FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
31 August 2024

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.
- For the month, the fund's A (acc) USD shares returned 2,04%, and its benchmark, the Russell 1000 Growth Index, returned 2,08%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	MercadoLibre (Off-Benchmark Exposure)	Consumer Discretionary (Stock Selection, Underweight)
	Shopify (Off-Benchmark Exposure)	Industrials (Stock Selection)
	Axon Enterprise (Significant Overweight)	Health Care (Overweight)
HURT	Synopsys (Significant Overweight)	Information Technology, or IT (Stock Selection, Overweight)
	Lam Research (Significant Overweight)	Consumer Staples (Lack of Exposure)
	ASML Holding (Off-Benchmark Exposure)	Energy (Stock Selection)

- The fund's August results were nearly even with the Russell 1000 Growth Index and would have been better if not for its subpar returns in the IT sector, which averaged about 57% of the portfolio, versus 49% for the benchmark. Semiconductor stocks such as Lam Research, ASML Holding, Broadcom and KLA were among the notable detractors; however, Broadcom differentiated itself from the rest with its small yet lagging gain, while the other three traded lower. It has been a slow summer for semiconductor companies and IT stocks in general: After IT and technology-linked communication services served as the worst sector performers in July, their positions in the global equity market improved modestly in August, though their overall gains still lagged the major equity index averages. Overall, IT stocks ended the month in eighth place out of 11 sectors globally, just behind communication services. Semi stock still look favourable to us for the longer term. In our view, semiconductors provide the foundation for tectonic shifts in technology—including AI (artificial intelligence), IoT (internet of things), robotics, electric and autonomous vehicles, and clean energy—that should reshape the global economy over the next several decades. These multi-trillion dollar inflections are still increasing demand for chips and driving the need for advances in semiconductor technology. The biggest seismic shift of all is AI, and the race for AI leadership will largely be determined by which companies in the semi industry are first to deliver substantial improvements in energy-efficient compute performance. Many AI-focused companies now see reducing power per operation as more important than increasing operations per second, which is why we are seeing the emergence of a new industry playbook that includes major device architecture shifts in logic, memory and other critical functions.
- Software industry stocks remained a major fund focus (averaging slightly more than 26% of total net assets), and their individual results were mixed; ultimately, both stock selection and security allocation choices proved to be minor hindrances versus the index. On the upside, several overweighted or off-index names rallied and bolstered both absolute and relative performance, including Palo Alto Networks and ServiceNow, while our lighter-than-index stake in Microsoft proved beneficial only in relative terms as its share price edged lower. Microsoft announced slowing growth in its Azure cloud-computing arm and said it expected to keep spending heavily on data centres. On the downside, our high-conviction positioning in Synopsys, Intuit and a few others disappointed as they traded lower in August. In particular, Synopsys, specialising in electronic design automation (EDA) software, posted record revenues (US$1.53 billion) for its latest fiscal quarter that ended in July, though year-over-year (y/y) revenue growth slowed to 3%. Synopsys maintained its full-year (ending in October 2024) revenue guidance midpoint of US$6.12 billion (+15% y/y) but increased its earnings per share (EPS) outlook (to US$13.10 or +24% y/y). Synopsys recently entered into an agreement to sell its Software Integrity business. This divestiture might have caused uncertainty among investors regarding the company's future revenue streams and strategic direction. There were also investor concerns about large layoffs at key customer Intel (also held by the fund), though management assuaged these fears by indicating their contract agreements are long-term and Intel continues to outsource more EDA and intellectual property (IP) as a way to further reduce costs; therefore, Synopsys expects no impact from Intel in the short and medium term. A bigger risk, in our view, is that Synopsys's pending acquisition of simulation software specialist Ansys (not held by the fund) may be blocked by China's State Administration for Market Regulation primarily on anti-competitive and export control restriction grounds (both companies are based in the United States). We saw the stock selloff as a modest reset amid elevated valuations and continue to favour Synopsys, which plays a key role in semiconductor R&D (research and development), boasts a large portfolio of IP and patents, and is quietly powering a lot of AI development these days. Additionally, semiconductor and data-centre businesses tend to hold their R&D expense growth fairly stable, regardless of the normal sales cycle inherent with hardware.

- Most of the fund's consumer discretionary sector holdings (averaging nearly 11% of the portfolio) were concentrated in e-commerce companies (broadline retail industry), where top overall contributor MercadoLibre (not part of the index) underwent a big rally that more than offset the negative impact of our much larger stake in key detractor Amazon.com, which sold off. Latin America-based MercadoLibre revealed remarkable strength in its second-quarter 2024 (2Q24) financial report, underscored by growth in e-commerce and fintech: net revenues were US$5.1 billion, up 42% y/y, while net income was US$531 million, up 103% as its operations expanded rapidly in key markets such as Brazil, Mexico and Argentina. Along with the impressive growth in gross merchandise volume, the company made significant strides in improving its logistics and delivery services, leading to faster delivery times and higher customer satisfaction. Amazon, meanwhile, offered 3Q24 guidance that was below consensus estimates due to consumer softness primarily in North America (e.g., deal-seeking and trading down to lower-priced items, along with some distractions from the Summer Olympics and geopolitical events). While management called out several headwinds to profitability, the top end of its operating-income guidance still forecasts another US$15 billion quarter, aided in part by an upward momentum in the company's cloud computing platform (Amazon Web Services). Elsewhere in the portfolio, a lighter-than-index position in Tesla aided relative returns as its shares sold off. In a similar vein, relative returns were further boosted by an underweighting in Google parent company Alphabet (interactive media and services industry), which sold off after revealing slower revenue growth in its YouTube business. In general, there was a summer rotation out of the high-flying "Magnificent Seven" mega-capitalisation tech companies as some of their earnings underwhelmed investors who have come to expect a lot from these titans, exacerbating wider concerns about a high full-year 2024 earnings bar and increased scrutiny over AI. In our analysis, none of these companies reported anything that would indicate that AI couldn't be as big as advertised. In fact, their capital spending plans—generally higher than consensus expectations—signal that they are moving ahead full steam to build out their infrastructure to support AI.

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—is 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 31.08.2024

	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	28,73	18,56	-37,56	32,14	-	-	-	-	-	-
Russell 1000 Growth Index USD	30,75	21,94	-19,06	28,53	44,34	4,27	27,23	20,82	10,54	4,26

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

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	Since Inception (08.11.2019)
A (acc) USD	2,04	6,32	20,87	28,73	-1,59	14,27
Russell 1000 Growth Index	2,08	7,11	21,12	30,75	8,87	18,82

Investment Team

Matthew Moberg
Years with Firm 25
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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