FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
30 June 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Although June political developments in Europe pressured results in that region, enthusiasm about artificial intelligence (AI) helped drive collective gains in global equities during the second quarter of 2024 (2Q24), particularly in the United States. Renewed optimism about an economic soft landing in many regions, an interest-rate cut in the eurozone, and investor expectations for potential rate cuts in the United Kingdom and the United States during the second half of this year also aided investor sentiment. Global manufacturing activity expanded in June for the fifth consecutive month, and flash reports for June indicated services activity expanded in many regions. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index in 2Q24, while developed and frontier market equities underperformed it. 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 sector rankings in May and June. Their resurgence was 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) signs of increased computing infrastructure investment amid ongoing enthusiasm and expectations around pivotal longer-term advancements in generative AI (genAI), partially offsetting the debate around the pace of AI adoption, and the resulting return on investment. In this environment, there was a wide disparity in the IT sector's 2Q24 results at the industry level; returns 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 the spring quarter in second place out of 11 major sectors worldwide.
- For the quarter, the fund's A (acc) USD shares returned 5,76%, and its benchmark, the MSCI World Information Technology Index, returned 11,45%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Microsoft (Significant Underweight)	IT Consulting and Other Services (Significant Underweight, Stock Selection)
	Taiwan Semiconductor Manufacturing (Off-Benchmark Exposure)	Semiconductors Materials and Equipment (Stock Selection)
	Pinterest (Off-Benchmark Exposure)	Communications Equipment (Stock Selection, Underweight)
HURT	Apple (Significant Underweight)	Technology Hardware, Storage and Peripherals (Significant Underweight)
	NVIDIA (Significant Underweight)	Internet Services and Infrastructure (Overweight, Stock Selection)
	DoorDash (Off-Benchmark Exposure)	Application Software (Significant Overweight, Stock Selection)

- More than half of the fund's industry exposures underperformed the MSCI World IT Index in 2Q24 due to the negative impact of allocation decisions, while stock selection was slightly supportive. Tech giants Apple and NVIDIA posted robust double-digit percentage gains and were the fund's two largest contributors in absolute terms. However, they averaged roughly 33% of the market capitalisation-weighted index (when combined), compared to just 13% of the fund's overall composition, and this disparity exerted a sizeable lag on relative performance. We have consistently avoided tracking lofty benchmark concentrations in the largest tech firms, and this tendency also worked in our favour, just to a lesser extent, as a substantial underweighting in Microsoft provided a boost given its below-benchmark return. 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 cloud computing and consumer internet companies. We currently do not see a near-term serious threat to NVIDIA's dominant position in the genAI infrastructure. Wider semiconductor supply concerns arising from a powerful April earthquake in Taiwan—a key source of semiconductor chipmaking—sent a vivid overarching reminder that the AI boom is experiencing shortages of nearly everything required to make it happen. The list of things in short supply starts with the GPUs used by many AI software developers to train large language models and to run the "inference" software that leverages them. Aside from NVIDIA, other chipmaking companies are disclosing similar issues, or are sold out of high bandwidth memory, a crucial ingredient in AI server configurations. Also at a premium are senior-level AI software engineers, though the biggest bottleneck is probably chipmaking capacity.
- Application software companies sat on the weak side of IT sector returns amid a cluster of softer-than-expected earnings reports, leading to a modest loss for the roughly 16% of the portfolio dedicated to such companies. Some of them reported disappointing revenue and weak guidance during the spring months. Several key software detractors pulled down their full-year 2024 revenue forecasts, as did certain software-centric names in other industries, including MongoDB in internet services/infrastructure 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 fifth of its equity value, due largely to investor concerns about spending in the back half of 2024. On the upside,

cybersecurity and data protection software demand 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). Other key relative detractors included off-benchmark positions in restaurant delivery platform operator DoorDash, global payment services provider Mastercard and fintech firm Block.

- Mixed results versus the index among semiconductor-related companies were supported by the fund's lack of investment in index component Intel, which was most beneficial as the company shed nearly a third of its equity value. Most of the other key contributors were off-index or overweighted holdings that enjoyed solid gains, including Taiwan Semiconductor Manufacturing Company (TSMC), Monolithic Power Systems and SiTime, with SiTime posting the biggest rally among them. 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 (q/q) and 14% year-over-year. We think SiTime could return to potentially greater profitability in the second 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, key contributor Pinterest and Google parent company Alphabet supported our results in the off-benchmark interactive media and services industry. 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.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	ServiceNow (Significant Overweight)	Systems Software (Stock Selection)
	Taiwan Semiconductor Manufacturing (Off-Benchmark Exposure)	Communications Equipment (Stock Selection, Underweight)
	Microsoft (Significant Underweight)	Internet Services and Infrastructure (Stock Selection)
HURT	Lattice Semiconductor (Significant Overweight)	Semiconductors (Stock Selection)
	Broadcom (Underweight)	Transaction and Payment Processing Services (Off-Benchmark Exposure)
	Mastercard (Off-Benchmark Exposure)	Interactive Media and Services (Off-Benchmark Exposure)

