Franklin Technology Fund

Franklin Templeton Investment Funds

A (acc) USD
31 March 2019

Fund Commentary

Performance Review

- The global equity market overall posted a strong gain for the first quarter of 2019, bolstered by widespread advances in January. Mostly positive signals around US-China trade talks and the US Federal Reserve's shift to a more patient approach to interest-rate hikes supported equities. Stock performance was mixed across regions in February and March as global growth expectations moderated. In general, the information technology (IT) sector rallied sharply and outperformed all 10 other major equity sectors.
- For the quarter, the fund's A (acc) USD shares returned 23.46%, and its benchmark, the MSCI World Information Technology Index, returned 19.70%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Alibaba Group Holding (Off-Benchmark Exposure)	Systems Software (Stock Selection, Substantial Underweight)
	ServiceNow (Substantial Overweight)	Application Software (Stock Selection, Substantial Overweight)
	Twilio (Off-Benchmark Exposure)	Semiconductors (Stock Selection)
HURT	Amdocs (Off-Benchmark Exposure)	Other Diversified Financial Services (Lack of Exposure)
	Cloudflare (Off-Benchmark Exposure)	Automobile Manufacturers (Lack of Exposure)
	Taiwan Semiconductor Manufacturing (Off-Benchmark Exposure)	Interactive Media and Services (Lack of Exposure)

- The fund's significant position in Alibaba rallied sharply on a strong quarterly earnings report and positive signs around US-China trade talks. Alibaba said its cloud-computing segment posted 84% revenue growth in the final quarter of 2018, while its innovation initiatives touted 73% revenue growth, suggesting that the company was finding ways to replace the slowing growth in its core e-commerce business.
- ServiceNow, a provider of proprietary cloud-based platforms and applications that help automate enterprise IT operations (such as digital workflow and business processes), continued to gather momentum. The firm delivered another impressive quarterly earnings report in January, surpassing consensus estimates. ServiceNow counts nearly 75% of Fortune 500 companies as its customers. It has continued to add new ones and expand existing relationships; during the quarter, it closed 51 contracts with more than US$1 million in annual revenue (each), bringing the total to 678.
- Amdocs—a software and services provider to communications and media companies—declined after certain prominent short sellers lowered their views on the stock. Concerns were centred on expectations of flat-to-negative organic growth in a low-growth industry, and accusations the firm creates an illusion of healthy growth through mergers/acquisitions and accounting gimmicks. We viewed the selloff as a potential buying opportunity; based on our own analysis, we think the arguments against Amdocs are unfounded. In particular, we don't believe the company struggles to generate cash, as we see seasonal yet strong cash flow.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Zscaler (Off-Benchmark Exposure)	Systems Software (Stock Selection)
	Amazon.com (Off-Benchmark Exposure)	Specialized REITs (Off-Benchmark Exposure)
	American Tower (Off-Benchmark Exposure)	Health Care Equipment (Off-Benchmark Exposure)
HURT	Apple (Substantial Underweight)	Application Software (Stock Selection, Substantial Overweight)
	Workday (Substantial Overweight)	Technology Hardware, Storage and Peripherals (Substantial Underweight)
	Alibaba Group Holding (Off-Benchmark Exposure)	Data Processing and Outsourced Services (Stock Selection)

- Our small off-index investment in cloud-based cybersecurity specialist Zscaler (systems software industry) enjoyed an outsized March gain as its business continued to expand at a rapid clip, encouraging management to boost its full-year revenue outlook by about 8%. In the final quarter of 2018, Zscaler's revenue surged 65% on a year-ago basis to US$74.3 million, well above Wall Street's expectations. The company also delivered an adjusted profit of US$11.6 million, or US$0.09 per share, compared to a loss in the prior-year period; this, too, bested analysts' consensus estimates, which had called for an adjusted loss of US$0.01 per share.
- Our position in communications tower real estate investment trust (REIT) American Tower performed strongly in the last six months as it continued to benefit from increased use of mobile data, which drove demand for space on its telecom towers. The company has grown its cash flow at a double-digit rate for 11 straight years, and the tower space demand trend is likely to continue across most of the world in 2019. Although we believe the stock may be getting somewhat overbought, trading significantly above historical multiples, American Tower anticipates strong organic growth in 2019 as it sees US tenant billings increasing by 7%.

