



# Franklin Technology Fund–A (acc) USD

Franklin Templeton Investment Funds

## Fund Manager Report

Sector  
Equity  
31 July 2022

### Product Details<sup>1</sup>

|                       |   |
|-----------------------|---|
| Fund Assets           | \$8,491,625,518.76                      |
| Fund Inception Date   | 03/04/2000                              |
| Number of Issuers     | 79                                      |
| Bloomberg             | TEMTECI LX                              |
| ISIN                  | LU0109392836                            |
| Base Currency         | USD                                     |
| Investment Style      | Sector                                  |
| Benchmark             | MSCI World Information Technology Index |
| Morningstar Category™ | Sector Equity Technology                |
| EU SFDR Category      | Article 8                               |

### Asset Allocation<sup>2</sup>

|                         |       |
|-------------------------|-------|
| Percent of Total        | %     |
| Equity                  | 95.09 |
| Cash & Cash Equivalents | 4.91  |
| Fixed Income            | 0.00  |

### Overall Morningstar Rating™ a

★★★★★

Effective 29 September 2017, Franklin Technology Fund changed its benchmark to the MSCI World Information Technology Index, following the discontinuation of the BofAML Technology 100 Index.

### Fund Description

The fund aims to achieve capital appreciation by investing at least two-thirds of its assets in equity securities of companies expected to benefit from the development, advancement and use of technology.

### Performance Data<sup>3</sup>

Past performance does not predict future returns.

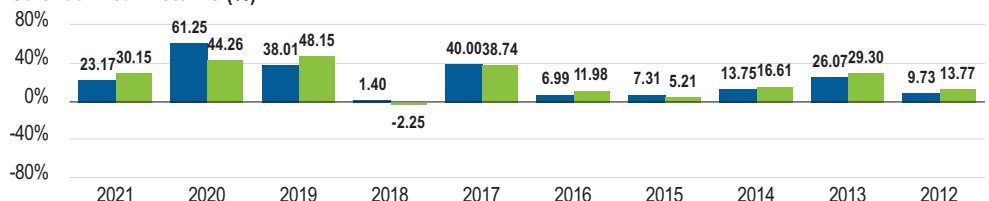
Discrete Annual Performance (%) as at 31/07/2022

|   | 7/21<br>7/22 | 7/20<br>7/21 | 7/19<br>7/20 | 7/18<br>7/19 | 7/17<br>7/18 | 7/16<br>7/17 | 7/15<br>7/16 | 7/14<br>7/15 | 7/13<br>7/14 | 7/12<br>7/13 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| A (acc) USD                                 | -28.70       | 42.32        | 40.71        | 15.74        | 25.05        | 30.09        | 4.88         | 17.40        | 18.57        | 17.38        |
| MSCI World Information Technology Index USD | -11.64       | 39.99        | 37.12        | 14.16        | 26.25        | 28.84        | 8.00         | 11.30        | 26.86        | 13.75        |

Performance Net of Management Fees as at 31/07/2022 (Dividends Reinvested) (%)<sup>b,c</sup>

|   | 1 Mth | 3 Mths | YTD    | 1 Yr   | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception<br>(03/04/2000) |
|---|-------|--------|--------|--------|-------|-------|--------|---------------------------------|
| A (acc) USD                             | 14.28 | -2.24  | -32.16 | -28.70 | 12.60 | 15.62 | 16.51  | 5.40                            |
| MSCI World Information Technology Index | 13.13 | 0.45   | -20.40 | -11.64 | 19.25 | 19.58 | 18.51  | 4.46                            |

