FRANKLIN TEMPLETON

Franklin Global Convertible Securities Fund

A (acc) USD
31 July 2024

Franklin Templeton Investment Funds

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in July 2024 despite heightened volatility that included a rotation away from large-capitalisation technology-related stocks worldwide—especially those focused on artificial intelligence (AI). Cooler-than-expected inflation and a softening job market in the United States increased investor expectations for interest-rate cuts, leading to a preference for small-cap stocks, rate-sensitive equities and more cyclical areas of the market. Global manufacturing activity contracted in July for the first time in 2024, while flash reports for July indicated services activity expanded across regions. As measured by MSCI indexes in US-dollar terms, developed and frontier market equities outpaced a global index, while emerging market equities trailed it.
- Following a nearly flat overall result for convertible bonds (CBs) in 2024's second quarter (-0.1% in 2Q24, as measured by the ICE BofA G300 Global Convertible Index in US-dollar terms), the asset class rallied within the United States in July (+1.9%) as weaker inflation data catalysed a historic rotation into small-capitalisation stocks. Globally, July's CB performance was more subdued (+1.1%) amid weaker returns outside the United States, particularly Asia (-1.4%). Performance within the asset class varied as similar gains for global balanced convertibles (+1.7%) and "busted" (credit-/rate-sensitive) convertibles (+1.7%) contrasted with a slight decline for equity-sensitive convertibles (-0.2%). Despite July's catch-up, CBs still trail the broader equity market in 2024. The latest BofA surveys suggest that convertible bond managers have pulled forward their expectations for rate cuts, and they overwhelmingly think that interest rates will head lower over the next six months. As a result, they have repositioned their portfolios with a distinct emphasis on CBs from small- and mid-cap issuers (likely beneficiaries of lower interest rates), and they have increased or maintained large allocations in higher-growth and longer-duration sectors such as information technology (IT) and consumer discretionary. Global CB issuance volumes totalled US$8.6 billion for the month—a sizeable amount, especially given that July is typically a quiet month. Year-to-date, the global market has priced just over US$69 billion in CBs, representing a year-over-year increase of 60%.
- For the month, the fund's A (acc) USD shares returned 1,18%, and its benchmark, the Refinitiv Global Focus Convertible Index, returned 2,05%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Securities	Sectors
HELPED	Repligen	Health Care
	Insmed	Consumer Discretionary
	Guidewire Software	Utilities
HURT	Wolfspeed	IT
	MACOM Technology Solutions	—
	DexCom	—

- Ten out of 11 sector allocations added to the fund's absolute returns in July, while IT holdings—our largest exposure at an average of nearly 20% of the overall portfolio—were slightly negative amid mixed results at the security level. Strength in the health care sector—another key investment theme covering almost 18% of the portfolio—was due mainly to the rallies in Repligen (bioprocessing products for biologic drug production), Insmed (biopharmaceutical company focused on rare lung diseases and other serious conditions), Mirum Pharmaceuticals (drug developer focused on rare liver diseases) and PTC Therapeutics (therapies for rare genetic and neurological diseases), though most other sector holdings also traded higher. Top contributor Repligen posted the biggest July gain of them all. Repligen's rally portends what could be a sturdy demand recovery within an improving business environment—bioprocessing customers are working through previously high inventories, and order growth is bouncing back. This is the conclusion from Repligen's 2Q24 earnings report (released in late July). While there is still weakness in Repligen's China-based sales, its chief executive officer (CEO) indicated orders outgrew revenue in both the 2Q24 and the first half of the year. The CEO noted, "Sales and order momentum on consumables continued, and we saw a bounce-back in equipment orders, both sequentially and year-over-year." As this protracted post-pandemic period of customer destocking has worked through, the bioprocessing industry is set to potentially return to its long-term growth rate, driven by increasing demand for biologic drugs, which include the fast-growing fields of monoclonal antibodies, vaccines (research budgets received a boost due to COVID-19 vaccine research) and gene therapies.
- Consumer discretionary holdings staged a solid comeback following mixed results in the first half of the year; seven out of eight fund holdings advanced, led by Burlington Stores, an off-price US-based retailer offering branded apparel, home goods and accessories. Burlington has been enjoying the benefits of a string earnings driven by high customer traffic and increased sales, effective merchandising strategies, improved cost-control measures and operational efficiencies, e-commerce growth, and a well-curated product mix that appears to be resonating with consumers, leading to higher average transaction values. We also saw a solid rebound for our three CB positions in the real estate sector, following poor results in the first half of 2024, and a couple of the fund's utilities sector holdings posted solid July rallies, led by key contributor TXNM Energy, which just completed its rebranding transition (formerly known as PNM Resources). TXNM provides electricity to residential, commercial and industrial customers in the US states of New Mexico and Texas, and we believe it has done a good job of expanding its power supply mix as it now generates electricity using traditional sources like coal, natural gas and oil, and nuclear fuel, as well as "green grid" inputs

