FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
31 July 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in July 2024 despite heightened volatility that included a rotation away from large-capitalisation technology-related stocks worldwide—especially those focused on artificial intelligence (AI). Cooler-than-expected inflation and a softening job market in the United States increased investor expectations for interest-rate cuts, leading to a preference for small-cap stocks, rate-sensitive equities and more cyclical areas of the market. Global manufacturing activity contracted in July for the first time in 2024, while flash reports for July indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed and frontier market equities outpaced a global index, while emerging market equities trailed it. Global value stocks significantly outperformed global growth stocks, which generally declined.
- After sitting at or near the top of the global sector rankings in May and June, information technology (IT) and communication services were the worst performers in July and were the only two out of 11 equity sectors to record overall losses. For perspective, they were still in first and second place year-to-date given the magnitude of the rally they enjoyed in the first half of the year. The rotation out of the high-flying mega-cap tech bellwethers that previously led the global stock rally was due in part to underwhelming second quarter (2Q24) earnings reports, exacerbating broader concerns about a high earnings bar and investor scrutiny around AI corporate spending. In particular, investors grew sceptical that technology companies' massive investments in AI will pay off any time soon—even as they are moving ahead at full steam to build out their AI support infrastructure in their efforts to remain competitive over the longer term. Although no single factor explains the market trend, many investors switched to small caps in July as Wall Street began projecting that profit growth for tech behemoths was poised to decelerate; it will be crucial to see whether dip buyers return as more IT firms unveil their financial results in the coming weeks.
- For the month, the fund's A (acc) USD shares returned -3,52%, and its benchmark, the MSCI World Information Technology Index, returned -2,05%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Microsoft (Significant Underweight)	Semiconductors (Stock Selection, Underweight)
	NVIDIA (Significant Underweight)	Systems Software (Underweight, Stock Selection)
	ServiceNow (Significant Overweight)	Interactive Home Entertainment (Off-Benchmark Exposure)
HURT	Apple (Significant Underweight)	Technology Hardware, Storage and Peripherals (Significant Underweight)
	CrowdStrike Holdings (Overweight)	Application Software (Stock Selection)
	Pinterest (Off-Benchmark Exposure)	IT Consulting and Other Services (Lack of Exposure)

- Relative to the MSCI World IT Index, stock selection worked in our favour, while the fund's July underperformance was based on allocation decisions across industries. One of 2024's recurring, allocation-related sticking points has been a much lighter-than-index exposure to Apple, which advanced against the stock selloffs experienced by most of its peers; while the company remains a top-five fund holding (averaging almost 5.0% of total assets), keeping the market weight of nearly 19%—the current size of Apple's presence on the index—sits well outside our mandate and is unacceptable given the level of portfolio diversification we prefer. Investors are now beginning to see how the company, after some delay, will be integrating AI into its products. Apple recently unveiled Apple Intelligence—its AI system of tools and features that will be available in the fall on iPhone 15 Pro, iPhone 15 Pro Max, and iPad and Mac with M1 chips or higher. This reinforces our view that iPhones bought during the COVID pandemic are becoming obsolete, and we will see both an upgrade cycle and positive product-mix shift ahead. We are also incrementally positive on Apple's reinforced commitment to privacy. Its new AI features will be run mostly on-device, but some features will use Apple's "Private Cloud Compute"—remote servers using Apple silicon, extending the security of Apple devices into the cloud. We were pleased to see Apple bringing clarity to its plans and execution while raising the bar with these somewhat-expected AI features, and we remain affirmative on both the next iPhone cycle and the company's longer-term AI story.
- Most of the other standout July detractors were overweighted or off-benchmark investments that delivered the much less desirable combination of significant absolute losses and poor results versus the index. These included double-digit percentage declines for network security specialist CrowdStrike Holdings (systems software industry), virtual discovery platform Pinterest, application software companies such as Cadence Design Systems and Confluent, semiconductor chip manufacturing equipment maker Applied Materials and chipmaker Advanced Micro Devices. They were joined by smaller losses for significant portfolio positions in Synopsys (electronic design automation and security software) and Google parent Alphabet. CrowdStrike made mainstream headlines when it reported a system update error that affected most, if not all, Microsoft (held by the fund) Windows devices that deploy a CrowdStrike security agent. Although the damage was not linked to a cyberattack, this human error on a routine system update created an outage across CrowdStrike's broad customer base, with reports of airlines having to ground flights, emergency 911 lines being down, and traders at investment banks being unable to trade. To its credit, CrowdStrike quickly identified the issue and implemented a fix—but we are still closely monitoring the systemic and legal fallout from this event as it poses a serious reputational risk to the company. We continue to hold the stock; CrowdStrike has been largely incident free until recently and, in our analysis, cyberattacks on cyber

vendors are typically much more worrying than system update issues. Alphabet, meanwhile, reported a mixed quarter, with strong search and cloud results offsetting weaker-than-expected YouTube ad revenues to drive just under 1% of revenue upside while continued expense controls helped drive a 5% operating profit and earnings per share that surpassed consensus estimates. We believe the company is seeing the benefits of AI across its products but especially in search, where it is seeing increased user engagement as well as improved outcomes for advertisers.

