



FRANKLIN TEMPLETON  
INVESTMENTS

# INVESTING IN INNOVATION

Franklin DynaTech Fund



A person wearing AR glasses is shown in profile on the left side of the image. They are interacting with a futuristic digital interface that features various data visualizations, including a large circular gauge, bar charts, and numerical values. The background is a blurred, high-tech environment with blue and white light effects.

**“OUR GOAL IS  
TO INVEST IN  
COMPANIES THAT  
HELP DEFINE  
THE FUTURE”**

**Matthew J. Moberg**  
Lead Portfolio Manager

**Rupert H. Johnson Jr.**  
Portfolio Manager

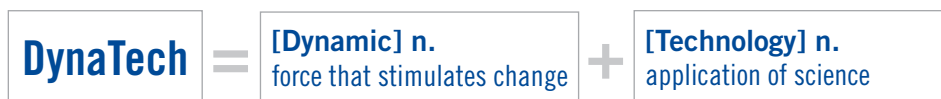
Not FDIC Insured | May Lose Value | No Bank Guarantee

## Franklin DynaTech Fund is a growth fund that has focused on investing in innovation since 1968.

**It started with fire.** The wheel. Roads. Bronze. Iron. The printing press. The steam engine. Railroads. Electricity. Flight. Space travel. The internet. Artificial intelligence.

Making things better, improving our lives through new products and new innovations is one of the most basic human characteristics. It is born within us. The desire to discover, improve and question our surroundings is, simply, what makes us human. It is both what brought us here and what will drive us forward by solving some of our greatest problems.

Since 1968, we have researched, investigated, explored, studied and scrutinized the greatest innovations of our time, looking for the best potential investments. We seek to identify those companies and industries with the best new products, new processes, management and technologies. We push forward with the constant optimism that the world is getting better and that we can continue to drive that improvement through innovation. **We believe to have the potential to outperform the market over the long term, we must focus our investments on innovation or, as we coined over 50 years ago, Dynamic Technologies.**



**WHAT ARE THE RISKS?** All investments involve risks, including possible loss of principal. Stocks historically have outperformed other asset classes over the long term, but tend to fluctuate more dramatically over the short term. Investments in fast-growing industries like the technology and healthcare sectors (which have historically been volatile) could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing scientific or technological advancement or regulatory approval for new drugs and medical instruments. The fund may also invest in small- and mid-capitalization companies, which can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. These and other risks are described more fully in the fund's prospectus.

### WHAT'S INSIDE?

**Our investment philosophy is grounded by the following framework:**



#### **INNOVATION DEMANDS ACTIVE MANAGEMENT**

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#### **INNOVATION IS OFTEN MISPRICED**

Page 3



#### **INNOVATION IS EVERYWHERE**

Page 4

#### **ADVANTAGEOUSLY SITUATED IN SILICON VALLEY**

Our investment team is headquartered near the heart of Silicon Valley, the hub of technology innovation, home to leading universities and many of the most established technology companies in the world.



# INNOVATION DEMANDS ACTIVE MANAGEMENT

It evolves constantly.

