FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
31 August 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Financial market volatility spiked in early August 2024 following an interest-rate hike by the Bank of Japan at July-end and the release of a weaker-than-expected labour market report in the United States. However, global equities rebounded as a stronger-than-estimated July services report, a continued disinflation trend and optimism about potentially lower interest rates in the United States reinvigorated hopes for an economic soft landing. In more recent economic data, global manufacturing activity contracted in August for the second consecutive month, while flash reports for August indicated services activity expanded across various regions. As measured by MSCI indexes in US-dollar terms, developed market equities slightly outperformed a global index, while emerging market and frontier market equities underperformed it. Global value stocks modestly outpaced global growth stocks.
- After faring worse than any other sectors in July, information technology (IT) and communication services saw their global stock market standings improved modestly in August although their overall gains still lagged the major equity index averages. IT ended the period in eighth place out of 11 sectors, slightly behind communications. Generally strong second-quarter 2024 (2Q24) earnings reports bolstered investor confidence in IT, as did continued artificial intelligence (AI) innovation and product rollouts. IT companies were generally signalling resilient growth potential at a time when US interest rates were likely to begin easing. Lower rates reduce the cost of borrowing, making it easier for tech-related companies to finance their growth and innovation efforts, including the expansion of AI and cloud computing. Companies can also take advantage of lower rates to finance share buyback programmes more cheaply and invest in research and development (R&D) to maintain their competitive edge. Additionally, investors often seek potentially higher returns in a lower interest-rate environment, which can lead to increased investment in tech stocks. Lower interest rates can also boost stock valuations by reducing the discount rate used in financial models, potentially increasing the present value of future earnings.
- For the month, the fund's A (acc) USD shares returned 1,35%, and its benchmark, the MSCI World Information Technology Index, returned 1,46%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	DoorDash (Off-Benchmark Exposure)	Semiconductors (Stock Selection, Underweight)
	Marvell Technology (Significant Overweight)	Internet Services and Infrastructure (Significant Overweight)
	MongoDB (Significant Overweight)	Systems Software (Stock Selection)
HURT	Amazon.com (Off-Benchmark Exposure)	Application Software (Stock Selection)
	Apple (Significant Underweight)	Broadline Retail (Off-Benchmark Exposure)
	Synopsys (Significant Overweight)	Interactive Media and Services (Off-Benchmark Exposure)

- The fund's August gains slightly lagged the benchmark MSCI World IT Index as two of its off-benchmark sector allocations—consumer discretionary and communication services (averaging a combined 14.1% of the portfolio)—declined for the month. Within the IT sector (comprising roughly 79% of the portfolio), relative performance among software companies was split as the support we received from stock selection in the systems software industry—which advanced as a whole—was more than offset by the negative impact of adverse stock selection in the application software industry, which depreciated, and where Synopsys (electronic design automation [EDA]) and Confluent (data streaming/processing platform) were the worst of a handful of overweighted or off-index detractors. During its fiscal quarter that ended in July, Synopsys, which combines various software tools and specialised hardware for engineers to design and verify chip and computing systems, posted record revenues (US$1.53 billion), though its year-over-year (y/y) revenue growth slowed to 3%. Synopsys maintained its full-year (ending in October 2024) revenue guidance midpoint of US$6.12 billion (+15% y/y) but increased its earnings per share (EPS) outlook (to US$13.10 or +24% y/y). Synopsys recently entered into an agreement to sell its Software Integrity business. This divestiture might have caused uncertainty among investors regarding the company's future revenue streams and strategic direction. There were also investor concerns about large layoffs at key customer Intel (not held by the fund), though management assuaged these fears by indicating their contract agreements are long-term and Intel continues to outsource more EDA and intellectual property (IP) as a way to further reduce costs; therefore, Synopsys expects no impact from Intel in the short and medium terms. A bigger risk, in our view, is that Synopsys's pending acquisition of simulation software specialist Ansys (also held by the fund) may be blocked by China's State Administration for Market Regulation primarily on anti-competitive and export control restriction grounds (both companies are based in the United States). We saw the stock selloff as a modest reset amid elevated valuations and continue to favour Synopsys, which plays a key role in semiconductor R&D, boasts a large portfolio of IPs and patents, and is quietly powering a lot of AI development these days. Additionally, semiconductor and data-centre businesses tend to hold their R&D expense growth fairly stable, regardless of the normal sales cycle inherent with hardware.
- Most of the mega-capitalisation technology bellwether companies, which have been making headlines all year, did not fare well in August. The summer rotation out of the so-called "Magnificent Seven" stocks continued as the first waves of their quarterly earnings calls underwhelmed investors, exacerbating broader concerns about a high 2024 earnings bar and intensifying AI scrutiny by businesses seeking to leverage it properly. Among these titans, the fund's relative performance in the systems software industry benefitted from a major strategic underweighting in

