FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
30 September 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities ended the third quarter of 2024 (3Q24) collectively higher as they recovered from bouts of heightened volatility, including a market selloff in early August following an interest-rate hike by the Bank of Japan, as well as the release of a weaker-than-expected employment report in the United States, which led to recession fears. However, stock markets rebounded as resilient economic reports and a continued disinflation trend in the United States reignited hopes for an economic soft landing. Interest-rate cuts by the US Federal Reserve (Fed), the European Central Bank, the People's Bank of China and other central banks further bolstered equities worldwide. As measured by MSCI indexes in US-dollar terms, emerging market equities outperformed a global index, while developed market and frontier market equities underperformed it. Global value stocks significantly outpaced global growth stocks.
- After faring worse than all other equity sectors in July amid a rotation out of high-flying mega-capitalisation technology-focused bellwether companies, information technology (IT) and communication services saw their global stock market standings improve modestly in August and September, though their overall 3Q24 gains still lagged the major index averages. While no single factor explains the market trend, many investors switched to small-cap stocks as some analysts began projecting that profit growth for tech giants was poised to decelerate. Ultimately, IT ended the quarter ranked tenth out of the 11 global equity sectors, yet it was still the top year-to-date performer given the magnitude of the IT rally that dominated the first half of 2024. Generally strong 2Q24 earnings reports bolstered investor confidence in IT and tech-adjacent companies at times, as did continued artificial intelligence (AI) innovation and product rollouts, assuaging broader concerns about a high earnings bar and investor scrutiny around AI corporate spending. IT companies were generally signalling resilient growth potential at a time when US interest rates began to descend from multiyear peak levels. Lower interest rates reduce the cost of borrowing, making it easier for companies to finance their research and development (R&D), growth and innovation efforts, including the expansion of AI and cloud computing infrastructure. Consumer discretionary and health care sector companies, meanwhile, were more buoyant than IT as their three-month gains were closer to the stock market averages.
- For the quarter, the fund's A (acc) USD shares returned 1,09%, and its benchmark, the Russell 1000 Growth Index, returned 3,19%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Axon Enterprise (Significant Overweight)	Health Care (Stock Selection)
	ServiceNow (Significant Overweight)	Communication Services (Underweight, Stock Selection)
	Microsoft (Underweight)	Industrials (Stock Selection)
HURT	Apple (significant Underweight)	Information Technology, or IT (Stock Selection, Overweight)
	ASML Holding (Off-Benchmark Exposure)	Consumer Discretionary (Stock Selection, Underweight)
	Synopsys (Significant Overweight)	Real Estate (Lack of Exposure)

- The fund's 3Q24 results versus the Russell 1000 Growth Index were hindered by stock selection and allocation decisions across the portfolio. It would have outperformed if not for subpar returns in the IT sector, which averaged about 58% of the portfolio, versus 49% for the benchmark. The fund's IT holdings combined for a mild overall decline in the sector, primarily due to stock selection, while those tracked by the index advanced. Semiconductor stocks such as ASML Holding, Lam Research, ASM International and KLA were among the notable detractors. Many of these companies reported solid quarterly financial results and forward guidance, but 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 select semiconductor companies. In broad terms, semi stocks still look favourable to us for the longer term. In our view, semiconductors provide the foundation for tectonic shifts in technology—including AI, IoT (Internet of Things), robotics, electric and autonomous vehicles, and clean energy—that should reshape the global economy over the next several decades. These multitrillion-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. In the computer hardware space, the main drag on fund performance was our much lighter-than-index position in Apple as its equity gains more than tripled the benchmark return, though it was still an important contributor in absolute terms as investors are now beginning to see how the company, after some delay, will continue integrating AI into its products. Apple recently unveiled Apple Intelligence—its AI system of tools and features that just became available on iPhone 16 Pro and iPhone 16 Pro Max, and soon on iPad and Mac with M1 chips or higher. Although some worry remains that demand for the latest phones may be tepid, we do believe the AI announcement is incrementally positive for the upgrade cycle ahead.
- Software companies remained a major fund focus (averaging nearly 27% of total net assets), and their individual results were mixed; ultimately, both stock selection and weighting allocation choices were hindrances versus the index. On the upside, several overweighted or off-index names rallied and bolstered both absolute and relative performance, including key contributor 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 Cadence Design Systems (electronic design automation, or EDA), Synopsys (EDA for semiconductor chip intellectual property, or IP), Intuit (financial software for accounting, tax, and personal finance), HubSpot (customer relationship management platform) and a few others disappointed as they traded lower. Although 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 R&D spend and has room to potentially expand further, in our view. Elsewhere in the portfolio, and to a much lesser extent, some of the allocation-based weakness was due to our lack of investments in three sectors that outperformed the benchmark: real estate, materials and consumer staples.

- Turning to the most influential contributors, positioning in four out of 11 sectors enhanced performance versus the benchmark, and the fund's health care holdings (averaging nearly 12% of the portfolio) outperformed those tracked by the index. Three life science tools and services industry stocks—none of which are tracked by the index—were outliers to the upside, including a gain of more than 10% for key contributor Thermo Fisher Scientific (TFS). 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 the government's recently announced stimulus measures 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. The fund's industrials sector holdings also rallied solidly, led by top contributor Axon Enterprise (public safety technology including TASERs, body cameras and software for law enforcement) in the aerospace and defence industry. Elsewhere, 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-cap 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. In financials, stock selection led to our sector holdings' outperformance of the benchmark, with our overweighted positions in Mastercard and Tradeweb Markets posting double-digit percentage gains. In the IT sector, relative returns were aided in part by overweighted positions in rallying Shopify in IT services and Monolithic Power Systems in semiconductors and semiconductor equipment.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Adobe (Significant Underweight; Sold by Month-End)	Industrials (Stock Selection)
	Apple (Significant Underweight)	Consumer Staples (Lack of Exposure)
	Axon Enterprise (Significant Overweight)	—
HURT	ASML Holding (Off-Benchmark Exposure)	Information Technology, or IT (Stock Selection)
	Tesla (Underweight)	Consumer Discretionary (Stock Selection, Underweight)
	Synopsys (Significant Overweight)	Utilities (Lack of Exposure)

