FRANKLIN TEMPLETON

Franklin Biotechnology Discovery Fund

Franklin Templeton Investment Funds

A (acc) USD
31 August 2020

Fund Commentary

Performance Review

- Global equity markets rose strongly during August. Many investors were encouraged by recent economic data and corporate earnings reports from several countries, as well as by the accommodative stances of many central banks. Optimism also rested on hopes for more government stimulus and a potential coronavirus vaccine. Sentiment was restrained by worries about the pace of economic recovery and rising US-China tensions, which at times spurred some buying of perceived safe-haven assets. In particular, the US equity market (where just over 80% of the fund's total net assets are invested) rallied steadily through its pre-pandemic highs to set a series of new records, though some troubled industries—particularly those tied to travel and leisure—continued to lag the overall advance. While information technology, consumer discretionary and communication services companies extended their summer breakouts and topped all eight other equity sectors, the health care sector cooled off somewhat, posted below-average gains and ranked eighth within the group. Pharmaceuticals industry companies tended to outperform the sector average, while biotechnology companies generally lagged amidst a wide range of positive and negative returns.
- For the month, the fund's A (acc) USD shares returned 0.23%, and its benchmark, the NASDAQ Biotechnology Index, returned 0.90%.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	BioMarin Pharmaceutical (Underweight)	Biotechnology (Stock Selection)
	Forte Biosciences (Off-Benchmark Exposure)	Life Sciences Tools and Services (Underweight)
	Iovance Biotherapeutics (Significant Overweight)	—
HURT	Novavax (Off-Benchmark Exposure)	Pharmaceuticals (Stock Selection)
	GW Pharmaceuticals (Significant Overweight)	Health Care Services (Lack of Exposure)
	Reata Pharmaceuticals (Significant Overweight)	Health Care Equipment (Stock Selection, Underweight)

- Although our lighter-than-index exposure to BioMarin was helpful as the stock shed roughly one-third of its overall value in August, it was still a major detractor in absolute terms. The US Food and Drug Administration (FDA) requested extensive follow-up data for Roctavian, BioMarin's gene therapy product for haemophilia A, a process that is to prolong the ongoing Phase 3 study and push approval out by up to two years. The FDA's response came as a surprise to investors—most of which had viewed this as a low-risk event—as BioMarin's management had been talking bullishly about the programme and the FDA's prior support for its clinical and manufacturing plans.
- The equity value of key contributor Forte Biosciences, meanwhile, surged by two-thirds as the clinical-stage dermatology company continued to make headway in developing a live topical biotherapeutic (dubbed FB-401) for the treatment of inflammatory skin diseases. FB-401 has completed Phase 1/2a testing in adult and paediatric patients with atopic dermatitis. In particular, there is a genuine unmet need for safe and effective atopic dermatitis therapies for children. Forte also provided an upbeat second-quarter update as it successfully concluded its reverse merger with Tocagen (not a fund holding) and otherwise continued to grow its development capabilities while improving business operations.
- Novavax gave back some of its robust summer gains based on heightened competitive risks even as the company appeared to be getting closer to producing a COVID-19 vaccine. Novavax has run up against intensifying rivalries in the vaccine race, which pits it against numerous biotech and pharma companies large and small. As of August-end, there were more than 150 different potential coronavirus vaccines being developed. Novavax sold off on news that a competitor's vaccine might be fast-tracked in the United States, while the Russian government on 11 August announced the country had approved the first coronavirus vaccine for human use, though this claim was questioned given that Phase 3 trials had yet to begin.

Outlook & Strategy

- Heading into September, our strategy remains unchanged despite the market volatility of the past few months. While the pandemic is still in place, we continue to concentrate our investments in biotechnology companies whose products are best-in-class, first-in-class, or only-in-class, and address diseases with significant unmet medical need delivering clinical value to patients, physicians and payors. Further, we are mindful of valuation, as well as quality of management and financial position in the current environment.
- We continue to believe the commercial side of the business will prove relatively resilient to the economic disruption caused by COVID-19, while we have grown increasingly optimistic about the development side of the business as it shows evidence of moving back towards pre-pandemic capability without major disruption. While it has been difficult to start new clinical trials or maintain the pace of enrolment in existing trials, these activities began to resume this summer or were scheduled to resume in the near term. Further, we have been checking with companies held by the fund to ensure there is minimal disruption to their manufacturing and supply chains, and to see if there are any potential delays in their regulatory reviews. Lastly, most of the development-stage companies we invest in rely on capital markets to finance their business models. Fortunately, after a short COVID-induced pause, the biotech financing window has been wide open this summer.
- In the past, we have mentioned mergers and acquisitions (M&A) as a possible boost to the sector, given the robust stream of innovation flowing from numerous small- and mid-cap biotechnology companies, coupled with weakening product pipelines and strong financial positions at the larger biotech and pharmaceutical companies. However, with social distancing still a negative for most businesses across the globe, due diligence and deal negotiation has been more difficult to execute properly. That said, we expect M&A activity to ramp-up as companies adjust to these new realities and have the ability to place more contingencies on conducting deeper due diligence prior to closing.

