

## Product Profile

### Product Details<sup>1</sup>

Fund Assets	\$1,203,817,878.27
Fund Inception Date	09/15/1997
Number of Issuers	73
Investment Style	Sector
Benchmark	NASDAQ Biotechnology Index S&P 500 Index
Lipper Classification	Health/Biotechnology Funds
Morningstar Category™	Health
Dividend Frequency	Annually in December

### Inception Date

Class A	09/15/1997
Class C	09/15/1997

### CUSIP NASDAQ Symbol

Class A	354 713 844	FBDIX
Class C	354 713 240	FBTDX

### Maximum Sales Charges

Class A	5.50% initial sales charge
Class C	1.00% contingent deferred sales charge (CDSC) in the first year only

### Total Annual Operating Expenses With Waiver Without Waiver

Class A	1.02%	1.04%
Class C	1.77%	1.79%

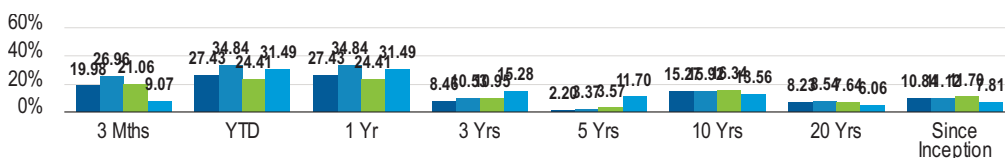
### Fund Description

The fund seeks capital appreciation by investing at least 80% of its net assets in securities of biotechnology companies and discovery research firms including those involved in fields such as genomics, genetic engineering, and gene therapy, as well as health care, pharmaceuticals and agriculture.

### Performance Data<sup>2,3</sup>

#### Average Annual Total Returns<sup>4,5</sup> (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception
Class A - With Sales Charges	19.98	27.43	27.43	8.46	2.20	15.27	8.23	10.84
Class A - Without Sales Charges	26.96	34.84	34.84	10.53	3.37	15.92	8.54	11.12
Class C - With Sales Charges	25.72	32.83	32.83	9.70	2.60	15.05	7.76	10.31
Class C - Without Sales Charges	26.72	33.83	33.83	9.70	2.60	15.05	7.76	10.31
NASDAQ Biotechnology Index	21.06	24.41	24.41	10.95	3.57	16.34	7.64	11.70
S&P 500 Index	9.07	31.49	31.49	15.28	11.70	13.56	6.06	7.81



- Class A - With Sales Charges
- Class A - Without Sales Charges
- NASDAQ Biotechnology Index
- S&P 500 Index

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 08/31/2020. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

1. All holdings are subject to change. Holdings of the same issuers have been combined.

2. Class A: Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%. Class C: The fund began offering Class C shares on: Class C. Total returns are calculated as follows: a) For periods prior to the fund's Class C inception date, a restated figure is used based on the fund's oldest share class, Class A performance, excluding the effect of Class A's maximum initial sales charge but including Class C's sales charges and Rule 12b-1 fees as though in effect from the fund's inception; and b) for periods after the fund's Class C inception date, actual Class C performance is used, reflecting all charges and fees applicable to that class. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

3. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

4. Periods shorter than one year are shown as cumulative total returns.

5. Since inception return for the benchmark is calculated to the fund inception date.

## Calendar Year Returns (% Without Sales Charges)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Class A	34.84	-15.72	18.80	-17.16	5.50	33.91	68.64	29.35	8.35	17.28
Class C	33.83	-16.34	17.91	-17.75	4.71	32.95	68.64	29.35	8.35	17.28
NASDAQ Biotechnology Index	24.41	-9.32	21.06	-21.68	11.42	34.32	65.97	32.29	12.08	15.25
S&P 500 Index	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06

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If the sales charge had been included, the returns would have been lower.

Portfolio Manager Insight<sup>6</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Reata Pharmaceuticals (Significant Overweight)	Biotechnology (Stock Selection)
	Iovance Biotherapeutics (Significant Overweight)	Pharmaceuticals (Stock Selection)
	Deciphera Pharmaceuticals (Significant Overweight)	Life Sciences Tools and Services (Underweight)
HURT	GW Pharmaceuticals (Significant Overweight)	—
	Sage Therapeutics (Overweight)	—
	TherapeuticsMD (Significant Overweight)	—

