FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
31 May 2024

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. In terms of investment style, global growth stocks significantly outperformed global value stocks.
- After selling off sharply in April, information technology (IT) stocks returned to the top of the global equity market's sector rankings as it rose substantially on the MSCI All Country World Index. Their resurgence can be attributed to several key factors, including (1) operational improvements, as many tech companies have implemented cost-cutting measures to rightsize their rapidly evolving businesses, which have led to higher profitability; and (2) ongoing enthusiasm and expectations around pivotal longer-term advancements in generative AI (genAI), partially offsetting current sticking points around slow adoption and narrow genAI use cases, along with a better understanding of the enormous costs involved with AI compute infrastructure build-out and LLM (large language model) training at scale. In this environment, the IT sector's gains were led by semiconductor, tech hardware and data storage companies foremost, while the software industry was comparatively weak and IT services companies were outliers to the downside. Communication services sector companies weren't far behind their IT counterparts, having ended May in third place out of 11 major sectors worldwide.
- For the month, the fund's A (acc) USD shares returned 4,81%, and its benchmark, the Russell 1000 Growth Index, returned 5,99%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	NVIDIA (Overweight)	Consumer Discretionary (Stock Selection, Underweight)
	Analog Devices (Off-Benchmark Exposure)	Consumer Staples (Lack of Exposure)
	MercadoLibre (Off-Benchmark Exposure)	Health Care (Stock Selection)
HURT	Apple (Significant Underweight)	IT (Stock Selection)
	MongoDB (Significant Overweight)	Communication Services (Underweight)
	Shopify (Off-Benchmark Exposure)	—

- Although the fund posted widespread gains in absolute terms, its performance versus the Russell 1000 Growth Index was dampened by the negative effects of overall positioning in five out of 11 equity sectors, though three of those groups had almost no impact as a whole (real estate, utilities and energy). IT remained a core theme (averaging nearly 59% of the portfolio) and produced mixed results at the industry level, with relative returns curbed foremost by the selloffs in overweighted software holdings such as ServiceNow, Intuit and Workday. In general, software sat on the weak side of the IT sector amid a cluster of troubling earnings reports, with several software platform developers reporting disappointing quarterly revenue and weak guidance. ServiceNow (overweight) and others pulled down their full-year revenue forecasts, as did certain software-centric names in other industries, including distributed document-database developer MongoDB and e-commerce platform provider Shopify in IT services. Several of these companies said economic conditions were hurting their ability to sign up new customers and get existing ones to expand purchases. Although we remain optimistic on these holdings for the longer term, MongoDB and many others cited a cautious macroeconomic environment and a shift in customers' budgetary foci toward AI model training (over application development or other non-AI tech spending) as reasons for the slowdown.
- To a lesser extent, relative gains were also constrained by much lighter-than-index exposures to select mega-capitalisation innovators such as Apple (at about one-sixth the benchmark weighting, on average) and Netflix (purchased during the month), both of which posted strong May gains. Apple was still among the fund's top-10 absolute contributors as it reported earnings that exceeded consensus estimates, announced a US$110 billion share buyback programme, and unveiled a strategic partnership with OpenAI (not a fund holding) to integrate AI technology into iOS 18 (the company's core operating system). In our view, Apple has lagged in the current AI capital expenditure wave and has been relatively quiet on AI models, too. There are two key questions to consider: Does this perceived underinvestment in AI erode Apple's competitive advantages over its rivals? Or will Apple benefit from being the platform "tollbooth" for AI without needing to lead in AI innovation? Although we skew towards the latter, we are still forming our views.
- Our heavily overweighted stake in semiconductor and semiconductor equipment industry holdings were positive outliers in both relative and absolute terms. Most of these holdings rallied well beyond the benchmark average, including NVIDIA (our top holding at 11.9% of total net assets at May-end), Analog Devices, ASML Holding, KLA and Monolithic Power Systems. NVIDIA, which we recognise as a category leader in one of the biggest secular trends of our lifetime, continues to blow away expectations on nearly every business metric. Its latest quarterly earnings results (US$26.0 billion) once again exceeded analyst consensus estimates (US$24.7 billion) as revenues increased 18% quarter-over-quarter (q/q) and 262% year-over-year (y/y), reflecting top-tier profit margins that reflect NVIDIA's pricing power. Its all-important data centre revenues (87% of total

