FRANKLIN TEMPLETON INVESTMENTS

# FTIF Templeton Latin America Fund

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

**MANAGER REPORT** — **31 January 2010**

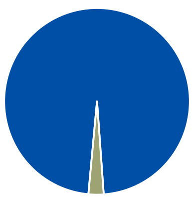
### Fund Characteristics

| | |
|---|---|
| Fund Inception Date | 28.02.1991 |
| Investment Style | Value |
| Lead Portfolio Manager | Mark Mobius |
| Primary Benchmark | MSCI EM Latin America Index |
| S&P Fund Management Rating | AA |
| Base Currency | USD |
| Total Net Assets (USD) | 3,098,985,181 |
| Number of Issuers | 43 |
| ISIN Code | LU0029865408 |
| Bloomberg Code | TEMLAAI LX |

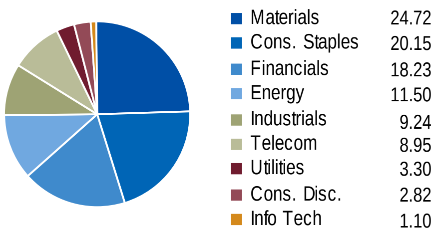
## OVERVIEW

- Latin American markets underperformed other emerging markets in January. Brazil, in particular, underperformed its peers due to a weaker real, although Chile and Colombia ended the month with positive returns.
- For the three months ended 31 January 2010, the fund rose by net 2.48% in U.S. dollars. The strongest sector contributors to absolute performance were industrials, financials and consumer staples, while the energy and utilities sectors detracted from performance due to declines in a few significant positions.
- We believe that Latin American markets are in a secular bull phase and that their general direction could continue to be upward, although corrections seem likely along the way, given their volatile nature. Risks include the large volume of derivative securities in the world and a sudden reduction in the level of money supply.
- Long term, we are positive on Latin American markets for several reasons: higher economic growth, higher foreign reserves, significant natural resources, decreasing dependence on developed markets, and lower inflation along with lower interest rates. Despite the market rise in 2009, we are still able to find opportunities, and in our opinion, current valuations are below their five-year historical highs and do not appear excessive.

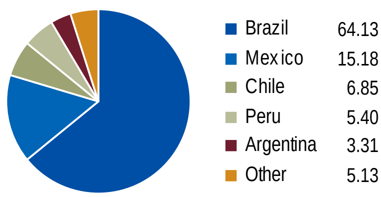
### Portfolio Allocation (%)




### Sector Breakdown (%)




### Geographic Breakdown (%)




## CUMULATIVE PERFORMANCE (%)

**Historical Performance**

*31 January 2010*

| | 1 Mth | 3 Mths | 6 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since Incept (30.09.96)* |
|---|---|---|---|---|---|---|---|---|---|
| FTIF Templeton Latin America Fund A(Ydis) USD—NAV | -7.47 | 2.48 | 17.71 | -7.47 | 89.06 | 27.01 | 174.30 | 305.65 | 325.20 |
| MSCI EM Latin America Index USD | -8.87 | 0.86 | 17.34 | -8.87 | 86.50 | 34.27 | 200.07 | 381.22 | 543.48 |

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

**Historical Performance**

*31 January 2010*

| | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since Incept (30.09.96) |
|---|---|---|---|---|---|
| Templeton Latin America Fund A(Ydis) USD—Net of Fees | 79.60 | 6.50 | 21.10 | 14.40 | 11.0 |

For information related to the headings “Fund Characteristics”, “Portfolio Allocation”, “Sector Breakdown”, “Geographic Breakdown”, “FTIF Templeton Latin America Fund A(Ydis) USD—NAV”, please see note regarding Fund Characteristics data and Fund Ratings on back page. Source: Franklin Templeton Investments, 31 January 2010. **Past performance does not guarantee future results.**

Source for MSCI benchmark returns: FactSet Research System, Inc., as of 31 January 2010.

*Fund performance prior to September 1996 excluded from calculation because a different portfolio allocation strategy was in use.

Performance calculated as at 31 Jan 2010 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

Latin American markets underperformed other emerging markets in January, with the MSCI EM Latin America Index down 8.87% in U.S.-dollar terms. Brazil, in particular, underperformed its peers with a 10.93% decline in U.S.-dollar terms due to a weaker real, although Chile and Colombia ended January with positive returns. Market sentiment was also dampened by concerns about the strength of the global recovery, China's tightening policies to curb overheating in certain sectors, Greece's high debt levels and U.S. President Barack Obama's proposal for greater regulation and taxation of the U.S. financial sector.

