be driven by stronger confidence in the sustainability of the U.S. recovery, it would be consistent with healthy levels of risk appetite in financial markets. We also continue to believe that healthy risk appetite may be justified by the growth outlook in emerging markets, particularly in Asia.

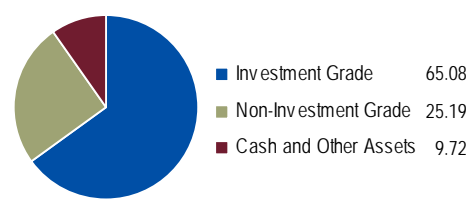
## Sector Breakdown (%)



## Geographic Breakdown by Issuer (%)



## Credit Quality Breakdown (%)



## CUMULATIVE PERFORMANCE (%)

### Historical Performance

31 January 2010

	1 Mth	3 Mths	6 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incept (29.08.03)
Templeton Global Total Return Fund A(Mdis) USD—NAV	0.41	3.76	10.74	0.41	30.34	44.35	65.92	108.35
Barclays Capital Multiverse Index USD	0.44	-0.75	3.83	0.44	12.00	24.14	27.36	50.08

## ANNUALIZED PERFORMANCE (%) – NET OF SALES CHARGE<sup>2</sup>

### Historical Performance

31 January 2010

	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (29.08.03)
Templeton Global Total Return Fund A(Mdis) USD—Net of Fees	23.80	11.10	9.50	NA	11.20

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 January 2010. **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 Jan 2010 in USD; NAV-NAV; dividend reinvested. Past performance is not indicative of future performance. <sup>2</sup>Annual average compounded return adjusted for 5% initial sales charge.

## MARKET REVIEW

The month of January saw a rise in risk aversion, leading financial markets to broadly decline. This was fueled by rising fears of several headwinds facing the recovery. First and foremost, there was increasing concern regarding the sustainability of high fiscal deficits and rising debt burdens in several peripheral eurozone members, especially Greece. The market also grew increasingly concerned about the possibility of more government regulation and higher taxation in the U.S. Finally, an incremental increase in the reserve requirement ratio in China raised the prospect that significant monetary policy tightening in rapidly growing emerging markets might snuff out the fragile global recovery. Although these concerns touch on some of the reasons why we are expecting a more subdued recovery than normal, we think it unlikely that the global economy will dip back into recession, and we have used the contagion-driven selloff to add to positions with strong underlying fundamentals.

Greece certainly has some of the most challenging circumstances within the eurozone in our view. We have not built up any exposure to this particular credit because of Greece's weak fundamentals, though we do recognize there is a possibility of a bailout. Greece has been plagued by a persistent lack of fiscal discipline: it has run large deficits and failed to meet the criteria established in the Stability and Growth Pact (SGP) nearly every year since joining Europe's economic and monetary union (EMU) in 1999, and indeed it has virtually never met EMU entry criteria. Moreover, Greek statistics have proven to be very unreliable, exacerbating the credibility issue. Last December, for example, the incoming socialist government revised upward its estimate of the 2009 fiscal deficit by about 4% of GDP. In addition to wide fiscal deficits, Greece has persistently run large current account deficits. These deficits confirm the increasingly unbalanced structure of the economy, and indicate that with a public debt level already in excess of 100% of GDP, Greece needs to rely heavily on foreign financing. Its ability to service this growing debt burden is currently at the forefront of investors' fears. Greece will ultimately have to bring its public finances back on a sustainable path by running a significant primary fiscal surplus to reduce debt levels.

Complicating this effort is the challenging political environment in which Greece's government must try to raise revenue and cut spending, even as the economy remains in the midst of recession. It is a hard challenge, and the government's actions so far do not look sufficient. Nonetheless, we think it is highly unlikely that the current crisis will result in Greece's exit from the eurozone.