revenues at US$22.6 billion) increased 23% q/q and 427% y/y. Automotive revenues (US$329 million) also exceeded consensus expectations, while Gaming revenues (US$2.6 billion) were in line with consensus, and Professional Design Visualisation Solutions revenues ($427 million) came in below expectations. In our view, the company's earnings guidance and management commentary suggest that demand for legacy and next-generation GPUs (graphics processing units crucial for genAI applications) is well in excess of supply. Elsewhere in the portfolio, we also had some positive offsets in software with a beneficial underweighting in Adobe, whose shares sold off in May, along with a robust rally for off-index Monday.com, aided by resilient demand growth. Monday's first-quarter 2024 revenue growth surpassed consensus estimates as its enterprise software platform expands into CRM (customer relationship management) tools, more complex database and software development tools, and AI chatbots.

Outlook & Strategy

- **In 2024, we believe secular trends are transforming our world at an unprecedented pace and, as a result, the future may arrive faster than investors expect.** Foundational change in the cost to create and transmit data—amplified by increased regulation and demographic shifts—may foster an environment that accelerates economic change. Our fundamental research gives us an edge in predicting when new technologies will be adopted and monetised as the economic paradigm shifts.
- **We continue to see steady long-term adoption of e-commerce, software-as-a-service, social networking, cloud, medical technologies and e-payments.** We are also optimistic about five main platforms that we believe will contribute to the economy: disruptive commerce, genomic advancements, intelligent machines, energy transformation and exponential data.
- **Last year was a tale of two stock markets: the Magnificent Seven (mega-capitalisation technology-oriented leaders) and the rest of the S&P 500.** The Magnificent Seven represented only 1.4% of companies in the S&P 500 Index but contributed 70% of the index's gains during 2023—an extraordinarily high "concentration effect." The narrowness of last year's gains is not unprecedented in history, and we've seen this pattern re-emerge at times in 2024, including the month of May. We suspect that this period of massive economic change—often referred to as the Fourth Industrial Revolution—may give us additional big, new companies like the Magnificent Seven. These changes are only beginning to unfold.
- **Currently, we can see the Third Industrial Revolution laying down the foundational general-purpose technologies that will aid the Fourth Industrial Revolution.** That we can spot several potential general-purpose technologies—starting with AI today and likely expanding to include genomics and robotics—bolsters our confidence in this view. These emerging innovations suggest that this next era may produce more new companies that will use them to solve hard problems across all economic segments. Under these auspices, we find it increasingly likely that the ranks of the Magnificent Seven could expand.
- **At the beginning of 2023, 58% of economists forecasted a recession. In contrast, we felt this prediction was too pessimistic, and our intuition was proven correct.** Technology, in general—and AI, robotics and cloud computing, specifically—are inherently deflationary and large enough to affect the entire economy through increased productivity. The United States is the leader in the Third and Fourth Industrial Revolutions and, because of this, we think the United States should have the lowest inflation and highest gross domestic product (GDP) of the G7 economies. We saw evidence of this in lower inflation and better markets at the end of 2023. We expect disinflation trends to generally hold for the rest of 2024.
- **We are hopeful and enthusiastic about AI and its potential to become a major tech platform.** Within AI, large-language models (LLMs) specifically had a breakthrough year in 2023 and continue to do so this year. In response, companies raced to build all the new hardware (e.g., chips) and infrastructure (e.g., cloud) that will serve as the rails for LLMs in the years to come. The excitement around LLMs is deafening but not unmerited. AI may become the next large platform in technology and could rival the internet, mobility and cloud in importance. If 2023 was the year of the hardware buildout, then we think that 2024 and 2025 will likely see attention shift to applications and software harnessing AI.
- **We believe generative AI and LLM technologies are productivity-enhancing in a way that social media and mobility were not.** Progress in AI should eventually benefit the entire economy. Although tech innovations continue to dominate the news, technological progress is not limited to the IT or communication services sector. As a diversified fund, we look in all corners of the economy.
- **Health care is one particularly bright spot for innovation.** In our opinion, GLP-1s (glucagon-like peptide-1 hormones), the drug class responsible for weight loss, could have a greater impact on human lives than even AI. GLP-1s may assist in treating chronic diseases, including helping to prevent heart attacks, strokes, kidney disease, cirrhosis of the liver and even addiction to alcohol, tobacco and gambling. Beyond this, the US Food & Drug Administration (FDA) gave the green light to two cell-based gene editing treatments for sickle-cell disease, a genetic disorder of the blood that afflicts patients with anaemia and episodes of extreme pain. This marks an amazing milestone in medicine; scientists are now able to edit a gene in a safe and effective way to treat a disease. These gene editing drugs were only two of 55 new drugs approved in 2023, which was a banner year for health care innovation in general. For context, 55 is the highest number of new drugs approved in any of the past 30 calendar years. It's important to point out that the sickle-cell drugs weren't the only genomic drugs approved, just the first specifically to use gene editing. In fact, the FDA approved five different cell and gene therapies in 2023 versus five in total during the previous five years. These approvals are important because R&D spending needs to show results to keep innovation moving forward. In the future, this technology could potentially treat thousands of diseases, including cancer, heart disease, haemophilia, blindness, AIDS (acquired immunodeficiency syndrome), cystic fibrosis, Huntington's disease, muscular dystrophy and even COVID-19. We believe it likely won't stop here.
- **Change continues to occur at a rapid rate, innovation in the economy is accelerating, and we are still just at the beginning of the Fourth Industrial Revolution.** This revolution is a transformation at the foundational level of the byte, the atom and the gene that we believe can create tremendous long-term value for investors while benefitting society as a whole. We continue to invest in secularly growing, innovative companies with compounding revenue, earnings, free cash flow, and sustainable competitive advantages over the next three-, five- and 10-year periods, according to our analysis.