### Calendar Year Returns (%)



● A (acc) USD  
● MSCI World Information Technology Index

### Portfolio Manager Insight

#### Performance Review

#### ONE-MONTH KEY PERFORMANCE DRIVERS

|        | Stocks                              | Industries   |
|--------|-------------------------------------|--|
| HELPED | Amazon.com (Off-Benchmark Exposure) | Internet and Direct Marketing Retail (Off-Benchmark Exposure)          |
|        | Microsoft (Significant Underweight) | Semiconductors (Stock Selection)                                       |
|        | Tesla (Off-Benchmark Exposure)      | IT Consulting and Other Services (Lack of Exposure)                    |
| HURT   | Apple (Significant Underweight)     | Technology Hardware, Storage and Peripherals (Significant Underweight) |
|        | ServiceNow (Overweight)             | Wireless Telecommunication Services (Off-Benchmark Exposure)           |
|        | Alphabet (Off-Benchmark Exposure)   | Interactive Media and Services (Off-Benchmark Exposure)                |

- The fund generally outperformed the benchmark across most internet-related holdings, including top contributor Amazon.com, which staged a comeback from 27-month lows and served as one of our largest holdings (5.2% of total net assets at July-end). The company delivered in the second quarter with stronger-than-expected retail sales—a flash point for the rally as it surprised many equity analysts—and ongoing booming demand for its cloud

1. All holdings are subject to change. Holdings of the same issuers have been combined.  
2. Percentage may not equal 100% due to rounding. All holdings are subject to change.  
3. The fund's returns may increase or decrease as a result of changes to foreign exchange rates.

computing business (Amazon Web Services, or AWS). AWS growth of 33% year-over-year decelerated 3% on a quarterly basis, but was still modestly above consensus expectations. Accelerated revenue growth prompted Amazon to raise its guidance for the current quarter as it continues to make progress in right-sizing the excess capacity it accumulated over the past two years. Additionally, Amazon has yet to indicate any major negative consumer spending impact amidst a tougher macroeconomic environment.

- Semiconductor holdings such as Marvell Technology Group made headway in their recoveries from a six-month slump as demand strength intensified in automotive and industrial verticals (a group of companies that focus on a shared niche or specialised market spanning multiple industries), along with some hints of resilience in enterprise and cloud spending, all of which helped offset fading sales tied to weaker handset and consumer PC demand. Elsewhere in the portfolio, large-cap software names ended higher in July with outperformance from technical and EDA (electronic design automation) names backed by solid earnings. In contrast, ServiceNow was probably the biggest disappointment, with key metrics lagging along with earnings and guidance misses.
- In the technology hardware industry, the fund held only about a fourth of the benchmark weighting in Apple, which was a distinct disadvantage given the company's sharp share-price gains in July. Apple, which offered evidence of buoyant iPhone demand and upgraded its revenue growth forecast, was still our second-best contributor in absolute terms. Amongst the other detractors versus the index, Alphabet's second quarter was generally positive despite missing Wall Street estimates; its July share-price gain trailed the index average. Unlike most other tech firms, Google's parent company has demonstrated noteworthy resiliency propelled by unrivalled growth in its advertising business, while its Google Cloud segment also made considerable progress with 35% year-over-year revenue growth in the second quarter (compared to just 13% for Alphabet as a whole).

