

Franklin Biotechnology Discovery Fund

Advisor Class: FTDZX Class A: FBDIX

Commentary | as of September 30, 2025

Key Takeaways

- Markets: Global equities delivered solid gains in 2025's third quarter, buoyed in part by easing trade tensions and optimism surrounding artificial intelligence (AI). Central bank actions—notably the US Federal Reserve's policy interest-rate cut and its signaling of potential further monetary easing—supported market sentiment, as did generally robust corporate earnings. In broad terms, health care stocks exhibited improving fundamentals and posted modest gains, but they also underperformed all but two out of 10 other major equity sectors globally (per MSCI index data in US dollar terms). Among the six health care-related industries, overall gains for biotechnology stocks roughly tripled the sector average, though life sciences tools and services companies, along with other technology-enabled segments (health care-focused software, data, digital health, health technology) also fared well. In contrast to biotech's rally, pharmaceuticals companies lagged the sector average while the health care equipment and supplies industry sold off. Market headwinds came from large pharma—pressured by patent expirations, drug-pricing risks and potential tariff measures—and from weaker results among equipment and supplies companies facing cost and demand challenges.
- Contributors: Robust support from stock selection in the fund's core biotechnology and pharmaceuticals holdings.
- Detractors: Adverse stock selection and underweighting in the life sciences tools and services industry, along with selloffs for some of the fund's higher-conviction biotech holdings.
- Outlook: The portfolio continues to be overweighted in mid-, small- and micro-capitalization biotechnology stocks as these market-cap tiers are where we see some of the best value heading into the fourth quarter. We also continue to emphasize selectivity, favoring what we believe to be clinically or commercially "derisked" assets.

Performance Review

- The fund's biotech holdings collectively gained more than twice as much as those tracked by the NASDAQ Biotechnology Index. Key contributors included Abivax, which posted a stock return of about 1,000%, along with double- or triple-digit percentage stock gains for overweighted/off-benchmark positions in uniQure, Mineralys Therapeutics, Merus (sold by period-end), Centessa Pharmaceuticals, Insmed, Olema Pharmaceuticals and more than two dozen others. Our biotech results were also supported by a lack of exposure to numerous poor-performing index component companies that sold off.
- We believe the fund was benefiting from the shift toward non-acute, data analytics and remote care, while specialty
 pharma/digital services remained as a structural theme. Renewed investor interest in growth areas such as health tech was
 supported by easing macro pressures, stabilizing inflation expectations and hopes for regulatory moderation. Many biotech
 companies were benefiting from positive clinical trial data and groundbreaking Al developments in drug discovery, CRISPR
 (clustered regularly interspaced short palindromic repeats) gene editing, mRNA (messenger ribonucleic acid) therapies,
 obesity/diabetes specialty drug growth, and personalized medicine.
- Among the biotech contributors cited above, Insmed was one of our largest positions. Insmed, which specializes in rare and serious lung diseases, received US Food & Drug Administration (FDA) approval of Brinsupri to treat bronchiectasis (an inflammatory lung condition). The drug received a broad label with no unexpected safety warnings or limitations. This is the first-ever approved treatment for non-cystic fibrosis bronchiectasis.
- The fund would have fared even better versus the Nasdaq Biotechnology Index if not for detrimental stock selection in the
 life sciences tools and services industry. This is where key detractor Avantor and other off-index holdings sold off, and where
 the fund's lack of investment in several rallying index component companies—namely Medpace Holdings and Tempus Al—
 further dampened relative performance. In the pharma industry, mild losses for off-benchmark Eli Lilly and a slightly
 overweight stake in Crinetics Pharmaceuticals (sold by period-end) eroded the fund's absolute and relative gains.
- The rest of the key detractors pressured our otherwise solid results in biotech, where overweight or off-benchmark ARS
 Pharmaceuticals, MoonLake Immunotherapeutics (sold by period-end), Soleno Therapeutics, Akebia Therapeutics and
 Cullinan Therapeutics failed to advance. Underweighted positions in Alnylam Pharmaceuticals and BeOne Medicines
 (formerly BeiGene) further curbed our results as they both rose about 40%, though Alnylam was still a major fund holding that
 added solidly to the fund's standalone gains.

