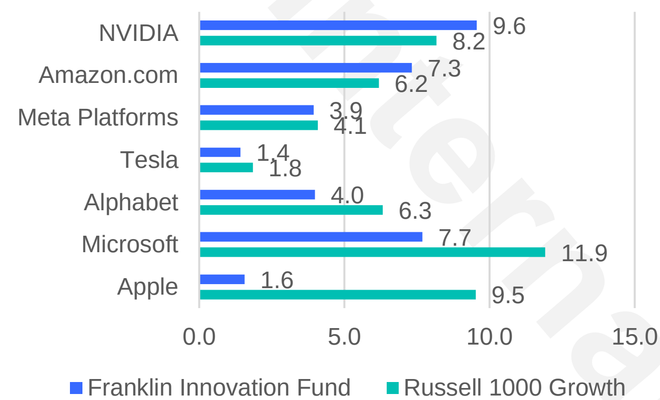
Franklin Innovation: Key Messaging Points

Not Just the "Magnificent 7"

The "Magnificent Seven" stocks accounted for a significant portion of market returns in 2023. As of *31 March 2024*, we have overweight positions in two of these names, NVIDIA and Amazon.com, but we are approximately 1250 basis points underweight the "Magnificent 7" overall; over 60% of that is Apple. **Instead, we see stronger secular growth in other areas of the market; our top 7 positive active weights exceed the benchmark weighting by over 1600 bps in aggregate.**

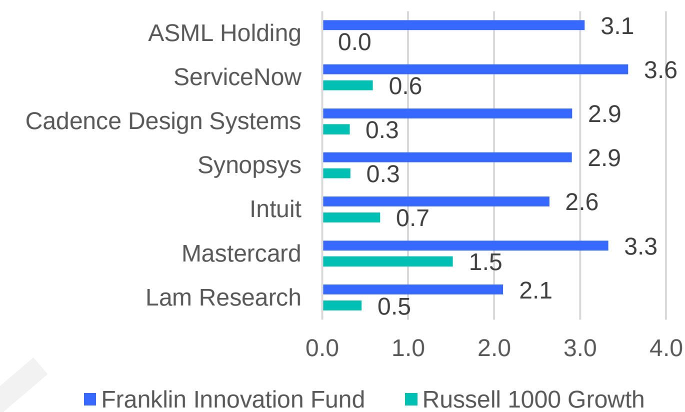
"Magnificent Seven" Fund Weighting vs. Russell 1000 Growth (%)

As of 31 March 2024



Top Seven Franklin Innovation Overweights vs. Russell 1000 Growth (%)

As of 31 March 2024



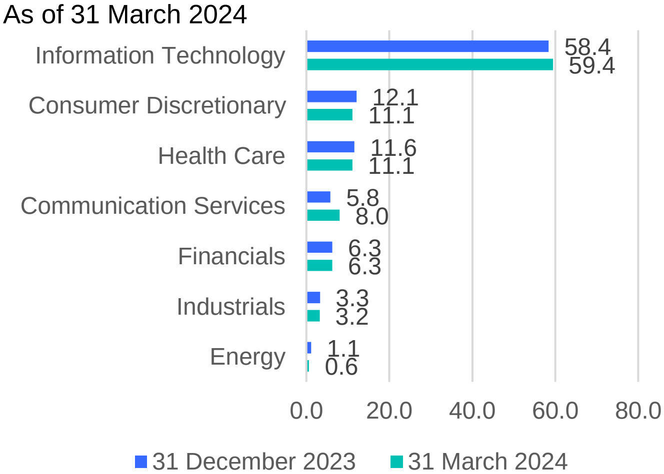
Mega Caps & Fourth Industrial Revolution

We believe that the rise of the Magnificent Seven is another marker that we are going through a period of massive economic change. We are not at the end of that change but rather in the middle of it. Currently, we can see the third industrial revolution laying down the foundational general-purpose technologies that will aid the fourth. That we can spot several potential general-purpose technologies—starting with AI today and potentially expanding to include genomics, electrification and robotics—gives us further confidence in this view.

Under these auspices, **we find it increasingly likely that the ranks of the Magnificent Seven will grow larger. And our focus remains on separating what is durable and revolutionary from what is merely short-term noise, so that we get right the multi-decade arc that is the fourth industrial revolution.** To learn more, please check out "[Make room Magnificent Seven. The Fourth Industrial Revolution means more mega-caps]."

