FRANKLIN TEMPLETON

Franklin Global Convertible Securities Fund

A (acc) USD
31 October 2024

Franklin Templeton Investment Funds

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.
- Though the summer rally in the global convertible bond (CB) market paused last month (-0.7% according to ICE BofA indexes in US-dollar terms) as long-term interest rates retraced higher, certain pockets of the market, including the United States (+0.8%), high delta equity-alternatives, and cyclical sectors logged solid gains on an absolute basis. October performance within the asset class was in a notably narrow range as global balanced convertibles (-1.6%) were in line with equity-sensitive convertibles (-1.6%), both of which fared slightly worse than "busted" (credit-/rate-sensitive) convertibles (-1.2%). Absent a major market-moving event, the CB space experienced a period a relative calm ahead of what was primed to be a busy November given CB issuer earnings, the US Federal Reserve (Fed) meeting and the US election. For context, global CBs have returned 7.9% thus far in 2024, led by Asia (+12.9%) and the United States (+8.4%)—ahead of most other global fixed-income assets but behind broader global equities. Global CB issuance was unusually strong in October (US$11.1 billion), defying typical seasonal weakness plus added US election risks, anchored by Boeing's large US$5 billion mandatory preferred deal—one of the largest on record. Global CB new issuance now totals over US$94 billion year-to-date, driven by the United States (more than US$62 billion) and Asia (nearly US$21 billion), and appears on pace to reach US$100 billion to US$110 billion by the end of the year.
- For the month, the fund's A (acc) USD shares returned 0,60%, and its benchmark, the Refinitiv Global Focus Convertible Index, returned -0,63%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Securities	Sectors
HELPED	Peloton Interactive	Consumer Discretionary
	Wolfspeed	Financials
	Apollo Global Management	Information Technology (IT)
HURT	Wayfair	Health Care
	Alibaba Group Holding	Consumer Staples
	Ascendis Pharma	Utilities

- Mixed but overall positive absolute returns were supported by the fund's October gains in six out of 11 sectors, with the largest contributions—and highest returns—coming from consumer discretionary companies such as Peloton Interactive and Booking Holdings, as well as financials sector companies such as Apollo Global Management and Ares Management (purchased during the month). Our convertible position in Peloton was an outlier to the upside among these key contributors. Within the interactive fitness platform space, equity investors and analysts have turned bullish on Peloton following its strong earnings results, along with management changes that are part of a larger turnaround strategy that has been centred on product innovations and cost-cutting measures stemming from a US$200 million restructuring plan that has resulted in three consecutive fiscal quarters of positive free cash flow (its latest fiscal quarter ended on 31 October). This financial discipline offers investors reassurance about Peloton's path to profitability. We continue to look for an improvement in the company's hardware gross profit margins, which spent most of the past two years in the breakeven or negative margin range but improved to +9.2% year-over-year in the latest fiscal quarter, and the company is providing guidance suggesting continued improvements in "connected fitness" product margins. Peloton is also making strides on the partnership side, with a new agreement with Costco (not owned by the fund) to provide the Peloton bike+ to over 300 stores for the upcoming holiday season. We continue to see strong opportunity for Peloton to expand its bike penetration, which currently sits at around 3% of US gym-member households. Having now slogged through the hardest part of its post-pandemic hangover, we generally believe Peloton's business activity should continue to stabilise from here. Alternative asset manager Apollo Management, which operates in three main business areas—private equity, credit and real assets (real estate and infrastructure)—also received analyst upgrades amid its solid revenue and resilience in a competitive market; more broadly, investor sentiment towards financial services companies has improved with favourable economic indicators and a more dovish Fed interest-rate policy.
- The fund continued to focus on IT convertibles, which represented about 20% of the overall portfolio and served as its largest sector allocation. Eight out of our 12 IT company holdings added to the fund's October returns. Their combined gain was led by a big rally in Wolfspeed, an American developer and manufacturer of wide-bandgap semiconductors, focused on silicon carbide and gallium nitride materials and devices for power and radio frequency applications such as transportation, power supplies, power inverters, and wireless systems. Earlier this year, Wolfspeed had been seeing a decline in its equity value as it was impacted by the well-publicised slowdown in electric vehicle (EV) sales, while struggling with operational setbacks and significant underutilisation costs as it sought to expand its fabrication capacity. In mid-October, the company received a welcome tailwind when it secured a preliminary agreement for up to US$750 million in funding from the US Department of Commerce under the CHIPS and Science Act. This announcement significantly boosted investor confidence. Wolfspeed was also successfully