### Outlook & Strategy

- Even as investors grapple with the potential for a recession, we believe the case for investing in technology companies remains compelling regardless of where we find ourselves in the economic or market cycle. Although the prospects of an economic slowdown or recession would be broadly detrimental, it would likely allow supply chains to catch up with demand, while also proving out the durability of our DT (digital transformation) thesis and highlighting the superiority of many of the business models in the IT and communication services sectors.
- We have been upgrading the quality of the portfolio and putting cash to work in our highest conviction holdings—and exiting or trimming positions with weak fundamental outlooks—as valuations have reset on the public side of the market. Conversely, we do not believe that valuations on the private side of the market have adequately reset, and so we have been more cautious with new crossover investment opportunities.
- We continue to believe that inflation, increased interest rates and increased equity capital costs are primary near-term risks in the IT and communication services sectors. In particular, much of the inflation we are seeing is on the goods side of the market, with some of the biggest challenges surfacing in the semiconductor space, as supply chains deal with the demand shock of a post-pandemic world. The best antidote to this challenge, we believe, is time—enabling supply chains to catch up to the robust aggregate demand environment. There is also some evidence of inflation on the labour side of the market, with heightened demand for engineers and technical sales and marketing staff as DT initiatives scale. That said, we are seeing encouraging signs that engineering and sales professionals are ratcheting down their compensation expectations as economic conditions calm.
- If inflation headwinds begin to abate and the world's largest economies can avoid a deep recession, we consider sector valuations to be reasonable to attractive. If inflation intensifies, central bank rate increases prove ineffective, or the world's largest economies enter a significant recession, we believe there will be additional valuation headwinds for “cash in the future” growth businesses. In the current environment, we think quality secular growth is more valuable than cyclical growth, and that investors will want to own high-quality, well-capitalised, highly profitable secular growth businesses with pricing power in a recession. This is the very definition of many of the world's largest technology-centric businesses.
- Supply-chain conditions remain tight in semiconductors, electronics manufacturing and logistics. Challenges have been exacerbated by the recent “zero-COVID” lockdowns in China. While the fund is underweighted in technology hardware names, we still have exposure to companies that rely directly and indirectly on the production of semiconductors and IT hardware. We anticipate sustained COGS (cost of goods sold) pressures and potentially tepid revenue targets until conditions improve. We are hearing that supply conditions could remain tight for the remainder of 2022. And in light of what we saw in China this year, we continue to monitor risks around new and emerging COVID-19 variants, which could serve as a headwind to aggregate demand and further pressure the functioning of global supply chains.
- In terms of post-pandemic reopening globally, businesses more closely aligned with the consumer in streaming, e-commerce and gaming have come under pressure. Regarding e-commerce and gaming, we believe many of these businesses will return to trend growth after a period of post-COVID digestion and reconciliation.
- In the enterprise segment, we are seeing evidence that much of the digital experimentation that started during COVID is continuing as the world reopens and businesses seek to operationalise what worked during the crisis and extend it to other parts of their operations to drive productivity gains. Such gains, we believe, will prove particularly valuable in the face of inflationary pressures. That said, we acknowledge that enterprises may also be more closely scrutinising their spending plans as they anticipate a recessionary environment.
- We continue to evaluate companies through our growth, quality and valuation lens. In our view, the most important of these is “quality,” which we define as companies with strong and improving competitive positions, experienced/talented management teams with a proven track record of execution, and companies with premium-level financial strength and strong unit economics. Relative to the other nine major equity sectors, the IT and communication services sectors are amongst the best capitalised groups in the market. These sectors are net cash positive with generally self-financing business models. We believe the strongest businesses in these sectors are unlikely to need to return to the capital markets to fund their business models going forward. These sectors also have some of the most profitable business models across the market, according to our analysis.
- We continue to see significant opportunities in DT and its associated sub-themes, including (1) artificial intelligence, machine learning and data analytics; (2) new commerce; (3) software-as-a-service and secure cloud computing; (4) digital media transformation and the rise of the metaverse; (5) digital customer engagement; (6) fintech and digital payments; (7) the internet of things (IoT) and 5G; (8) electrification and autonomy; (9) cyber security; and (10) the future of work.

Portfolio Characteristics<sup>d</sup>

|   | Portfolio | MSCI World Information Technology Index |
|---|-----------|---|
| Market Capitalisation (Millions in USD) | 523,436   | 1,038,428                               |
| Price to Earnings Growth Ratio          | 1.90x     | 1.78x                                   |
| 3-Year Sales Growth                     | 28.81%    | 14.44%                                  |
| Estimated 3-5 Yr EPS Growth             | 25.41%    | 15.08%                                  |
| Price to Earnings (12 Month Forward)    | 34.71x    | 23.27x                                  |

