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FRANKLIN TEMPLETON

Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
31 October 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively declined in October 2024 amid investor concerns about economic growth and the path of major central banks' interest-rate easing cycles, along with uncertainty about the upcoming US presidential election in early November. On the economic front, global manufacturing activity generally remained weak, while flash reports indicated services activity continued to expand in many regions. As measured by MSCI indexes in US-dollar terms, developed market and frontier market equities fared better than a global index, while emerging market equities underperformed it. In terms of investment style, global growth stocks performed modestly better than global value stocks.
- Mixed economic and corporate earnings signals kept investors cautious throughout the month. After lagging the major stock market averages in the third quarter of 2024 (3Q24), the information technology (IT) sector saw its global standing improve in October as it finished the month in fourth place out of the 11 sectors despite the group's negative returns. At the industry level semiconductor and communications equipment stocks were outliers to the upside, partially offsetting the combined loss from four other industries that were anchored to the downside by IT services. The communication services sector fared better than IT as it posted a small October gain, with most of the support stemming from media and entertainment companies. With 70% of S&P 500 companies reporting earnings for 3Q24, the results have been mixed. As of October-end, 52% of companies had reported better-than-expected revenues, with 30% missing estimates and 18% matching. The average outperformance of consensus estimates was 1.5%. Earnings-per-share (EPS) reports, on the other hand, saw companies exceeding estimates nearly 75% of the time, below the five-year average of 77% but in line with the 10-year average. Communication services stocks saw the largest upside surprise in terms of EPS with an average surprise of 14.1%. Broadly, IT companies were above average in terms of sales and earnings growth, with the majority of them topping analysts' consensus estimates on both counts. Artificial intelligence (AI) adoption and demand-related data points continue to strengthen along with the AI capital expenditure (capex) trajectory, with most companies working in the AI space reinforcing their plans for higher levels of spending going forward as the risk of underinvesting is generally deemed much greater than the risk of overinvesting.
- For the month, the fund's A (acc) USD shares returned -0,02%, and its benchmark, the MSCI World Information Technology Index, returned -1,27%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Microsoft (Significant Underweight)	Systems Software (Stock Selection, Underweight)
	Taiwan Semiconductor Manufacturing (Off-Benchmark Exposure)	Technology Hardware, Storage and Peripherals (Stock Selection, Significant Underweight)
	Apple (Significant Underweight)	Application Software (Overweight, Stock Selection)
HURT	NVIDIA (Significant Underweight)	Semiconductors (Stock Selection, Underweight)
	Monolithic Power Systems (Significant Overweight)	Semiconductor Materials and Equipment (Stock Selection, Overweight)
	Advanced Micro Devices (Overweight)	Communications Equipment (Stock Selection, Underweight)

- The fund's return was nearly flat during a down month for the benchmark MSCI World IT Index, which contended with cautious earnings sentiment among tech investors. Overall, US and global stocks declined for the first time in six months (as measured by MSCI indexes in US-dollar terms), due in part to weak Azure cloud-computing guidance from tech bellwether Microsoft, which was our top relative contributor as we held less than half the index's sizeable 16.9% average weighting. Microsoft nonetheless reported stellar 3Q24 earnings that were perhaps not stellar enough for a stock trading at nearly 30 times forward earnings at period-end. Most of our other systems software industry holdings advanced, including ServiceNow (overweight), which provides cloud-based solutions for digital workflows and automation. ServiceNow exceeded consensus expectations in its 3Q24 financial results, with subscription revenues rising 23% year-over-year (y/y) amid surging demand for its AI-driven products—particularly the Now Assist platform, which integrates Microsoft Copilot. Beyond the numbers, the trend in systems software tells us that businesses are increasingly investing in digital transformation. Recent unstable sentiment in the IT sector has favoured companies involved in AI and enterprise software, which likely influenced ServiceNow's October gains. The fund's relative returns were further boosted by keeping only about a quarter of the benchmark weight in Apple. While Apple, Microsoft, off-benchmark contributor Alphabet (Google) and other tech giants posted stronger-than-expected revenues across the board, some investors were growing concerned about the massive spending bills these companies continue to rack up in their pursuits of AI's ultimate payoff. And on that front, tech executives remain as optimistic as ever, even as Alphabet reported a y/y capex increase of 62% and foresaw more elevated spending in 2025. We keep in mind that these companies have high-quality characteristics, including strong balance sheets and cash flows as they pursue their AI buildouts. Within this elite cohort, Apple is in an unusual position as it is largely staying out of the current AI race, with capex remaining essentially flat in 3Q24. Apple is leaning into one of its strengths for AI—its large user base—and thinks it can manage expenses by using its own chips as well as rented servers from Google and Microsoft.

