

Luxembourg, 1st August 2017

Subject: Merger of FTIF – Franklin U.S. Small-Mid Cap Growth Fund into FTIF – Franklin U.S. Opportunities Fund.

Dear Shareholder,

The purpose of this letter is to inform you about the merger of FTIF – Franklin U.S. Small-Mid Cap Growth Fund (the "**Merging Sub-Fund**") into FTIF - Franklin U.S. Opportunities Fund (the "**Receiving Sub-Fund**").

We are writing to you in your capacity as shareholder of the Receiving Sub-Fund.

Following the merger, the Merging Sub-Fund shall be dissolved without going into liquidation.

1. Rationale and background for the merger

The Merging Sub-Fund was originally launched on 29 December 2000 and on 30 June 2017 the assets under management were USD 165,121,050.11. The relatively small size and reduced future demand makes it economically unattractive to run as an independent entity.

The Merging Sub-Fund and Receiving Sub-Fund share similarities in their investment objective, risk management processes and management fee structures. Both Sub-Funds carry the same risk rating indicator (synthetic risk and reward indicator) however, certain risks may not be applicable for both the Merging Sub-Fund and the Receiving Sub-Fund, as reflected in bold in Appendix I.

The Receiving Sub-Fund was originally launched on 3 April 2000 and on 30 June 2017 the assets under management were USD 2,937,414,397.27.

Because both the Merging Sub-Fund and the Receiving Sub-Fund share similar investment objectives, fee and expenses, and target investor profiles, the Board believes that it is in the best interests of shareholders to merge these Sub-Funds and focus on a single portfolio, which will offer economies of scale to existing shareholders of these Sub-Funds.

The Board has therefore decided, in accordance with Article 66(4) of the Luxembourg law of 17 December 2010 on undertakings for collective investment, as amended (the "**2010 Law**") and Article 28 of the articles of incorporation of the Company, to merge the Merging Sub-Fund into the Receiving Sub-Fund.

2. Impact on shareholders and shareholders' rights

Holders of shares in the Receiving Sub-Fund who do not wish to participate in the Merger, may redeem their shares or switch their holding, free from any charge, until 26 October 2017 (before local dealing cut-off time), into any other sub-fund of FTIF, details of which are disclosed in the current prospectus of FTIF (provided that such other sub-funds have obtained recognition for marketing in the applicable jurisdiction).

Please note that "free of any charge" does not apply to the classes subject to the contingent deferred sales charge ("**CDSC**"), due to the nature of such fee. Accordingly, should you decide to redeem any shares subject to a CDSC, such redemption will be subject to the applicable CDSC as more fully disclosed in the prospectus of the Company.

As from 27 October 2017, Shareholders in the Receiving Sub-Fund may continue to redeem or switch out their shares in accordance with the provisions of the current prospectus of FTIF.

It is not expected that the Receiving Sub-Fund's portfolio be rebalanced in the context of the Merger, while it is contemplated that the portfolio of the Merging Sub-Fund could be potentially rebalanced before the Merger.

Instead and in the best interests of shareholders, the Merger will be organized so that up to 100%, but no less than 80% of the Merging Sub-Fund's portfolio will be transferred in kind to the Receiving Sub-Fund's portfolio. The residual

portion of the portfolio not transferred in kind will be sold down in the Merging Sub-Fund and transferred as cash. It is expected that the Receiving Sub-Manager will review any new holdings received and may decide to reposition these within the Receiving Sub-Fund Portfolio. It is not contemplated that this will have a material impact on the value of the shares of the Receiving Sub-Fund shareholders.

In accordance with the standard valuation policy, and in order to protect the interests of remaining shareholders, in the event of a significant redemption from the Receiving Sub-Fund, a swing pricing mechanism may be adopted and applied to the value of the shares. Please refer to the Prospectus last visaed by CSSF, as amended, of the Company (the “Prospectus”) for the details in respect of swing pricing.