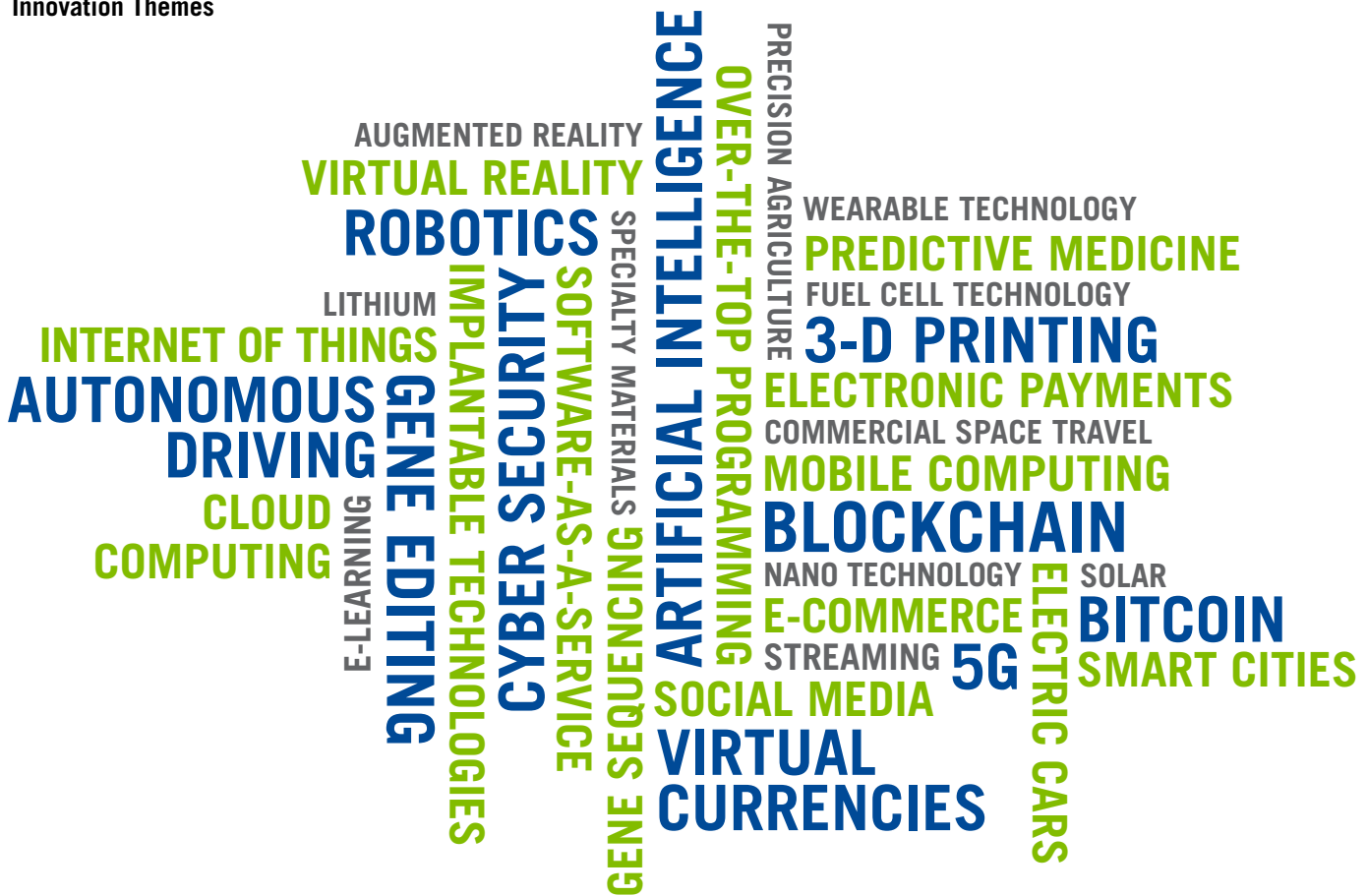
Investing in innovation demands active management because innovation is one of the most misunderstood parts of the market. Many new technologies have a direct impact on our daily lives, but may not make good investments. Other innovations may become great investments far in the future, but not today. Of course, other new products and new processes may be great investments now.

We strive to live at the intersection where new ideas can make great long-term investments. Franklin DynaTech Fund seeks to invest in innovation with sustainable long-term growth potential, operating in segments of the economy with a favorable competitive environment.

**“We strive to live at the intersection where new ideas can make great long-term investments.”**

**Matthew J. Moberg**  
Lead Portfolio Manager

## Innovation Themes



This information is for illustrative purposes only and not necessarily representative of Franklin DynaTech Fund's past or future portfolio composition. There is no assurance that the Fund will invest in any or all of these innovation themes. This information is not intended as an investment recommendation nor does it constitute investment advice.