- The bulk of the fund's overall 2019 gains were realized in the fourth quarter; our wide margin of outperformance versus the Nasdaq Biotechnology Index also helped lift the fund's full-year results above the benchmark. While most of the top-performing investments posted robust gains of roughly 40%–80% during the quarter, the value of Reata Pharmaceuticals' stock more than doubled. Reata surprised most investors when it announced positive results from the Phase 2 clinical trial for omaveloxolone in Friedreich's Ataxia, a rare genetic disease that causes difficulty walking, a loss of sensation in the arms and legs, and impaired speech, and which historically has been a difficult indication to develop new drugs for. The trial results soundly met the primary endpoint, and data across the primary and secondary endpoints were stronger than expected.
- The shares of key contributor Iovance Therapeutics, which is developing tumor-infiltrating lymphocyte (TIL) therapies to treat cancer, vaulted up to a seven-year high after receding substantially over the summer months. We did not believe the prior pullback was driven by fundamentals, and our long-term view on Iovance was reaffirmed over the October–December span. The company has made significant progress in ongoing clinical studies and in defining the regulatory path forward for its melanoma and cervical cancer programs.
- With no industry-level detractors for the period, the fund's cash position (averaging 3.3% of total net assets) was a modest hindrance in relative terms. The only holding that had a larger negative impact than the dilution effect of cash was cannabinoid-focused drug developer GW Pharmaceuticals. The stock failed to rally despite GW's increased market penetration, a high level of patient retention and strong third-quarter sales growth for its leading epilepsy medication (Epidiolex). The shares slumped after reporting Epidiolex sales that, while strong, were not enough to rebuff a chorus of concerns regarding a slowing growth trajectory, leading to peak-sales projections below consensus estimates. Nonetheless, we believe physicians are beginning to broaden the use of this therapy and that there is room for GW to capture even more of the large cohort for adult refractory epilepsy treatment.

## Outlook &amp; Strategy

- There have been 341 biotech initial public offerings in the United States since 2013 (through year-end 2019), raising over US\$26 billion in proceeds. Roughly 100 of those have come since the beginning of 2018, although the pace began to slow in late 2019 due to concerns about broader market conditions. Buyouts from larger drug firms have absorbed about 45 of those companies over that period.
- We believe biotech and pharmaceutical merger-and-acquisition activity will continue well into 2020 as many large-capitalization biopharma companies still need to backfill their product pipelines, while middle-capitalization biotech valuations have become more reasonable to us when compared to previous years. The majority of 2019's M&A activity occurred in gene therapy, orphan diseases and oncology. In 2020, we expect those three therapeutic areas to remain in favor as likely acquisition targets.
- Biotechnology firms, particularly those in the early stages of research and development, have significant risk associated with specific factors, including clinical trial results, regulatory approvals, competitor developments and others. We attempt to address these risks in two ways: (1) through our disciplined, bottom-up research and analytical process; and (2) by using position size as a risk management strategy, investing less in developmental-stage companies with few products and more in commercial-grade companies with multiple products. This helps us in seeking to minimize the downside impact to the overall portfolio of a single binary event such as a trial disappointment or regulatory disapproval.
- Looking ahead, rapid advances in life sciences, a surge in medical breakthroughs, improved efficacy in health care treatments and an increase in FDA drug approvals are revitalizing the biotechnology industry, which we believe continues to offer tremendous opportunities to long-term investors. As innovation within the biotechnology and pharmaceuticals industries has reached unprecedented levels, in our view, we are particularly interested in innovative companies working on significant advancements in gene therapy, orphan diseases, immuno-oncology, and targeted approaches for cancer therapy (i.e., cellular therapies). We are also encouraged by companies that have focused their efforts on new drug discovery platforms and novel compounds.

- While cutting-edge developments are exciting, we remain very selective in our investment approach, which focuses on high-quality companies that are at the forefront of producing first-in-class, best-in-class and only-in-class drugs and therapies.
- Political pressure on drug-price legislation in the United States has been elevated for a few years and has yet to wane, but the commercial landscape in health care remains favorable for innovative drugs that deliver value to patients. Beyond the regulatory front, higher rates of drug utilization and health care spending due to the greying of the global population present a strong long-term demand backdrop for the biotech and pharmaceutical industries.

6. 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.

### Portfolio Characteristics<sup>7,8,9</sup>

	Portfolio	NASDAQ Biotechnology Index
Market Capitalization (Millions in USD)	29,298	35,548
Return on Equity	-10.54%	2.75%
3-Year Sales Growth	58.48%	55.01%
Estimated 3-5 Yr EPS Growth	22.53%	18.15%
Price to Earnings (12 Month Forward)	17.07x	15.28x

### Portfolio Diversification

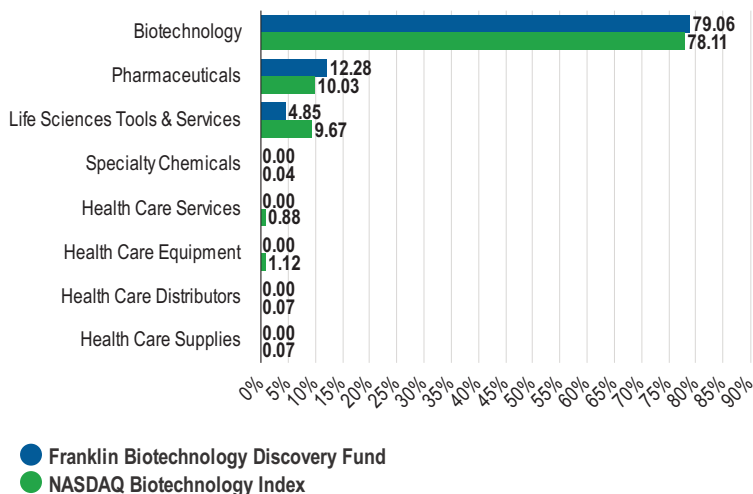
#### Top Ten Holdings<sup>10</sup>

Equity as a Percent of Total

Top Holdings	%
AMGEN INC	7.04
VERTEX PHARMACEUTICALS INC	6.58
GILEAD SCIENCES INC	5.62
ILLUMINA INC	4.85
BIOGEN INC	4.67
REGENERON PHARMACEUTICALS INC	4.03
IOVANCE BIOTHERAPEUTICS INC	3.83
DECIPHERA PHARMACEUTICALS INC	3.46
GW PHARMACEUTICALS PLC	3.34
HERON THERAPEUTICS INC	3.14

