FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
31 October 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively declined in October 2024 amid investor concerns about economic growth and the path of major central banks' interest-rate easing cycles, along with uncertainty about the upcoming US presidential election in early November. On the economic front, global manufacturing activity generally remained weak, while flash reports indicated services activity continued to expand in many regions. As measured by MSCI indexes in US-dollar terms, developed market and frontier market equities fared better than a global index, while emerging market equities underperformed it. In terms of investment style, global growth stocks performed modestly better than global value stocks.
- Mixed economic and corporate earnings signals kept investors cautious throughout the month. After lagging the major stock market averages in the third quarter of 2024 (3Q24), the information technology (IT) sector saw its global standing improve in October as it finished the month in fourth place out of the 11 sectors despite the group's negative returns. At the industry level, semiconductor and communications equipment stocks were outliers to the upside, partially offsetting the combined loss from four other industries that were anchored to the downside by IT services. The communication services sector fared better than IT as it posted a small October gain, with most of the support stemming from media and entertainment companies. With 70% of S&P 500 companies reporting earnings for 3Q24, the results have been mixed. As of October-end, 52% of companies had reported better-than-expected revenues, with 30% missing estimates and 18% meeting. The average outperformance of consensus estimates was 1.5%. Earnings-per-share (EPS) reports, on the other hand, saw companies exceeding estimates nearly 75% of the time, below the five-year average of 77% but in line with the 10-year average. Communication services stocks saw the largest upside surprise in terms of EPS with an average surprise of 14.1%. Broadly, IT companies were above average in terms of sales and earnings growth, with the majority of them topping analysts' consensus estimates on both counts. Artificial intelligence (AI) adoption and demand-related data points continue to strengthen along with the AI capital expenditure (capex) trajectory, with most companies working in the AI space reinforcing their plans for higher levels of spending going forward as the risk of underinvesting is generally deemed much greater than the risk of overinvesting.
- For the month, the fund's A (acc) USD shares returned -1,29%, and its benchmark, the Russell 1000 Growth Index, returned -0,33%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Apple (Significant Underweight)	Consumer Discretionary (Stock Selection)
	Microsoft (Significant Underweight)	Consumer Staples (Lack of Exposure)
	ServiceNow (Significant Overweight)	Industrials (Stock Selection)
HURT	ASML Holding (Off-Benchmark Exposure)	Information Technology, or IT (Stock Selection)
	Monolithic Power Systems (Significant Overweight)	Health Care (Stock Selection, Overweight)
	Thermo Fisher Scientific (Off-Benchmark Exposure)	Communication Services (Stock Selection, Underweight)

- The fund's October results versus its Russell 1000 Growth Index benchmark were dampened by positioning in six out of 11 equity sectors, due largely to unfavourable stock selection. IT holdings covered more than half of the portfolio, with a focus on semiconductor stocks (averaging more than 26% of total net assets). While the semiconductor companies tracked by the index advanced, those that fit our longer-term strategies sold off broadly and, in some cases, steeply. Among our 10 largest detractors, six were off-index or overweighted names in this category: ASML Holding, Monolithic Power Systems, KLA, Advanced Micro Devices (AMD), Lam Research and ASM International. ASML's disappointing 3Q24 financial results revealed an uneven semiconductor market as it warned that the recovery in some parts of the industry may stretch into 2025. The Dutch semi equipment maker said net bookings that represent orders were €2.6 billion for the third quarter—less than half of what Wall Street analysts expected and a major miss for a company whose lithography gear is considered a must-have for the most advanced chip manufacturing. ASML also expects 2025 revenue to come in at the low end of its previous forecast. We believe ASML's weakness is transitory and cyclical. Demand for AI chips is booming. Unfortunately for those who make semiconductor-manufacturing gear, it isn't always enough. Analysts still widely expect the total sales of chip-manufacturing gear to potentially top US$100 billion globally this year for the first time ever. Monolithic, meanwhile, experienced a significant stock sell-off tied to a disappointing fourth-quarter outlook. Although the company posted solid 3Q24 financials—including 30.6% revenue growth and EPS that exceeded consensus expectations—investors were concerned about the forecast for the upcoming quarter, which projected a revenue drop to around US$610 million based on competitive pressures. Management has been awaiting increased competition that included business ties to the next-generation NVIDIA Blackwell chips (NVIDIA is also held by the fund), where a loss of market share to competitors like Infineon Technologies and Renesas Electronics (neither of which are held by the fund) was set to occur. Monolithic specialises in a range of semiconductor-based power solutions, focusing on high-performance power management technologies. Its products are used across multiple industries, including automotive, industrial, consumer electronics and communications, reflecting their versatility. Despite pockets of weakness, overall product demand remains strong, and some of the stock-selling activity could be signalling a buying opportunity. Beyond the aforementioned stocks, several of the fund's adjacent investments in this field seem poised to further benefit from increasing AI and smartphone chip demand, much as we saw earlier in the year. In the near term, we are cognisant of potential difficulty linked to tight US export restrictions designed to keep China from gaining access to advanced chip technology, an effort that could intensify in a Donald Trump presidency. Mr. Trump says Taiwan should pay for its own military defence. Taiwan manufactures over 90% of the world's advanced chips, according to the Semiconductor Industry Association, and China considers the autonomously governed island as its territory. Given the durable boom in AI chips, we think companies in the space should have a long runway to grow, even without shipping advanced chips or equipment to China.

