



# Franklin Biotechnology Discovery Fund—Class A, C

Sector  
Equity  
March 31, 2021

## Product Profile

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

Fund Assets	\$1,449,392,819.86
Fund Inception Date	09/15/1997
Number of Issuers	109
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	1.03%	1.05%
Class C	1.78%	1.80%

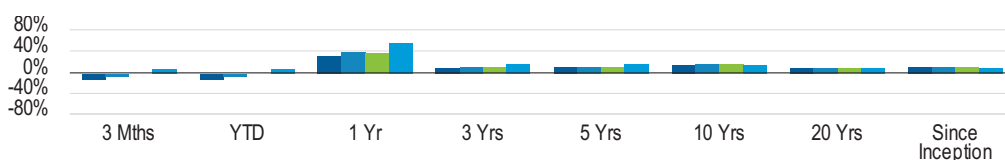
### Fund Description

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	-10.67	-10.67	32.51	9.63	11.44	15.21	9.38	11.20
Class A - Without Sales Charges	-5.47	-5.47	40.22	11.72	12.71	15.86	9.68	11.47
Class C - With Sales Charges	-6.59	-6.59	38.18	10.89	11.88	14.98	8.90	10.66
Class C - Without Sales Charges	-5.65	-5.65	39.18	10.89	11.88	14.98	8.90	10.66
NASDAQ Biotechnology Index	-0.72	-0.72	39.29	12.09	11.62	16.43	9.60	12.09
S&P 500 Index	6.17	6.17	56.35	16.77	16.30	13.91	8.47	8.43



- 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/(800) 342-5236 or visit [franklintempleton.com](http://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 08/31/2021. 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.

Not FDIC Insured | May Lose Value | No Bank Guarantee

## Calendar Year Returns (% Without Sales Charges)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Class A	29.89	34.84	-15.72	18.80	-17.16	5.50	33.91	68.64	29.35	8.35
Class C	28.93	33.83	-16.34	17.91	-17.75	4.71	32.95	68.64	29.35	8.35
NASDAQ Biotechnology Index	25.69	24.41	-9.32	21.06	-21.68	11.42	34.32	65.97	32.29	12.08
S&P 500 Index	18.40	31.49	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11

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

## Portfolio Manager Insight\*

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	GW Pharmaceuticals (Overweight)	Pharmaceuticals (Stock Selection, Overweight)
	Novavax (Overweight)	—
	Horizon Therapeutics (Overweight)	—
HURT	Iovance Biotherapeutics (Significant Overweight)	Biotechnology (Stock Selection)
	Moderna (Significant Underweight; purchased during the period)	Health Care Services (Lack of Exposure)
	PTC Therapeutics (Significant Overweight)	Life Sciences Tools and Services (Underweight)

- Although the fund outperformed its benchmark index over the past 12 months of pandemic upheaval, it took a step back in 2021's first quarter as stock selection worked against us in the biotechnology industry. All other industry allocations had a comparatively negligible impact on relative returns. In particular, we held several overweighted or off-index companies that we believed held promise for the longer term, but which suffered some short-term setbacks and significant double-digit losses, namely Iovance Therapeutics, PTC Therapeutics, Heron Therapeutics, Zymeworks and Deciphera Pharmaceuticals. We also initiated a position in Moderna that shed considerable value through quarter-end, while the index realized a full-quarter gain of more than 25% on the same stock—a disparity that made Moderna the single-largest detractor.
- Among the other notable detractors, Iovance's equity value peaked at a nine-year high in February before sinking to the lowest level since September 2020 by the end of March. Although the company was progressing well with the development of its lead pipeline candidate (lifileucel for melanoma and cervical cancer), the stock retreated along with the broader market in March. We do not believe this pullback was due to anything fundamental, and our positive long-term view remains intact.
- In terms of key contributors, our investment in cannabis-based pharmaceutical developer GW Pharmaceuticals vaulted to new all-time highs, easily surpassing previous peak levels that were set nearly two years ago, and not just because its 4Q20 and full-year 2020 financial results showed a 70% year-over-year sales increase for Epidiolex (an epileptic seizure treatment and the company's only approved drug). In addition, Jazz Pharmaceuticals, another overweighted fund holding that contributed to our performance versus the benchmark index, announced it would buy GW for US\$7.2 billion, or a roughly 50% premium to GW's share price at the time of the deal was announced. Jazz, which focuses primarily on neurological disorders, saw a good fit and stood to benefit from GW's emerging pipeline of other cannabinoid-based treatments for maladies such as multiple sclerosis and muscle spasticity resulting from spinal injuries.