# INNOVATION IS OFTEN MISPRICED









It can last longer or be adopted faster than expected.

We believe growth from innovation often lasts longer or is adopted faster than what people initially anticipate. The illustration below provides a few examples of both of these concepts.

**Lasts Longer:** Growth from innovation can last a very long time. Franklin DynaTech Fund seeks to identify long-life “generational companies” and hold them for multiple years. We believe this approach is the best way to potentially maximize shareholder returns by allowing the full effect of compounding growth to benefit investors.

**Adopted Faster:** Growth from innovation doesn’t always follow a straight line. It can often accelerate and grow faster than expected despite years of stagnant growth. Franklin DynaTech Fund seeks to identify these inflection points.

## By the Numbers

<p><b>Transportation</b> </p> <p>When Uber was founded, the U.S. taxi market was <b>\$2 billion</b>. Now in 2018, the ride sharing market is estimated to be <b>\$17 billion</b>.<sup>1</sup></p>	<p><b>Communications</b> </p> <p>It took <b>39 years</b> for telephones to reach 40% of the population. It took smart phones just <b>10 years</b>.<sup>2</sup></p>	<p><b>Entertainment</b> </p> <p>Tencent's League of Legends, an online video game, generates <b>\$2.1 billion</b> per year<sup>3</sup>. The highest grossing movie ever, Avatar, generated <b>\$2.8 billion</b> since 2009.<sup>4</sup></p>	<p><b>Finance</b> </p> <p>In 2016, mobile payments totaled <b>\$112 billion</b> in the US, compared to <b>\$9 trillion</b> in China.<sup>5</sup></p>
<p><b>Information Tech</b> </p> <p>Since going public in 2004, Salesforce's revenue has grown by more than <b>20% every year</b>.<sup>6</sup></p>	<p><b>Healthcare</b> </p> <p>In 1999, the first human genome was mapped for a total cost of <b>\$2.7 billion</b>—in 2015, the cost fell below <b>\$1,000</b>.<sup>7</sup></p>	<p><b>Industrial</b> </p> <p>In 2010, robotics spending was growing at a <b>7% CAGR</b><sup>8,9</sup>. It is expected to grow at a <b>23% CAGR</b><sup>8,10</sup> through 2021.</p>	<p><b>Advertising</b> </p> <p>From 1996 to 2017, a <b>21-year</b> period, US digital advertising has grown at a <b>32% CAGR</b>.<sup>8,11</sup></p>

This information is for illustrative purposes only and is not necessarily representative of the Franklin DynaTech Fund's past or future portfolio composition. As of June 30, 2018, Tencent and Salesforce.com represented 2.13% and 2.32%, respectively, of the total net assets of the Franklin DynaTech Fund. Uber is not a publically traded stock at this time and thus represents 0.00% of total net assets of the Franklin DynaTech Fund.

1. Source: “Ride Sharing.” *Statistica*, [statista.com/outlook/368/100/ride-sharing/worldwide#market-globalRevenue](http://statista.com/outlook/368/100/ride-sharing/worldwide#market-globalRevenue).

2. Source: McGrath, Rita Gunther. “The Pace of Technology Adoption is Speeding Up.” *Harvard Business Review*, 25 November 2013.

3. Source: “League of Legends revenue worldwide from 2015 to 2017 (in billion U.S. dollars).” *Statistica*, [statista.com/statistics/806975/lol-revenue](http://statista.com/statistics/806975/lol-revenue).

4. Source: “Avatar (2009).” *The Numbers*<sup>®</sup>, [the-numbers.com/movie/Avatar#tab=summary](http://the-numbers.com/movie/Avatar#tab=summary).