#### Sector Weightings vs. NASDAQ Biotechnology Index<sup>11,12</sup>

Percent of Total



7. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: Factset. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

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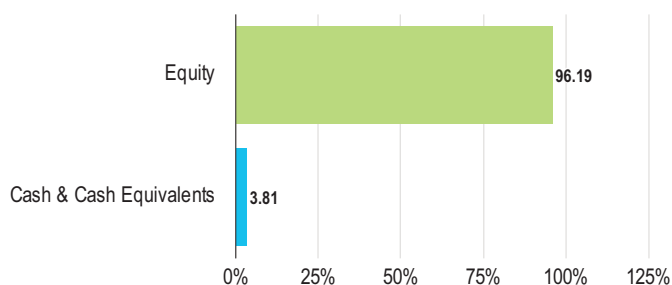
9,12. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

10. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

11. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

**Asset Allocation<sup>13</sup>**

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>14,15</sup>**

Class A

	3 Yrs	5 Yrs	10 Yrs
<b>Standard Deviation (%)</b>	22.48	24.85	22.77
<b>Tracking Error (%)</b>	6.08	5.77	6.01
<b>Information Ratio</b>	-0.07	-0.04	-0.07
<b>Beta</b>	1.05	1.04	1.04
<b>Sharpe Ratio</b>	0.39	0.09	0.67

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**Investment Philosophy**

The Franklin Equity Group philosophy holds that companies with the potential for long-term sustainable growth can provide significant opportunities for investors. Market participants can have a short-term perspective and may under appreciate the potential for value created by sustainable growth. We believe that we have the potential to deliver superior risk-adjusted returns by identifying companies with potential for sustainable growth which we believe is not reflected in current prices.

**Investment Process**

Within a collaborative environment, our team utilizes fundamental, bottom-up research to focus on companies that we believe have sustainable growth characteristics—meeting our criteria of Growth, Quality and Valuation.

Our analysis includes an assessment of any material Environmental, Social and Governance (ESG) factors on the long-term risk and return profile of a company.

**Growth**

- Focus on companies with potential to produce sustainable earnings and cash flow growth
- Evaluate the long-term market opportunity and competitive structure of the industry seeking to identify target leaders and emerging leaders

**Quality**

- Seek companies with strong and improving competitive positions in attractive markets
- Identify experienced and talented management teams as well as financial strength reflected in the capital structure, gross and operating margins, free cash flow generation, and returns on capital

**Valuation**

- Consider a range of potential outcomes based on an assessment of multiple scenarios
- Evaluate whether, in our view, security prices fully reflect the balance of the sustainable growth opportunities relative to the business and financial risks

**Investment Team**

Portfolio Manager	Years with Firm	Years Experience
Evan McCulloch, CFA, Director of Research - Franklin Equity Group	27	28
Wendy Lam, Ph. D., Portfolio Manager/Research Analyst	3	6
Steve Kornfeld, CFA, Portfolio Manager/Research Analyst	18	31

13. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

14. Beta, Information Ratio and Tracking Error information are measured against the NASDAQ Biotechnology Index.

15. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

**Beta:** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

**Estimated 3-5 Year EPS Growth:** An estimated measure of the growth of earnings per share over a forward-looking period. For a portfolio, the value represents a weighted average of the stocks it holds.

**Historical 3 Yr Sales Growth:** The rate at which sales have increased for the fund's underlying holdings over the last three years.

**Information Ratio:** In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

**Market Capitalization:** A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share. Market capitalization is expressed in millions of USD.

**Price to Earnings (12-mo Forward):** A measure of the price to earnings ratio (P/E) using the forecasted earnings for the next 12 months.

**Return on Equity:** A measure of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested. For a portfolio, the value represents a weighted average of the stocks it holds.

**Sharpe Ratio:** To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Tracking Error:** Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

**What Are The Risks?**

All investments involve risks, including possible loss of principal. The fund is a non-diversified fund that concentrates in a single sector, which involves risks such as patent considerations, product liability, government regulatory requirements, and regulatory approval for new drugs and medical products. Biotechnology companies often are small and/or relatively new. Smaller companies can be particularly sensitive to changes in economic conditions and have less certain growth prospects than larger, more established companies and can be volatile, especially over the short term. The fund may also invest in foreign companies, which involve special risks, including currency fluctuations and political uncertainty. These and other risks are described more fully in the fund's prospectus.

**Important Legal Information**

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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