FRANKLIN TEMPLETON

Franklin Global Convertible Securities Fund

A (acc) USD
30 November 2024

Franklin Templeton Investment Funds

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in November 2024, driven largely by a significant post-election rally in US stocks. While Donald Trump's presidential victory and the potential for additional tax cuts and expansionary fiscal policy bolstered US equities, investors outside the United States were more cautious as they were concerned about the president-elect's tariff plans and their implications on global trade. On the economic front, global manufacturing activity stabilised in November after four months of contraction, while flash reports for the same month showed signs of strength in many regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market and frontier market equities significantly underperformed it. In terms of investment style, global growth stocks outpaced global value stocks.
- Global convertible bonds (CBs) rallied 3.0% in November (according to ICE BofA indexes in US-dollar terms), their best monthly return of 2024 so far, led by the United States' 6.8% gain (best since December 2020). This was mostly due to post-election optimism that small-capitalisation companies and cryptocurrency-related firms could potentially benefit during Donald Trump's second presidential term. November performance within the asset class varied greatly as the return on global equity-sensitive convertibles (9.0%) far outpaced similar gains for "busted" (credit-/rate-sensitive) convertibles (2.0%) and balanced convertibles (1.9%). Delta-neutral gains were also solid but lower. Year-to-date, global CBs have returned 11.1%, led by the US market's 15.8% advance. Global CB issuance totalled US$11.5 billion in November, capping a year-to-date total (of US$105.8 billion) that has already exceeded 2023's issuance by US$26.4 billion, and is on track for the best year since 2021 (which totalled US$147.8 billion). The United States supported November's supply with US$9.6 billion, which was more than two times the historical average for the month, in defiance of CB analyst concerns that election-linked volatility would stifle issuance volumes. Most of that paper came from MicroStrategy (not held by the fund) and other crypto-related issuers.
- For the month, the fund's A (acc) USD shares returned 5,40%, and its benchmark, the Refinitiv Global Focus Convertible Index, returned 3,21%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Securities	Sectors
HELPED	Axon Enterprise	Industrials
	Peloton Interactive	Information Technology (IT)
	Snowflake	Health Care
HURT	Wolfspeed	—
	Sibanye Stillwater	—
	Alibaba Group Holding	—

- In absolute terms, the fund's November gains were widespread as 10 out of 11 sector allocations advanced, while materials sector CBs (averaging 7.1% of the portfolio) were insignificant detractors that collectively depreciated by less than 1%. The highest sector-level gains went to the fund's industrials holdings, which covered just over 9% of the portfolio. Top contributor Axon Enterprise led the group higher with an outsized November gain of nearly 50%. Axon develops and builds advanced electronic control devices (including sublethal weaponry) designed for use in law enforcement, correction facilities, private security and personal defence, and is most well-known for its TASER devices, body cameras, artificial intelligence (AI)-infused digital evidence management systems, and public safety technologies. Axon, which has seen its equity value repeatedly break new all-time highs throughout the year, reported impressive third-quarter 2024 (3Q24) financial results, with revenue up 32% year-over-year, and raised its full-year 2024 guidance. We were pleased to see our investment thesis coming to fruition as Axon's advancements in AI and expansion into new product offerings have driven significant growth. Its AI-driven solutions and new verticals (including drone initiatives) have been well-received, and we see the ongoing growth potential for Axon's technology and AI tools in the policing field, where there appeared to be a strong appetite for efficiency gains to offset reduced police force labour pools. For example, our research indicates that Draft One, Axon's initial AI product designed to automatically draft police reports, is saving up to 20% to 30% of officers' time as, among other benefits, it summarises department communications and gives faster autonomous analysis of gathered digital evidence to search for patterns and commonalities leading up to AI-generated evidence reports. Device-embedded AI is also making strides as the company now offers a live translation feature on its Axon Body Cameras to help de-escalate situations with non-English speakers.
- All but two of the fund's 12 holdings in the IT sector (our largest sector allocation, covering almost 20% of the portfolio) traded higher, none more so than key contributors Snowflake and MACOM Technology Solutions Holdings, the latter of which specialises in analogue semiconductor solutions across various applications such as wireless and wireline communications, with products that span the radio frequency, microwave, millimetre wave, and lightwave spectrum. In the case of data specialist Snowflake, AI appears to be compelling its customers to spend more. A notable development for Snowflake is that it had some big customer wins in 3Q24; it added 400 new ones, of which 20 were members of the Forbes Global 2000. Moreover, the company saw an impressive 25% increase in customers spending US$1 million or more annually. Although we are pleased with the rebound in Snowflake as data centre revenues further build, its equity value is still down year-to-date due to previous investor worries about its slowing growth rate and rising expenses. Though the company is seen by many investors as a leading player in the AI space, AI has yet to consistently catalyse Snowflake's growth. But for 3Q24, management emphasised the company's revenue expansion from