Private consumption in Brazil continued to grow in the latter part of 2009. Retail sales rose 8.7% year-over-year in November, following an 8.6% increase in October and a significant improvement from the 2.9% year-over-year gain in May 2009. Inflationary pressures remained stable, with consumer prices rising 4.3% year-over-year in December, within the central bank's target range. Brazil remained one of the most attractive destinations for foreign direct investment (FDI) in the emerging market asset class in 2009, with FDI inflows totaling US$9.7 billion in 2009 and accounting for about 60% of the total flowing into Latin America.

## PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

For the three months ended 31 January 2010, the fund rose by net 2.48% in U.S. dollars. Although they declined in January, Latin American markets were strong for the majority of the reporting period. As a result, most sectors contributed positively to absolute performance, with the exception of energy and utilities, where a few significant positions lost ground. The industrials sector was the strongest contributor to performance for the period, aided by investments in Panamanian, Chilean, Brazilian and Mexican firms. Key contributors in this sector included positions in the airlines, electrical equipment and transportation infrastructure industries.

Signs of an economic recovery, a return of confidence, better prospects for higher per capita income and correspondingly improved demand for consumer goods and services in Latin American markets benefited the fund's positions in a number of consumer-related industries. Within the financials sector, Brazilian and Peruvian commercial banks performed well, while in the consumer staples sector, beverage companies, food products firms and household products makers based in Brazil and Mexico advanced during the period. Bank loan penetration is still very low in Latin America, even compared to other emerging markets—evidence that companies have been following conservative lending and leveraging policies. Standard & Poor's (S&P), the ratings agency, estimates that the private credit sector across Latin America represents approximately 20% of GDP, compared with around 80% of the Spanish economy and around 100% in the United States.[1] This low penetration not only reduces the risk of bad debt, but also serves as a barometer of how under-penetrated the region is in terms of goods and services.

The materials sector also exhibited strength during the period, thanks to sharp gains by paper and forest products firms operating in Brazil and Chile. However, declines in the commodity-related industries of metals and mining in the materials sector and oil, gas and consumable fuels in the energy sector detracted from performance for the reporting period. Energy firms fell as the price of crude fell and the U.S. dollar strengthened at the end of January, while metals and mining firms were affected by falling steel prices in China, which is a major importer of Latin American commodities such as iron ore. We believe commodity prices will likely follow a long-term upward trend, but we also realize that these prices are subject to volatility in the short term. Performance was also hurt by the fund's holdings in select independent power producers in the utilities sector.

**Strategy and Activity**

Our investment strategy employs a bottom-up, value oriented, long-term approach. As we look for investments, we focus on specific companies and undertake in-depth research to evaluate their earnings, asset value, growth and cash flow potential over a five-year horizon. During our analysis, we also consider the company's position in its sector, the economic framework and the political environment.

Our focus continues to be on two major themes: consumers and commodities. Per capita income in most emerging markets is still lower than most developed countries, but it is rapidly increasing on the back of higher economic growth and lower birth rates, which means that the *growth rate* of per capita income is higher in emerging markets than in developed countries. Latin American markets have tremendous potential for consumer goods because of very low penetration and their relatively large populations, especially in countries like Brazil. We are looking at several consumer areas, including consumer banking, retail and consumer products.

We believe commodity prices will trend upwards, partly because of weakness in the U.S. dollar, and also because we expect the global demand for commodities to outgrow supply over the long term. However, speculation in derivatives markets is likely to exacerbate volatility in the sector, and we recognize that the upward trend in commodities is unlikely to be smooth. In this area, we are looking at companies that are strong in the production of commodities such as oil, iron ore, nickel and platinum.

Subscriptions received during the month and our focus on undervalued stocks trading at attractive valuations led us to increase the fund's investments in Peru and Brazil. We also increased the fund's holdings in industries such as banking, oil and gas exploration and production, and metals and mining. Conversely, we reduced the fund's holdings in Mexico and Chile due to the availability of what we believed to be more attractive stocks elsewhere in the fund's investment universe.

