FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
30 September 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities ended the third quarter of 2024 (3Q24) collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve (Fed), the European Central Bank, the People's Bank of China and other central banks further bolstered equities worldwide. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed market and frontier market equities underperformed it. Global value stocks significantly outpaced global growth stocks.
- After faring worse than all other equity sectors in July amid a rotation out of high-flying mega-capitalisation technology-focused bellwether companies, information technology (IT) and communication services saw their global stock market standings improve modestly in August and September, though their overall 3Q24 gains still lagged the major index averages. While no single factor explains the market trend, many investors switched to small-cap stocks as some analysts began projecting that profit growth for tech giants was poised to decelerate. Ultimately, IT ended the quarter ranked tenth out of 11 global equity sectors, yet it was still the top year-to-date performer given the magnitude of the IT rally that dominated the first half of 2024. Generally strong 2Q24 earnings reports bolstered investor confidence in IT and tech-adjacent companies at times, as did continued artificial intelligence (AI) innovation and product rollouts, assuaging broader concerns about a high earnings bar and investor scrutiny around AI corporate spending. IT companies were generally signalling resilient growth potential at a time when US interest rates began to descend from multiyear peak levels. Lower rates reduce the cost of borrowing, making it easier for companies to finance their research and development (R&D), growth and innovation efforts, including the expansion of AI and cloud computing infrastructure. 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 quarter, the fund's A (acc) USD shares returned -0,27%, and its benchmark, the MSCI World Information Technology Index, returned 1,57%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Microsoft (Significant Underweight)	Semiconductors (Stock Selection, Underweight)
	DoorDash (Off-Benchmark Exposure)	Systems Software (Stock Selection, Underweight)
	NVIDIA (Significant Underweight)	Restaurants (Off-Benchmark Exposure)
HURT	Apple (Significant Underweight)	Application Software (Stock Selection)
	Synopsys (Significant Overweight)	Technology Hardware, Storage and Peripherals (Significant Underweight, Stock Selection)
	Amazon.com (Off-Benchmark Exposure)	Interactive Media and Services (Off-Benchmark Exposure)

- The overall positive impact of beneficial stock selection versus the benchmark MSCI World IT Index was more than offset by the detriments of industry allocation decisions across the portfolio. One of 2024's recurring, allocation-related sticking points has been a much lighter-than-index exposure to Apple, which advanced well beyond the benchmark average; while the company remains a top-five fund holding (averaging almost 5.0% of total assets), keeping the market weight of slightly over 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 continue integrating AI into its products. Apple recently unveiled Apple Intelligence, and the AI system of tools and features recently became available. This reinforces our view that we could continue to see both upgrade cycles and positive product-mix shift ahead. We are also incrementally positive on Apple's reinforced commitment to privacy. Its new AI features 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. Allocation-based hindrances were evident elsewhere in the portfolio as several off-benchmark industry exposures sustained losses, including interactive media and services, where virtual discovery platform Pinterest and Google parent company Alphabet sold off; broadline retail, where a major stake in Amazon.com posted a modest decline; and automotive parts and equipment, where Mobileye Global shed just over half of its equity value. Alphabet 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 its AI investments across its products but especially in search, where it is seeing increased user engagement as well as improved outcomes for advertisers. 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). While company 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% year-over-year, or y/y) was the bright spot, but it also comes with a higher capital expenditure (capex) outlook. 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.

- 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; Synopsys (electronic design automation [EDA]) and Confluent (data streaming/processing platform) were the worst of a handful of overweighted or off-index detractors there. The fund's relative performance in the systems software industry benefitted from a major strategic underweighting in Microsoft as its share price dipped. Ahead of the selloff, Microsoft reached lofty all-time highs and held sway as the fund's second-largest holding (8.0% of the portfolio at September-end), which helps explain how it negatively impacted our absolute returns, while an underweight bolstered relative returns. Microsoft's June-quarter earnings disappointed investors who have grown to expect a lot from the systems software and cloud computing giant, but the firm 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. In an unfortunate twist that involved Microsoft, the fund's relative and absolute gains in system software were dented by a double-digit percentage decline for cybersecurity specialist CrowdStrike Holdings, which made mainstream headlines when it reported a system update error that affected most, if not all, Microsoft Windows-based 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. 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.
- Semiconductor industry holdings were substantial at roughly 27% of the portfolio (on average), and they collectively performed well on absolute and relative bases. We kept only about half the benchmark weight in NVIDIA as its equity value dipped from all-time highs, and we avoided several index component companies that sold off, including the sharp declines in Qualcomm and Intel. Moreover, most of our overweighted or off-benchmark semi stocks advanced, including solid rallies in SiTime and Monolithic Power Systems, both of which play complex and integral roles in the semiconductor chipmaking process. In general, these holdings fared better than their counterparts in the semiconductor materials and equipment industry, where key detractors Applied Materials and ASML Holding were down for the quarter. From a wider perspective, we think the semiconductor equipment industry has solid secular growth fundamentals led by increasing chip and packaging complexity and capital intensity, which are only partially offset by concerns over the sustainability of China equipment demand, increasing US government restrictions and capex headwinds for select companies. Our view on semiconductor chipmakers, meanwhile, has improved as the industry is being driven by superior secular growth prospects, especially for accelerated computing- and AI-levered companies, and we anticipate an eventual cyclical recovery in other chip applications (e.g., PCs, smartphones, industrial, automotive, communications equipment, consumer electronics).