Microsoft as its share price dipped slightly, while our off-benchmark positions in Amazon.com (broadline retail industry) and Google parent company Alphabet (interactive media and services) sustained larger losses for the month. Alphabet revealed slower revenue growth in its YouTube business. E-commerce giant Amazon delivered mixed 2Q24 financial results, missing analysts' consensus estimates on revenues while exceeding on earnings and Amazon Web Services (AWS; cloud computing platform) revenue. Its 3Q24 guidance was beneath consensus estimates due to consumer softness (e.g., deal-seeking and trading down to lower-priced items, along with some distractions from the Summer Olympics and geopolitical events). While management called out several headwinds to profitability, the top end of Amazon's operating-income guidance still forecasts another US$15 billion quarter. The continued AWS revenue acceleration (19% y/y) was the bright spot but comes with a higher capital expenditure outlook that we believe could weigh on profit margins in future quarters. AWS is clearly in investment mode, but we do not think that the outlook implies we are entering another investment period for Amazon's retail segment. The company is still seeing strong demand signals for generative AI (GenAI) compute, while also highlighting its own custom silicon as a competitive offering to current AI accelerators while providing improved price performance to customers.

- Semiconductor industry holdings were substantial at roughly 27% of the portfolio in August, and they collectively performed well on absolute and relative bases as we avoided several index component companies that sold off, including the sharp declines seen in Intel. Moreover, nearly all of our overweighted or off-benchmark semi stocks advanced, including solid rallies in Marvell Technology and Monolithic Power Systems. In general, these holdings performed much better than their counterparts in the semiconductor materials and equipment industry, where key detractor Applied Materials and our other two related holdings were down for the month. Standout contributor Marvell provides data infrastructure semiconductor solutions. Its latest fiscal quarter topped management's prior guidance with profit margins driven by the Data Centre segment's revenue surge (+92% y/y to US$880.9 million). We continue to favour Marvell in part for its diverse markets; beyond data centres, it's involved in enterprise networking, carrier infrastructure, consumer, and automotive/industrial sectors. Such a broad scope should continue to allow Marvell to address various industry demands with a strong IP portfolio (with over 10,000 issued patents worldwide). Elsewhere in the portfolio, food delivery and logistics platform DoorDash, our solitary investment in the restaurants industry, rallied ahead of confirming reports (released in early September) about robust 2Q24 revenue growth and other key metrics (including a 19% q/q increase in total orders, to US$635 million). DoorDash continues to expand its offerings from restaurants into grocery, alcohol, and convenience-item delivery as well, capitalising on its network of more than 200,000 drivers. We remain focused on DoorDash's ability to manage its regulatory challenges and competitive pressures while continuing to chase growth in its key verticals. Several of the fund's high-conviction holdings in internet services and infrastructure companies also enjoyed impressive August rallies with double-digit percentage gains.

Outlook & Strategy

- **IT sector fundamentals throughout the first eight 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 and sub-par August gains, 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 (the next meeting is scheduled for 17–18 September). 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 31.08.2024

	8/23 8/24	8/22 8/23	8/21 8/22	8/20 8/21	8/19 8/20	8/18 8/19	8/17 8/18	8/16 8/17	8/15 8/16	8/14 8/15
A (acc) USD	27,63	20,22	-35,01	36,12	58,62	5,08	29,56	30,69	14,50	4,26
MSCI World Information Technology Index USD	36,40	29,89	-19,97	31,43	55,00	4,88	30,51	30,28	16,74	1,50

Performance Net of Management Fees as at 31.08.2024 (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	1,35	6,07	16,60	27,63	-0,09	16,57	16,42	6,56
MSCI World Information Technology Index	1,46	8,08	24,44	36,40	12,34	23,62	19,82	6,28

Investment Team

Jonathan T. Curtis
Years with Firm 16
Years Experience 20

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

Matthew Cioppa, CFA
Years with Firm 9
Years Experience 16

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

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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.

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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