- IT holdings were once again a point of weakness in September, in both absolute and relative terms, as semiconductor and software holdings struggled to advance. In particular, Synopsys, specialising in EDA software, remained out of favour with many investors, much as it had earlier in the third quarter. The company announced record revenues (US$1.53 billion) in its latest fiscal quarter, though y/y revenue growth slowed to 3%. 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, though management assuaged these fears by indicating their contract agreements are long-term and Intel (also held by the fund) continues to outsource more EDA and 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 selloff as a modest reset amid elevated valuations and continue to favour Synopsys, which plays a key role in semiconductor R&D, 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. Other key IT detractors included software firms Palo Alto Networks and Intuit and semiconductor companies ASML, KLA, Analog Devices and Monolithic Power Systems.
- Some of the consumer discretionary sector holdings (covering about 12% of the portfolio) that had aided fund performance earlier in the summer flipped into net detractors in September—namely Tesla and MercadoLibre. Most of our sector positions were concentrated in e-commerce companies (broadline retail industry), where off-index MercadoLibre's stock price came down slightly from all-time highs. Latin America-based MercadoLibre showed remarkable strength in its 2Q24 financial report, underscored by growth in its core e-commerce and fintech operations: Its net revenues were US$5.1 billion, up 42% y/y, while its net income was US$531 million, up 103% as business 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. In the automobiles industry, electric vehicle (EV) and clean energy technology company Tesla was a strong contributor on an absolute basis, while relative returns were docked by

keeping only about half of the benchmark's 2.4% average weighting in it. At month-end, Tesla's stock was still down about 36% from its all-time high in November 2021, but it has recovered greatly since July as the company's latest quarterly metrics indicated robust financial performance, a rebound in vehicle deliveries (supported by attractive financing options), expansion in its energy storage business, and a beneficial strategic focus on AI (geared towards autonomous driving technology) and cost reduction.

- Industrials holdings were steady summer contributors that saw another upside move in September, aided foremost by Axon Enterprise in the aerospace and defence industry, along with Quanta Services (utility-scale infrastructure solutions to the electric power, oil and gas, and communication industries) in construction and engineering. Axon, which was also our top performer for the third quarter as a whole, reported a robust set of 2Q24 financial results and boosted its full-year guidance, answering lingering questions from 1Q24 with a sequential rebound in order backlogs and gross profit margins that showed scale. The Axon ecosystem is starting to deliver on multiple fronts while its AI opportunity seems to be gaining steam with the launch of Draft One, and its automatic law enforcement report generator works with Axon body cameras and sensors. Products like Draft One are getting more traction from European customers who have been hesitant to embrace Axon Cloud (to house their data). We think the question around macroeconomic impacts is a valid one as our historical analysis shows Axon is not immune in a downturn, though lately we are seeing evidence that US municipal police spending has been growing 2% to 3% fairly consistently through cycles. Notably, Axon's business has expanded to more long-term contracts and recurring revenue, along with deeper penetration into correctional facilities. The latest feedback from its police customers revealed that these police departments are still 15% to 20% understaffed compared to the pre-COVID period and struggling in recruiting to get back to previous employment levels following the fallout from the George Floyd protests several years ago. Thus, there is less excess to cut from police budgets in a downturn than there was previously. We think Axon remains distinctive in the defence technology space as a leader in what we consider a lightly penetrated market with a long growth runway. Most of the other key relative contributors were individual stocks that helped reduce our measure of underperformance in the IT sector, including software firms Adobe (underweight), ServiceNow (significant overweight) and AppLovin (overweight); off-benchmark Shopify in software; and rallies in Advanced Micro Devices and Broadcom, both of which were overweighted in the semiconductor industry.

Outlook & Strategy

- **Buoyed in part by the Fed's recent 50-basis-point rate cut, we think the economy's solid 2024 performance is likely to extend into 2025.** 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 exciting. 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 remain positioned to potentially benefit from the increased need for semiconductors to power the AI boom.** This has already been a blockbuster year for semiconductor businesses with strength across the semi 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 the AI space, large language models (LLMs) continue to advance at a breakneck pace, with the latest models trained to "reason" rather than "memorise," a result that has the best iterations solving advanced crossword puzzles and generating entire codebases for new video games. We believe the future is bright in other sectors of the economy, too, especially in medicine, where models can now be used to diagnose illness from patient sounds (like coughs). 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.
- **Health care is a 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 30.09.2024

	9/23 9/24	9/22 9/23	9/21 9/22	9/20 9/21	9/19 9/20	9/18 9/19	9/17 9/18	9/16 9/17	9/15 9/16	9/14 9/15
A (acc) USD	41,02	24,21	-40,93	27,48	-	-	-	-	-	-
Russell 1000 Growth Index USD	42,19	27,72	-22,59	27,32	37,53	3,71	26,30	21,94	13,76	3,17

Performance Net of Management Fees as at 30.09.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	Since Inception (08.11.2019)
A (acc) USD	2,05	1,09	23,35	41,02	1,15	14,49
Russell 1000 Growth Index	2,83	3,19	24,55	42,19	12,02	19,16

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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