## Portfolio Diversification

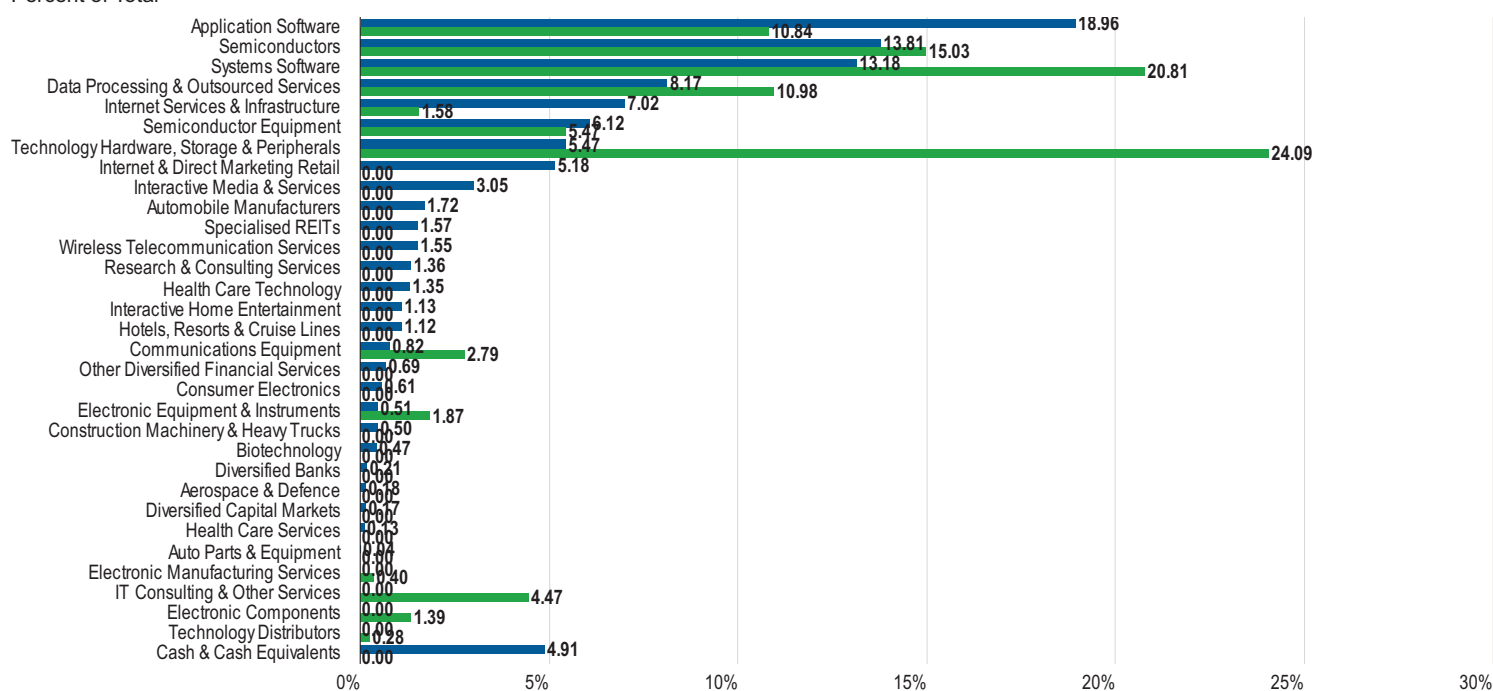
Top Ten Holdings<sup>e</sup>

Percent of Total

| Top Holdings    | %    |
|-----------------|------|
| MICROSOFT CORP  | 5.78 |
| APPLE INC       | 5.47 |
| AMAZON.COM INC  | 5.18 |
| NVIDIA CORP     | 3.81 |
| MASTERCARD INC  | 2.60 |
| ASML HOLDING NV | 2.50 |
| SERVICENOW INC  | 2.50 |
| ALPHABET INC    | 2.49 |
| SYNOPSYS INC    | 2.34 |
| SALESFORCE INC  | 2.32 |