## Outlook &amp; Strategy

- 2021's first quarter was challenging for the biotechnology industry, as the selloff in March represented a sharp reversal from record highs in February. As the pace of vaccinations has picked up worldwide, investors turned their focus to reopening and an economic rebound, rotating out of biotech and into cyclicals, financials, energy, and the COVID-19 recovery trade. Furthermore, a string of high-profile clinical trial failures and regulatory disappointments, as well as a resurgence in drug-pricing policy discussions, did little to boost confidence in the sector.
- Heading into 2Q21, our strategy remained unchanged despite the market volatility of the past few months. As always, we continue to concentrate our investments in biotechnology companies whose products are best-in-class, first-in-class, or only-in-class, and address diseases with significant unmet medical need delivering clinical value to patients, physicians and payors. Furthermore, we are mindful of valuation, as well as quality of management and financial position in the current environment.
- While the sector has remained relatively resilient throughout the pandemic, we expect a full recovery in the latter half of this year, as operations that were disrupted by the pandemic return to normal. Some commercial-stage companies struggled with new drug launches during the pandemic, while earlier-stage companies saw some disruption in starting new clinical trials or maintaining the pace of enrollment in existing trials. As vaccinations have enabled a gradual reopening in many parts of the world, clinical development and commercial sales have started to recover. Lastly, most of the developmental-stage companies we invest in rely on capital markets to finance their business models. Fortunately, after a short COVID-19-induced pause, the biotech financing window has been wide open for several months.
- While the recent discussion on drug pricing reform renewed investors' concerns in March, we continue to believe that it will be very difficult to implement any legislation that dramatically alters the current economics of the biopharmaceutical business model. On one hand, the combination of the new US presidential administration under Joe Biden and the Democrat-controlled US Congress could increase the chance of passing Democrat-sponsored prescription drug price legislation over the next four years. However, drug pricing was not a major policy focus for Biden's campaign, and drug pricing discussions will likely continue to take a back seat to the pandemic response, in our view.

- Merger-and-acquisition (M&A) activity remains a key driver for the sector, just as we saw in early 2021. We expect to see more consolidation given the robust stream of innovation flowing from numerous small- and mid-capitalization biotechnology companies, coupled with weakening product pipelines and strong financial positions at the larger biopharmaceutical companies.
- While this is most definitely a challenging time for the biotech and pharma industries, the economy and all regions of the world, we are optimistic that we will find a solution to the pandemic. We now have at least four—and potentially several more—vaccines that are highly effective at preventing infection. These vaccines are already being administered globally, and as manufacturers continue to expand their production capacity over the next few months, we are hopeful that there will be a sufficient number of doses to meet demand. For this reason, our positive long-term view of the sector remains unchanged as we see this disruption as temporary.
- Over the longer term, we are excited about the tremendous amount of innovation taking place. We are particularly enthusiastic about the recent advancements made in the areas of gene therapy and gene editing, immuno-oncology and precision oncology. We are encouraged by novel mechanisms to address diseases with high unmet medical need, including Alzheimer's disease, other neurodegenerative disorders, and NASH (the most severe form of non-alcoholic fatty liver disease). We also see opportunities at the other end of the "prevalence spectrum" in addressing rare diseases. We are further encouraged by what we are seeing in background processes, as many novel discovery tools are being used behind the scenes to enable faster drug discovery and development.