Portfolio Positioning – Sector Allocations

As of 31 March 2024



- The Fund's allocation to **communication services** (+2.2%) increased in the period, due to strong sector performance and increased allocations to existing holdings, particularly Meta Platforms.
- **Information technology** (+1.1%) also increased in the period due primarily to strong sector performance.
- Conversely, **consumer discretionary** marginally declined (-1.0%) during the period due to underperformance in specific holdings (like Tesla) and reducing other sector holdings (such as Amazon).

Source: Franklin Templeton and FactSet. For illustrative purposes only. There is no assurance that any projection, estimate or forecast will be realized.

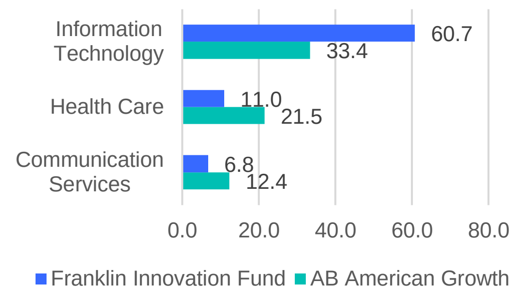
Money in Motion: Opportunity with AB American Growth

There may be an opportunity for Franklin Innovation Fund to gain share versus one of the largest funds in the Morningstar EAA Fund US Large-Cap Growth Equity peer group – AB American Growth Fund – due to **recent fund performance and clear, differentiated positioning.**

Recent Fund Performance

	2023	Q1 2024	% Rank	Estimated 1-Yr Fund Level Net Flow
Franklin Innovation A Acc USD	**42.39**	**14.31**	13	*-25M*
AB American Growth A	33.50	13.19	19	*-465M*
Russell 1000 Growth TR USD	42.68	11.41		
EAA Fund US Large-Cap Growth Equity Peer Group Average	34.27	10.72		

Top Three Largest GICS Sector Differences
By Portfolio Weighting (%); As of 29 February 2024



While we acknowledge that Franklin Innovation Fund's performance lags AB American Growth over the trailing three-year period, we would note that our Fund saw a stronger recovery in 2023, outperforming both the AB fund and the peer group average. **Looking forward, we believe several of the fund's key investment areas may see improved fundamentals following the post-COVID consolidation period.** These areas include bioprocessing, AI, cloud computing, data analytics, e-commerce, and internet advertising.

Differentiated Fund Positioning

While the two funds focus on investing in predominately large-cap growth opportunities, the two strategies frame them in different ways to create two distinct portfolios relative to each other: as of latest holdings, the two Funds, per Morningstar, have *a common holdings score of just 42%.*

- Portfolio Construction: AB American Growth runs a more concentrated large cap growth portfolio of 53 holdings, of which the top 10 make up almost 51%. In comparison, Franklin Innovation Fund may provide clients with more diversified large-cap growth exposure (95 holdings, 47% in top ten). **The Innovation team considers both investing in the tail (which results in generally more portfolio holdings compared to AB) and instituting a strict sell discipline as core to the process of identifying winners and losers in the innovation space, and a key differentiator from others.**
- Sector Allocations: A clear differentiator between the two funds is the information technology (IT) sector allocation, particularly in the semiconductors and semiconductor equipment industry (Innovation Fund: 24% vs. AB American Growth: 11%). Conversely, the AB fund has a higher exposure to health care and communication services, as seen in the chart above.
  - *Why do we like semiconductors?* We are optimistic on the investment opportunities in the industry and believe that it is an area of the market ripe with innovation. **We believe the escalating automation of manual tasks as well as the emergence of electric vehicles (EVs) and AI—all of which require high-end semiconductors—hold strong potential to spur chip demand.** However, this expectation hinges on two key factors: a smooth deceleration of the global economy into a soft landing and unrestricted and cost-effective availability of the raw materials required for semiconductor production.

Holdings as of 29 February 2024. Source: Franklin Templeton, Morningstar Direct. For illustrative purposes only. There is no assurance that any projection, estimate or forecast will be realized.