Sector Weightings vs. MSCI World Information Technology Index<sup>f</sup>

Percent of Total



● Franklin Technology Fund  
 ● MSCI World Information Technology Index

## Performance Statistics

Risk Statistics<sup>4</sup>

|   | 3 Yrs | 5 Yrs | 10 Yrs | Since Inception |
|---|-------|-------|--------|-----------------|
| <b>Standard Deviation (%)</b>           |       |       |        |                 |
| Franklin Technology Fund                | 25.26 | 22.91 | 18.70  | 25.84           |
| MSCI World Information Technology Index | 22.56 | 20.69 | 17.00  | 23.08           |
| <b>Tracking Error (%)</b>               | 8.52  | 7.69  | 6.79   | 8.61            |
| <b>Information Ratio<sup>5</sup></b>    | -0.78 | -0.51 | -0.30  | 0.09            |
| <b>Beta</b>                             | 1.06  | 1.04  | 1.03   | 1.06            |
| <b>Sharpe Ratio</b>                     |       |       |        |                 |
| Franklin Technology Fund                | 0.48  | 0.64  | 0.85   | 0.16            |
| MSCI World Information Technology Index | 0.83  | 0.90  | 1.05   | 0.15            |

## Investment Team

| Portfolio Manager      | Years with Firm | Years Experience |
|------------------------|-----------------|------------------|
| Jonathan T. Curtis     | 14              | 18               |
| Dan H. Searle III, CFA | 20              | 21               |
| Matthew Cioppa, CFA    | 6               | 13               |

## 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 technology companies worldwide. 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: equity risk, securities lending 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.

4. Beta, Information Ratio and Tracking Error information are measured against the MSCI World Information Technology Index.

5. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

**Important Legal Information**

**This fund has been classified as Article 8 under the Regulation on sustainability related disclosures in the financial services sector (EU) 2019/2088. These are Funds which have an ESG integration approach and, in addition, have binding environmental and/or social characteristics in their investment process.** Further information in relation to the sustainability-related aspects of the Fund can be found at [www.franklinresources.com/countries](http://www.franklinresources.com/countries). 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 and the latest semi-annual report accessible on our website [www.ftidocuments.com](http://www.ftidocuments.com) or which can be obtained, free of charge, from Franklin Templeton International Services, S.à r.l. - 8A, rue Albert Borschette, L-1246 Luxembourg. The Fund's documents are available in English, Arabic, Czech, Danish, Dutch, Estonian, Finnish, French, German, Greek, Hungarian, Icelandic, Italian, Latvian, Lithuanian, Norwegian, Polish, Portuguese, Romanian, Slovak, Slovenian, Spanish and Swedish. In addition, a Summary of Investor Rights is available from [www.franklintempleton.lu/summary-of-investor-rights](http://www.franklintempleton.lu/summary-of-investor-rights). The summary is available in English. The sub-funds of FTIF are notified for marketing in multiple EU Member States under the UCITS Directive. FTIF can terminate such notifications for any share class and/or sub-fund at any time by using the process contained in Article 93a of the UCITS Directive.

For the avoidance of doubt, if you make a decision to invest, you will be buying units/shares in the Fund and will not be investing directly in the underlying assets of the Fund.

**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 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.

In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are examples of some stocks which performed well. Not all stocks in the portfolio performed as well. For the most current information on the fund, please contact your Franklin Templeton marketing representative.

Performance figures are not based on audited financial statements and assume reinvestment of interest and dividends. When comparing the performance of Franklin Templeton Investment Funds (the "Fund") with a benchmark index, it is important to note that the securities in which the Fund invests may be substantially different than those represented by the benchmark index. Furthermore, an investment in Franklin Templeton Investment Funds represents an investment in a managed investment company in which certain charges and expenses, including management fees, are applicable. These charges and expenses are not applicable to indices. Lastly, please note that indices are unmanaged and are not available for direct investment. Certain data and other information shown have been supplied by outside sources. While we consider that information to be reliable, we give no assurance that such data and information is accurate or complete.

References to indexes are made for comparative purposes only and are provided to represent the investment environment existing during the time periods shown. The indices include a greater number of securities than those held in the Fund. 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. **Past performance is not an indicator or a guarantee of future performance.**

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c. 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.

d. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalisation figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: FactSet, Refinitiv. There can



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be no assurance that the Estimated 3-5 Year EPS Growth figure, based on Institutional Brokers Estimate System (IBES) consensus estimates, will be realised. All holdings are subject to change.

e. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager reserves the right to withhold release of information with respect to holdings that would otherwise be included.

f. Percentage may not equal 100% due to rounding. All holdings are subject to change.



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