FRANKLIN TEMPLETON

Franklin Biotechnology Discovery Fund

Advisor Class: FTDZX Class A: FBDIX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** Global equities delivered robust gains during the second quarter of 2026 (2Q26), buoyed by improving corporate earnings and a decisive rotation into technology-driven growth themes. The de-escalation of geopolitical tensions in the Middle East and the subsequent decline in energy prices provided a constructive backdrop for risk assets, while the AI-driven capital expenditure cycle remained a dominant force, underpinning earnings revisions across sectors. Growth stocks outpaced value, while small caps gained traction amid renewed investor appetite for innovation-led opportunities. Health care sector stocks returned 6.7% (according to the MSCI All Country World Index in US dollar terms) and ranked fourth among the 11 major equity sector groups. Five out of six health care industries appreciated, led by health care providers and services (+22.9%) and health care technology (+10.4%), while biotechnology, pharmaceuticals, and life sciences tool and services industry returns were in the 6% to 8% range. They contrasted with an 8.4% decline in health care equipment and supplies.
- **Contributors:** Strong security selection in the biotechnology industry and an overweighting in pharmaceuticals.
- **Detractors:** Unfavorable stock selection and a significant underweighting in the life sciences tools and services industry, plus overall declines for several off-index or overweighted biotech holdings.
- **Outlook:** Current trends highlight the biotech industry's ability to become more productive, scalable and commercially attractive, with innovation—including artificial intelligence (AI) increasingly embedded across the drug development lifecycle—driving higher drug-development success rates and market expansion. These changes support stronger growth, increased merger-and-acquisition (M&A) activity and long-term investment opportunities, in our view.

Performance Review

- The fund (Advisor Class without sales charges) outperformed the Nasdaq Biotechnology Index in 2Q26 based on a combination of effective stock selection and, to a much lesser extent, allocation choices across industries. While some positions faced setbacks from failed clinical trials or disappointing data readouts, the overall impact of successful drug development programs and strategic transactions more than offset these headwinds.
- In many cases, positive trial readouts and regulatory milestones were the primary differentiators in the fund's results versus the index. Key examples included major rallies for off-benchmark or overweighted positions in Achieve Life Sciences, Oruka Therapeutics, Spyre Therapeutics, Jazz Pharmaceuticals, Guardant Health and uniQure—each benefiting from positive trial data, US Food and Drug Administration (FDA) approvals, stronger-than-expected 1Q26 earnings and/or upwardly-revised 2026 guidance. Top overall contributor Achieve is a late stage specialty pharma company whose core asset, cytisinicline for nicotine dependence, reached an FDA decision point supported by positive Phase 3 clinical trial data (in terms of efficacy and safety). The stock's more than 200% move reflected the run up to this binary event, a major financing round, and manufacturing de risking as it moved to a potentially more reliable and FDA-friendly partner. Pivotal clinical trial catalysts were also evident in Oruka, which rallied on a positive update for its psoriasis drug, and Spyre, which announced strong Phase 2 results for SPY001 in ulcerative colitis.
- Soleno Therapeutics (not an index component) more than quadrupled the benchmark return and was one of the fund's top M&A beneficiaries of 2Q26, having secured a lucrative acquisition deal with Neurocrine Biosciences (also held by the fund).
- Substantial underweightings in large biotech firms such as Gilead Sciences, Regeneron Pharmaceuticals and Alnylam Pharmaceuticals also provided a relative-return boost as their stocks declined, while underweight contributor Amgen's 2Q26 gain lagged the index. Gilead, Regeneron and Alnylam were still important fund holdings (covering about 10% of total net assets when combined), and they were also among the portfolio's major detractors in absolute, standalone terms. The fund was further aided by a strategic lack of investment in various index component stocks that fared poorly; the key "contributors by omission" in this regard were United Therapeutics and Summit Therapeutics.
- Most of the major detractors hindered our otherwise strong results in biotech, while off-index Context Therapeutics and AstraZeneca pressured returns in pharma. The main detractors included Insmed's expense-driven selloff, AstraZeneca's regulatory headwinds around camizestrant and elecoglipron, and Context's sharp decline despite encouraging early-stage oncology data. Other underperformers included Inventiva, Olema Pharmaceuticals, Syndax Pharmaceuticals, Mineralys Therapeutics and Oric Pharmaceuticals, all of which failed to advance. The fund's lack of exposure to Moderna, Twist Bioscience, Roivant Sciences and several other rallying index component companies further dented relative performance.
- Much smaller portfolio positions in oncology-focused enGene Therapeutics (sold by quarter-end) and Sensei Biotherapeutics illustrated the asymmetric risk inherent in clinical-stage biotech exposure, where binary trial outcomes (enGene) and earnings misses (Sensei) can result in sharp share-price declines.
- Results in the life sciences tools and services industry would have been better if not for the portfolio's lack of exposure to Illumina, 10X Genomics, Tempus AI and a handful of other index component stocks that posted strong quarterly returns. This industry benefited from a gradual normalization in bioprocessing demand and clinical trial activity after prior inventory destocking and capital expenditure deferrals, allowing leading platforms to re-leverage their fixed cost bases and begin expanding profit margins.

Outlook

- **The fund continues to be overweighted in mid-, small- and micro-cap biotech stocks as these market-cap tiers are where we see some of the best value.** We believe the fund is well positioned through its emphasis on companies with validated platforms, upcoming catalysts and strong balance sheets. We also continue to emphasize selectivity, favoring what we believe to be clinically or commercially "derisked" assets, with a focus on companies developing first-in-class, best-in-class or only-in-class therapies that address significant unmet medical needs.

Morningstar Rating™

Overall Rating as of June 30, 2026

★★★★★ **(5-Star)** Advisor Class

★★★★★ **(5-Star)** Class A

As of 06/30/2026 the fund's Advisor Class and Class A shares received a 5 star overall Morningstar rating™, measuring risk-adjusted returns against 159, 153 and 120 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	5.65
AMGEN INC	4.26
ARGENX SE	3.88
GILEAD SCIENCES INC	3.85
VERTEX PHARMACEUTICALS INC	3.84
REGENERON PHARMACEUTICALS INC	3.16
GUARDANT HEALTH INC	3.10
REVOLUTION MEDICINES INC	3.10
ASCENDIS PHARMA A/S	2.88
ORUKA THERAPEUTICS INC	2.57

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 30, 2026

			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	16.81	19.62	91.39	30.03	11.32	12.05	11.50	16.81	19.62	91.39	30.03	11.32	12.05	11.50	0.78	0.77	—	—	9/15/1997
Class A	354713844	FBDIX	16.74	19.47	90.91	29.71	11.05	11.77	11.33	10.32	12.90	80.41	27.29	9.80	11.14	11.11	1.03	1.02	5.50	—	9/15/1997
Benchmark 1	—	—	12.42	15.03	55.28	17.21	4.98	9.32	—	12.42	15.03	55.28	17.21	4.98	9.32	—	—	—	—	—	—
Benchmark 2	—	—	15.20	10.21	22.32	20.61	13.41	15.51	—	15.20	10.21	22.32	20.61	13.41	15.51	—	—	—	—	—	—

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.

Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

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®, 06/30/2026. 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, 5 and 4 and fund's Advisor Class shares received a Morningstar Rating of 5, 5 and 4 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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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.

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