- The fund saw broad-based June gains but slightly lagged the benchmark index based on allocation decisions; in particular, the negative end of the relative performance spectrum was centred on minor portfolio exposures to 11 off-benchmark industries that either lagged the index or failed to advance, including transaction and payment processing services (focused on Mastercard), restaurants (where sole industry holding DoorDash traded lower) and publishing. The fund's semiconductor-related holdings had mixed results that were hindered by losses for Lattice Semiconductor, Analog Devices and NXP Semiconductors, all of which were overweighted; an underweight stake in Broadcom as the shares appreciated roughly 21%; and overweightings in ASML Holding and Marvell Technology as their June gains trailed the benchmark average. Key detractor ASML was actually making a comeback after selling off earlier in the second quarter. The Dutch semi equipment manufacturer and top maker of advanced semiconductor lithography systems previously missed 1Q24 consensus earnings estimates amid declining revenues and EPS following a robust 4Q23. We think ASML remains a solid longer-term investment; its quarterly results tend to be quite volatile given the high average sale price of its lithography tools and concentrated customer order patterns. ASML views 2024 as a transition year, while it expects 2025 to be a robust growth year. In general, several of the aforementioned holdings were recovering from a larger "AI complex" selloff that characterised much of April. Electric power may be the ultimate constraint here. Bottlenecks may start appearing soon for energy needs and could take years to resolve, even by the admission of several prominent tech sector chief executive officers. AI growth may thus be gated by real world constraints, though we're encouraged by the industry's efforts around maximising useful "compute per watt."
- The portfolio's off-index interactive media and services holdings posted a June gain that was weaker than the index, with relative returns hindered foremost by Alphabet. Although Alphabet is coming under pressure from intense early-adopter competition in the AI space, it has been making inroads with its Gemini AI business initiatives. Moreover, Alphabet's 1Q24 financial results exceeded elevated consensus expectations on the top and bottom lines with strong results for Google Search, YouTube and Google Cloud. Management also followed in the footsteps of other tech giants (including Meta Platforms, which is not held by the fund, and Apple) and surprised many investors by initiating a US$0.20 quarterly dividend.
- Systems software averaged 17.1% of the portfolio and had a solid month aided by overweightings in ServiceNow, Oracle and CrowdStrike Holdings, all of which more than doubled the benchmark return. Top underweight contributor Microsoft, meanwhile, remained a major fund holding at 8% of total net assets at June-end. Microsoft has recently underperformed its peers despite the company's better-than-expected revenue and EPS results in its March quarter, with all business segments topping analysts' consensus projections. Its Azure cloud service saw both a larger contribution from AI q/q, as well as an acceleration in non-AI growth-alleviating a key concern ahead of the report. In our view, it's clear that the majority of enterprise genAI experimentation is happening within Microsoft's ecosystem today (e.g., roughly 65% of Fortune 500 companies use Azure OpenAI Service, 60% use Copilot with usage intensity gaining momentum, and there is a 35% q/q growth in software developers using Copilot on its GitHub platform). Elsewhere, our benchmark-topping gains in the communications equipment industry were boosted by an ongoing rally in Arista Networks (significant overweight). Arista is the market leader in high-end data centre ethernet switching, disrupting incumbent Cisco Systems (not held by the fund). Arista has been deepening its relationships with large cloud customers (40% of revenues), and we view these as durable relationships. Other customer segments include enterprises/financial institutions (35% revenue) and smaller cloud/service providers (20%). AI is a large new market that demands new technical requirements. While InfiniBand (NVIDIA)—a high-performance network architecture that provides ultrafast data throughput and density—is currently used in nearly all GPU clusters, Arista is leading the charge for an ethernet-based solution, and we think it could potentially win material market share in 2025. According to our analysis,

Arista has an attractive growth/quality core business while AI has been driving a meaningful new growth vector. In semiconductors, TSMC continued to offer strong support; NVIDIA and most of the smaller players in the AI chip business are highly reliant on TSMC for contract manufacturing, and there simply aren't many other viable options, though Intel is building out a chip foundry business to compete with TSMC. The industry's reliance on TSMC was a primary driver for the bipartisan CHIPS and Science Act, which provides more than US$50 billion to fund semi manufacturing, research and design, and workforce development in the United States—but the payoff from this initiative is still several years away.