5. Source: Abkowitz, Alyssa. “The Cashless Society Has Arrived, Only It's in China.” *Wall Street Journal*, Dow Jones & Company, Inc., 4 January 2018, [wsj.com/articles/chinas-mobile-payment-boom-changes-how-people-shop-borrow-even-panhandle-1515000570](http://wsj.com/articles/chinas-mobile-payment-boom-changes-how-people-shop-borrow-even-panhandle-1515000570).

6. Source: Bloomberg.

7. Source: “The Cost of Sequencing a Human Genome.” *National Human Genome Research Institute*, [genome.gov/sequencingcosts](http://genome.gov/sequencingcosts).

8. Source: Compounded Annual Growth Rate (CAGR) is the mean annual growth rate of an investment over a specified period of time.

9. Source: “Robots: Building New Business Models.” *Siemens*, 20 April 2016, [siemens.com/innovation/en/home/pictures-of-the-future/digitalization-and-software/autonomous-systems-facts-and-forecasts.html](http://siemens.com/innovation/en/home/pictures-of-the-future/digitalization-and-software/autonomous-systems-facts-and-forecasts.html).

10. Source: “Worldwide Spending on Robotics Forecast to Accelerate Over the Next Five Years.” *IDC*, 12 July 2017, [idc.com/getdoc.jsp?containerId=prUS42880417](http://idc.com/getdoc.jsp?containerId=prUS42880417).

11. Source: IAB Internet Advertising Revenue Report.






# INNOVATION IS EVERYWHERE

But it's often misclassified.

## Innovation is Everywhere

Innovation today is pervasive. It is not confined to any singular niche of the economy. We highlight a few examples below.









### Innovation Examples Across Sectors<sup>12</sup>

Industrial 	Transportation 	Healthcare 	Financial 	Information Technology 
Robotics, 3D printing and automated manufacturing are changing how things are made.	Autonomous driving, electric vehicles, and the sharing economy will likely change not only how we transport ourselves, but also how we consume energy and fossil fuels.	Gene sequencing and implantable devices are only two of many new ways we are finding effective treatments and cures for disease.	Blockchain, virtual currencies, and electronic payments are making transactions easier and more secure.	Artificial intelligence, virtual and augmented reality, wearable internet, and 5G mobile networks and wireless systems will likely have profound effects on our lives.

## Innovation is Often Misclassified

We believe we manage a broadly diversified growth portfolio, and the index providers may not have fully caught up to how companies should be classified. Many innovative companies that are new are classified in the technology sector initially. As these companies mature, they may move over to a more appropriate classification.

### We Look Beyond Standard Industry Classifications to Spot Where Innovation Exists<sup>12</sup>

Sub-Sector Examples	Current Sector Classification	Actual Sector Impacted	Why?
<b>E-commerce</b>	Information Technology 	Consumer Discretionary 	Although often classified as internet, we view e-commerce companies as retailers as they sell goods to the public for consumption.
<b>Robotics and 3D Printing</b>	Information Technology 	Industrials 	The products these companies manufacture are purchased by industrial companies.
<b>Payment Providers</b>	Information Technology 	Financials 	Payment companies are changing the way we shop and the methods in which we transact to improve ease of use and security.
<b>Video Game Manufacturers</b>	Information Technology 	Consumer Discretionary 	Video games are competing for the same time and money we may use for leisure activities.