Fund Details

Inception Date	08.11.2019
Benchmark	Russell 1000 Growth Index
EU SFDR Category	Article 8

Fund Description

The Fund seeks capital appreciation by investing primarily in companies which portfolio management believes are leaders in innovation, that take advantage of new technologies, new products, new ideas, new methodologies or benefit from new industry conditions in the dynamically changing global economy.

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	30,92	7,23	-25,20	37,37	-	-	-	-	-	-
Russell 1000 Growth Index USD	33,60	9,55	-6,25	39,92	26,25	5,39	21,02	20,27	1,61	14,73

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

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	Since Inception (08.11.2019)
A (acc) USD	4,81	0,79	13,68	30,92	1,64	13,58
Russell 1000 Growth Index	5,99	3,28	13,08	33,60	11,12	18,17

Investment Team

Matthew Moberg
Years with Firm 24
Years Experience 26

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 equity securities of companies that are leaders of innovation, in the estimation of the manager. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: concentration risk, currency risk, equity 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 fund meets the requirements under Article 8 of the EU Sustainable Finance Disclosure Regulation (SFDR); the fund has binding commitments in its investment policy to promote environmental and/or social characteristics and any companies in which it invests should follow good governance practices. Further information in relation to the sustainability-related aspects of the Fund can be found at www.franklintempleton.lu/SFDR. Please review all of the fund’s objectives and characteristics before investing.

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.**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.

Source: FTSE.

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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