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Oracle (Overweight)	Systems Software (Stock Selection)
	Amazon.com (Off-Benchmark Exposure)	Broadline Retail (Off-Benchmark Exposure)
	DoorDash (Off-Benchmark Exposure)	Semiconductors (Stock Selection)
HURT	Marvell Technology Group (Significant Overweight)	Application Software (Stock Selection)
	MongoDB (Significant Overweight)	IT Consulting and Other Services (Lack of Exposure)
	Synopsys (Significant Overweight)	Internet Services and Infrastructure

- Although September was a good month in absolute terms, the fund slightly lagged the benchmark index as application software holdings (covering about 16% of the portfolio) extended the weakness seen earlier in the summer. Although Adobe and several others sold off, it was our major investment in Synopsys that anchored the downside for these holdings, just like it did in 3Q24 as a whole. In general, EDA software stocks endured a lot of selling this summer, though we also saw some buying opportunities for the longer term as their price/earnings multiples moved below their long-term averages and presented what we considered to be appealing entry points. 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 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) and 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 summer 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.
- Semiconductor-related holdings had mixed results in September amid ongoing industrywide pressures. On the upside, our overweighted or off-index stakes in SiTime and Advanced Micro Devices rallied with double-digit percentage gains, while our substantial underweighting in NVIDIA further lifted relative performance as its one-month gains lagged its industry peer group average. On the downside, half of the fund's top 10 detractors were semiconductor companies that shed value: Marvell Technology, ASML Holding, NXP Semiconductors, KLA and Monolithic Power Systems. In general, most semi companies are not faring poorly on a fundamental basis, though there are some trouble spots within the industry.

Even strong quarterly financial results—the likes of which we saw from Marvell, ASML and others—could not prevent a souring of wider market sentiment amid deteriorating investor confidence and higher volatility in the chipmaking space, creating a challenging environment for positive company-specific news to gain a foothold. In particular, Marvell, which provides data infrastructure semiconductor solutions, reported fiscal second-quarter 2025 results that topped its 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 segments. Such a broad scope, in our view, should continue to allow Marvell to address various industry demands with a strong IP portfolio (with over 10,000 issued patents worldwide). From an industry perspective, the semiconductors and semiconductor equipment group appears to be doing quite well: total sales continue to grow sharply, revenues are climbing, and AI is creating demand for certain chips. Looking a bit closer, however, we find an inventory correction affecting a broad spectrum of chipmakers. Fortunately, inventory corrections end eventually, and laggards may perk up in anticipation of a recovery even if it is still a few quarters away. Like most industries, the semiconductor space is not homogeneous. While NVIDIA grabs most of the media attention and has been posting soaring earnings quarter after quarter driven largely by AI demand, most of the industry's companies sell semiconductors for vehicles, personal computers, cell phones or industrial products. And these companies—including select fund holdings—have been suffering through an inventory correction. In the meantime, analysts have already factored the inventory correction into their estimates, so earnings expectations for players except for NVIDIA are relatively low.

