FRANKLIN TEMPLETON

Franklin Innovation Fund

Franklin Templeton Investment Funds

A (acc) USD
30 November 2024

Product Commentary

Performance Review

Past performance does not predict future returns.

- Global equities collectively rose in November 2024, driven largely by a significant post-election rally in US stocks. While Donald Trump's presidential victory and the potential for additional tax cuts and expansionary fiscal policy bolstered US equities, investors outside the United States were more cautious as they were concerned about the president-elect's tariff plans and their implications on global trade. On the economic front, global manufacturing activity stabilised in November after four months of contraction, while flash reports for the same month showed signs of strength in many regions. As measured by MSCI indexes in US-dollar terms, developed market equities outperformed a global index, while emerging market and frontier market equities significantly underperformed it. In terms of investment style, global growth stocks outpaced global value stocks.
- In terms of investor sentiment, there was a cautious optimism in the market, with many investors favouring companies with strong innovation potential and adaptability, including those operating in the fields of artificial intelligence (AI), cloud computing, 5G technology, and cybersecurity. Generative AI (GenAI) tools are becoming more sophisticated as the models are now multimodal, meaning they can process and generate content across different media types. Additionally, companies are developing platforms that allow users to create their own AI models tailored to specific needs without requiring coding skills. This democratises AI, making it accessible to a broader audience. Positive economic indicators, like a broad moderation in US jobless claims and resilient home sales, further boosted investor confidence in high-growth tech and communication services stocks. Individual company news and sector-specific developments also played a significant role. For instance, companies with strong third-quarter 2024 (3Q24) earnings reports or strategic advancements saw better stock performance. Against this backdrop, the information technology (IT) sector's returns in the United States and globally were in the 4% to 5% range, leaving them in sixth and fourth place, respectively, among the equity market's 11 major sector groups. The rally was most apparent in the IT services and software industries, countered by the relatively flat performance of semiconductor-related companies and weakness in the electronic equipment, instruments and components industry, the sole outlier to the downside among the IT sector's six main industries.
- For the month, the fund's A (acc) USD shares returned 6,53%, and its benchmark, the Russell 1000 Growth Index, returned 6,49%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Axon Enterprise (Significant Overweight)	Industrials (Stock Selection)
	Shopify (Off-Benchmark Exposure)	Health Care (Stock Selection)
	AppLovin (Overweight)	Information Technology, or IT (Stock Selection)
HURT	Monolithic Power Systems (Significant Overweight)	Consumer Discretionary (Stock Selection, Underweight)
	Tesla (Underweight)	Financials (Stock Selection)
	Broadcom (Overweight)	—

- The fund's narrow measure of outperformance versus its Russell 1000 Growth Index benchmark was aided by the positive effects of overall stock selection, which was most evident in the industrials and health care sectors. Although the cornerstone of our exceptional performance in industrials—where the fund's sector return more than tripled the 8.4% gain from all related stocks tracked by the index—was Axon Enterprise in the aerospace and defence industry, we received a strong secondary boost from a heavily-overweighted stake in a tech-focused construction and engineering industry contractor that provides an infrastructure solutions in network communications, electric power, renewable energy and underground utilities installations. Top contributor Axon develops and builds advanced electronic control devices (including sublethal weaponry) designed for use in law enforcement, correction facilities, private security and personal defence, and is most well-known for its TASER devices, body cameras, AI-driven digital evidence management systems, and public safety technologies. Axon, which has seen its stock repeatedly break new all-time highs throughout the year, reported impressive 3Q24 financial results, with revenue up 32% year-over-year, and raised its full-year 2024 guidance. We were pleased to see our investment thesis coming to fruition as Axon's advancements in AI and expansion into new product offerings have driven significant growth. Its AI-driven solutions and new verticals (including drone initiatives) have been generally well-received, and we see the strong growth potential of Axon's technology and AI tools in the policing field, where there appeared to be a strong appetite for efficiency gains to offset reduced police force labour pools. For example, our research indicates that Draft One, Axon's initial AI product designed to automatically draft police reports, are saving up to 20% to 30% of officers' time as, among other benefits, it summarises department communications and gives faster autonomous analysis of gathered digital evidence to search for patterns and commonalities leading up to AI-generated evidence reports. Device-embedded AI is also making strides as the company now offers a live translation feature on its Axon Body Cameras to help de-escalate situations with non-English speakers. In the health care sector, overweighted or off-benchmark biotechnology holdings in Natera—a diagnostics company specialising in cell-free DNA (deoxyribonucleic acid) testing in oncology, organ health and prenatal screening—and four others saw robust double-digit percentage rallies that led to positive overall gains in the industry, whereas those tracked by the benchmark index fell more than 6%.

