

Franklin Biotechnology Discovery Fund

Advisor Class: FTDZX Class A: FBDIX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Global equity markets generally declined during the first quarter of 2026 (1Q26) amid heightened volatility, as geopolitical tensions and shifting macroeconomic dynamics weighed on investor sentiment. The conflict in the Middle East emerged as a key destabilizing factor, disrupting energy markets and amplifying inflationary pressures globally. As measured by a MSCI global index in USD terms, while six out of 11 equity sectors advanced (led by energy, utilities and materials), health care was in seventh place and saw significant disparity across all six related industries. While pharmaceuticals served as the sole outlier to the upside in 1Q26, all other industries traded lower, with steep losses for health care technology, health care equipment and supplies, and life sciences tools and services; a comparatively milder decline for health care providers and services; and a nearly breakeven result for biotechnology.
- **Contributors:** Effective stock selection in the pharmaceuticals industry and, to a lesser extent, an underweight in life sciences tools and services industry stocks.
- **Detractors:** Unfavorable stock selection and underweighting in the biotech industry, and a small but overweighted stake in poor-performing health care services companies.
- **Outlook:** Our positive outlook is based on what we consider to be generally strong fundamentals and appealing valuations, backed in part by innovation in new drug modalities and a potentially strong merger-and-acquisition (M&A) cycle gathering momentum. Sticking points related to tariffs and “Most Favored Nation” (MFN) pricing policies are now mostly resolved, and US Medicare drug reimbursement appears to be relatively stable. We view these as important “clearing events” that can help quell investor uncertainty and expand biotech M&A activity now that they’re clarified.

Performance Review

- The fund’s (Advisor Class without sales charges) 1Q26 results were comparable to the benchmark index despite weak relative and absolute returns for its core biotech holdings (averaging 77.1% of total net assets). In general, pharma and higher-quality biotech benefited from defensive rotation amid broader market volatility, supported by earnings visibility, strong cash flows and continued M&A interest as large drugmakers sought to replenish their product pipelines—especially in oncology and immunology. Investors often showed a preference for earnings visibility, pricing power and dividends—all of which skew toward large and profitable pharma. As big drugmakers face the structural problem of replacing revenue as products mature and/or lose exclusivity, they often look to buy pipelines, especially in an improving M&A backdrop helped by lower interest-rate expectations. Biotech was further lifted by company-specific catalysts such as clinical data releases and regulatory approvals, which drove idiosyncratic gains independent of macro conditions. By contrast, life sciences tools, med-tech and health care equipment stocks faced pressure from cautious research and hospital capital spending (capex), guidance sensitivity during the 4Q25 earnings season, and valuation compression in a risk-averse market environment. In particular, life sciences tools and services companies have been digesting a post-boom reset amid softer bioprocessing demand, uneven sales and order patterns, tariff-related challenges, and investors’ heightened sensitivity to related companies’ forward guidance—whether or not they fared well in their 4Q25 financial metrics.
- Pharmaceuticals stocks covered just over 18% of the portfolio but had a notable positive influence as they collectively increased by 5.8%, while those tracked by the Nasdaq Biotechnology Index rose only 0.5%. The support came mainly from key overweight contributors Terns Pharmaceuticals (metabolic and liver diseases) and Jazz Pharmaceuticals (neurology, oncology and rare diseases), along with off-index Veradermics (dermatological and aesthetic conditions). Meaningful pipeline progress and guidance from established, diversified companies like Jazz also helped buoy stocks across both large and small biopharma.
- In the biotech industry, several overweight or off-index contributors posted significant returns of more than 50%, led by Dianthus Therapeutics, Centessa Pharmaceuticals (not held at period-end), Oruka Therapeutics, Spyre Therapeutics, Tango Therapeutics, CG Oncology, and Sensei Biotherapeutics (purchased during 1Q26), which is an immuno-oncology specialist targeting cancer with conditionally active biologics.
- Conversely, several overweighted or off-benchmark biotech holdings sustained large, double-digit percentage declines, including key detractors Mineralys Therapeutics (hypertension and cardiorenal diseases driven by dysregulated aldosterone biology), Achieve Life Sciences (treatments for nicotine addiction), Benitec Biopharma (platform-based gene therapy and RNA interference/gene-silencing), Argenx (antibody-based therapies for severe autoimmune diseases), Olema Pharmaceuticals (developing targeted therapies for women’s cancers), ARS Pharmaceuticals (needle-free emergency treatments for severe allergic reactions) and PTC Therapeutics (RNA and gene-based therapies for rare genetic disorders).
- Aside from our active biotech holdings, relative performance was further constrained by a lack of exposure to index components that posted much higher-than-average gains. The biggest “detractors of omission” in the bunch included Moderna, ImmunityBio and United Therapeutics. The fund also had an underweighted position in Gilead Sciences, which fared poorly in the fund-versus-index comparison as the shares rose more than 14%.
- Absolute and relative gains in the pharmaceuticals industry were reduced by a handful of overweighted or off-benchmark detractors, though EyePoint had the biggest negative impact. EyePoint’s stock selloff was driven in part by a dilution overhang from a recent equity raise, which combined with the realization that the company’s next major value catalyst—Phase 3 wet age-related macular degeneration (AMD) data—won’t arrive until mid-2026.

Outlook

- Heading into April, we were seeing progress across biotech, with advances spanning improved treatments in obesity, oncology, cardiovascular disease, neurology and psychiatry, as well as platform developments in T-cell engagers, antibody-drug conjugates, radioligand antibodies, RNA-based gene silencing, and cell and gene therapies.

Morningstar Rating™

Overall Rating as of March 31, 2026



(4-Star) Advisor Class



(4-Star) Class A

As of 03/31/2026 the fund’s Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 164, 151 and 119 Health 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Top Equity Issuers (% of Total)

Holding	Fund
JAZZ PHARMACEUTICALS PLC	5.25
GILEAD SCIENCES INC	5.05
AMGEN INC	4.90
REGENERON PHARMACEUTICALS INC	4.63
VERTEX PHARMACEUTICALS INC	4.27
ARGENX SE	3.51
TERNS PHARMACEUTICALS INC	3.14
INSMED INC	3.03
ASCENDIS PHARMA A/S	2.91
PRAXIS PRECISION MEDICINES INC	2.58

Average annual total returns and fund expenses (%) - as of March 31, 2026

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Advisor Class	354713398	FTDZX	2.41	2.41	63.74	24.23	8.13	10.53	11.00	2.41	2.41	63.74	24.23	8.13	10.53	11.00	0.78	0.77	—	—	9/15/1997
Class A	354713844	FBDIX	2.34	2.34	63.33	23.92	7.86	10.26	10.83	-3.29	-3.29	54.34	21.61	6.64	9.64	10.61	1.03	1.02	5.50	—	9/15/1997
Benchmark 1	—	—	2.32	2.32	37.58	12.28	4.33	7.91	—	2.32	2.32	37.58	12.28	4.33	7.91	—	—	—	—	—	—
Benchmark 2	—	—	-4.33	-4.33	17.80	18.31	12.07	14.16	—	-4.33	-4.33	17.80	18.31	12.07	14.16	—	—	—	—	—	—

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 periods 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: © 2026 S&P Dow Jones Indices LLC. All rights reserved. Source: Nasdaq OMX.

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

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

Morningstar Rating™: Source: Morningstar®, 03/31/2026. For each mutual fund and ETF 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. The fund's Class A shares received a Morningstar Rating of 5, 4 and 3 and fund's Advisor Class shares received a Morningstar Rating of 5, 4 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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