The below table shows the corresponding share classes that will be merged:

Merging Share classes	ISIN	Receiving Share classes	ISIN
Franklin U.S. Small-Mid Cap Growth Fund A (Acc) USD	LU0122613226	Franklin U.S. Opportunities Fund A (Acc) USD	LU0109391861
Franklin U.S. Small-Mid Cap Growth Fund B (Acc) USD	LU0152927330	Franklin U.S. Opportunities Fund B (Acc) USD	LU0109391945
Franklin U.S. Small-Mid Cap Growth Fund C (Acc) USD	LU0229939508	Franklin U.S. Opportunities Fund C (Acc) USD	LU0260872956
Franklin U.S. Small-Mid Cap Growth Fund I (Acc) USD	LU0260866982	Franklin U.S. Opportunities Fund I (Acc) USD	LU0195948665
Franklin U.S. Small-Mid Cap Growth Fund N (Acc) USD	LU0122613143	Franklin U.S. Opportunities Fund N (Acc) USD	LU0188150956

The below table of share classes lists share classes of the Receiving Sub-Fund that will not increase in units as a result of a transfer of assets from the Merging Sub-Fund:

Receiving Share Class	ISIN
Franklin U.S. Opportunities Fund A (Acc) CHF-H1	LU0536403206
Franklin U.S. Opportunities Fund A (Acc) EUR	LU0260869739
Franklin U.S. Opportunities Fund A (Acc) EUR-H1	LU0316494391
Franklin U.S. Opportunities Fund A (Acc) HKD	LU0708995401
Franklin U.S. Opportunities Fund A (Acc) NOK-H1	LU1048430182
Franklin U.S. Opportunities Fund A (Acc) RMB-H1	LU1129996390
Franklin U.S. Opportunities Fund A (Acc) SEK-H1	LU0563142453
Franklin U.S. Opportunities Fund A (Acc) SGD	LU0320765059
Franklin U.S. Opportunities Fund A (Acc) SGD-H1	LU0672654240
Franklin U.S. Opportunities Fund A (Ydis) EUR	LU0260861751
Franklin U.S. Opportunities Fund A (Ydis) GBP	LU0229938369
Franklin U.S. Opportunities Fund AS (Acc) SGD	LU1267930730
Franklin U.S. Opportunities Fund F (Acc) USD	LU1573965289
Franklin U.S. Opportunities Fund I (Acc) EUR	LU0260870075
Franklin U.S. Opportunities Fund I (Acc) EUR-H1	LU0316494474
Franklin U.S. Opportunities Fund N (Acc) EUR	LU0260869903
Franklin U.S. Opportunities Fund N (Acc) EUR-H1	LU0592650831
Franklin U.S. Opportunities Fund N (Acc) PLN-H1	LU0465790037
Franklin U.S. Opportunities Fund W (Acc) EUR	LU0976564442
Franklin U.S. Opportunities Fund W (Acc) EUR-H1	LU1586276476
Franklin U.S. Opportunities Fund W (Acc) USD	LU0792612466
Franklin U.S. Opportunities Fund X (Acc) USD	LU0997717714
Franklin U.S. Opportunities Fund X (Ydis) USD	LU0645135327
Franklin U.S. Opportunities Fund Y (Mdis) USD	LU1244549306
Franklin U.S. Opportunities Fund Z (Acc) USD	LU0476944425

On the basis of the figures set out below, the Board believes that the shareholders of the Merging Sub-Fund will benefit from the Merger into the Receiving Sub-Fund.

Merging Sub-Fund Share Class Name	Maximum Initial Charge	Investment Management Fee	Management Company Fee	Maintenance Fee	Other Fees (including Custodian Fee)	Ongoing Charges Ratio (OCR)
Franklin U.S. Small-Mid Cap Growth Fund A (Acc) USD	5.75%	1.00%	0.20%	0.50%	0.13%	1.83%
Franklin U.S. Small-Mid Cap Growth Fund B (Acc) USD	0.00%	1.00%	0.20%	0.75%	1.20%	3.15%
Franklin U.S. Small-Mid Cap Growth Fund C (Acc) USD	0.00%	1.00%	0.20%	1.08%	0.14%	2.42%
Franklin U.S. Small-Mid Cap Growth Fund I (Acc) USD	0.00%	0.70%	0.20%	0.00%	0.10%	1.00%
Franklin U.S. Small-Mid Cap Growth Fund N (Acc) USD	3.00%	1.00%	0.20%	1.25%	0.13%	2.58%