Portfolio Activity – First Quarter 2024

Select Buys – January through March 2024

Position Name	**Sector**	**Description**
Meta Platforms	Comm. Services	*Added to Existing Position; Ending Portfolio Weight – 3.95%* Meta Platforms is one of the world's largest and most efficient global communications platforms, funded through advertising, which adds value to users and advertisers. We increased our existing position in Meta Platforms during the quarter as we are becoming more confident in the long-term growth trajectory of the company. Strategically, Meta Platforms has shifted its focus from the metaverse back to monetizing its core services. Meta's continuing investment in AI has begun to bear fruit, and we believe that it will continue to improve usage and advertisement monetization. In addition, regulatory pressure on TikTok, a key competitor, may be a positive tailwind in the near-term. We are constructive on the company's ability to drive improvements in ad revenue stemming from its investment in AI.
Eli Lilly	Health Care	*Added to Existing Position; Ending Portfolio Weight – 2.50%* Eli Lilly engages in the discovery, development, manufacture, and sale of pharmaceutical products. The firm's products consist of diabetes, oncology, immunology, neuroscience, and other products and therapies. Eli Lilly is benefiting from the development and trial of their antidiabetic medication, Tirzepatide (Mounjaro). Additionally, the drug is being studied for the treatment of nonalcoholic steatohepatitis and heart failure following Novo Nordisk's recent trial of their weight loss drug, Wegovy, which had positive direct impacts on patients' overall cardiovascular health. We added to our position as we believe Eli Lilly has continued to build a case for the use of weight loss drugs, harnessing their effects to help decrease health risks and increase quality of life.

Select Trims – January through March 2024

Position Name	**Sector**	**Description**
United Health Group	Health Care	*Trimmed Position; Ending Portfolio Weight – 0.50%* UnitedHealth owns and manages organized health systems and provides employers products and resources to plan and administer employee benefit programs. UnitedHealth is a prominent player in the health insurance industry. In its most recent quarter, the company reported a sequential deceleration in revenues. We believe this trend may be likely to continue over the long-term as the HMO industry contends with regulatory complexities, rising costs, and competitive pressures. We trimmed our allocation to the company in favor of more attractive beneficiaries of innovation in the health care sector.
NVIDIA	Information Technology	*Trimmed Position; Ending Portfolio Weight – 9.59%* NVIDIA is a premier large-cap growth semiconductor company with a strong track record of compelling growth, in our view. NVIDIA's AI chips have seen an unprecedented increase in demand reflected in their data center revenue, and their CUDA software continues to support AI development. Throughout the past year, they have focused on digital twins and generative AI, enabling AI projects at scale through cloud solutions. We continue to view the business positively—it remains our largest position both in absolute terms and relative to the benchmark; however, we trimmed our allocation during the quarter, bringing the weight in alignment with position sizing guidelines and factoring in overall portfolio risk contribution.

Supporting Content

- CLICK HERE for the second quarter edition of Innovation Insights: In this quarter's Innovation Insights, Franklin Equity Group takes note of four innovations to improve life as we know it, ranging from the way we hear to the way we heal.

Holdings as of 31 March 2024. Source: Franklin Templeton. For illustrative purposes only. There is no assurance that any projection, estimate or forecast will be realized.

Franklin Innovation Fund

Differentiated Positioning with an Innovation Focus: Innovation today is pervasive – it is not confined to any singular niche of the economy. We aim to provide exposure to pockets of growth and dynamic technology that other funds and the index may not. As such, we take a unique approach to portfolio construction and a long-term view tied to duration and pace of growth expectations.

Investment Process: We seek positive inflections, such as earnings and/or revenue acceleration, positive price momentum and employ bottom-up, fundamental research to identify compelling opportunities that meet our innovation/sustainable growth profile.

Our Goal/Sell Discipline: A diverse portfolio according to end-markets, not formal sector classifications | Conviction weighted portfolio with a buy and hold approach | Well-defined sell criteria for securities that seeks to manage risk and mitigate downside.

