FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
31 May 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities rallied in May 2024 amid investor optimism about the economic growth outlook and expectations for interest-rate cuts in Europe and the United States this summer. Generally robust corporate earnings results reported during the month and enthusiasm about artificial intelligence (AI) further bolstered investor sentiment. Global manufacturing activity expanded in May for the fourth consecutive month, while flash reports for May indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market and frontier market equities underperformed it. In terms of investment style, global growth stocks significantly outperformed global value stocks. After selling off sharply in April, information technology (IT) stocks returned to the top of the global equity market's sector rankings as it rose substantially on the MSCI All Country World Index. Their resurgence can be attributed to several key factors, including (1) operational improvements, as many tech companies have implemented cost-cutting measures to rightsize their rapidly evolving businesses, which have led to higher profitability; and (2) ongoing enthusiasm and expectations around pivotal longer-term advancements in generative AI (genAI), partially offsetting current sticking points around slow adoption and narrow genAI use cases, along with a better understanding of the enormous costs involved with AI compute infrastructure build-out and LLM (large language model) training at scale. In this environment, the IT sector's gains were led by semiconductor, tech hardware and data storage companies foremost, while the software industry was comparatively weak and IT services companies were outliers to the downside. Communication services sector companies weren't far behind their IT counterparts, having ended May in third place out of 11 major sectors worldwide.
- For the month, the fund's A (acc) USD shares returned 3,27%, and its benchmark, the MSCI World Information Technology Index, returned 8,67%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Pinterest (Off-Benchmark Exposure)	Communications Equipment (Stock Selection, Underweight)
	Microsoft (Significant Underweight)	Electronic Equipment, Instruments and Components (Significant Underweight)
	SiTime (Off-Benchmark Exposure)	Media (Off-Benchmark Exposure)
HURT	NVIDIA (Significant Underweight)	Software (Stock Selection)
	Apple (Significant Underweight)	IT Services (Stock Selection, Overweight)
	Amazon.com (Off-Benchmark Exposure)	Semiconductors and Semiconductor Equipment (Stock Selection, Underweight)

- Most of the fund's industry exposures underperformed the MSCI World IT Index amid the negative impacts of both stock selection and allocation decisions across the portfolio. NVIDIA and Apple, when combined, provided the bulk of the fund's absolute gains in May. Both tech giants posted double-digit percentage returns, and they averaged 33% of the market capitalisation-weighted index (when combined), compared to just 13% of the fund's overall composition. We have consistently avoided tracking lofty benchmark concentrations in the largest tech firms, and this disparity exerted a sizeable lag on relative performance with NVIDIA and Apple. This tendency also worked in our favour, just to a lesser extent, as substantial underweightings in Microsoft and specialty chipmaker Broadcom provided a boost versus the index since their May gains lagged the benchmark. In particular, the secular shift to data centre computing has led to a parabolic rise in the number of NVIDIA GPUs (graphics processing units) shipped, which continues to support the company's ongoing record profit margins, while NVIDIA has also begun to ramp up production of a much more powerful next-generation GPU (expected to ship in the latter half of 2024). Data centre growth is being led by enterprise and consumer internet companies. We currently do not see a near-term serious threat to NVIDIA's dominant position in the genAI infrastructure.
- Software sat on the weak side of IT sector returns amid a cluster of troubling earnings reports, leading to a small loss for the roughly 34% of the portfolio dedicated to application and systems software stocks. Several software and software platform developers reported disappointing revenue and weak guidance during the month. Many other enterprise and automation technology companies offered similarly troubling commentary with weaker-than-expected revenues and guidance. Among the key software detractors, ServiceNow (overweight) and others pulled down their full-year revenue forecasts, as did certain software-centric names in other industries, including MongoDB in IT services and Veeva Systems in health care technology. Many of these companies say economic conditions are hurting their ability to sign up new customers and get existing ones to expand purchases. Then there's the impact of AI, which is causing businesses to reprioritise. Veeva Chief Executive Officer Peter Gassner cited "disruption in large enterprises as they work through their plans for AI," and that genAI represents "a competing priority" for Veeva clients. The company, which sells life sciences software, lost more than a tenth of its value in May, due to investor concerns about spending in the back half of 2024. The news wasn't bad across the software industry, however, as our overweighted positions in Monday.com and others traded higher for the month, aided by resilient demand growth. Monday's first-quarter 2024 (1Q24) revenue growth surpassed consensus estimates as its enterprise software platform expands into CRM (customer relationship management) tools, more complex database and software development tools, and AI chatbots. In general, cybersecurity and data protection software demand also appeared to remain strong as an

increasing number of enterprises are planning to adopt new platforms or upgrade existing ones as the cybersecurity threat matrix expands (rapidly increasing numbers of tracked adversaries, plus a surge in cloud intrusions) and deepens (sophisticated adversaries are operating with unprecedented stealth, leading to more successful attacks linked to speed and lower detection rates).

