FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
31 July 2024

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. Global value stocks significantly outperformed global growth stocks, which generally declined.
- After sitting at or near the top of the global sector rankings in May and June, information technology (IT) and communication services stocks were the worst performers in July and were the only two out of 11 equity sectors to record overall losses. For perspective, they were still in first and second place year-to-date given the magnitude of the rally they enjoyed in the first half of the year. The rotation out of the high-flying mega-cap tech bellwethers that previously led the global stock rally was due in part to underwhelming second quarter (2Q24) earnings reports, exacerbating broader concerns about a high earnings bar and investor scrutiny around AI corporate spending. In particular, investors grew sceptical that technology companies' massive investments in AI will pay off any time soon—even as they are moving ahead at full steam to build out their AI support infrastructure in their efforts to remain competitive over the longer term. Although no single factor explains the market trend, many investors switched to small caps in July as Wall Street analysts began projecting that profit growth for tech behemoths was poised to decelerate; it will be crucial to see whether dip buyers return as more IT firms unveil their financial results in the coming weeks.
- For the month, the fund's A (acc) USD shares returned -2,92%, and its benchmark, the Russell 1000 Growth Index, returned -1,70%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Microsoft (Underweight)	Health Care (Stock Selection)
	Thermo Fisher Scientific (Off-Benchmark Exposure)	Communication Services (Underweight)
	Danaher (Off-Benchmark Exposure)	—
HURT	Apple (Significant Underweight)	IT (Stock Selection, Overweight)
	Cadence Design Systems (Significant Overweight)	Consumer Discretionary (Stock Selection, Underweight)
	Lam Research (Significant Overweight)	Industrials (Stock Selection, Underweight)

- Overall stock selection curbed the fund's July results versus the Russell 1000 Growth Index, as did allocation decisions across most of the portfolio's sector allocations, leading seven out of 11 sectors to detract from relative performance. Some of the allocation-based weakness was due to our lack of investments in three sectors that fared better than the benchmark average: real estate, materials and consumer staples. Among our active investments, IT holdings, which averaged nearly 60% of the portfolio, had a larger negative impact than all six other sector-level detractors combined. The IT-related weakness was centred on our much lighter-than-index stake in Apple, which had a strong month and bucked the overall downtrend in IT, along with a sizeable overweighting in the poor-performing semiconductors and semiconductor equipment industry, where overweighted or off-benchmark holdings such as Lam Research, ASML Holding, Advanced Micro Devices and ASM International sustained much larger losses than the index. Although key detractor Lam—specialising in tools and equipment essential for creating advanced microchips—reported solid financial results on 31 July, wider market sentiment had already contributed to deteriorating investor confidence and higher volatility in the chipmaking space, creating a challenging environment for positive company-specific news to gain a foothold. This was due, in part, to disappointing 2Q24 results at other semiconductor companies such as Intel (also held by the fund). Apple, meanwhile, was still an important contributor in absolute terms as investors are now beginning to see how the company, after some delay, will be integrating AI into its products. Apple recently unveiled Apple Intelligence—its AI system of tools and features that will be available in the fall on iPhone 15 Pro, iPhone 15 Pro Max, and iPad and Mac with M1 chips or higher. This reinforces our view that iPhones bought during the COVID pandemic are becoming obsolete, and we will see both an upgrade cycle and positive product-mix shift ahead. We are also incrementally positive on Apple's reinforced commitment to privacy. Its new AI features will be run mostly on-device, but some features will use Apple's "Private Cloud Compute"—remote servers using Apple silicon, extending the security of Apple devices into the cloud. We were pleased to see Apple bringing clarity to its plans and execution while raising the bar with these somewhat-expected AI features, and we remain affirmative on both the next iPhone cycle and the company's longer-term AI story.
- Holdings in the IT services and software industries were also weak in both absolute and relative terms. Although we maintain fairly high conviction levels in heavily overweighted software companies such as Cadence Design Systems (electronic design automation, or EDA), HubSpot (CRM [customer relationship management], marketing, sales, and customer service platform), and Synopsys (EDA for semiconductor chip intellectual property, or IP) for the long term, they and many other software holdings experienced a sharp stock selloff in July following a sustained period of notable gains. While key detractor Cadence reported solid year-over-year (y/y) revenue and bookings growth driven by its IP and System Design & Analysis business segments, its guidance for the rest of 2024 was below consensus estimates. While there are numerous

moving parts, our research indicates fundamentals by and large support a positive stance on the potentially superior long-term secular growth outlook for EDA software companies. Chip complexity is increasing, while chip manufacturing architectures are expanding. More companies are designing their own ASICs (application-specific integrated circuits) and relying more heavily on outsourced IP blocks. EDA software is a highly profitable oligopoly, which is part of the reason Cadence and Synopsys are significant holdings. Both companies have embedded AI functionality into their tools and are charging money for it. Over time, EDA software is gradually becoming a larger percentage of research-and-development (R&D) spend and has room to potentially expand further, in our view.

