FRANKLIN TEMPLETON

Franklin Global Convertible Securities Fund

A (acc) USD
31 May 2024

Franklin Templeton Investment Funds

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities rallied in May 2024 amid investor optimism about the economic growth outlook and expectations for interest-rate cuts in Europe and the United States this summer. Generally robust corporate earnings results reported during the month and enthusiasm about artificial intelligence (AI) further bolstered investor sentiment. Global manufacturing activity expanded in May for the fourth consecutive month, while flash reports for May indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market and frontier market equities underperformed it.
- Following broad-based April declines, convertible bonds (CBs) reclaimed most of those losses in May amid heavy trading volumes, and collectively rose 1.6% globally (a measured by the ICE BofA G300 Global Convertible Index in US-dollar terms). Performance within the asset class varied as equity-sensitive convertibles (+5.5%) broke away from "busted" (credit-/rate-sensitive) convertibles (+1.4%) and balanced convertibles (+0.9%). US-based CBs (+2.4%) led regionally, following a positive corporate earnings cycle and an improvement in inflation data. Notably, gains came amid a surge in new CB supply. Year-to-date, global CBs (+2.8%) are broadly outperforming fixed income assets while trailing stocks. Convertible primary volumes totalled US$18.0 billion—almost double the US$9.1 billion seasonal average for May and the most since March 2021, driven by the United States ($10.5 billion) and a record amount from Asia (US$7.0 billion). Asia's surge was driven by just two deals—Alibaba Group Holding's US$5.0 billion offering, the largest single-tranche CB on record, and JD.com's US$2.0 billion offering (the fund has no direct exposure to China or either of these companies). Within the United States, the largest deals of the month came from utilities. Year-to-date, the market has introduced US$47.1 billion in total CB issuance globally (with $32.2 billion from the United States), on pace to exceed some full-year forecasts.
- For the month, the fund's A (acc) USD shares returned 3,95%, and its benchmark, the Refinitiv Global Focus Convertible Index, returned 1,62%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Securities	Sectors
HELPED	Insmed	Health Care
	Burlington Stores	Consumer Discretionary
	Freshpet	Materials
HURT	Axon Enterprise	—
	Global Payments	—
	DexCom	—

- All 11 of the fund's sector allocations added to its May gains (in absolute terms), though our two smallest sector positions—energy and real estate at less than 4% of the portfolio (combined)—had almost no impact, nor did our much larger exposure to information technology (IT) companies (averaging nearly 18% of the portfolio). A strong overall gain in the health care sector was aided foremost by the rally in Insmed, with incremental support from five out of 11 other sector holdings. Insmed's convertible bond tracked the spike in its stock price as the company's equity value more than doubled during the month following the promising results from a Phase 3 clinical trial of its experimental drug to treat symptoms in patients with a rare lung disease. The biopharmaceutical firm said its treatment, dubbed brensocatib, significantly reduced pulmonary exacerbations for those suffering from non-cystic fibrosis bronchiectasis. Insmed plans to apply for US Food & Drug Administration (FDA) approval in the fourth quarter and hopes to have brensocatib in the US market by mid-2025, followed by launches in Europe and Japan in the first half of 2026. Health care continues to serve as a core portfolio focus, covering 19.3% of total net assets at the end of May.
- Consumer-focused holdings enjoyed broad-based gains; Burlington Stores (off-price retailer), Wayfair (furniture and home goods e-commerce platform), Booking Holdings (online travel services) and other consumer discretionary sector convertibles appreciated solidly, while Freshpet and all three of our other consumer staples sector holdings combined for a similarly strong overall gain in that smaller allocation (discretionary names averaged about 12% of the portfolio versus just over 6% for staples companies). Burlington, which sells discounted brand-name clothing and home goods, delivered a better-than-expected result in its fiscal first-quarter 2024 (1Q24) earnings report, surpassing estimates on the top and bottom lines. Burlington has taken advantage of the Bed Bath & Beyond bankruptcy, acquiring the defunct retailer's leases to fuel its expansion as demand for off-price retail remains strong. Burlington's gross margins were impressive as they improved 120 basis points year-over-year with the help of lower markdowns, and adjusted operating margin improved 170 basis points to 5.7%. We also saw ongoing strength in materials sector companies involved in metals and mining (centred on key contributors Ivanhoe Mines and Sibanye Stillwater), as well as lithium production. Lithium prices have been recovering from multiyear lows, while nearly all industrial and precious metals commanded higher May prices in global commodity markets.
- Turning to detractors, most of them were situated in health care and IT, where they pared the fund's overall advances in both sectors. The IT sector was an area of mixed results and minimal overall gains. Cloudflare and six out of 12 other holdings traded lower, but their combined loss was essentially offset by gains linked to Envestnet and four others. Health care holdings in DexCom (developer of continuous glucose monitoring systems), Repligen (develops bioprocessing technologies for biological drugs), Immunocore Holdings (T-cell receptor therapies for cancer and

other diseases) and three others traded lower, with Immunocore suffering the largest May loss among them. UK-based Immunocore reported a 1Q24 net loss that missed consensus earnings estimates based in part on increased operational costs, with research-and-development expenses rising to US$57.5 million from US$36.6 in 1Q23. Additionally, we found the company's Phase 1 update in a cutaneous melanoma clinical trial was underwhelming, especially considering how much Immunocore's management had been talking it up recently. We are monitoring these changes and expect the path forward for the stock to be challenging for the remainder of the year; cutaneous melanoma was supposed to be a low-risk readout, and so we harbour some concerns about the company's upcoming ovarian and lung cancer clinical trial readouts later this year. Separately, we believe the company's CB value could still see some potential upside from another product, Kimmtrak (approved for uveal melanoma), which continues to grow sales, and for which a longer treatment duration could lead to peak sales above the US$400 million consensus estimate for annual sales.