\*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>6,7</sup>

	Portfolio	NASDAQ Biotechnology Index
Market Capitalization (Millions in USD)	26,562	39,308
Return on Equity	-15.85%	-1.67%
3-Year Sales Growth	47.66%	33.63%
Estimated 3-5 Yr EPS Growth	8.96%	10.89%
Price to Earnings (12 Month Forward)	13.39x	13.36x

### Portfolio Diversification

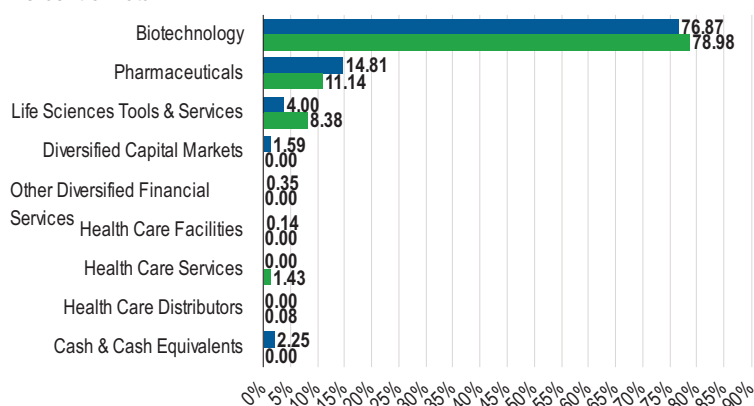
#### Top Ten Holdings<sup>8</sup>

Equity as a Percent of Total

Top Holdings	%
GILEAD SCIENCES INC	6.19
AMGEN INC	5.47
REGENERON PHARMACEUTICALS INC	4.52
VERTEX PHARMACEUTICALS INC	4.15
ILLUMINA INC	4.00
HORIZON PHARMA PLC	3.47
BIOGEN INC	3.28
IOVANCE BIOTHERAPEUTICS INC	3.05
NOVAVAX INC	3.02
PTC THERAPEUTICS INC	2.61

#### Sector Weightings vs. NASDAQ Biotechnology Index<sup>9,10</sup>

Percent of Total



● Franklin Biotechnology Discovery Fund

● NASDAQ Biotechnology Index

6. 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, Refinitiv. There can be no assurance that the Estimated 3-5 Year EPS Growth figure, based on Institutional Brokers Estimate System (IBES) consensus estimates, will be realized. All holdings are subject to change.

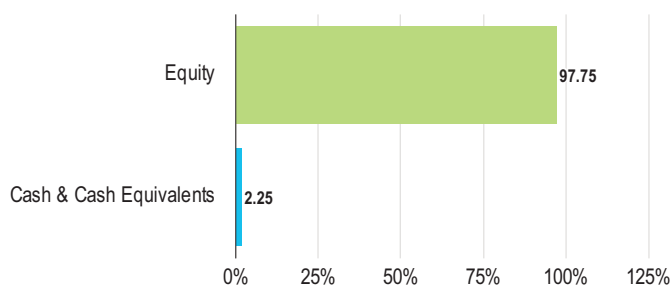
7,10. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

8. 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 reserves the right to withhold release of information with respect to holdings that would otherwise be included.

9. Percentage may not equal 100% due to rounding. All holdings are subject to change.

**Asset Allocation<sup>11</sup>**

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>12,13</sup>**

Class A

	3 Yrs	5 Yrs	10 Yrs
<b>Standard Deviation (%)</b>	24.10	22.54	23.23
<b>Tracking Error (%)</b>	7.51	6.69	6.62
<b>Information Ratio</b>	-0.05	0.16	-0.09
<b>Beta</b>	1.01	1.01	1.04
<b>Sharpe Ratio</b>	0.43	0.51	0.66

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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 attractive 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	28	29
Wendy Lam, Ph. D.	4	8
Akiva Felt	2	13

11. Percentage may not equal 100% due to rounding. All holdings are subject to change.

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

13. 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 for a stock using the forecasted earnings for the next 12 months. For a portfolio, the value represents a weighted average of the stocks it holds.

**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 professional, 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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