FRANKLIN TEMPLETON

Franklin Global Convertible Securities Fund

A (acc) USD
31 August 2024

Franklin Templeton Investment Funds

Product Commentary

Performance Review

Past performance does not predict future returns.

- Financial market volatility spiked in early August 2024 following an interest-rate hike by the Bank of Japan at July-end and the release of a weaker-than-expected labour market report in the United States. However, global equities rebounded as a stronger-than-estimated July services report, a continued disinflation trend and optimism about potentially lower interest rates in the United States reinvigorated hopes for an economic soft landing. In more recent economic data, global manufacturing activity contracted in August for the second consecutive month, while flash reports for August indicated services activity expanded across various regions. As measured by MSCI indexes in US-dollar terms, developed market equities slightly outperformed a global index, while emerging market and frontier market equities underperformed it. Global value stocks modestly outpaced global growth stocks.
- Convertible bonds (CBs) generally advanced in the United States and globally despite a bumpy month marked by sharp asset price swings as investors reacted to macroeconomic data and central bank commentary, along with elevated volatility, particularly among small-capitalisation equities. CBs were mixed versus longer-duration traditional fixed income given the drop in US Treasury yields, though they largely outperformed their own underlying stocks and demonstrated favourable convexity, a byproduct of firm bond support. Based on ICE BofA indexes in US-dollar terms, performance within the asset class varied as global balanced convertibles (+2.2%) fared better than equity-sensitive convertibles (+1.8%), both of which outperformed “busted” (credit-/rate-sensitive) convertibles (+1.5%). According to BofA Global Research, year-to-date CBs have captured 44% of their underlying stocks’ upside versus just 35% of their downside—the best ratio since 2009. Global CB issuance totalled just US$3.6 billion in August (including US$2.4 billion in the United States alone), the lowest-volume month of the year so far, amid elevated market volatility, the tail end of corporate earnings season, and a typical summer seasonal lull. Year-to-date, global issuance now totals about US$72.8 billion—up 40% year-over-year. Many analysts, however, were warning that the CB primary market may face fresh headwinds in the next few months as would-be issuers may opt to wait for lower borrowing costs as interest rates decline and avoid volatility linked to US elections in November.
- For the month, the fund’s A (acc) USD shares returned 1,88%, and its benchmark, the Refinitiv Global Focus Convertible Index, returned 1,55%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Securities	Sectors
HELPED	Peloton Interactive	Industrials
	Axon Enterprise	Consumer Discretionary
	Freshpet	Health Care
HURT	Wolfspeed	Materials
	Wayfair	Information Technology (IT)
	Sibanye Stillwater	—

- Seven out of 11 sector allocations contributed to the fund’s absolute returns in August, while two of the four detractor groups—communication services and energy—had almost no impact on performance. CB holdings in the industrials sector traded higher, anchored by rallies in Axon Enterprise (public safety technology including TASERs, body cameras and software for law enforcement), Uber Technologies (global ride-hailing, food delivery, freight transport, and courier services) and Schneider Electric (energy management and automation solutions for efficiency and sustainability). Axon reported a solid set of second quarter 2024 (2Q24) financial results well above consensus estimates and boosted its full-year guidance, answering lingering questions from 1Q24 with a sequential rebound in order backlogs and gross profit margins that showed scale. The Axon ecosystem is starting to deliver on multiple fronts while its artificial intelligence (AI) opportunity seems to be gaining steam with the launch of Draft One, and automatic law enforcement report generator that works with Axon body cameras and sensors. Products like Draft One are getting more traction from European customers who have been hesitant to embrace Axon Cloud (to house their data). We think the question around macroeconomic impacts is a valid one as our historical analysis shows Axon is not immune in a downturn, though lately we are seeing evidence that US municipal police spending has been growing 2% to 3% fairly consistently through cycles. Notably, Axon’s business has expanded to more long-term contracts and recurring revenue, along with deeper penetration into correctional facilities. The latest feedback from its police customers revealed that these police departments are still 15% to 20% understaffed compared to the pre-COVID period and struggling in recruiting to get back to previous employment levels following the fallout from the George Floyd protests several years ago. Thus, there is less excess to cut from police budgets in a downturn than there was previously. We think Axon remains distinctive in the defence technology space as a leader in what we consider a lightly penetrated market with a long growth runway.
- Consumer discretionary sector CBs averaged about 14% of the portfolio and most of these holdings advanced, including double-digit percentage increases for Peloton Interactive (connected fitness equipment and streaming workout classes) and Delivery Hero (platform for local deliveries of food, groceries and other essentials in around 50 countries outside North America). Peloton’s digital fitness platform is highly regarded and reinforced by a strong and dedicated user base. The fund’s current convertible investment was initiated earlier this year and has posted an exceptional overall gain since then. In our view, Peloton has been through the wringer over the past three years, with perhaps the most severe “pandemic hangover” of any business we consider within the consumer discretionary space. The supercharged demand brought about by stay-at-