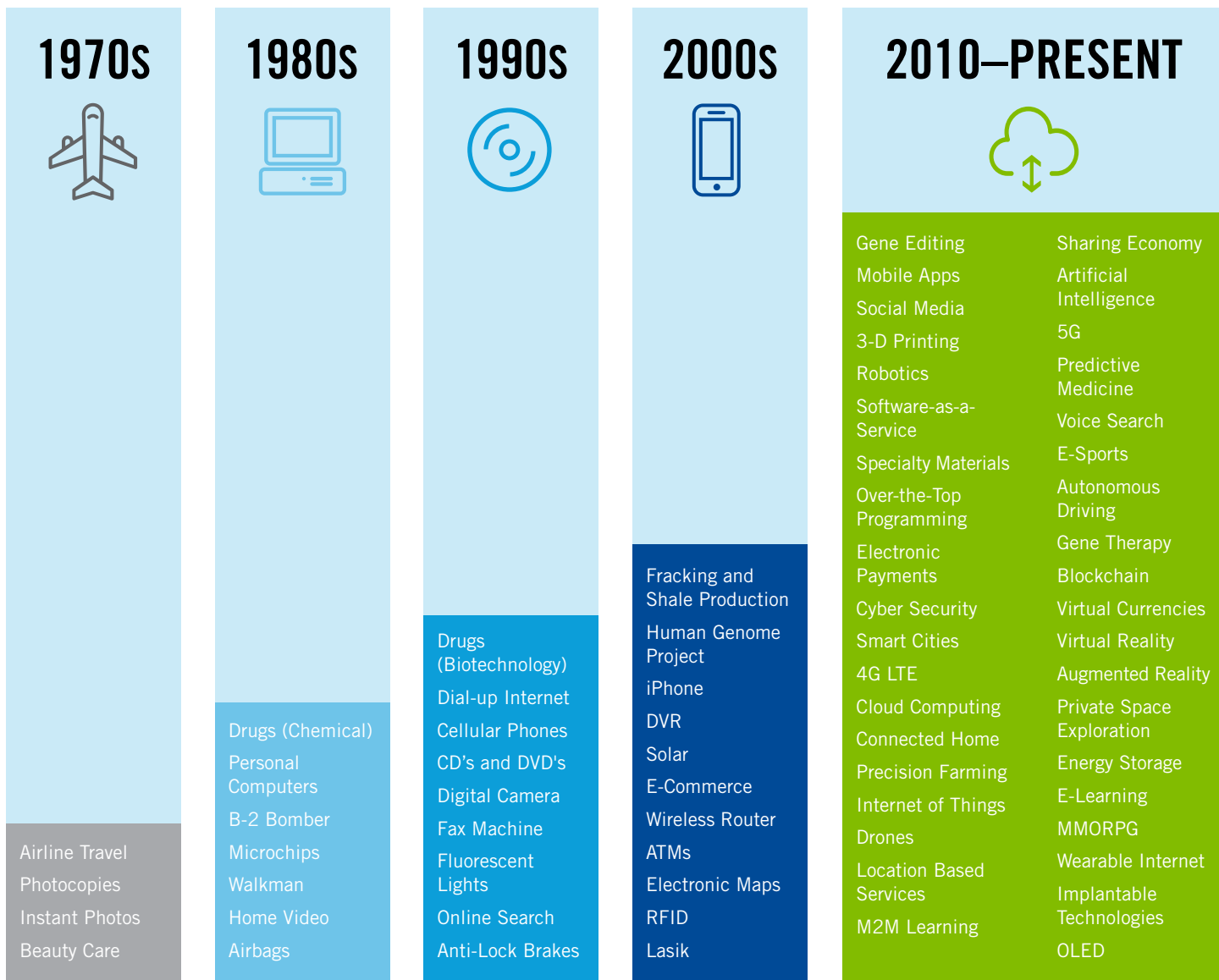
12. This commentary reflects the analysis and opinions of the Franklin DynaTech Fund investment team as of June 30, 2018, and may differ from the opinions of other portfolio managers, investment teams or platforms at Franklin Templeton Investments. Because market and economic conditions are subject to rapid change, the analysis and opinions provided may change without notice. The commentary does not provide a complete analysis of every material fact regarding any country, market, industry or security. An assessment of a particular country, market, security, investment or strategy is not intended as an investment recommendation nor does it constitute investment advice. Statements of fact are from sources considered reliable, but no representation or warranty is made as to their completeness or accuracy.