Receiving Sub-Fund Share Class Name	Maximum Initial Charge	Investment Management Fee	Management Company Fee	Maintenance Fee	Other Fees (including Custodian Fee)	Ongoing Charges Ratio (OCR)
Franklin U.S. Opportunities Fund A (Acc) USD	5.75%	1.00%	0.20%	0.50%	0.13%	1.83%
Franklin U.S. Opportunities Fund B (Acc) USD	0.00%	1.00%	0.20%	0.75%	1.17%	3.12%
Franklin U.S. Opportunities Fund C (Acc) USD	0.00%	1.00%	0.20%	1.08%	0.11%	2.39%
Franklin U.S. Opportunities Fund I (Acc) USD	0.00%	0.70%	0.20%	0.00%	0.06%	0.96%
Franklin U.S. Opportunities Fund N (Acc) USD	3.00%	1.00%	0.20%	1.25%	0.13%	2.58%

3. Comparison between the Merging Sub-Fund and the Receiving Sub-Fund

Both the Merging Sub-Fund and the Receiving Sub-Fund share closely aligned investment goals and similar principle investment strategies as well as utilizing the same risk processes. The Merging Sub-Fund invests in a smaller subset of the Receiving Sub-Fund investment universe and shares some portfolio overlap with the Receiving Sub-Fund. At 17 May 2017, 34% of AUM in the Merging Sub-Fund were in holdings also held in the Receiving Sub-Fund, demonstrating similarities between the Sub-Funds portfolios. The common holdings will be maintained following the merger.

The Merging Sub-Fund invests principally in small and medium sized U.S. companies whereas the Receiving Sub-Fund has flexibility to invest in U.S. companies of all sizes with a focus on companies displaying accelerating growth and increasing profitability.

The Receiving Sub-Fund has a longer established and superior performance track record over the majority of time periods when compared to the Merging Sub-Fund. Although both Sub-Funds share the same management fee structure, investors of the Merging Sub-Fund may benefit from a lower total expense ratio in the Receiving Sub-Fund as fixed costs are spread across a wider investment base.

4. Merger Procedure

The Merger will become effective as of 3rd of November 2017 at midnight (Luxembourg time) (the “Effective Date”).

Upon the Effective Date, the Merging Sub-Fund will transfer all its assets and liabilities (the “Assets”) to the Receiving Sub-Fund (as detailed below).

Any accrued income in the Merging Sub-Fund at the time of the Merger will be included in the calculation of its net asset value per share and such accrued income will be accounted for an ongoing basis after the Merger in the net asset value per share calculation in the relevant share class of the Receiving Sub-Fund. The Net Assets of the Merging Sub-Fund will be valued as of the Effective Date in accordance with the valuation principles contained in the prospectus and the Articles of the Company. The outstanding liabilities generally comprise fees and expenses due but not paid, as reflected in the Net Assets of the Company. There are no outstanding unamortized preliminary expenses in relation to the Merging Sub-Fund.

5. Costs of the Merger

The expenses incurred in the Merger, including legal, accounting, custody and other administration costs will be borne by Franklin Templeton International Services S.à r.l., the management company of FTIF.

6. Tax impact

The Merger will not subject the Merging Sub-Fund, the Receiving Sub-Fund or FTIF to taxation in Luxembourg. Investors may however be subject to taxation in their tax domiciles or other jurisdictions where they pay taxes.

Notwithstanding the above, as tax laws differ widely from country to country, investors are advised to consult their tax advisers as to the tax implications of the Merger specific to their individual cases.

7. Availability of Documents

The common merger proposal, the most recent prospectus of FTIF and the relevant KIIDs are available at the registered office of FTIF, upon request, free of charge.

Upon request, copies of the report of the approved statutory auditor of FTIF relating to the merger may be obtained free of charge at the registered office of FTIF.

Copies of material contracts of FTIF may be obtained and/or inspected free of charge at the registered office of FTIF.

If you have any queries about the proposed merger or require any further information, please contact Franklin Templeton International Services S.à. r.l. or your relationship manager.

On behalf of Franklin Templeton Investment Funds,



William Lockwood
Director