AI, which we think finally signals a shift in the right direction. Outside of IT, the fund also saw widespread gains in health care, led by Integer Holdings; financials, led by Apollo Global Management and Shift4 Payments; and consumer discretionary, led by Peloton Interactive, Booking Holdings and Burlington Stores.

- Across the entire portfolio, there were only five absolute detractors of substance. Semiconductor issuers were a weak spot in the IT sector as Wolfspeed (an American developer and manufacturer of wide-bandgap semiconductors) and one other related holding shed value. The fund had four investments in the materials sector, three of which sold off, including Sibanye Stillwater and Umicore. These companies operate at opposite ends of the materials value chain. South Africa-based Sibanye Stillwater is a multinational mining and metals processing group with diverse operations and notable strength in the production of platinum, palladium, gold and rhodium. Umicore is a global materials technology and recycling group headquartered in Belgium that operates through three primary business segments: Catalysis, Energy & Surface Technologies, and Recycling. In general, commodity-linked materials sector equities (and their underlying CBs) were either distinct laggards or outliers to the downside during what was an otherwise solid and broad-based stock market rally. While Umicore was impacted by lower recycling rates for a wide range of mined commodities, Sibanye was hindered by selloffs in all three precious metals it produces; gold, platinum and palladium all commanded lower prices in November, in response to the strengthening US dollar, along with a general shift away from perceived “safe haven” assets. On a company-specific basis, Sibanye was also experiencing operational challenges in its South African gold mines, which were impacted by seismicity issues and shaft closures. This led to a downward revision of the 2024 guidance for this business segment. The company’s financial performance also showed signs of strain, with a notable increase in net debt and a declining cash balance. Sibanye also opted not to declare a dividend earlier in 2024, prioritising its balance sheet stability over shareholder returns. The company has been contending with low prices for platinum group metals (PGMs) and squeezed profit margins, which necessitated a significant restructuring of its PGM operations in the United States. This restructuring aimed to optimise operations but also indicated the potential for reduced production forecasts. Finally, we are also monitoring profitability concerns around Sibanye’s battery metals and recycling operations as they continue to negatively impact overall profitability, raising questions about their long-term viability and contribution to the company’s bottom line. The only other detractors of note were Chinese e-commerce, cloud computing and digital media giant Alibaba Group Holding (consumer discretionary sector) and Davide Campari-Milano (commonly known as Campari Group), which has a portfolio of more than 50 super-premium alcoholic beverage brands (i.e., Campari, SKYY Vodka and Grand Marnier), and which lightly dragged on our otherwise strong returns in the consumer staples sector.

Outlook & Strategy

- **We continued to see an uptrend in convertible bond issuance through the first 11 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 almost US$106 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 elevated interest rates, despite the monetary policy easing by many central banks, 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 US Federal Reserve (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 30.11.2024

	11/23 11/24	11/22 11/23	11/21 11/22	11/20 11/21	11/19 11/20	11/18 11/19	11/17 11/18	11/16 11/17	11/15 11/16	11/14 11/15
A (acc) USD	22,04	0,94	-13,56	6,38	34,77	13,40	7,26	13,71	3,25	-3,15
Refinitiv Global Focus Convertible Index USD	14,37	3,15	-19,16	1,06	23,50	7,02	-3,85	11,40	-0,90	-1,43

Performance Net of Management Fees as at 30.11.2024 (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	5,40	9,10	16,42	22,04	2,11	8,82	7,76	7,38
Refinitiv Global Focus Convertible Index	3,21	6,20	8,60	14,37	-1,57	3,54	2,91	3,58

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 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 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.

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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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