home mandates was simply not sustainable. However, following a prolonged period of decelerating demand trends, product recalls and partnership missteps, the company now appears to be turning a corner towards a more organic demand-growth phase with a more disciplined cost focus across its business. This summer, it announced over US$200 million in cost cuts that should be sufficient to potentially drive sustained and meaningfully positive free cash flow during its current 2025 fiscal year (began in July), according to our analysis. These cost cuts include over US$100 million of headcount reductions, US$50 million from sales and marketing savings, US$15 million from contractor spend reduction, US$15 million from supply-chain optimisation, and smaller amounts from IT and other corporate expenses. Meanwhile, early indicators of demand for both bikes and treadmills are starting to inflect positively, which could soon help the company to re-enter positive annualised topline growth territory. Until then, Peloton continues to earn strong gross profit margins on the subscription portion of its business, which reached 67.8% in fiscal-year 2024. In monitoring the risks, we think the hardware margin has been more challenged following the sale of discounted inventory through Peloton's third-party channels and increased competition from resale bikes.

- Metals and mining convertibles such as Sibanye Stillwater, Albemarle and Glencore were a weak spot in the portfolio, as the prices for many of the commodities they produce—including iron ore, copper, cobalt, platinum and battery-grade lithium—have come down in an environment of muted overall global raw materials demand and/or oversupply dynamics. Elsewhere in the portfolio, IT convertibles sustained a small August loss, continuing a weak stretch that began earlier this summer, especially for semiconductor-related holdings. While MACOM Technology Solutions and five others appreciated, most of the damage was done by Wolfspeed, a specialist in silicon carbide semiconductors for power and radio-frequency applications. Wolfspeed was one of our biggest individual detractors for the second month in a row, with both related convertibles having lost nearly a third of their value since May. Wolfspeed reported disappointing financial results for its fiscal fourth-quarter and full fiscal-year 2024. The company faced significant underutilisation costs, which negatively impacted its gross profit margin; multiple analysts downgraded the stock and reduced their price targets. The company, which has been impacted by the well-publicised slowdown in electric vehicle (EV) sales, recently announced plans to accelerate the shift of its device fabrication to the Mohawk Valley Fab and assess the timing of the closure of its 150mm Durham Device Fab (these are silicon carbide [SiC] chipmaking and SiC materials plants). This transition involves significant operational adjustments and costs. Wolfspeed also aims to capitalise on the 5G markets, but that is another potential high-growth area that is on pause these days, similar to EVs. For patient investors, we believe liquidity isn't a near-term concern, and that the company could overcome this year's disappointments as future design wins continue to accelerate and revenue has been growing sequentially.

Outlook & Strategy

- **We continued to see an uptrend in convertible bond issuance through the first eight 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$72.8 billion and, at the current pace, could potentially surpass last year's issuance by the end of September. 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 solid employment figures and a slow deceleration in inflation have generally supported markets, 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 31.08.2024

	8/23 8/24	8/22 8/23	8/21 8/22	8/20 8/21	8/19 8/20	8/18 8/19	8/17 8/18	8/16 8/17	8/15 8/16	8/14 8/15
A (acc) USD	11,47	3,18	-18,04	18,63	29,08	5,00	13,38	9,25	6,79	-6,20
Refinitiv Global Focus Convertible Index USD	6,63	4,57	-22,62	11,81	19,15	0,68	1,36	6,52	2,99	-5,06

Performance Net of Management Fees as at 31.08.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (24.02.2012)
A (acc) USD	1,88	2,90	6,71	11,47	-1,95	7,62	6,52	6,78
Refinitiv Global Focus Convertible Index	1,55	3,72	2,26	6,63	-4,80	2,82	2,02	3,16

Investment Team

Alan Muschott, CFA
Years with Firm 26
Years Experience 26

Eric Webster, CFA
Years with Firm 12
Years Experience 12

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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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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