landing new customers amid signs of increasing demand for silicon carbide chips, which further fuelled investor optimism about its growth prospects and market position. We note Wolfspeed's latest strides to innovate (including the September release of new silicon carbide power modules designed for renewable energy and energy storage applications), progress in its manufacturing capabilities, and secure strategic partnerships with utility-scale inverter manufacturers (for solar and energy storage systems).

- Most health care holdings (roughly 17% of all assets) were down for the month, countered faintly by PTC Therapeutics (a biopharmaceutical company focused on rare diseases) and two (out of 10) others that were small net contributors. The downside was anchored foremost by Ascendis Pharma and Insmed, the latter of which is developing drugs for rare pulmonary and inflammatory diseases. Ascendis's share value fell more than the others after the company was dealt a clinical-trial setback with its lead product, TransCon PTH, which is aimed at treating hypoparathyroidism. The results from a pivotal trial did not meet the expected endpoints, raising concerns about the drug's efficacy and future prospects. Meanwhile, Ascendis continues to pursue expansion into new therapeutic areas, collaborations and partnerships using its proprietary TransCon technology. We also saw some downside moves in the consumer discretionary sector, where Wayfair, Alibaba Group Holding and Burlington Stores were the worst of five absolute detractors. Wayfair, an American e-commerce company that sells furniture and home goods, announced a 2% year-over-year decline in net revenue, totalling US$2.9 billion for the third quarter of 2024. This drop reflected ongoing struggles in the home goods market, which has been impacted by changing consumer spending habits. The number of active Wayfair customers decreased by 2.7% year-over-year, indicating difficulties in attracting and retaining shoppers. This decline in customer engagement is, in our view, concerning for future sales growth in a highly competitive retail niche. We are monitoring how the company addresses these issues on several fronts, including its focus on customer loyalty, logistics improvements, technology transformation (leveraging data analytics and artificial intelligence to optimise operations and improve customer experiences), new product offerings, and its commitment to financial discipline in a challenging retail environment.

Outlook & Strategy

- **We continued to see an uptrend in convertible bond issuance through the first 10 months of 2024 and are hopeful that the convertible market issuance can remain robust into 2025.** 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, issuance is already up to US$94.2 billion, having already eclipsed last year's total in September. The CB 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.** Resilient employment figures and a slow deceleration in inflation have generally supported markets and we believe the Fed is making good progress in bringing US inflation down to its target level. As the Fed has just begun to lower rates, we think the rate cuts being priced into equities and CBs are probably more appropriate than prior expectations reflected.
- **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 31.10.2024

	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	22,48	-0,98	-19,40	19,55	28,61	10,52	5,91	13,01	2,78	-1,71
Refinitiv Global Focus Convertible Index USD	16,79	2,70	-25,56	12,13	16,48	6,28	-3,75	8,65	-0,48	0,92

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 (24.02.2012)
A (acc) USD	0,60	5,47	10,47	22,48	-0,75	8,49	7,22	6,98
Refinitiv Global Focus Convertible Index	-0,63	4,49	5,22	16,79	-3,70	3,12	2,67	3,35

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.

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.

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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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Franklin Templeton Switzerland Ltd
Stockerstrasse 38
CH-8002 Zurich
franklintempleton.ch

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