FRANKLIN TEMPLETON

Franklin Biotechnology Discovery Fund

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

Key Takeaways

- **Markets:** Robust corporate earnings helped global equities edge higher in the third quarter (3Q26) and set several records despite a volatile backdrop: war-related trade risks sent Brent crude oil back above $100 a barrel, more than 80% of developed market central banks raised interest rates, and Washington announced a new round of US tariffs, while US Treasury yields climbed to multi-decade highs. The health care sector posted a 3.8% return, aided by above-average industry-level gains in health care technology (+42%), life sciences tools and services (+27%) and biotechnology (+11%), while pharmaceuticals (-0.2%) was a mild outlier to the downside.
- **Detractors:** Stock selection and overall declines in biotech and pharma, exacerbated by a lack of portfolio exposure to Moderna's outsized rally. In general, overweight exposure to smaller and mid-cap biotech companies became a headwind as higher interest rates began to pressure this part of the market.
- **Contributors:** Several overweighted or off-index biotech and pharma holdings that more than doubled the benchmark return, led by Amylyx Pharmaceuticals and Achieve Life Sciences.
- **Outlook:** Biotech continues to benefit from robust innovation, improving investor sentiment, a potentially stronger merger-and-acquisition (M&A) cycle and significant dispersion between individual companies—an environment that remains favorable for active stock selection.

Performance Review

- The fund's (Advisor Class without sales charges) 3Q26 shortfall relative to the Nasdaq Biotechnology Index was driven largely by adverse stock-specific outcomes rather than sector/industry allocation decisions. There was difficulty in the biotech industry (covering almost 76% of the portfolio), where companies tracked by the index collectively increased by 7.5%—a spread of about 13 percentage points versus those held by the fund. The outcome was shaped by several factors, with a lack of portfolio exposure to Moderna (up 175% on the index) being one of the most significant. We viewed Moderna's breakthrough Phase 3 melanoma clinical trial data positively and believe it provided important validation for the potential of personalized mRNA cancer vaccines. However, the shares subsequently experienced a significant re-rating. At the higher valuation, we did not believe the risk/reward was sufficiently attractive, particularly given remaining questions around the broader clinical and commercial potential of the company's oncology pipeline. Moderna's sharp rally also contributed to broader repositioning across the biotech space. We believe some biotech-focused hedge funds that had been positioned negatively toward Moderna subsequently reduced risk, including covering short positions while selling other holdings. This contributed to considerable performance dispersion across individual biotech stocks and weighed on a number of companies held by the fund.
- Biotech holdings nonetheless continued to be supported by improving fundamentals and renewed investor demand rather than simply a broad re-rating from previously depressed valuations. Investors have increasingly favored companies with differentiated pipelines, upcoming catalysts and stronger balance sheets. Mid-cap biotech has emerged as an attractive area from a risk/reward perspective, especially where late-stage pipelines or commercialized products are combining with meaningful company-specific catalysts and credible M&A potential.
- Stock selection and overweighted positioning in the comparatively lackluster pharmaceuticals industry was a milder relative-return headwind even as the fund's holdings fell almost 12%. In general, pharma companies were held back by ongoing patent-expiration concerns, pricing and policy uncertainty, and uneven clinical and regulatory outcomes despite continued M&A activity and robust innovation pipelines.
- At the security level, several overweighted or off-index biotech and pharma holdings sustained double-digit percentage declines, including EyePoint (-77%), Mirum Pharmaceuticals (-27%), Benitec Biopharma (-25%), AstraZeneca (-14%), Bicara Therapeutics (-37%), PTC Therapeutics (-21%), Jade Biosciences (-37%) and Oruka Therapeutics (-12%)—as well as key underweight contributor Alnylam Pharmaceuticals (-18%). Most of our biggest contributors, meanwhile, posted gains that far exceeded the benchmark average, led by Amylyx Pharmaceuticals (+67%), Achieve Life Sciences (+31%), Verastem (+111%), Guardant Health (+19%) and Oric Pharmaceuticals (+24%). The third quarter underscored the asymmetric risk of holding concentrated positions in late-stage clinical programs, where single trial readouts can drive large relative-return effects in either direction. Our focused exposure to clinical-stage biotech and pharma names amplified both the upside from Amylyx's avexitide Phase 3 trial success (in post-bariatric hypoglycemia) and the downside from EyePoint's Duravyu trial failure (in wet age-related macular degeneration) and Mirum's regulatory setback on Volixibat (in cholestatic liver diseases).
- All four of the fund's off-index or overweighted life sciences tools and services stocks topped the benchmark average, including key contributors Thermo Fisher Scientific (+35%) and AbCellera Biologics (+50%; purchased during the period), though their net positive impact was more than offset by "detractors of omission" such as Illumina, 10X Genomics and Tempus AI, which served up impressive gains within the benchmark universe. AbCellera was supported by new drug-development partnerships and positive Phase 2 clinical trial results for ABCL635, its experimental treatment for menopause-related hot flashes, which demonstrated significant efficacy and favorable tolerability.

Outlook

- **The fundamental backdrop remains supportive, in our view.** Large pharma companies face significant patent expirations over the coming years and need to replenish their pipelines. This creates a structural source of potential demand for innovative biotech assets. We see particular opportunities across areas including oncology, immunology, obesity, cardiovascular disease, neurology and rare diseases. With some regulatory and policy uncertainties becoming clearer, we believe M&A could become an increasingly important tailwind for the sector.

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 09/30/2026 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 160, 153 and 121 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	5.02
AMGEN INC	4.72
GILEAD SCIENCES INC	4.49
ARGENX SE	4.14
VERTEX PHARMACEUTICALS INC	3.95
REGENERON PHARMACEUTICALS INC	3.81
REVOLUTION MEDICINES INC	3.36
GUARDANT HEALTH INC	3.01
ASTRAZENECA PLC	2.90
BRIDGEBIO PHARMA INC	2.52

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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	-5.68	12.82	39.32	28.23	11.25	9.89	11.17	-5.68	12.82	39.32	28.23	11.25	9.89	11.17	0.77	0.76	—	—	9/15/1997
Class A	354713844	FBDIX	-5.74	12.61	38.96	27.91	10.96	9.62	11.00	-10.92	6.41	31.32	25.52	9.72	9.00	10.78	1.02	1.01	5.50	—	9/15/1997
Benchmark 1	—	—	8.37	24.66	45.79	21.63	6.95	8.92	—	8.37	24.66	45.79	21.63	6.95	8.92	—	—	—	—	—	—
Benchmark 2	—	—	2.30	12.75	15.74	22.88	13.79	15.33	—	2.30	12.75	15.74	22.88	13.79	15.33	—	—	—	—	—	—

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 08/31/2027 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: Nasdaq OMX. Source: © 2026 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.

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®, 09/30/2026. 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 Advisor Class shares received a Morningstar Rating of 5, 4 and 3 and fund's Class A shares received a Morningstar Rating of 5, 4 and 2 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A 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.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.

FRANKLIN TEMPLETON