# WHY INVEST IN INNOVATION NOW?

We believe the pace of innovation is accelerating.

In our view, we are living in a period of unprecedented innovation, sometimes referred to as the fourth industrial revolution<sup>13</sup>, which affords us with a compelling backdrop in which to invest. We believe that economies thrive on creative destruction, and that change can potentially benefit everyone.

## Innovation Examples Over Time



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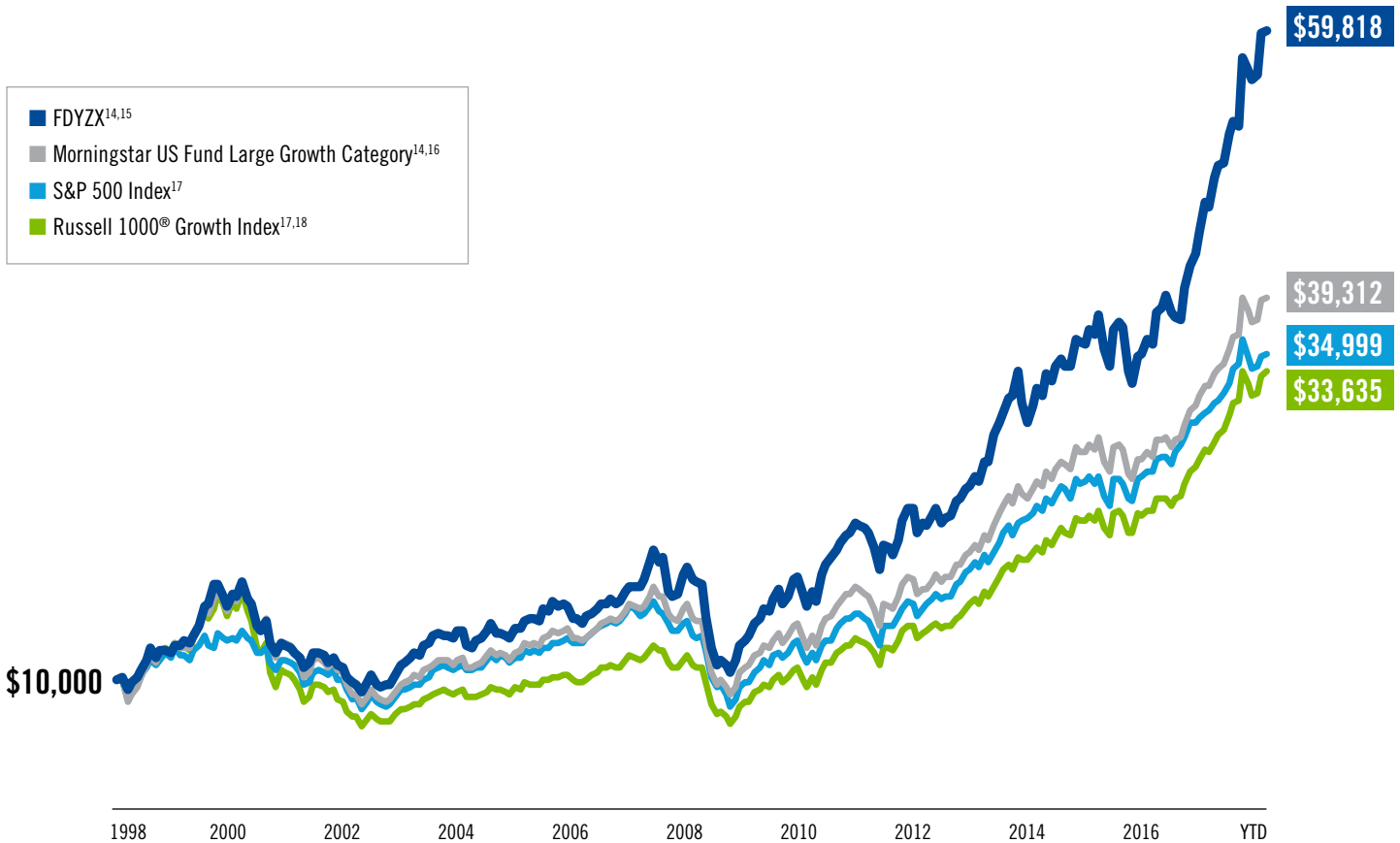
13. Source: Schwab, Klaus. *The Fourth Industrial Revolution*. Currency, 2017. Print.