- In the semiconductors and semiconductor equipment industry, several off-index or overweight holdings rallied beyond the benchmark average, as was the case with key contributors SiTime and Analog Devices, among others. SiTime is a leader in MEMS (microelectromechanical systems) timing, offering programmable oscillator solutions crucial for electronic systems, managing data transfer, defining radio frequencies, and measuring elapsed time. SiTime reported 1Q24 revenues, profit margins and earnings per share (EPS) that exceeded consensus expectations in what we believe may have been a cyclical trough quarter for the company as revenues declined 22% quarter-over-quarter and 14% year-over-year. We think SiTime could return to greater profitability in the current quarter, and it remains an interesting secular growth story with what we consider to be appealing margins and potentially significant EPS growth leverage. Elsewhere in the portfolio, top overall contributor Pinterest supported our results in the off-benchmark interactive media and services industry, where it nearly offset the combined negative impact of several industry detractors. Pinterest, a visual discovery engine for creative ideas, is seeing deeper subscriber engagement with targeted advertising on its platform, including the use of direct links to product purchases through Pinterest's streamlined shopping experience. As a result, Pinterest reported robust 1Q24 financial results amid revenue acceleration and earnings upside that surpassed increased consensus expectations linked to strong peer results and a strong ad market heading into the report. We continue to see scope for further revenue growth following what is typically Pinterest's seasonally softest quarter of the year.

Outlook & Strategy

- **In the wake of another quarter of robust earnings results for IT, we still believe the following four factors could continue to drive potentially strong sector returns in the coming months:** (1) an inflection in revenue and earnings growth after several quarters of post-pandemic demand digestion; (2) resilient secular demand for digital transformation (DT) and the "application" phase of genAI; (3) a more stable inflation and interest-rate environment; and (4) reasonable equity valuations on an earnings growth-relative basis. We continue to position the fund to potentially benefit from IT spending recovery in the near term, as well as from our expectation of robust secular growth in the long term, driven by AI, cloud computing and SaaS (software-as-a-service), and our other eight key DT sub-themes: new commerce; fintech and digital payments; digital media transformation and the rise of the metaverse; digital customer engagement; electrification and autonomy; IoT (Internet of Things) and 5G; cybersecurity; and the future of work.
- **Against a backdrop of improved revenue and earnings growth, our work throughout the latest corporate earnings season (covering 1Q24) revealed additional signs that businesses are ready to reengage spending on DT initiatives, after pulling back for much of 2022 and 2023.** We think this will be a gradual increase, not a sharp acceleration. Many companies across a widening array of industries are now experimenting with genAI, looking for ways to deploy the technology for either increased productivity or new revenue-generating opportunities. Within IT, we see evidence of this experimentation in cloud-computing providers and certain software companies. Our expectation is that this experimentation will evolve into new AI applications over the next few years, which should create a snowball effect for IT demand. In particular, we could see sustained growth opportunities for companies across semiconductors, technology infrastructure, application software and internet services, to name just a few. We continue to emphasise AI as a key theme because we believe it's a foundational new technology, one that could kick-start a sustained business upcycle for the IT sector. We also think the expansion of AI use cases should lead to increased market breadth and participation from companies further down the market-capitalisation spectrum.
- **While the 2023–2024 rally has lifted IT sector valuation multiples, we note that this multiple expansion has been concentrated in mega-cap companies, and that it has generally coincided with improving forward earnings expectations.** As a result, we continue to see opportunities across several IT and communications services industries. When looking at the PEG (price to earnings relative to growth) ratio of the MSCI World IT Index, we'd highlight that during May the PEG stood just slightly above the five-year average, based on our analysis. In other words, despite the IT sector's robust returns, we don't believe investors are currently paying excessively for its attractive secular growth and quality characteristics. On quality, the sector overall has long had attractive balance sheet and profitability metrics, and we've seen the profitability profile improve further since 2022 as the cost of capital increased, incentivising more cost discipline.
- **Inflation appears to have generally eased in the United States and several other key geographies, a trend we believe will likely continue.** On 1 May, the Fed held its key interest rate steady for the sixth consecutive meeting. For the high-growth IT sector, disinflation and stable or declining US Treasury yields are generally supportive of valuation, and we continue to assume a fairly stable yield environment for the remainder of 2024.
- **Despite ongoing business strength and reduced equity market volatility (versus year-ago levels), there are those who still see risks brewing in IT and tech-adjacent companies.** The key risks we are monitoring include (1) the timing and magnitude of genAI demand; while optimistic, we acknowledge that near-term data may disappoint versus elevated market expectations. This dynamic was evident in the stock reactions following earnings reports from some companies widely considered to be "AI winners." The other main areas of concern involve (2) geopolitical risks, particularly around advanced technology export restrictions imposed on China and the extent to which these restrictions accelerate China's homegrown efforts to compete effectively in advanced semiconductors, hardware design and manufacturing; (3) regulatory risks, both from an antitrust perspective (i.e., elevated antitrust activity against mega-cap tech firms in the United States) and from an AI perspective as new regulatory/policy frameworks are being established rapidly; and (4) risks around decelerating global economic growth through the end of 2024 and the extent to which it impacts the consumer and, by extension, tech-focused markets such as e-commerce, digital payments, digital advertising, consumer hardware and electronics, and electric vehicles.