- There are two key developments that we believe are a positive for the sector. First, the US Democratic Party presidential candidate is Joe Biden (as decided in August), whose view on health care reform is ostensibly more moderate than either Bernie Sanders or Elizabeth Warren. Thus, should he win the presidency in November, there will likely be less potential for onerous litigation affecting the biopharmaceutical industry. Two, the biotech and pharmaceutical industries mobilised quickly to develop effective treatments and vaccines in the battle against COVID-19. We believe this has taken focus away from the sector's prior pricing practices and shifted it to the potential value that these companies can deliver to the health care system and public health in general. And now that the world is looking towards the biotech and pharma industries for solutions to COVID-19, we think the political attacks against the industry will diminish.
- While this is most definitely a challenging time for the biotech and pharma industries, the economy and all regions of the world, we are optimistic that we as a people can gain control of COVID-19, much as we saw throughout the spring and summer months. We still believe that social distancing and other measures remain necessary to slow the spread of the virus. We already have been seeing these measures having an impact in Asia, Europe, North America and elsewhere, and we are hopeful that this will help shorten the pandemic's duration. Thus, our positive medium- to long-term view of the sector is unchanged. In fact, we think it can emerge stronger, particularly if it can deliver one or more COVID treatments or vaccines. The pipeline of drugs and vaccines in development for COVID-19 has been growing at an unprecedented pace, and we are optimistic that some of these will be effective in treating and preventing infections.
- We are still excited about the tremendous amount of innovation taking place. We are enthusiastic about gene therapy and gene editing, precision oncology and the still-significant room for improvement in the treatment of cancer. Hopefully, progress will be made in other areas of unmet medical need like Alzheimer's disease, other neurodegenerative disorders, as well as NASH (the most severe form of non-alcoholic fatty liver disease). We also see opportunities at the other end of the "prevalence spectrum" in addressing rare diseases. We are further encouraged by what we are seeing in background processes, as many novel discovery tools are being used behind the scenes to enable faster drug discovery and development.

Fund Details

Inception Date	03/04/2000
Benchmark	NASDAQ Biotechnology Index

Fund Description

The fund aims to achieve capital appreciation by investing principally in equity securities of biotechnology companies and discovery research firms located mainly in the US.

Performance Data

Performance Net of Management Fees as at 31/08/2020 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
A (acc) USD	0.23	3.68	12.45	34.74	6.11	2.99	16.52	7.00
Net of Sales Charge - A (acc) USD	-4.78	-1.51	6.82	28.00	4.31	1.94	15.92	6.73
A (acc) SGD	-0.76	-0.18	13.73	32.11	6.22	2.24	16.56	11.26
Net of Sales Charge - A (acc) SGD	-5.72	-5.17	8.05	25.50	4.42	1.19	15.97	10.82
NASDAQ Biotechnology Index USD	0.90	0.78	12.57	31.77	6.88	3.55	18.15	7.03
NASDAQ Biotechnology Index SGD	-0.07	-2.95	13.85	29.19	7.00	2.80	18.19	12.61

The Inception Date for the A (acc) USD share class and A (acc) SGD share class is 03/04/2000 and 25/10/2007 respectively.

Investment Team

Evan McCulloch, CFA
Years with Firm 28
Years Experience 28

Wendy Lam, Ph.D.
Years with Firm 4
Years Experience 7

Akiva Felt
Years with Firm 2
Years Experience 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. The Fund invests mainly in equity securities of biotechnology companies. Such securities have historically been subject to significant price movements that may occur suddenly due to market, sector or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: securities lending 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

Franklin Biotechnology Discovery Fund is a sub-fund of the Luxembourg-domiciled Franklin Templeton Investment Funds (FTIF).

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