# FRANKLIN DYNATECH FUND—ADVISOR CLASS (FDYZX)

Fund statistics for period ended June 30, 2018

## 20 Years of Impressive Long-Term Performance

Hypothetical Investment Scenario (Growth of \$10,000 Investment)  
6/30/1998–6/30/2018



The hypothetical scenario does not take into account federal or state taxes. If it had, the net results would have been lower. Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.

Advisor Class shares are only offered to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers multiple share classes, which are subject to different fees and expenses that will affect their performance. Please see the prospectus for details.

### Overall Morningstar Rating<sup>TM19</sup>



Rating Category: **Large Growth**

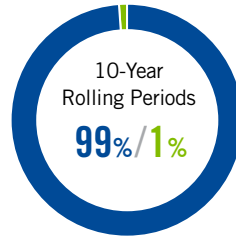
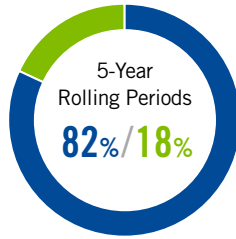
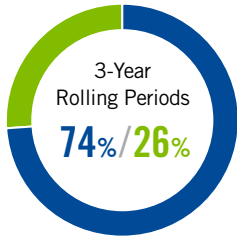
As of 6/30/2018, the fund's Advisor Class shares received a 5 star overall Morningstar Rating<sup>TM</sup>, measuring risk-adjusted returns against 1,265, 1,141 and 825 U.S.-domiciled Large Growth mutual funds and exchange traded funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.



**Rolling Returns: FDYZX<sup>14,15</sup> vs. Russell 1000® Growth Index<sup>17,18</sup>**

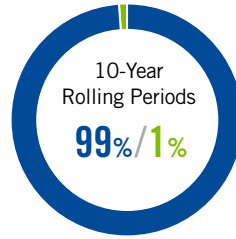
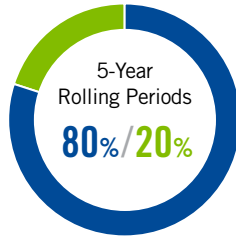
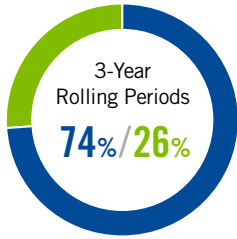
20-Year Period ended June 30, 2018

■ Outperformed  
■ Underperformed



**Rolling Returns: FDYZX<sup>14,15</sup> vs. S&P 500 Index<sup>17</sup>**

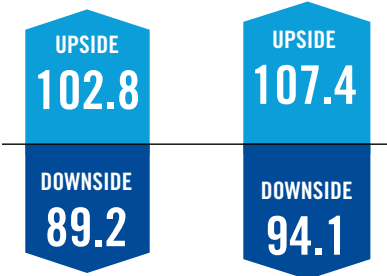
20-Year Period ended June 30, 2018



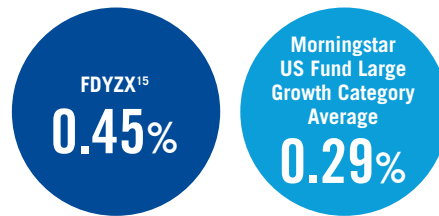
**Over longer holding periods, Franklin DynaTech Fund–Advisor Class (FDYZX) has historically outperformed.**