Outlook & Strategy

- Total 2022 convertible issuance, at US$39.6 billion, was the smallest in records going back to 1998. However, 2023 issuance totalled US$79.4 billion as it essentially doubled year-over-year and returned to a more normal pre-pandemic level. We continued to see this uptrend through the first five months of 2024 and are hopeful that the convertible market will further normalise as the year progresses. In our analysis, most convertible-bond issuers are still well-capitalised companies with strong liquidity and no near-term maturity walls. Roughly half of the issuers of convertible securities (in the United States and globally) have no other outstanding debt on their books.
- We anticipate that elevated interest rates may lead to companies seeking to refinance straight debt with lower-coupon convertible debt. Additionally, companies that issued convertibles during the wave of issuance that began in 2020 will soon see their debt becoming a current liability on their balance sheets. As such convertibles are more likely to be "out of the money" than they were in recent years, those issuers will need to refinance—rather than convert—these bonds, leading to another factor increasing new issuance. Additionally, there is a wall of maturities coming in the high-yield market and many of those issuers, when faced with significantly higher coupons than the maturing debt, may choose to tap the convertible market, where their cash coupon cost will be lower. The potential for these scenarios to unfold contributes to our general optimism about the convertible securities market's future level of new issuance.
- Along with signs of decelerating global economic growth, the key risks we are monitoring include those associated with inflation and interest rates, as well as their impact on both equity and convertible bond valuations. While strong employment figures—combined with generally declining inflation—drove a market rally through most of 2023, the US Federal Reserve (Fed) may still have a long road to bringing inflation down to its target level. While the Fed appears to have stopped raising rates, we believe the rate cuts being priced in by the market may take longer to appear than many market participants anticipate, and we wouldn't be surprised if rate cuts fail to materialise in 2024. We note that convertible securities have performed relatively well in past rising- or elevated-rate environments because they have low interest-rate sensitivity compared with traditional fixed income asset classes.
- Often called "balanced" convertibles, those with deltas (a measure of their equity sensitivity) near the middle of the range from 0.0 to 1.0 can participate more with an issuer's equity upside than they do with the downside. These are the types of convertibles we continue to prefer, as we feel this is the most appealing aspect of the asset class. If a convertible becomes too equity sensitive or too bond-like, we typically sell it and buy a more balanced convertible.
- In all environments, but especially in periods of high volatility, we believe convertibles continue to offer a way to invest in equities while keeping risk at manageable levels. We continue to believe the ability to adapt to myriad market conditions makes convertibles an attractive vehicle for potentially increasing a portfolio's level of diversification.

Fund Details

Inception Date	24.02.2012
Benchmark	Refinitiv Global Focus Convertible Index

Fund Description

The fund seeks to maximise total return, consistent with prudent investment management, by seeking to optimise capital appreciation and current income under varying market conditions. The fund invests primarily in convertible securities (including low-rated, non-investment grade securities and unrated securities) of corporate issuers globally. The fund many also invest in other securities, such as common or preferred stocks and non-convertible debt securities (including low-rated, non-investment grade securities and unrated securities).

Performance Data[1]

Past performance does not predict future returns.

Discrete Annual Performance (%) as at 31.05.2024

	5/23 5/24	5/22 5/23	5/21 5/22	5/20 5/21	5/19 5/20	5/18 5/19	5/17 5/18	5/16 5/17	5/15 5/16	5/14 5/15
A (acc) USD	11,33	-0,75	-13,87	31,10	14,85	7,38	11,23	12,85	-5,30	0,83
Refinitiv Global Focus Convertible Index USD	6,30	-2,70	-19,79	24,47	9,50	-1,44	2,78	7,32	-2,96	-2,73

Performance Net of Management Fees as at 31.05.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (24.02.2012)
A (acc) USD	3,95	3,51	3,71	11,33	-1,64	7,46	6,31	6,68
Refinitiv Global Focus Convertible Index	1,62	0,31	-1,41	6,30	-6,04	2,49	1,50	2,92

Investment Team

Alan Muschott, CFA
Years with Firm 25
Years Experience 25

Eric Webster, CFA
Years with Firm 11
Years Experience 11

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 convertible securities (including low-rated, non-investment grade securities, and possibly securities in default) of corporate issuers worldwide. Such securities have historically been subject to price movements, due to movement in the prices of underlying equities or movements in interest rates and the bond market generally. As a result, the performance of the Fund can fluctuate considerably over time. Other significant risks include: credit risk, foreign currency risk, liquidity risk, convertible securities risk. 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 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.

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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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