Outlook & Strategy

- **IT sector fundamentals throughout the first half of 2024 reinforce our belief that robust secular tailwinds will likely translate to above-market earnings growth, which is supportive of potentially strong continued sector returns in the coming quarters.** We view the following as critical factors for the sector's continued outperformance of the broader equity market: (1) digital transformation (DT) remains a strategic imperative for businesses as they realise the value of improved efficiency and growth even in a mixed macroeconomic backdrop; (2) genAI proves its worth as the next computing paradigm, enabling significant productivity increases, new business models, and breakthroughs in fields like robotics, health care and materials science; (3) a more stable inflation and interest-rate environment; and (4) reasonable equity valuations on an earnings growth-relative basis.
- The fund remains positioned to potentially benefit from a steadily improving earnings growth backdrop following the post-COVID deceleration in 2022–2023, as well as robust secular growth in the long term, driven by AI, cloud computing and our other eight key DT sub-themes: new commerce; fintech and digital payments; digital media transformation; digital customer engagement; electrification and autonomy; IoT (Internet of Things); cybersecurity; and the future of work.
- **Our work throughout the June quarter revealed an acute focus on capturing the AI opportunity across businesses of all types.** This resulted in a number of interesting trends. First, the mega-cap "hyperscalers" (fund holdings Microsoft, Alphabet and Amazon, as well as not-held Meta Platforms) accelerated their already-robust plans for building sufficient data centre capacity to support future AI model development and increased adoption of AI applications. This trend continues to generate strong performance for many of the AI "build" stage beneficiaries, with NVIDIA continuing to win the lion's share. Our work suggests this trend will likely be sustained for several years; there's now a clear technological path towards much smarter AI models, which we believe can unlock massive economic value, thereby incentivising continued investment in AI infrastructure. Second, given the early stages of AI development, enterprises are still in learning mode as they assess which use cases to adopt, how to ready their tech and data infrastructure, which vendors to partner with, and how to deploy AI safely, while also contending with finite IT budgets. This appears to have slowed down decision-making and the deployment of IT spending in 1Q24, leading to mixed results among software companies. We continue to collect data that supports a gradual increase in AI adoption within the enterprise segment, and we view a number of software companies as potential long-term beneficiaries of this trend. Finally, from the perspective of the consumer, fund holdings Apple, Alphabet and Microsoft recently held developer conferences that offered a preview of what will come when genAI models become integrated with the devices (phones, laptops, etc.) and internet services we use every day. We believe this is the beginning of a multiyear march towards personal AI "agents," which should support growth not just for these large platforms, but for the various semiconductor, hardware and application companies that can turn this vision into reality. Overall, 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 eventually lead to increased market breadth and participation from companies further down the market-cap spectrum.
- **The June quarter saw a continuation of limited market breadth.** Consider that the MSCI World IT Index enjoyed a double-percentage price return in US-dollar terms in 2Q24, but the median price performance across the 156 stocks in this index barely surpassed 0%. Large-cap constituents NVIDIA, Apple, Microsoft and Broadcom, which are all held by the fund, contributed 99.2% of the index's overall move during the quarter, with NVIDIA alone contributing 47.6%. We reiterate our view that these are very strong, high-quality businesses with leverage to the AI trend. That said, we believe the market is taking a short-term—and thus overly narrow—view of technology businesses that stand to potentially benefit from the multiple secular growth drivers we've identified for the next decade, including AI. From an equity valuation perspective, we aim to take advantage of opportunities that we believe have been created from this overly narrow view.
- **Inflation appears to have generally eased in the United States and several other key geographies, a trend we believe will likely continue.** On 12 June, the US Federal Reserve held its key interest rate steady for the seventh 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.

Performance Data[1]

Past performance does not predict future returns.

Discrete Annual Performance (%) as at 30.06.2024

	6/23 6/24	6/22 6/23	6/21 6/22	6/20 6/21	6/19 6/20	6/18 6/19	6/17 6/18	6/16 6/17	6/15 6/16	6/14 6/15
A (acc) USD	32,20	29,01	-37,10	50,86	34,44	14,39	29,44	33,04	0,99	10,95
MSCI World Information Technology Index USD	38,36	37,16	-19,10	43,09	33,26	13,13	28,96	33,84	2,11	10,22

Performance Net of Management Fees as at 30.06.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03.04.2000)
A (acc) USD	8,47	5,76	19,24	32,20	2,37	16,82	16,99	6,71
MSCI World Information Technology Index	8,75	11,45	25,22	38,36	15,36	23,95	20,46	6,35

Investment Team

Jonathan T. Curtis
Years with Firm 16
Years Experience 20

Dan H. Searle III, CFA
Years with Firm 22
Years Experience 23

Matthew Cioppa, CFA
Years with Firm 8
Years Experience 15

1. The fund's returns may increase or decrease as a result of changes to foreign exchange rates.

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.

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager’s assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund’s portfolio selection process. Holdings are subject to change.

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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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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