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

### Top Sector Contributors

| Sector |
|---|
| Industrials |
| Financials |
| Consumer Staples |

### Top Sector Detractors

| Sector |
|---|
| Energy |
| Utilities |

### Top Sector Weights

| Sector |
|---|
| Materials |
| Consumer Staples |
| Financials |

### Bottom Sector Weights

| Sector |
|---|
| Health Care |
| Information Technology |
| Consumer Discretionary |

### Top Security Contributors

| Security |
|---|
| ITAUSA-INVESTIMENTOS ITAU SA |
| DURATEX SA |
| COPA HOLDINGS SA |
| TENARIS SA |
| EDP-ENERGIAS DO BRASIL SA |
| EMPRESAS CMPC SA |
| MARFRIG FRIGORIFICOS E COMERCIO DE ALIMENTOS LTDA |
| GRUPO AEROPORTUARIO DEL PACIFICO SAB DE CV |
| CIA BEBIDAS DAS AMERICAS |
| ODONTOPREV SA |

### Top Security Detractors

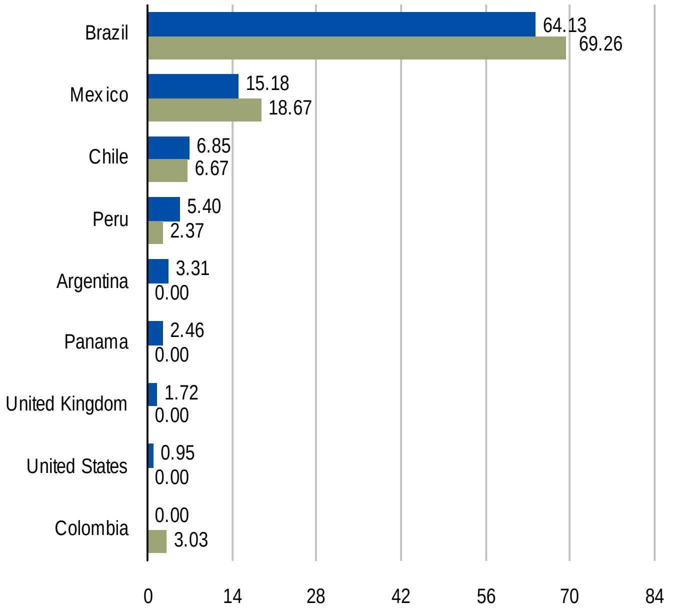
| Security |
|---|
| PETROBRAS PETROLEO BRASILEIRO |
| METALURGICA GERDAU SA |
| AES TIETE SA |
| VALE SA |
| COMPANIA DE MINAS BUENAVENTURA SA |
| LOCALIZA RENT A CAR SA |
| CONSTRUTORA TENDA SA |
| BRADESPAR SA |
| BRF-BRASIL FOODS SA |
| ULTRAPETROL (BAHAMAS) LTD |

1. Source: AFP, 13 October 2009.
Source for “Top Sector Contributors”, “Top Sector Detractors”, “Top Sector Weights” and “Bottom Sector Weights”: FactSet Research System, Inc. as of 31 January 2010. Profile data is calculated as a percentage of total. Holdings of the same issuer have been combined.

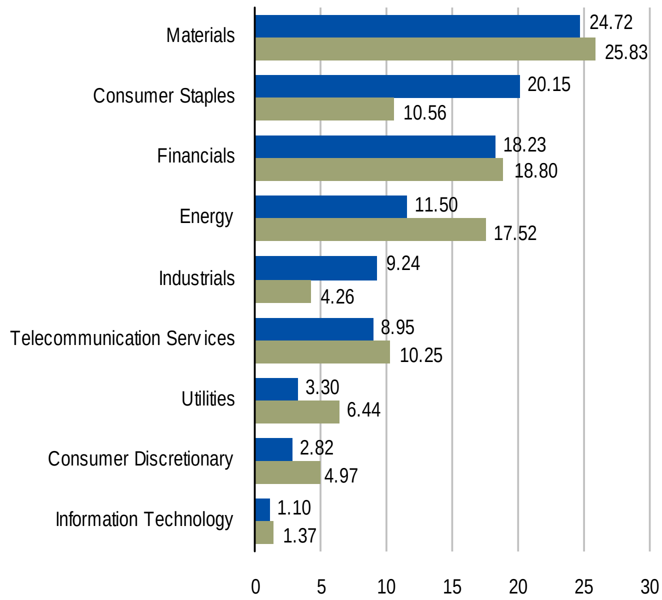
Source for “Top Security Contributors” and “Top Security Detractors”: FactSet Research System, Inc. as of 31 January 2010. Profile data is calculated as a percentage of total. Holdings of the same issuer have been combined.