Top Ten Holdings Rationale

As of 31 March 2024

Name	Investment Rationale	Weight (%)*
NVIDIA	NVIDIA is a premier large-cap growth semiconductor company with a strong track record of compelling growth, in our view. Through ongoing research into cutting-edge chip technology, the company is establishing itself as a leader in the field. Its collaborations with key players in the semiconductor ecosystem, include Ansys, Synopsys and Cadence Design System, along with broader client support for Blackwell, NVIDIA's newly announced generative AI-powered platform, also position the company well for further product improvements – with the goal of "democratizing AI." The future impact of generative AI on various end markets cannot be understated, and while NVIDIA has enjoyed rapid growth being the "face" of generative AI exposure, we continue to believe the company is well positioned, in our view, to continue to benefit as accelerator/artificial intelligence adoption continues. The enormous expected installed base for datacenters worldwide may also fuel long-term growth as parallel computing – the ability for calculations to occur simultaneously – is necessary for organizations to process and utilize large datasets.	9.59% (O/W)
Microsoft	Microsoft, a multinational corporation, offers a wide range of technological services, including software (such as Microsoft Windows and Microsoft Office), hardware, cloud computing, gaming, and business solutions. The company is one of the world's largest cloud/software-as-a-service companies and is focusing on driving gross margin expansion in its growing cloud business. Its growth story in AI revolves around Azure and CoPilot. The company has recently seen a surge in Azure spending, and its growth outpaced Azure's initial launch by a factor of three. While non-AI Azure growth slowed slightly, the focus on inferencing over training indicates robust and lasting demand for AI services. With Azure OpenAI services playing a key role, the trajectory suggests continued revenue expansion in the AI domain. Competitive pricing for its Microsoft 365 CoPilot offering – generative AI which combines the power of large language models (LLMs) with Microsoft 365 apps to increase productivity – may also encourage adoption. With the large existing Office 365 installation base of 500 million paid users, this could represent another potential long-term growth opportunity for the company.	7.71% (U/W)
Amazon	Amazon is the largest online retailer in the U.S., selling a diversified set of products as well as producing consumer electronics and providing cloud computing services. Amazon Web Services (AWS) continues to see a reacceleration in revenues in comparison to previous quarters, supported by strong bookings and positive industry conditions. In our view, the impact of generative AI also bolsters future AWS revenue growth due in part to their positioning across infrastructure, middle and application layers. Additionally, we continue to believe that the ecommerce market can grow into the trillions and that Amazon can remain the market leader. Its retail business continues to post strong growth in both its North America and International segments. In North America specifically, Amazon's expansion of warehouse and logistics capacity, along with a regionalization strategy involving smaller warehouses, has led to shorter shipping times and increased demand. International still has room for growth, like in emerging countries where Amazon is funding Prime benefits to drive customer engagement and increase adoption. Finally, advertising continues to be a standout, principally driven by sponsored ads. The monetization of Prime Video via advertising is just beginning and may represent another leg of growth for the overall advertising business.	7.35% (O/W)
Alphabet	Alphabet is one of the largest technology companies in the world, offering a large range of products including Google, hardware, internet services, and various services for data, machine learning/AI, infrastructure, and analytics. The core businesses of Google, including search, cloud computing, its app store, YouTube, and others, have demonstrated impressive growth and high margins and are relatively resilient, in our view. We believe Google's cloud computing platform can be a meaningful growth driver along with its strong advertising presence. We also think that valuations for the company are still attractive, due in part to the resiliency and strength of its core business. The company continues to take share of the advertising market as it migrates to the digital realm. The company has also continued to innovate in AI-related products. For example, the company is making progress in re-tooling its search and other products with generative AI and pushing out these advancements to consumers, complementing its existing features. Although Bard remains behind OpenAI in terms of mindshare, Bard seems to be improving rapidly with new features geared to boost creativity and productivity.	4.00% (U/W)

***O/W: Overweight. U/W: Underweight.** Weightings relative to the Russell 1000 Growth. Source: Franklin Templeton. For illustrative purposes only. There is no assurance that any projection, estimate or forecast will be realized.