Another source of concern for the market during the month was the possibility that tighter monetary policy in Asia could derail the recovery that is well under way there. We see the possibility of a hard landing in Asia as very remote. Policymakers on the whole are still unsure of the economic outlook, chiefly because of the difficult position developed countries are in, and until there is increased clarity, policy seems likely to remain quite accommodative. That does not mean select steps will not be taken—such as the incremental increase in the reserve requirement in China—but tentative changes are very unlikely to stop the strong rebound in economic activity seen so far. It is characteristic of the “broad-brush” risk aversion we have observed that the market swung quickly from fear of asset price bubbles in emerging markets to concern that tighter policy would damage their recoveries. We see little possibility of either at the moment. Credit is flowing to emerging markets because of the high return on investment in these undercapitalized economies. Furthermore, these countries generally continue to be net lenders to the rest of the world. However, we remain cognizant that if policy remains too loose and policymakers resist necessary structural shifts in their economies, bubbles are a longer-term risk.

Corporate credit performance was positive for the first month of the year. The Barclays Capital Global Aggregate Index rose 0.41% in January (in U.S. dollars) and the Barclays Capital Global High Yield Index rose 1.10%. The combination of beginning-of-the-year allocations, investor inflows and the “January effect” that traditionally sees financial-sector prices rise during the month provided a technical boost to credit sectors. Rising expectations for economic recovery in the U.S., combined with generally positive fourth-quarter corporate earnings reports and outlooks, continued to drive credit spreads tighter, especially for lower credit-quality bonds. Later in the month, the increasing backlash against Wall Street bonuses and greater concern over potential regulatory tightening weighed on the financial sector, particularly bank credits. In other spread sectors, mortgage markets have been relatively quiet ahead of the end of the Federal Reserve's mortgage security purchase program. Commercial mortgages rebounded during the month, but the commercial real estate cycle is not expected to bottom until late in 2010 or early 2011.

---

## PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

FTIF Templeton Global Total Return Fund returned net 0.41% (in U.S. dollars) for the month ended 31 January 2010, modestly underperforming the Barclays Capital Multiverse Index, which returned 0.44%.

*Absolute performance.* FTIF Templeton Global Total Return Fund primarily benefited from its interest-rate strategies, while currency positions and the credit sector detracted during January. Within the fund's credit sector allocation, sovereign credit exposures were the biggest detractors from absolute performance in January. The fund's sovereign credit exposures in Argentina, Hungary, Russia and South Africa negatively affected absolute returns in January as a result of concerns over certain eurozone countries' ability to stabilize their debt and finance their fiscal deficits. Among the fund's key interest-rate strategies, duration positions in Asia and the Americas added to performance, particularly our interest-rate positions in Indonesia, South Korea and Mexico. On the currency side, the eurozone sovereign debt situation has increased risk aversion and favored the Japanese yen and the U.S. dollar against the euro and most peripheral currencies. As a result, our net-negative exposure to the euro and New Zealand dollar contributed positively to performance, while our net-negative position in the Japanese yen detracted. Additionally, the fund suffered from its exposure to peripheral European, Asian and Latin American currencies, particularly the Swedish krona, Norwegian krone, Brazilian real and Chilean peso.

**PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE (continued)**

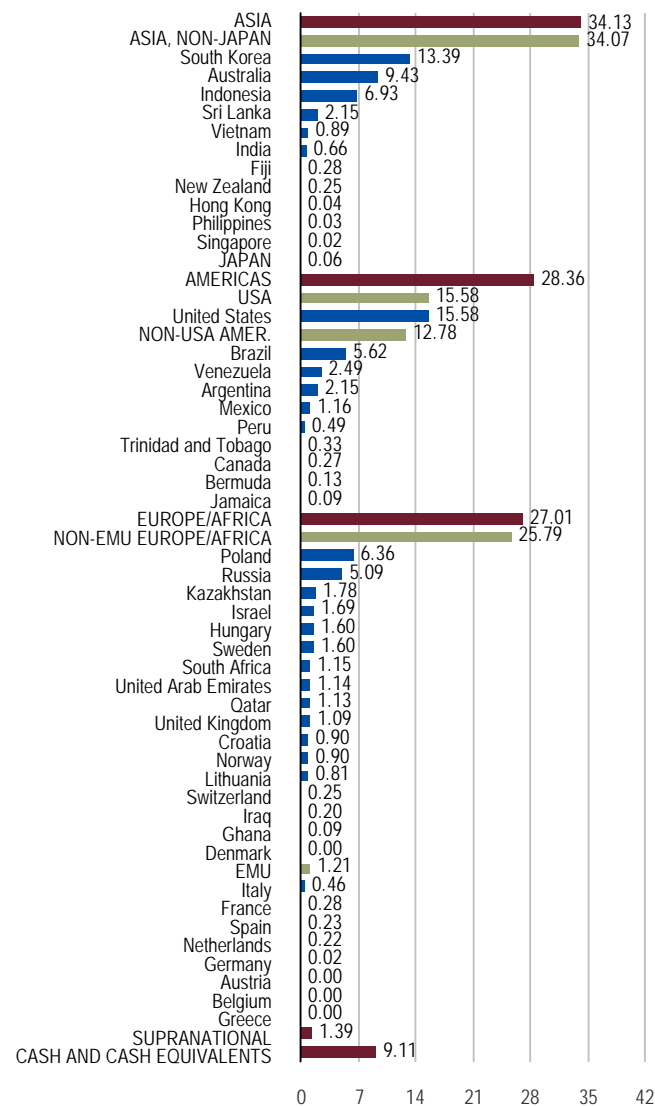
*Relative performance.* In January, FTIF Templeton Global Total Return Fund’s relative performance suffered predominantly from its credit sector exposures, while currency and interest-rate strategies contributed positively. Within the fund’s credit sector allocation, sovereign credit exposures were the biggest detractors from relative performance. Concerns surrounding the fiscal crisis in Greece and mounting worries over sovereign risk have hurt our sovereign-credit exposures in Argentina, Hungary, Russia and South Africa. Among the fund’s interest-rate strategies, duration positions in Indonesia, South Korea and Mexico all contributed positively to the fund’s relative performance. On the currency side, concerns over European sovereigns’ finances have sharply driven up risk aversion, with the Japanese yen and U.S. dollar strengthening against the euro and most peripheral currencies. As a result, our underweighted positions in the euro and New Zealand dollar relative to the benchmark contributed positively to relative performance, while our large underweighting of the Japanese yen detracted. Additionally, exposure to peripheral European, Asian and Latin American currencies, particularly positions in the Swedish krona, Norwegian krone, Brazilian real and Chilean peso, detracted from relative performance during the month.

**Strategy and Activity**

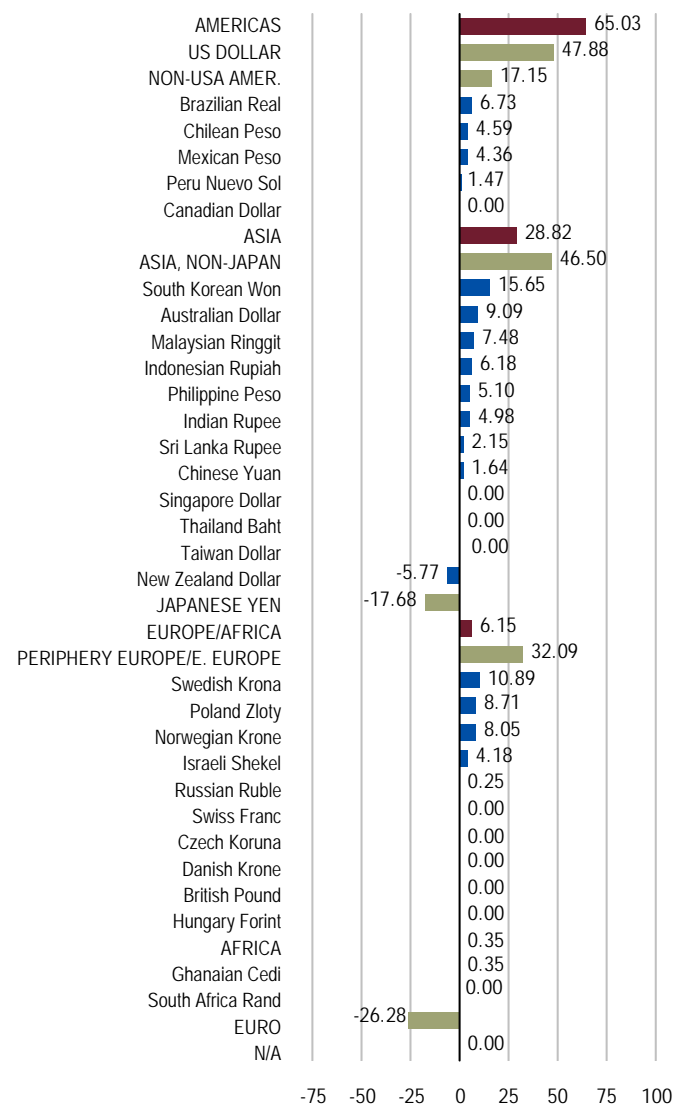
While concerns about Greece and other vulnerable sovereigns in the eurozone are likely to weigh on the euro, we do not believe they are likely to cause a global or even pan-European crisis. Contagion-induced selloffs may, in fact, present attractive investment opportunities as differentiation among European credits is high. Volatility, however, is also likely to remain high for at least several weeks.