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

### Geographic Weightings vs. Benchmark (%)




### Sector Weightings vs. Benchmark (%)




FTIF Templeton Latin America Fund · MSCI EM Latin America Index

### Top Ten Equity Issuers

| Security | Percent of Total |
|---|---|
| PETROLEO BRASILEIRO SA (PETROBRAS) | 9.16 |
| ITAUSA - INVESTIMENTOS ITAU SA | 8.90 |
| AMERICA MOVIL SAB DE CV | 8.15 |
| BRADESPAR SA | 5.59 |
| VALE SA | 5.25 |
| MARFRIG ALIMENTOS SA | 4.66 |
| CIA DE BEBIDAS DAS AMERICAS (AMBEV) | 4.51 |
| ITAU UNIBANCO HOLDING SA | 3.31 |
| CREDICORP LTD | 3.09 |
| METALURGICA GERDAU SA | 2.76 |
| Total | 55.38 |

Source for the Fund's "Geographic Weightings" and "Sector Weightings" above: Franklin Templeton Investments as of 31 January 2010. Holdings of the same issuer have been combined. Weightings as percent of equity.
Source for the benchmark's "Geographic Weightings" and "Sector Weightings" above: MSCI, as of 31 January 2010. The above MSCI Index, the primary benchmark for this composite, is an equity index calculated by Morgan Stanley Capital International (MSCI). The index measures the total return (gross dividends are reinvested) of equity securities available to foreign (nonlocal) investors in the relevant geographic region as reflected in the name of the index or as defined by MSCI. Securities included in the index are weighted according to their Free Float adjusted market capitalization (Price*Shares outstanding*Foreign Inclusion Factor).
For the "Top Ten Equity Issuers" above, please note that top ten equity holdings information is historical and may not reflect current or future composite characteristics. All holdings are subject to change. Holdings of the same issuers have been combined. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the composite's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the composite, or that securities sold will not be repurchased.

**Fundamental Portfolio Characteristics**

| | Price to Earnings | Price to Book Value | Price to Cash Flow | Dividend Yield | Market Cap (USD Millions) |
|---|---|---|---|---|---|
| FTIF Templeton Latin America Fund (Wtd. Avg.) | 17.94x | 2.52x | 7.74x | 2.72% | 22,780 |
| MSCI EM Latin America Index (Wtd. Avg.) | 17.54x | 2.30x | 10.17x | 2.73% | 33,033 |

## INVESTMENT OUTLOOK

We remain positive on Latin American markets. We believe that they are in a secular bull phase and that their general direction could continue to be upward, although corrections seem likely along the way. Currently, the biggest risk we see to markets worldwide is the level of derivatives, which could contribute to asset bubbles if not properly regulated. The total value of derivatives is now over US$600 trillion, 10 times more than the total economic output of the world.[2] A sudden sharp decline in money supply might also trigger a downward trend. Other risks include the loss of investor confidence, over- or poor regulation in various industries, adoption of protectionist measures, or abandonment of the market economy philosophy.

From a long-term perspective, several factors strengthen our belief in Latin American markets. First, gross domestic product (GDP) growth in emerging markets is much higher than in developed markets. The International Monetary Fund forecasts emerging markets to grow 5.1% in 2010, while developed markets are expected to grow just 1.3%. Second, foreign reserves in emerging markets have surpassed those of developed countries since 2005 and continue to build up. Third, the debt-to-GDP ratio in emerging countries is much lower than in developed countries.

Fourth, we believe resource-rich countries in Latin America could benefit from higher global demand for commodities. Chile and Peru rank among the world's leading copper producers, Mexico is a net exporter of oil and Brazil is a major exporter of iron ore and soft commodities such as soybeans and coffee. Fifth, many Latin American markets are becoming increasingly domestically driven. While emerging market growth cannot be totally separated from that of developed markets in terms of trade and capital flows, it is evident that as time goes by, emerging markets are becoming less dependent on trade with the U.S. or Europe.

In addition, inflation in emerging markets has been coming down swiftly since mid-2008, accompanied by lower interest rates. Although a rise in interest rates without a corresponding rise in inflation could have a short-term negative impact on markets, over the long term, higher interest rates could be positive, indicating a demand for creditors and meaning that businesses are recovering. Interest rates are only one of the many factors that influence markets.