- The shares of Workday, which develops enterprise cloud software applications for finance and human resources, declined modestly in March, though we believe this may have been due to profit-taking by investors following a strong run. During the month, Workday announced another strong quarterly result that surpassed consensus estimates. Management detailed the company's continued success in winning the business of an ever-growing number of large enterprise customers and boosted its subscription revenue guidance for the coming year. We believe Workday's products can continue to garner broader adoption, particularly amongst financial services industry customers.

Outlook & Strategy

- The IT sector has begun 2019 on solid footing. We believe the coming months will be good for IT sector fundamentals (growing revenue, growing earnings per share, increased dividends) as enterprises invest in their Digital Transformation (DT) initiatives, enjoy the benefits of lower taxes and seek increased productivity in a tightening labor market.
- Along with the other key IT-related risks, we are monitoring the uncertain demand environment in China and Europe and continuing US-China trade tensions. While periods of rising interest rates typically create new places to get yield, we believe such environments are indicative of strengthening economic fundamentals, which will also help to sustain technology spending growth, especially after many years of restrained investment and the burgeoning need for investment in DT initiatives.
- We continue to invest in what we believe are high quality, underappreciated emerging leaders leveraged to the most attractive, multi-year technology themes around DT, including artificial intelligence (AI) and machine learning, 5G (the next generation of mobile networks), SaaS (software-as-a-service), cloud computing, e-commerce, fintech (technology-driven financial products and services, including digital payments), analytics, business collaboration, cybersecurity, autonomous vehicles, increasingly sophisticated robotics and the Internet of Things (IoT).
- We believe that all businesses will need to invest more in technology to better understand and service their customers at a competitive cost, during the transition to technology-on-demand that will be integrated into daily life in the years ahead. We believe that businesses—many of which were previously quite distant from pure technology—that do not make these investments risk being disrupted by nimbler "digital natives." As it pertains to the fund's equity selection, we want to invest in the highest quality leading and emerging digital disrupters and those high-quality IT vendors helping businesses digitally transform.
- In the near future, all software applications and smart devices across all industries are likely to feature some form of embedded AI in them. Without a doubt, the rapid advancement in AI—supported by a large base of always-connected consumers, high-speed internet access and expanding global cloud-computing infrastructure—is ushering in a radical technological transformation that is permeating all areas of the global economy. Companies will likely have to keep up or be left behind as machine- and deep-learning take hold and become more prevalent.
- On a cautionary note, we see growing regulatory risks for the data-rich consumer internet platforms, particularly in relation to user privacy and data sharing with companies and government entities. While headline risks are on the rise, we believe that engagement and advertising productivity on platforms like Facebook and Google (Alphabet) can remain high, which should keep advertisers engaged and revenue flowing.

Fund Details

Inception Date	03/04/2000
Benchmark	MSCI World Information Technology 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

Performance Net of Management Fees as at 31/03/2019 (Dividends Reinvested) (%)[1]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/04/2000)
A (acc) USD	3.27	23.46	23.46	16.31	24.50	17.11	19.10	4.11
Net of Sales Charge - A (acc) USD	-1.89	17.29	17.29	10.49	22.37	15.91	18.49	3.82
MSCI World Information Technology Index USD	4.32	19.70	19.70	13.06	21.62	16.96	18.35	1.91

Investment Team

Jonathan T. Curtis
Years with Firm 11
Years Experience 15

John Scandalios, CFA
Years with Firm 22
Years Experience 29

James Cross, CFA
Years with Firm 20
Years Experience 21

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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 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: liquidity 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.

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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.

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1. Source for all information is Franklin Templeton Investments. Benchmark related data provided by FactSet. Fund performance computed in share class currency, on NAV-NAV basis and dividends reinvested. Net of Sales Charge figures are after 5% sales charge. Past performance is no guarantee of future results. Portfolio holdings are subject to change. Periods greater than one year are shown as average annual total returns. Other commissions, taxes and other relevant costs paid by investor are not included.