Fund Details

Inception Date	03.04.2000
Benchmark	MSCI World Information Technology Index
EU SFDR Category	Article 8

Fund Description

The fund aims to achieve capital appreciation by investing at least two-thirds of its assets in equity securities of companies expected to benefit from the development, advancement and use of technology.

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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. There is no guarantee that the Fund will meet its objective. The Fund invests mainly in equity securities of technology companies worldwide. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: **Equity risk**: prices of equities may be affected by factors such as economic, political, market, and issuer-specific changes. Such changes may adversely affect the value of the equities regardless of company-specific performance. **Liquidity risk**: the risk that arises when adverse market conditions affect the ability to sell assets when necessary. Such risk may be triggered by (but not limited to) unexpected events such as environmental disasters or pandemics. Reduced liquidity may have a negative impact on the price of the assets. **Securities Lending risk:** the risk that default or insolvency of the borrower of securities lent by a Fund may lead to losses if collateral received realises less than the values of securities lent. 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.

Important Legal Information

This fund meets the requirements under Article 8 of the EU Sustainable Finance Disclosure Regulation (SFDR); the fund has binding commitments in its investment policy to promote environmental and/or social characteristics and any companies in which it invests should follow good governance practices. Further information in relation to the sustainability-related aspects of the Fund can be found at www.franklintempleton.lu/SFDR. Please review all of the fund’s objectives and characteristics before investing.

This document does not constitute legal or tax advice nor is it investment advice or an offer for shares of Franklin Templeton Investment Funds (the “Fund”). Subscriptions to shares of the Fund can only be made on the basis of the current prospectus and, where available, the relevant Key Investor Information Document, accompanied by the latest available audited annual report. A copy of these documents can be found, on our website www.franklintempleton.ch or can be obtained, free of charge, from Franklin Templeton Switzerland Ltd, a member of Franklin Templeton Investments, Stockerstrasse 38, CH-8002 Zurich, Tel +41 44 217 81 81 / Fax +41 44 217 81 82, info@franklintempleton.ch. Paying agent in Switzerland is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich. Issued by Franklin Templeton Switzerland Ltd, a company authorized and regulated by the Swiss Financial Market Supervisory Authority FINMA as representative of Franklin Templeton Investment Funds.The Fund’s documents are available in English, Arabic, French, German, Italian, Polish and Spanish or can be requested via FT’s European Facilities Service available at https://www.eifs.lu/franklintempleton.In addition, a Summary of Investor Rights is available from franklintempleton.lu. The summary is available in English. The sub-funds of FTIF are notified for marketing in multiple EU Member States under the UCITS Directive. FTIF can terminate such notifications for any share class and/or sub-fund at any time by using the process contained in Article 93a of the UCITS Directive.For the avoidance of doubt, if you make a decision to invest, you will be buying units/shares in the Fund and will not be investing directly in the underlying assets of the Fund.

Past performance is not an indicator or a guarantee of future performance. 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. Investment in the Fund entails risks which are described in the Fund’s prospectus and, where available, in the relevant Key Information Document/Key Investor Information Document or any other relevant offering document. Special risks may be associated with a Fund’s investment in certain types of securities, asset classes, sectors, markets, currencies or countries and in the Fund’s possible use of derivatives. References to particular industries, sectors or companies are for general information and are not necessarily indicative of a fund’s holdings at any one time. Currency fluctuations may affect the value of overseas investments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations. Where a Fund invests in emerging markets, this investment can be more risky than an investment in developed markets. No shares of the Fund may be directly or indirectly offered or sold to residents of the United States of America.

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References to indexes are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown.

An index is unmanaged and one cannot invest directly in an index. The performance of the index does not include the deduction of expenses and does not represent the performance of any Franklin Templeton fund.

Effective 29 September 2017, Franklin Technology Fund changed its benchmark to the MSCI World Information Technology Index, following the discontinuation of the BofAML Technology 100 Index.

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Franklin Templeton Switzerland Ltd
Stockerstrasse 38
CH-8002 Zurich
franklintempleton.ch

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Source: FactSet. Important data provider notices and terms available at www.franklintempletondatasources.com.

a. Source for all information is Franklin Templeton. Benchmark related data provided by FactSet. Past performance is not an indicator or a guarantee of future performance. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Sales charges and other commissions, taxes and other relevant costs paid by investor are not included.

b. When performance for either the portfolio or its benchmark has been converted, different foreign exchange closing rates may be used between the portfolio and its benchmark.

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