from solar, wind, geothermal and battery-storage energy sources. In addition to positive quarterly earnings reports and improved financial metrics, the company's expansion plans in renewable energy projects signalled firmer long-term growth potential. In general, we are seeing market conditions for utilities improving amid increased demand for energy services.

- Within the IT sector, semiconductor-related investments in Wolfspeed (a specialist in silicon carbide semiconductors for power and radio-frequency applications), MACOM Technology Solutions (semi products for telecommunication, industrial and data centre applications) and two other July detractors traded lower. Semiconductor CBs have generally been serving up mixed results recently, and we saw this pattern again in July. From an industry perspective, semiconductor and semi equipment makers appear to be doing quite well. The industry's 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 most 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 behemoths like NVIDIA (not held by the fund) grab most of the media attention and have been posting soaring earnings quarter after quarter driven largely by AI demand, most of these companies sell semiconductors for vehicles, personal computers, cell phones or industrial products. And these companies—including select fund holdings—are still going through an inventory correction. In the meantime, analysts have already factored the inventory correction into their estimates, so earnings expectations for most players are relatively low. Elsewhere in the portfolio, health care sector gains were pared as DexCom shed value along with our stake in another diabetes monitoring and management-focused health care equipment maker. DexCom, which designs and manufactures advanced continuous glucose monitoring systems and sensors, reported lower-than-expected 2Q24 sales and reduced full-year guidance, with organic growth impinged in part by increased disruption (market competition) from the boom in glucagon-like peptide-1 (GLP-1) drugs, which many investors believe will reduce the need for continuous glucose monitoring (CGM) devices. We recognise the associated challenges but also note that although the health care market appears enamoured with GLP-1 medications this year, people with diabetes still need to track their glucose levels with CGM devices, and research suggests that staying on GLP-1s for a long term may not be sustainable due to possible side effects and the financial costs involved.

Outlook & Strategy

- **We continued to see an uptrend in convertible bond issuance through the first seven months of 2024 and are hopeful that the convertible market can further normalise as the year progresses.** For reference, 2023 issuance totalled US$79.4 billion as it essentially doubled year-over-year from 2022's 28-year low and returned to a more normal pre-pandemic level. Year-to-date in 2024, the total is already up to US$69.1 billion and, at the current pace, could potentially surpass last year's issuance by the end of September, if not sooner. The convertible market relies on a constant resupply of convertibles to replace those that have matured, been called, or otherwise left the market, and the supply of new issues has fluctuated dramatically over the past few years. 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 the ongoing trend of 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, and those issuers will need to refinance—rather than convert—these bonds, likely 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 a slow deceleration in inflation—drove a market rally over the past 18 months, we believe the US Federal Reserve (Fed) is still a long way off from bringing inflation down to its target level. While the Fed has stopped raising rates, we think the rate cuts being priced into equities and CBs may take longer to appear than many market participants anticipate.
- 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 31.07.2024

	7/23 7/24	7/22 7/23	7/21 7/22	7/20 7/21	7/19 7/20	7/18 7/19	7/17 7/18	7/16 7/17	7/15 7/16	7/14 7/15
A (acc) USD	6,90	6,20	-17,02	20,43	22,02	11,79	8,59	10,03	2,03	-1,83
Refinitiv Global Focus Convertible Index USD	1,27	7,08	-21,20	14,36	14,13	3,24	0,19	7,04	0,59	-3,11

Performance Net of Management Fees as at 31.07.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (24.02.2012)
A (acc) USD	1,18	4,99	4,74	6,90	-1,97	6,72	6,36	6,67
Refinitiv Global Focus Convertible Index	2,05	3,80	0,70	1,27	-5,11	2,20	1,87	3,05

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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