Outlook

- Our positive outlook is based on what we consider to be generally strong fundamentals and appealing valuations backed partly by innovation in new drug modalities, what we see as a potentially strong merger-and-acquisition (M&A) cycle returning later this year and in 2026—after sticking points related to tariffs and Most Favored Nation (MFN) pricing policies are resolved—and relatively stable Medicare drug reimbursement. As it pertains to M&A, we are still waiting to see specific implementation details in terms of how the Trump administration works through looming tariff and MFN pricing policy actions. Some headway was made on both fronts in September, as select pharmaceutical firms began to forge detailed agreements (including exemptions) with the US government. We view these as important "clearing events" that can help quell investor uncertainty and potentially open up biotech M&A activity once they're clarified.
- Conversely, we remain cognizant of risks to biopharma innovation and stock performance linked to the persistence of inflation and the potential for only minimal interest-rate reductions in the United States for the remainder of 2025. We are also concerned about worse-than-expected impacts from the long-awaited implementation of Inflation Reduction Act (IRA, signed into law in 2022) drug pricing measures in the United States; its new prescription drug price negotiation provision, inflation caps and Medicare Part D redesign hold the potential to compress profit margins and deter innovation. With negotiated prices now public, empirical evidence is starting to test investor fears that have been active for about three years now. That said, we don't want to overstate the risk because the IRA pertains to US revenues, and only Medicare revenues therein, which means drugs that skew towards older populations.

Top Equity Issuers (% of Total)

Holding	Fund
GILEAD SCIENCES INC	6.21
AMGEN INC	4.80
VERTEX PHARMACEUTICALS INC	4.74
ARGENX SE	4.21
ALNYLAM PHARMACEUTICALS INC	4.19
REGENERON PHARMACEUTICALS INC	3.99
JAZZ PHARMACEUTICALS PLC	3.72
UNIQURE NV	3.70
INSMED INC	3.29
ASCENDIS PHARMA A/S	3.06

Average annual total returns and fund expenses (%) - as of September 30, 2025

			Without Sales Charge						With Maximum Sales Charge							Expenses		Sales Charges		Inception	
Class	CUSIP	Ticker	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Advisor Class	354713398	FTDZX	29.58	23.65	10.55	17.97	4.16	5.99	10.28	29.58	23.65	10.55	17.97	4.16	5.99	10.28	0.78	0.77	_	_	9/15/1997
Class A	354713844	FBDIX	29.50	23.42	10.27	17.68	3.90	5.72	10.11	22.37	16.63	4.20	15.48	2.73	5.13	9.89	1.03	1.02	5.50	_	9/15/1997
Benchmark 1	_	_	15.43	13.21	2.35	9.00	2.77	4.41	_	15.43	13.21	2.35	9.00	2.77	4.41	_	_	_	_	_	_
Benchmark 2	_	_	8.12	14.83	17.60	24.93	16.47	15.30	_	8.12	14.83	17.60	24.93	16.47	15.30	_	_	_	_	_	_

Benchmark(s)

Benchmark 1=NASDAQ Biotechnology Index

Benchmark 2=S&P 500 Index

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com.

The fund began offering Advisor Class shares on 9/1/2009, Performance quotations have been calculated as follows: (a) for Advisor Class prior to 9/1/2009, a restated figure is used based on the fund's Class A performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 08/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

What are the Risks?

All investments involve risks, including possible loss of principal. The portfolio is non-diversified and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. To the extent the portfolio invests in a concentration of certain securities, regions or industries, it is subject to increased volatility. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. The manager may consider environmental, social and governance (ESG) criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Important Information

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.

The NASDAQ Biotechnology Index is a modified capitalization-weighted index designed to measure performance of all NASDAQ stocks in the biotechnology sector. Source: Nasdaq OMX. The S&P 500 Index features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