The rapid developments in Latin America could allow these markets to command even greater attention in the global investment universe. We could see more money being directed into Latin America over the next 10 years, as investors realize that they may be able to buy good value at reasonable prices with relatively lower risk, compared to developed markets. Indeed, a number of markets have experienced a rapid run up over the past months. Therefore, we must pay attention to valuations and long-term earnings growth prospects in order to avoid buying or holding expensive stocks. In our opinion, current valuations are below their five-year historical highs and do not appear excessive, so we are still able to find opportunities.

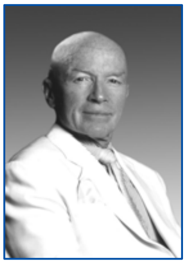
## INVESTMENT OBJECTIVE

Long-term capital appreciation by investing mainly in equity securities of companies incorporated or having their principal business activities in the Latin American region.

## INVESTMENT PHILOSOPHY

The foundation of the Templeton Emerging Markets Team's investment philosophy—value-oriented, patient, bottom-up, global investing—has remained consistent for several decades. Its strategy is grounded in patience and the belief that on a short-term basis, stocks overreact to news and noise. On a long-term basis, markets are efficient and patience will reward those who have identified undervalued stocks. Through proprietary research, Templeton seeks to identify quality investments in frequently unfashionable and undervalued stocks.

2. Bank of International Settlements, Semiannual OTC derivatives statistics at end-June 2009.
For information related to the heading "Fundamental Portfolio Characteristics" above, please see note regarding Fund Characteristics data on back page. Source: Franklin Templeton Investments, 31 January 2010. **Past performance does not guarantee future results.**



## PORTFOLIO MANAGEMENT TEAM

Mark Mobius, Ph.D., executive chairman of Templeton Asset Management Ltd., currently directs analysts based in Templeton's 15 emerging markets offices and manages the emerging markets portfolios.

Dr. Mobius has spent more than 30 years working in emerging markets all over the world. He joined Franklin Templeton Investments in 1987 as president of the Templeton Emerging Markets Fund, Inc. In 1999, he was appointed joint chairman of the Global Corporate Governance Forum Investor Responsibility Taskforce of the World Bank and Organization for Economic Cooperation and Development.

Dr. Mobius was named by Asiamoney magazine in 2006 as one of their "Top 100 Most Powerful and Influential People." Asiamoney said, he "…boasts one of the highest profiles of any investor in the region and is regarded by many in the financial industry as one of the most successful emerging markets investors over the last 20 years. Despite tough times during the financial crisis nine years ago, he still commands a strong following in the investment world and is influencing the direction of billions of investment dollars."

Other awards include: (1) "Emerging Markets Equity Manager of the Year 2001" by International Money Marketing, (2) "Ten Top Money Managers of the 20th Century" in a survey by the Carson Group in 1999, (3) "Number One Global Emerging Market Fund" in the 1998 Reuters Survey, (4) "1994 First in Business Money Manager of the Year" by CNBC, (5) "Closed-End Fund Manager of the Year" in 1993 by Morningstar and, (6) "Investment Trust Manager of the Year 1992" by Sunday Telegraph.

Dr. Mobius earned bachelor's and master's degrees from Boston University, and a Doctor of Philosophy (PhD) in economics and political science from the Massachusetts Institute of Technology. He is the author of the books Trading with China, The Investor's Guide to Emerging Markets, Mobius on Emerging Market, Passport to Profits, Equities—An Introduction to the Core Concepts, Mutual Funds—An Introduction to the Core Concept, Foreign Exchange—An Introduction to the Core Concepts and Mark Mobius—An Illustrated Biography.

## EXPLANATORY NOTES

Fund Characteristics: The Price to Earnings, Price to Cash Flow and Price to Book Value calculations shown herein use harmonic means. Values less than 0.01 (i.e. negative value) are excluded and values in excess of 200x are capped at 200x. Yields above 100% are also excluded. For the benchmarks, no limits are applied to these ratios in keeping with the benchmark's calculation methodology. Market capitalization statistics are indicated in the base currency for the portfolio presenter.

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:

Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are the security level, not aggregated up to the main issuer. The dividend yield quoted here should not be used as an indication of the income to be received from this portfolio.

Top Security Contributors and Top Security Detractors are holdings based on the last 12 months period. 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. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are examples of some stocks which performed well. Not all stocks in the portfolio performed as well.

**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**