- The fund was impacted by a notable divergence between semiconductor manufacturers (which saw mixed but overall positive returns) and their foundational counterparts in the semiconductor materials and equipment industry (which saw widespread losses and entered correction territory); when combined, these stocks comprised 34% of the portfolio (on average). Within the latter group, the fund held high-conviction positions in KLA, ASML Holding and Applied Materials, all of which fell more than 10% and offered potential buying opportunities for the longer term, in our view. ASML's disappointing 3Q24 financial results revealed an uneven market as it warned that the recovery in some parts of the industry may stretch into 2025. The Dutch semi equipment maker said net bookings that represent orders were €2.6 billion (US$2.8 billion) for the third quarter—less than half of what Wall Street analysts expected and a major miss for a company whose lithography gear is considered a must-have for the most advanced chip manufacturing. ASML also expects 2025 revenue to come in at the low end of its previous forecast. We believe ASML's weakness is transitory and cyclical. Demand for AI chips is booming. Unfortunately for those who make semiconductor-manufacturing gear, it isn't always enough. That dichotomy became clearer in October as key off-index contributor Taiwan Semiconductor Manufacturing (TSM)—the world's largest contract chipmaker—posted reassuringly robust 3Q24 financial results and said it expects revenue from "server AI processors" that include NVIDIA's high-demand chips to more than triple this year. Analysts still widely expect total sales of chip-manufacturing gear to potentially top US$100 billion globally this year for the first time ever. However, NVIDIA's rising tide doesn't lift its industry peers evenly, and the market is more complicated for semi equipment makers, whose customers also have to vie with slowing PC demand, uneven smartphone sales and a sluggish automotive market. Aside from ASML, KLA and Applied Materials (both saw their stock prices more than double between the launch of ChatGPT in late 2022 and 10 July of this year—when both companies set record highs. And yet, their combined trailing 12-month revenue actually fell 9% over the same period, according to data from S&P Global Market Intelligence. As it pertains to the fund's investment in NVIDIA, its October rally supported absolute returns while our lighter-than-index exposure was a hindrance in relative terms. Our overweight or off-benchmark positions in several of NVIDIA's peers sold off at the same time, including Monolithic Power Systems and Advanced Micro Devices.
- Elsewhere in the portfolio, positive absolute and relative returns in the application software industry (16% of total net assets) were led by a robust rally in data infrastructure software specialist Confluent (not an index component), which provides real-time data streaming solutions built around the popular Apache Kafka open source distributed streaming platform. The fund's overweighted stake in internet services and infrastructure industry stocks was another area of strength as most of them advanced, including key contributor Cloudflare, which provides network services aimed at enhancing security, performance and reliability. Another relative-return boost came from the rally in off-benchmark Roblox, a metaverse-oriented platform for creating and playing user-generated 3D games. Roblox released strong 3Q24 results, surpassing consensus estimates across the board. Bookings grew 34% y/y and overall growth was broad-based, accelerating across all geographies and ages. Many of the initiatives Roblox has been working on over the last few quarters—improved search/discovery, an enhanced virtual economy, and better app performance—are driving its progress. Management's cost discipline continues to be good, in our view, which helped profit margins come in well ahead of guidance. AI has been deeply incorporated into Roblox, aiding user engagement, along with the company's trust and safety efforts, and enabling faster content creation through generative AI (GenAI) and code assistance for developers.

Outlook & Strategy

- **Despite recent market volatility, 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 US Federal Reserve'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-capitalisation stocks and the rest of the sector to begin to normalise. We believe the fund is well-positioned for this potential outcome.
- **With the Republican Party's victory in the United States Presidential Election (as of 6 November), one key driver of market uncertainty is now behind us.** We believe the tech sector may benefit in a few ways. First, we anticipate improving corporate IT spending as US businesses are apt to see lower tax rates, which can flow into industries like software. Second, IT stands to benefit from what should be a lighter regulatory burden, including changes in leadership at the Federal Trade Commission. This could help the country's biggest tech companies, which are subject to considerable antitrust scrutiny under the current administration, as well as "small" tech, which may benefit from a more active setting for mergers and acquisitions. We also think the Republicans will lighten genAI regulation to ensure the country sustains its global leadership in this critical technology. On the other hand, we may see even more scrutiny around exports of leading US semiconductors and semiconductor equipment to China, as well as some impact from new tariffs on goods coming from China, in markets like e-commerce and consumer electronics. Overall, while our focus remains on long-term secular drivers and finding high quality businesses, we view the election outcome as a small net positive for the IT sector and believe the fund is positioned appropriately for the new political regime in the United States.
- **While debates around macro trends and the pace of interest-rate cuts played a role, we also believe recent IT 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

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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 31.10.2024

	10/23 10/24	10/22 10/23	10/21 10/22	10/20 10/21	10/19 10/20	10/18 10/19	10/17 10/18	10/16 10/17	10/15 10/16	10/14 10/15
A (acc) USD	43,93	19,73	-43,55	47,61	50,85	21,82	5,61	37,50	8,93	11,51
MSCI World Information Technology Index USD	48,89	26,63	-25,19	47,11	33,03	21,72	9,63	38,39	9,55	10,18

Performance Net of Management Fees as at 31.10.2024 (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	-0,02	3,35	18,90	43,93	-0,92	16,71	16,62	6,60
MSCI World Information Technology Index	-1,27	2,38	25,57	48,89	12,15	22,51	19,92	6,27

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.

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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.

All investments involve risks, including possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. **Active management** does not ensure gains or protect against market declines**. International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG)** criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund’s prospectus.

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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