In contrast to Greece, Hungary has undertaken concrete steps to improve its fiscal balance. Like several countries in eastern and central Europe, Hungary had been running large deficits heading into the crisis. However, as a result of painful reforms undertaken within the framework of an International Monetary Fund (IMF)/European Union-supported program, the credit’s deterioration during the crisis has been much more modest. Importantly, the support was offered in exchange for substantial reform and fiscal consolidation. As a result, debt levels are now set to stabilize and lower underlying fiscal deficits should help underpin an improving debt path. Hungary is not alone in having undertaken responsible policies, but the comparison with Greece does illustrate the important differences that can be found between economies. Such differentiation can present attractive opportunities for us in periods like January when sovereign credits broadly sell off and currencies fall indiscriminately against the U.S. dollar and yen. In short, we continue to find attractive opportunities in global credit markets. Similarly, we see select corporate credit opportunities available for FTIF Templeton Global Total Return Fund.

**Geographic Weightings (%)**

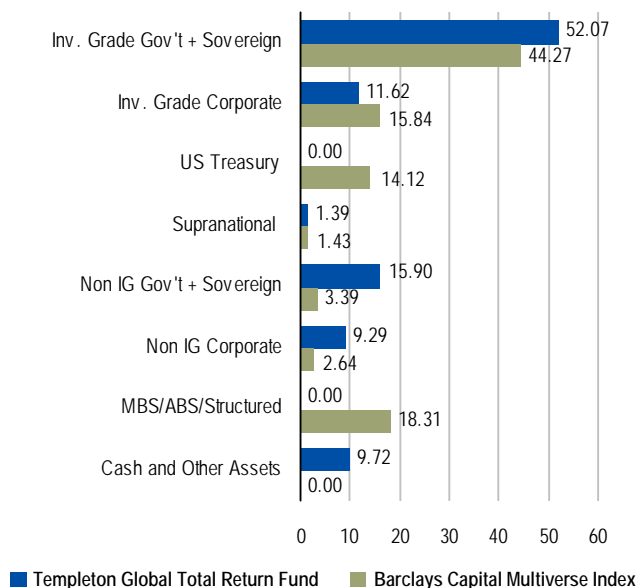


**Currency Weightings (%)**



Source for the above figures: Franklin Templeton Investments as of 31 January 2010. 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	7.21
Korea Treasury Bond, 0475-1112, 4.75%, 12/10/11	3.88
Government of Australia, TB123, 5.75%, 4/15/12	3.69
General Electric Capital Corp., senior note, A, 8.50%, 4/06/18	2.70
Government of Poland, 4.75%, 4/25/12	2.68
Nota Do Tesouro Nacional, 9.76177%, 1/01/17	2.54
New South Wales Treasury Corp., 6.00%, 5/01/12	2.42
Nota Do Tesouro Nacional, Index Linked, 6.00%, 5/15/45	1.91
Petroleos de Venezuela SA, senior bond, zero cpn., 7/10/11	1.68
Government of Sweden, 5.25%, 3/15/11	1.60
<b>Total</b>	<b>30.31</b>

## INVESTMENT OUTLOOK

We expect that differentiation is going to be an increasingly important factor in financial markets and that country fundamentals will be a major driver of such differentiation. Fiscal developments and growth potential are two of the most relevant factors in this regard. The size and distribution of the deterioration in public finances during the recession might lead to a significant change in the way that markets assess the creditworthiness of many countries. On average, the fiscal deterioration has been much more severe in developed countries than in emerging markets, as the former have had to transfer many of the losses incurred by the private financial sector to the public sector. 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 for debt issued by some of these developed markets, thus blurring the traditional distinction between developed and emerging markets. The difficulties currently faced by Greece are a case in point, while Spain, Ireland and the UK also find themselves facing a very challenging fiscal situation. Across developed and emerging markets, different developments in growth and fiscal outlooks therefore are likely to provide opportunities for positioning in sovereign credit.