**20-Year Period Capture Ratios<sup>20</sup>**

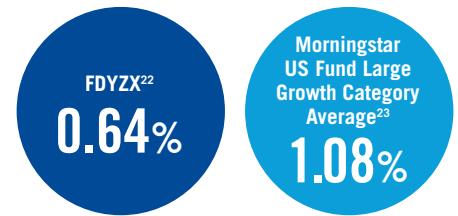
FDYZX<sup>14,15</sup> vs. Russell 1000® Growth Index<sup>17</sup>    FDYZX<sup>14,15</sup> vs. S&P 500 Index<sup>17,18</sup>



**20-Year Sharpe Ratio<sup>14,21</sup>**



**Net Expense Ratios**



14. Source: © 2018 Morningstar. All Rights Reserved. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com).

15. The fund offers other share classes, subject to different fees and expenses that will affect their performance. Effective 05/15/2008, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A performance, excluding the effect of Class A's maximum initial sales charge but reflecting the effect of the Class A Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.

16. The Morningstar US Fund Large Growth Category consisted between 718 and 1,516 funds for this period. Returns data represents cumulative total returns and assumes reinvestment of dividends. Returns are based on the performance of all share classes of all funds within this Morningstar classification. It reflects the effect of any expense waivers and does not include sales charges.

17. Source for Index: FactSet, FTSE and S&P Dow Jones. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

18. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

19. Source: Morningstar®. For each mutual fund and exchange traded fund with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. Past performance is not an indicator or a guarantee of future performance. The Morningstar Rating™ for this share class is based on Morningstar's extended performance calculation. This means that, for a share class that doesn't have a 1-, 3-, 5-, or 10-year performance history, the rating shown is a hypothetical Morningstar Rating based first on the oldest active surviving share class of the fund and then any dormant or liquidated share classes. If more than one share class has the earliest inception date, Morningstar selects the share class that is freely available to investors, that is not currency-hedged, and has the lowest fee.

20. Capture ratios are based on monthly returns and calculated against the S&P 500 Index and Russell 1000 Growth® Index. Downside (Upside) Capture Ratio explains how well a portfolio performed on average in time periods where the benchmark's returns were less than (greater than) zero. A downside (upside) capture ratio of less than (more than) 100 indicates that a fund lost less (gained more) than its benchmark on average during periods of losses (gains) for the benchmark. **Past performance is not an indicator or a guarantee of future performance.**

21. To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

22. The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 1/31/2019. The fund's total annual operating expenses with waiver is 0.64% and 0.65% without waiver.

23. Source: Morningstar®. The Morningstar US Fund Large Growth Category consisted of 1,516 funds for this period.

## Franklin DynaTech Fund

Average Annual Total Returns (For Periods ended June 30, 2018)

	1-Year	3-Year	5-Year	10-Year	20-Year
Advisor Class (FDYZX)	29.71%	17.91%	18.98%	13.04%	9.36%
Russell 1000® Growth Index <sup>24,25</sup>	22.51%	14.97%	16.36%	11.83%	6.25%
S&P 500 Index <sup>24</sup>	14.37%	11.93%	13.42%	10.17%	6.46%

### Total Annual Operating Expenses—With Waiver: 0.64%; Without Waiver: 0.65%

*Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com) for the most recent month-end performance.*

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24. Source for Index: FactSet, FTSE and S&P Dow Jones. Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

25. The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

A man with a beard and glasses, wearing a white lab coat, is looking at a computer screen. The screen displays several medical scans, including axial CT scans of the head and neck. The man is holding a small, circular object, possibly a medical device or a sample, in his hand. The background is a light green color.

**“WE DON’T JUST  
THINK ABOUT  
THE FUTURE,  
WE INVEST IN IT”**

**Matthew J. Moberg**  
Lead Portfolio Manager

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Portfolio Manager

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit **franklintempleton.com**. Please carefully read a prospectus before you invest or send money.*



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