- Relative performance upside was aided foremost by keeping roughly half of the benchmark's average weight in Microsoft and NVIDIA (together comprising nearly 36% of the index). Before their shares sold off through month-end, both were at lofty all-time highs and held sway as the fund's largest holdings (at nearly 17% of the portfolio when combined), which helps explain how they did more damage to our absolute returns than nearly all other stocks. These weightings are still justified and in line with our longer-term positive views, while we are offered opportunities to potentially buy shares at prices closer to our estimates of their intrinsic value. Microsoft's earnings disappointed investors who have grown to expect a lot from the systems software company, but it did not report anything that would indicate that AI won't be as big as it has anticipated. Microsoft's higher-than-expected capital spending plan, in our view, signals that it is moving rapidly to build out infrastructure to support AI. Elsewhere in the portfolio, the positive relative impacts from other key contributors were much smaller by comparison, but in this case they all traded higher and supplied absolute gains to the fund. Among the most notable ones were ServiceNow in systems software; Roblox, our sole position in the off-benchmark interactive home entertainment industry; Monolithic Power Systems and off-benchmark SiTime, both of which play complex and integral roles in the semiconductor chipmaking process; off-benchmark Databricks, which along with three other holdings helped even out our mixed results in the internet services and infrastructure industry; and e-payment giant Mastercard, which lent primary support to overall gains in the off-benchmark transaction and payment processing services space. ServiceNow, which provides a cloud-based platform that helps automate enterprise IT operations, topped expectations with its 2Q24 sales and earnings, with generative AI (GenAI) helping to power strong revenue and profit margins, while its forward guidance suggests this expansion momentum is poised to potentially continue. The company highlighted the beneficial impacts that GenAI is having across its enterprise software platform and said that it intends to "reinvent every workflow, in every company, in every industry with GenAI at the core." Roblox, meanwhile, is seeing strong metrics in its multi-platform user-generated games and virtual experiences; it reported a "beat and raise" 2Q24 result, well above the conservative guidance it gave last quarter. This accelerated growth reiterated our view that Roblox is a solid platform business with a long runway to grow users and with excellent unit economics. Bookings for 2Q24 grew 22% year-over-year (versus guidance of 13%) and EBITDA (earnings before interest, taxes, depreciation and amortisation) margins were 12% (versus guidance of 6%).

Outlook & Strategy

- **IT sector fundamentals throughout the first seven months of 2024 reinforce our belief that robust secular tailwinds will likely translate to above-market earnings growth, which is supportive of potentially strong sector returns in the coming quarters.** Following the July selloff, we still view the following as critical factors for the sector's return to outperformance in 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 benefit from an 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 research work continues to reveal 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.com, 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 benefit the performance of many of the AI "build" stage beneficiaries, with fund holding NVIDIA continuing to win the lion's share. Our research analysis 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, 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 consumers, 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.
- **Inflation appears to have generally eased in the United States and several other key geographies, a trend we believe will likely continue.** On 31 July, the US Federal Reserve held its key interest rate steady for the eighth 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 or declining yield environment for the remainder of 2024.
- **Despite ongoing business strength, 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 31.07.2024

	7/23 7/24	7/22 7/23	7/21 7/22	7/20 7/21	7/19 7/20	7/18 7/19	7/17 7/18	7/16 7/17	7/15 7/16	7/14 7/15
A (acc) USD	22,06	17,97	-28,70	42,32	40,71	15,74	25,05	30,09	4,88	17,40
MSCI World Information Technology Index USD	31,93	24,54	-11,64	39,99	37,12	14,16	26,25	28,84	8,00	11,30

Performance Net of Management Fees as at 31.07.2024 (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	-3,52	8,08	15,04	22,06	0,88	15,50	16,90	6,53
MSCI World Information Technology Index	-2,05	15,76	22,65	31,93	13,23	22,74	20,05	6,24

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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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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