Top Ten Holdings Rationale

As of 31 March 2024

Name	Investment Rationale	Weight (%)*
Meta Platforms	Meta Platforms is one of the world's largest and most efficient global communications platforms, funded through advertising, which adds value to users and advertisers. The primary driver of upside remains higher engagement on Facebook and Instagram, fueled by the popularity of Reels. Unlike the past, where monetization efforts focused on Stories, this time AI plays a pivotal role in driving engagement. Meta's surfaces benefit from an AI-driven advertising efficiency called Advantage+. Ecommerce, shopping ads, and WhatsApp click-to-messaging ads have the potential to further boost growth. Advertisers from China contribute to revenue growth, and early adoption of business-to-business messaging on WhatsApp is promising. Gen AI is still in its early stages but holds potential across messaging, ad creation, and personal assistants. Additionally, Meta's open-source Llama model continues to improve, and Gen AI could play a role in content moderation, reducing expenses and human labor. These advancements, unforeseen a few years ago, contribute to an improving ESG story. Considering these factors along with the ongoing cost management efforts and organizational efficiency, we believe the stock has the potential to thrive in the long run.	3.95% (~E/W)
ServiceNow	ServiceNow provides cloud-based IT service management for enterprise customers and has been steadily growing into a multi-product company providing an integrated platform to clients. We feel their strong product line-up and a relatively benign competitive environment can lead to strong growth and high margins as the company captures market share and the category grows. The company is expanding beyond its IT buying center focus with continued growth in the human resources and customer support spaces, along with increased adoption of its various platforms, which leaves the company well-positioned for long-term growth as enterprises continue to seek to automate and digitize workflows. ServiceNow also utilizes machine learning (ML) to help businesses manage workflow, which means its capabilities are continually improving. The longer the platform operates using ML, the better ServiceNow gets at predicting how workflows can be improved and tasks flagged or prioritized. Finally, the company is planning to release a suite of new Generative AI products that could drive a significant pricing increase for its Pro/Enterprise-tier customers.	3.57% (O/W)
Mastercard	MasterCard is a multinational financial services company with its principal business in payment processing. We believe that the company's strong secular growth can continue due to the continued secular shift from cash to electronic payments (either through credit cards or mobile devices), potential to increase their payment streams and expanded value-added services. In our view, Mastercard is a high-quality, defensive stock which could continue to benefit from the secular shift to digital payments (including ecommerce) as a percentage of total payments and increased demand for its data analytics and cyber/intelligence offerings as data security becomes even more important, while also being supported by positive increased high-margin cross border payment trends.	3.34% (O/W)
ASML Holding	ASML Holding is a deep ultraviolet lithography systems (DUV)-focused semiconductor equipment company, with a deep competitive moat in our view as the company is the sole supplier of EUV tools and its market share in lithography segment could exceed 80-89%. Its deep ultraviolet lithography systems (DUV) are used to print tiny features onto microchips, increasing productivity and efficiency across a broad range of end markets, including IoT, industrials and automotive. We believe that the strong demand for the company's lithography systems has been a significant growth driver for the company. ASML is in a sweet spot with the main semi equipment technology transition being the shift to EUV in logic alongside a shift to EUV in dynamic random access memory (DRAM). We believe these trends imply that lithography secularly increases as a % of front-end semi equipment spending till this transition is completed, which may also bolster margin expansion.	3.06% (O/W)
Cadence Design Systems	Cadence Design Systems provides electronic design automation software for integrated circuits, printed circuit boards, smartphones, laptops, and gaming systems. Cadence holds a strong position as one of the top names for the electronic design automation (EDA) space, and the incorporation of artificial intelligence optimization to further drive productivity demonstrates how the company continues to innovate across all of its product categories. Moore's Law pushes up against fundamental physical limits, and design for chip performance becomes more critical as these limits are explored. The company is executing well, demand is strong for their tools, and we believe the secular growth of chips for broader use cases can continue to support Cadence's core business in the near and long-term.	2.91% (O/W)
Synopsys	Synopsys is a leading semiconductor design software and services provider. The company has demonstrated steady revenue growth, and we believe it may continue to grow as it has a growing production backlog. Along with Cadence Design Systems, both companies own a considerable amount of the chip design software market (electronic design automation; EDA) space. Synopsys, and the overall space, has seen steady revenue growth and has benefitted from strong chip design activity, which has remained strong despite market volatility, as the complexity and number of custom chip designs increases – all of which need EDA software tools. Additional tailwinds for the overall EDA industry also may include a greater amount of silicon content in automobiles, autonomous driving, AI/ML designs, and ever-increasing chip design complexity. In January 2024, the company announced its intentions to acquire Ansys, which we believe makes the combined entity a strong long-term growth story, along with giving the company immediate scale in an attractive, growing multi-physics simulation business.	2.91% (O/W)

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