- Some of the fund's software holdings have been enjoying a strong autumn rally that continued through November, including standout contributors AppLovin, ServiceNow, HubSpot and, to a lesser extent, Cadence Design Systems. AppLovin was an outlier among these winners as the fund's investment in the company—a provider of software for mobile app marketing, monetisation, analytics and publishing—appreciated by nearly 100% in November and more than 250% since August. The company booked impressive 3Q24 results, with revenue up 39% year-over-year and earnings per share significantly exceeding consensus analyst expectations. Over the past three years, AppLovin has grown profits by more than tenfold. The company's advancements in AI, particularly with its AXON 2.0 platform (not related to Axon Enterprise), have driven efficiency and growth in its advertising business. By leveraging its proprietary AXON algorithm, AppLovin helps match advertisers to users who are most likely to download their app, improves advertisers' efficiency through automation, and ultimately helps them get better returns on their investments. The work done around AXON has better positioned AppLovin to capitalise on the broader AI and ML (machine learning) megatrends, which we believe should continue to gather momentum in 2025. Its latest financial results encouraged AppLovin's board to approve a US$2 billion share buyback programme, and we remain optimistic about the company's ongoing efforts to successfully expand its software business into areas beyond gaming, which has already opened up new revenue streams and growth opportunities.
- On the downside, semiconductor and semiconductor equipment industry stocks—averaging about 23% of the fund's total net assets—have been a trouble spot in recent months amid mounting competitive headwinds, and they collectively declined in November, while those tracked by the benchmark index advanced modestly. The key detractors included overweighted stakes in Monolithic Power Systems (MPS), Broadcom, Analog Devices, Taiwan Semiconductor Manufacturing and KLA. According to data released by the Semiconductor Industry Association in November, the three-month moving average of worldwide semiconductor sales rose to a record US$55.3 billion during the September period, but the uptrend is impacting the industry unevenly, with NVIDIA (the fund's single-largest investment at 9.5% of the portfolio at month-end) outpacing the group, while recent record highs for numerous industry players have led to greater investor caution around elevated stock valuations. Among the detractors mentioned above, MPS's stock selloff was the most severe by far, based on a disappointing 4Q24 outlook following otherwise strong 3Q24 financial results. Some analysts downgraded the stock due to competitive pressures and potential market-share loss in key segments, particularly related to NVIDIA's new Blackwell GPUs (graphics process units) as NVIDIA reduced its compute-focused orders from MPS, which offers a wide range of power solutions such as voltage regulators, sensors, convertors, lighting control integrated circuits, and battery management systems. We still believe this is a large and fast-growing market opportunity for analogue companies such as MPS, which has recently secured multiple design wins in the AI space and has a long track record of generating superior growth versus its industry peers. Elsewhere in the portfolio, the fund was hindered in relative terms (only) by keeping lighter-than-index exposures to the exceptionally strong November rallies in Tesla (up more than 35%), Palantir Technologies (up more than 58%) and Netflix (up more than 17%), but they still added powerfully to the fund's absolute, standalone gains.

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 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 LLMs 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 LLMs 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 30.11.2024

	11/23 11/24	11/22 11/23	11/21 11/22	11/20 11/21	11/19 11/20	11/18 11/19	11/17 11/18	11/16 11/17	11/15 11/16	11/14 11/15
A (acc) USD	35,48	26,37	-38,51	20,46	53,58	-	-	-	-	-
Russell 1000 Growth Index USD	38,04	26,17	-21,64	30,70	36,40	21,01	8,59	30,81	4,22	6,12

Performance Net of Management Fees as at 30.11.2024 (Dividends Reinvested) (%)[a,b]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (08.11.2019)
A (acc) USD	6,53	7,32	29,71	35,48	1,73	14,26	15,11
Russell 1000 Growth Index	6,49	9,14	32,19	38,04	10,92	19,45	19,87

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.

For Professional Client Use Only. Not for distribution to Retail Clients.

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 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.

FRANKLIN TEMPLETON

Franklin Templeton Switzerland Ltd
Stockerstrasse 38
CH-8002 Zurich
franklintempleton.ch

For Professional Client Use Only. Not for distribution to Retail Clients.