FRANKLIN TEMPLETON

Franklin Biotechnology Discovery Fund

Advisor Class: FTDZX Class A: FBDIX | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** During the fourth quarter of 2025 (4Q25), most equity sectors advanced globally (per MSCI index data in US-dollar terms), led by health care amid rallies in the biotechnology and pharmaceutical industries. With technology- and artificial intelligence-related stocks pulling back in November and December, many investors rotated into non-cyclical sectors. Health care—given its relatively stable demand and earnings durability— was a key beneficiary. Declining interest rates also appeared to boost investor confidence in biotech and pharma. Lower interest rates make it cheaper for such companies to fund expensive long-cycle research and drug development, clinical trials or merger-and-acquisition (M&A) deals. Investor optimism was also evident around incoming clinical data, ongoing strides in innovation (i.e., cell/gene therapies and specialty drugs addressing rare diseases) and improving M&A activity, especially in biotech, which appeared to be rising from a multiyear slump as regulatory uncertainty and policy headwinds showed signs of diminishing. Drug-pricing and tariff overhangs were still there, but many investors seemed to believe that worst-case outcomes might be avoided heading into 2026. Various industry analysts pointed to tailwinds for biotech, including strong scientific pipelines, an increase in promising clinical-trial results and rising investor sentiment.
- **Contributors:** Effective stock selection in the pharmaceuticals and biotechnology industries, overweighting in health care services, and a significant underweighting in lagging life sciences tools and services industry stocks.
- **Detractors:** Individual outliers to the downside in biotech and pharma, as well as the fund's 3.1% average cash position.
- **Outlook:** Heading into January 2026, we were seeing progress across biotech and the broader health care sector, 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.

Top Equity Issuers (% of Total)

Holding	Fund
GILEAD SCIENCES INC	5.32
JAZZ PHARMACEUTICALS PLC	4.70
REGENERON PHARMACEUTICALS INC	4.60
AMGEN INC	4.59
VERTEX PHARMACEUTICALS INC	4.52
ARGENX SE	4.02
PRAXIS PRECISION MEDICINES INC	3.32
INSMED INC	3.21
TERNS PHARMACEUTICALS INC	3.04
ALNYLAM PHARMACEUTICALS INC	2.85

Performance Review

- Stock selection offered strong support to the fund's (Advisor Class without sales charges) 4Q25 results versus the Nasdaq Biotechnology Index, and the fund also received a modest boost from favorable allocation choices across the portfolio.
- Collective gains for the fund's pharma industry stocks (averaging 15% of total net assets) more than doubled those tracked by the index, led by overweight or off-benchmark contributors Terns Pharmaceuticals, Structure Therapeutics, Alto Neuroscience and Jazz Pharmaceuticals. Terns is a clinical-stage biopharma developing small-molecule therapies for a range of serious conditions. Its pipeline targets unmet needs in areas including oncology (e.g., hematologic cancer), obesity and metabolic/liver diseases. Terns is developing TERN-701 for chronic myeloid leukemia (CML). In November, the company released topline data from a Phase 2 CML clinical trial that far exceeded expectations.
- The fund's core biotech industry allocation covered 78% of the portfolio (on average) and appreciated by 20%. Several holdings posted outsized three-month returns, including overweight contributors Praxis Precision Medicines, Olema Pharmaceuticals, Abivax and Spyre Therapeutics, along with off-index Palisade Bio (purchased during the period). Praxis reported positive Phase 3 clinical trial data from Ulixacaltamide (Uli) for essential tremor—a common movement disorder characterized by involuntary, rhythmic shaking (tremors) that typically affects the hands, head or voice. In general, those enrolled in the trial experienced a rapid and fairly consistent response rate and significant efficacy. After a comprehensive data analysis, we believe Uli has the potential to receive US Food & Drug Administration (FDA) approval in 2026.
- Relative returns in biotech were further enhanced by a lack of investments in several poor-performing index component companies; the largest of these "contributors by omission" was Summit Therapeutics, which sold off on the index.
- On the downside, several overweight or off-index biotech stocks sustained sharp declines, including uniQure, Soleno Therapeutics, Rezolute (bought and sold during the period), Adicet Bio (purchased during the period) and Ultragenyx Pharmaceutical, along with modest losses for our comparatively larger stakes in Mineralys Therapeutics and Benitec Biopharma. Strategic underweighting in established large-cap biotech firm Regeneron Pharmaceuticals also hindered results versus the index as it rallied solidly above the benchmark average. Regeneron was still a significant portfolio investment (covering 4.6% of total net assets at year-end) and a major contributor to the fund's standalone gains.
- In the pharmaceuticals industry, relative returns were hindered by a loss of nearly 65% for LENZ Therapeutics, in which we held roughly 10 times the benchmark's tiny average exposure. LENZ launched its presbyopia eye-drop, VIZZ, in October following FDA approval. The subsequent selloff likely reflected a mix of pre-launch optimism giving way to profit-taking by some investors, along with underlying commercial and execution risk in a competitive presbyopia market.

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 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, according to our analysis. We view these as important "clearing events" that can help quell investor uncertainty and potentially expand biotech M&A activity now that 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 US interest-rate reductions in the coming months.** Recent developments related to FDA staffing and global tariffs add to near-term uncertainty.
- **The portfolio continues to be overweighted in mid-, small- and micro-capitalization biotech stocks as these market-cap tiers are where we see some of the best value.** In our view, the fund is well-positioned through its emphasis on companies with validated platforms, upcoming catalysts and strong balance sheets.

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge 3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	With Maximum Sales Charge 3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Expenses Gross	Net	Sales Charges Initial Charge	CDSC	Inception Date
Advisor Class	354713398	FTDZX	23.48	52.68	52.68	23.63	6.42	7.22	11.01	23.48	52.68	52.68	23.63	6.42	7.22	11.01	0.78	0.77	—	—	9/15/1997
Class A	354713844	FBDIX	23.40	52.30	52.30	23.32	6.16	6.95	10.84	16.61	43.92	43.92	21.01	4.96	6.35	10.62	1.03	1.02	5.50	—	9/15/1997
Benchmark 1	—	—	16.95	32.40	32.40	10.64	3.70	4.89	—	16.95	32.40	32.40	10.64	3.70	4.89	—	—	—	—	—	—
Benchmark 2	—	—	2.66	17.88	17.88	23.00	14.43	14.82	—	2.66	17.88	17.88	23.00	14.43	14.82	—	—	—	—	—	—

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.

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.

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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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