- Turning to the most influential contributors, the fund's health care holdings (averaging nearly 11% of the portfolio) ended the month essentially flat, which was much better than the index's overall health care losses of more than 4%. Three life science tools and services industry holdings—none of which are tracked by the index—were outliers to the upside, including gains of more than 10% each for key contributors Thermo Fisher Scientific (TFS) and Danaher. These gains are emblematic of a nascent and long-awaited recovery in the industry, though we remain cautious as capital investment remains constrained, particularly among smaller industry customers, and China's economy remains weak, with stimulus not expected to benefit results until 2025. TFS, which provides scientific instruments, reagents and a wide range of bioproduction and support services for medical and scientific R&D, reported a modest "beat and raise" with its 2Q24 earnings report, with earnings per share (EPS) backed by improved profit margins. Management also raised the lower end of its fiscal-year revenue guidance and the mid-point of its EPS guidance—and emphasised that end-market development was as expected, with sequential improvements in all markets and, importantly, commented that it feels increasingly confident that market visibility has returned. We see the results as affirming TFS's industry-leading visibility and execution prowess. In a similar vein, Danaher's financial results also topped 2Q24 consensus expectations and the company initiated a share buyback programme, providing further confidence that the bioprocessing recovery is playing out, in our view. Danaher's 2Q24 results were driven by the company's strong performance in both bioprocessing and diagnostics. Among Danaher's larger customers, the destocking phase is now largely over, and underlying demand growth remains in the high single-digit percentages, supported by a robust approval pipeline for biologics (new biologic and genomic medicine approvals nearly doubled y/y in the first half of 2024). Elsewhere in the portfolio, poor overall results in the software industry were partially offset by a beneficial underweighting in Microsoft (its stock fell more than 6% in July) and gains for several off-index or overweight holdings such as ServiceNow and Constellation Software, while relative-return weakness in semiconductors was buoyed primarily by gains for Monolithic Power Systems (overweight) and off-benchmark Analog Devices.

Outlook & Strategy

- **Despite predictions of an inflation-linked recession, the economy has remained relatively strong thus far in 2024, and we think it will likely continue.** While we believe the excitement around the progress in generative AI (GenAI) and data-driven experimentation is merited as a widening array of industries test AI's novel business applications, other parts of the economy are also bright. For instance, we have a major US housing shortage just as the millennial generation is maturing into its homebuying phase. Additionally, novel drug development and regulatory approvals are accelerating, manifesting perhaps most obviously in the world's voracious demand for the new weight-loss drugs: GLP-1s (glucagon-like peptide-1 hormones). It bears repeating that technology, in general—and AI, robotics and hyperscale cloud computing, in particular—are inherently deflationary and a large enough force to affect the entire economy through increased productivity. Because of this, we expect disinflationary trends to generally hold into 2025.
- **We expect continued technological transformation driven by core development themes around the byte, the atom and the gene.** Gains across the economy from GenAI, robotics and genomics may even accelerate this rate of change in the near future. Our fundamental research gives us an edge in predicting when new technologies will likely 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 computing services, 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.
- **We remain positioned to potentially benefit from the increased need for semiconductors to power the AI boom.** The year 2024 has already been a blockbuster year for semiconductor businesses. We've seen this strength across the semiconductor supply chain, from the complex EUV (extreme ultraviolet lithography) machines used to produce tiny intricate patterns on silicon wafers, to the software used by chip designers, and to the manufacturers producing ever smaller, more powerful and more energy-efficient chips in their foundries.
- **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 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. We suspect that this period of massive economic change may give us additional big, new companies.
- **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. 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 GenAI 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, 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, cell and gene editing therapies continue to gain traction. 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 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 31.07.2024

	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	23,89	13,18	-30,14	34,06	-	-	-	-	-	-
Russell 1000 Growth Index USD	26,94	17,31	-11,93	36,68	29,84	10,82	22,84	18,05	4,35	16,08

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

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	Since Inception (08.11.2019)
A (acc) USD	-2,92	9,21	18,45	23,89	-0,69	14,05
Russell 1000 Growth Index	-1,70	11,21	18,65	26,94	9,46	18,67

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.

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.