While the U.S. also faces a difficult fiscal situation, growth prospects that are relatively better than those of the eurozone or Japan should help the U.S. dollar reverse its recent weakness against the euro and yen. As a possible rise in the U.S. dollar against other major currencies would be driven by stronger confidence in the sustainability of the U.S. recovery, it would be consistent with healthy levels of risk appetite in financial markets. In other words, we could see a breakdown in the inverse correlation between the U.S. dollar and risky asset prices that has dominated much of the crisis period. Once the global economy stabilizes, the U.S.'s recovery appears entrenched, and the Federal Reserve moves closer to raising interest rates, the U.S. dollar should no longer be seen primarily as a safe haven in times of stress and a funding currency in times of optimism.

Indeed, we continue to believe that healthy levels of risk appetite may be justified by the growth outlook in emerging markets, particularly in Asia. China continues to lead the way, and growth momentum there is sufficiently buoyant that policymakers have started to enact some cooling measures. Against the background of a robust recovery, rising food prices might start to cause meaningful inflation pressures in some emerging-market countries, prompting some central banks either to consider interest-rate increases or to allow some currency appreciation. An assessment of individual countries' fundamental growth and inflation outlook will therefore 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 "G3" developed-world currencies (the euro, U.S. dollar and yen).

We also continue to expect higher fiscal deficits in the U.S. to result in higher Treasury yields in the year ahead. At end-January, the fund held no U.S. Treasuries and very little duration exposure to other developed government bonds. Furthermore, we are pursuing ways to not only be cushioned against rising yields but also to potentially capitalize on them. This strategy could take the form of negative duration exposure through derivative instruments or currency positioning. For example, there is a strong correlation between the difference in U.S. and Japanese treasury yields and the dollar/yen exchange rate. The narrowing of the U.S.-Japanese interest-rate differential has supported the yen against the dollar recently, 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. Additionally, we favor being long certain commodity currencies—such as the Norwegian krone and the Australian dollar—which we believe could outperform.

## INVESTMENT OBJECTIVE

FTIF Templeton Global Total Return Fund's principal objective is to maximize, consistent with prudent investment management, total investment return consisting of a combination of interest income, capital appreciation and currency gains. Under normal market conditions, the Fund will invest in a portfolio of fixed- and floating-rate debt securities and debt obligations of governments, government-related or corporate issuers 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 Total Return 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 © 2010, McGraw-Hill Companies, Ltd. trading as Standard & Poor's ("S&P"). Morningstar Rating™ © 2010, 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.

### Disclaimers:

Securities mentioned in this report are not a solicitation to purchase those securities, and are examples of some securities which performed well. Not all securities in the portfolio performed well. These securities do not represent all the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in the security listed was or will be profitable. Holdings are subject to change, holdings of the same issuer have been combined. The information provided is not a recommendation to purchase, sell or hold any particular security. The security identified does not represent the composite's entire holdings and in the aggregate, may represent a small percentage of such holdings. There is no assurance that security purchased will remain in the composite, or that security sold will not be repurchased.

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.

**This information is not a complete analysis of every material fact regarding these securities and should not be viewed as an investment recommendation. Any views expressed are the views of the portfolio manager and do not constitute investment advice. This report, issued by Franklin Templeton Investments, does not constitute or form part of any offer to invest nor is it an invitation to invest. Subscriptions may only be made on the basis of the most recent Prospectus which is available at Templeton Asset Management Ltd or our authorised distributors. Investors should read the Prospectus for details before investing. Past performance is not necessarily a guide to future performance and the value of the shares and the income from them may fall as well as rise. This investment product is not available to U.S. and Canadian residents and U.S. citizens. Investors may wish to seek advice from a financial adviser before making a commitment to invest in shares of the Fund. Biz Regn No: 199205211E**