- In terms of key contributors, the fund benefitted from widespread gains in the systems software industry as Oracle, ServiceNow and others more than doubled the benchmark return. ServiceNow, our biggest investment among these contributors, provides a cloud-based platform that helps automate enterprise IT operations. It topped consensus expectations with its 2Q24 sales and earnings, with GenAI helping to power strong revenue and profit margins, while its forward guidance suggests this expansion momentum is poised to 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." Elsewhere, food delivery and logistics platform DoorDash, our solitary investment in the restaurants industry, rallied both before and after a September financial report confirmed robust 2Q24 revenue growth and strength in other key metrics (including a 19% quarter-over-quarter 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 vertical segments. Several of the fund's high-conviction holdings in internet services and infrastructure companies also enjoyed impressive August rallies with double-digit percentage gains. Finally, in the communications equipment industry, standout contributor Arista Networks is an overweighted investment that has more than doubled in value over the past year, capped by a solid gain of nearly 9% in September. Arista is a pioneer in cloud-based networking, which is faster and more agile than traditional hardware-based systems, and it has been making a big impact during the current AI industry boom. AI-linked demand has surged for its data centre and networking gear, which offers complete suite of software to help companies manage new and upgraded infrastructure. Arista also appears to be in a good position to benefit as more organisations look to build out the necessary infrastructure to take advantage of 5G communications technology.

Outlook & Strategy

- **Despite a volatile third quarter, IT sector fundamentals remain fairly stable relative to recent quarters. We continue to believe the sector can outpace the broader market on earnings growth this year and next, driven by strong secular tailwinds including GenAI.** We also remain optimistic about the potential for an economic soft landing, which, alongside the Fed's interest-rate-cutting cycle, has the potential to support increased corporate investment in technology. Industries such as software have faced several quarters of muted demand, due in part to macro uncertainty driving tighter corporate budgets. We continue to view this as a temporary phenomenon. Additionally, we believe more certainty around the macro path should encourage greater breadth in the IT sector, allowing the valuation disparity between mega-cap stocks and the rest of the sector to begin to normalise. We believe the fund is well-positioned for this potential outcome.
- **While debates around macro trends and the pace of interest-rate cuts played a role, we also believe recent sector volatility has been driven by debate around the sustainability of GenAI as a driver for sector performance.** Debate is healthy and normal (as is volatility, in some cases), especially this early in a new technology cycle. GenAI adoption can still play out a number of ways, but we remain encouraged by the demand signals we're seeing, as well as the continued progress on AI model capabilities.
- **We ask investors to consider that large technology-platform shifts play out over years, not quarters.** One analogy we like to use is the smartphone era. The first iPhone was introduced in 2007, and it took roughly seven years for smartphones to penetrate the majority of households in the United States. For smartphones to become ubiquitous, several advancements in technology (e.g., network upgrades to 3G and, years later, 4G and then 5G) and a broadening set of mobile-native applications were necessary. We weren't introduced to several of these applications until years after the first iPhone (e.g., Uber Technologies [not held by the fund] was launched in 2009, and Instagram was launched in 2010 and was later acquired by Meta Platforms [not held]). It has been less than two years since OpenAI (not held) launched ChatGPT, and while there have been significant technological advancements and some useful new applications since then, we'd argue we're still early in the cycle, and we don't believe the IT sector's current valuation reflects the full potential of AI's positive growth impact on the technology space and the broader economy over the long-term.
- **Potential risks we are monitoring include the timing and magnitude of GenAI demand; while optimistic, we acknowledge that near-term data may disappoint relative to market expectations.** This dynamic was evident in the stock reactions following earnings reports from some companies widely considered to be "AI winners." Our other main areas of concern involve (1) 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; (2) 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 (3) risks around decelerating global economic growth and the extent to which it impacts consumers and, by extension, tech-focused markets such as e-commerce, digital payments, digital advertising, consumer hardware and electronics, and electric vehicles.

- **We maintain our long-term orientation.** The fund remains positioned to potentially benefit from robust long-term secular growth drivers such as AI, cloud computing, and our other eight Digital Transformation subthemes: 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.

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 30.09.2024

	9/23 9/24	9/22 9/23	9/21 9/22	9/20 9/21	9/19 9/20	9/18 9/19	9/17 9/18	9/16 9/17	9/15 9/16	9/14 9/15
A (acc) USD	39,13	28,48	-40,25	33,57	54,70	6,29	26,12	28,22	20,17	4,45
MSCI World Information Technology Index USD	49,56	37,43	-25,23	29,76	45,68	6,99	28,62	28,37	21,64	0,85

Performance Net of Management Fees as at 30.09.2024 (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	1,99	-0,27	18,92	39,13	2,22	17,15	16,89	6,63
MSCI World Information Technology Index	2,20	1,57	27,19	49,56	15,39	23,76	20,20	6,35

Investment Team

Jonathan T. Curtis
Years with Firm 16
Years Experience 20

Matthew Cioppa, CFA
Years with Firm 9
Years Experience 16

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

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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