- There was some relative and absolute weakness in the health care sector, where the shares of innovative life sciences tools and services, medical-technology, and diagnostics companies were mostly out favour, though we did see some upside support from Intuitive Surgical and one of its peers in the surgical robotics field. The biggest detractors there were off-benchmark Thermo Fisher Scientific (TFS) and Danaher, along with an overweight stake in IDEXX Laboratories, the latter of which provides advanced diagnostic, software and laboratory solutions in veterinary and water testing applications. In our view, TFS is undergoing a nascent recovery in sales and profitability despite weakness in its stock price. TFS is a CDMO (contract development and manufacturing organisation), providing essential products and services that support research, development, and medical manufacturing. It offers a wide range of laboratory products, including reagents, consumables and equipment for drug development and biomanufacturing. TFS's extensive portfolio includes high-end analytical instruments and a strong presence in clinical diagnostics, which we believe should help it remain a high-quality grower for the longer term. Unfortunately, the CDMO business has been sluggish in 2024 due to several interrelated factors, including post-pandemic demand adjustments (normalisation of business activity) and a parallel comedown from the stock market's peak interest in biotechnology and pharmaceuticals, all of which led to reduced funding for many small- and mid-sized biotechs contracting with TFS. CDMOs are also contending with funding challenges of their own in the current environment, along with increased competition as many biopharma companies that previously relied on CDMOs have begun building their own manufacturing capabilities. This splintering of partnerships has created an oversupply of manufacturing capacity in some areas, making it harder for CDMOs to secure contracts. Based on the associated price pressures from all of the above factors, CDMOs are being compelled to lower their prices or offer discounts to remain competitive. This can squeeze profit margins and create uncertainty in revenue forecasts. While TFS is navigating a challenging landscape, we still think its diverse offerings and unique strategic positioning—aided by scale, product portfolio breadth and service capabilities—may help mitigate some of the adverse effects of the sluggish CDMO market.
- In terms of key contributors, software holdings covered about a quarter of the portfolio and incurred a much smaller October loss than those tracked by the benchmark index. While some of the relative strength resulted from our lighter-than-index stake in systems software bellwether Microsoft as its shares depreciated, as well as a lack of exposure to Adobe and other poor-performing index component companies, we also saw notable gains for overweighted or off-index investments such as ServiceNow, AppLovin, Palo Alto Networks, Cadence Design Systems and monday.com. Overall, US and global stocks declined for the first time in six months (as measured by MSCI indexes in US-dollar terms), due in part to Microsoft's weak Azure cloud-computing guidance. Microsoft nonetheless reported stellar 3Q24 earnings that were perhaps not stellar enough for a stock trading at nearly 30 times forward earnings at October-end. Most of our other systems software industry holdings advanced, including ServiceNow, which provides cloud-based solutions for digital workflows and automation. ServiceNow exceeded consensus expectations in its 3Q24 financials, with subscription revenues rising 23% year-over-year (y/y) amid surging orders for its AI-driven products—particularly the Now Assist platform, which integrates Microsoft Copilot. Beyond the numbers, the trend in systems software tells us that businesses are increasingly investing in digital transformation. Recent unstable sentiment in the IT sector has favoured companies involved in AI and enterprise software, which likely influenced ServiceNow's ascent. The fund's relative returns were further boosted by keeping less than one-fifth of the benchmark weight in Apple (in the technology hardware, storage and peripherals industry). While Apple, Microsoft, underweighted detractor Alphabet (Google) and other tech giants posted stronger-than-expected revenues across the board, some investors were growing concerned about the massive spending bills these companies continue to rack up in their pursuits of AI's ultimate payoff. And on that front, tech executives remain as optimistic as ever, even as Alphabet reported a y/y capex increase of 62% and foresaw more elevated spending in 2025. We keep in mind that these companies have high-quality characteristics, including strong balance sheets and cash flows as they pursue their AI buildouts. Within this elite cohort, Apple is in an unusual position as it is largely staying out of the current AI race, with capex remaining essentially flat in 3Q24. Apple is leaning into one of its strengths for AI—its large user base—and says it can manage expenses by using its own chips as well as rented servers from Google and Microsoft. Elsewhere in the portfolio, the fund was served well by keeping about half the benchmark exposure to electric vehicle and battery storage maker Tesla, which sustained a modest October loss, while overall gains in the industrials sector were aided by an impressive ongoing 2024 rally in Axon Enterprise (a heavily overweighted position in the aerospace and defence industry). Axon has been seeing high demand for its technologically advanced cameras and sublethal weapon systems for law enforcement and public safety applications, while making inroads in AI-enhanced law enforcement back-office software.

Outlook & Strategy

- **Buoyed in part by the US Federal Reserve's recent interest-rate cuts (of 50 basis points in mid-September and another 25 in early November), we think the economy's solid 2024 performance can extend into next year.** 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 31.10.2024

	10/23 10/24	10/22 10/23	10/21 10/22	10/20 10/21	10/19 10/20	10/18 10/19	10/17 10/18	10/16 10/17	10/15 10/16	10/14 10/15
A (acc) USD	44,35	16,11	-42,98	38,52	-	-	-	-	-	-
Russell 1000 Growth Index USD	43,77	18,95	-24,60	43,21	29,22	17,10	10,71	29,71	2,28	9,18

Performance Net of Management Fees as at 31.10.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (08.11.2019)
A (acc) USD	-1,29	2,79	21,76	44,35	-1,50	-	13,93
Russell 1000 Growth Index	-0,33	4,63	24,14	43,77	8,84	18,99	18,72

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.

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.

All investments involve risks, including possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. **Active management** does not ensure gains or protect against market declines**. International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG)** criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund’s prospectus.

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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