# Franklin DynaTech Fund

**Advisor Class: FDYZX Class A: FKDNX**                    **Commentary | as of March 31, 2025**

## Key Takeaways

- **Markets:** Global equities collectively declined during the first quarter of 2025 (1Q25) due to investor concerns about US economic growth, US trade policy and a broadening trade war. Developed market equities modestly underperformed a global index, while emerging market and frontier market equities significantly outpaced it with positive results. In terms of investment style, global value stocks generated strong gains and substantially outperformed growth stocks.

- **Detractors:** Amid widespread declines, stock selection and sector allocation decisions weighed on our results versus the Russell 1000 Growth Index. Positioning in seven out of 11 equity sectors hindered relative performance, especially in the information technology (IT) and industrials sectors.

- **Contributors:** Stock selection was supportive in the consumer discretionary and communication services sectors.

- **Outlook:** Despite the recent stock market selloff, we are tracking several bright spots for innovation in the economy beyond artificial intelligence (AI), including space, defense, robotics, genomics, green energy and cryptocurrency.

## Performance Review

- The fund and its benchmark index had disappointing results as many investors switched their preferences from growth- to value-oriented stocks, and from US to international equities.

- In the IT sector, investments in software collectively underperformed the benchmark, including key detractors ServiceNow, AppLovin, Cadence Design Systems, and two recently closed positions (Manhattan Associates and off-benchmark Agilysys). To a lesser extent, our semiconductor and semiconductor equipment industry stocks also underperformed; many of them were sitting on top of a two-year-long stock rally ahead of the 1Q25 market pullback.

- The seven technology-centric, mega-capitalization companies commonly referred to as the "Magnificent Seven"—Apple, Microsoft, Amazon.com, Alphabet (Google), NVIDIA, Meta Platforms and Tesla—remained core fund holdings. While they delivered significant standalone gains over the past two calendar years, they declined during the quarter.

- The fund's underperformance in the industrials sector was driven by an underweighting and stock selection in the commercial services and supplies industry, an underweighting in ground transportation, stock selection in aerospace and defense, and a decline in the construction and engineering industry that was due to sole holding Quanta Services.

- Key relative-return support came from stock selection in the consumer discretionary and communication services sectors. Relative strength in the consumer discretionary sector was aided foremost by off-index Latin American e-commerce and fintech platform provider MercadoLibre, while our lighter-than-index exposure to Tesla helped results in the automobiles industry. In the communication services sector, an underweight in Alphabet was a modest relative contributor in the interactive media and services industry, while the sharp rally in Singapore-based tech conglomerate Sea (not an index component) boosted returns in the entertainment industry.

- Absolute gains and relative outperformance in the financials sector were supported by positive returns for Tradeweb Markets and Mastercard, both of which were heavily overweighted versus the index.

## Outlook

- While our longer-term positive thesis on semiconductors remains intact and we believe the recent market downdraft has taken some of the excess out of equity valuations, investor sentiment in this highly cyclical industry has become increasingly bearish over the past few months amid growing concerns about the profitability and sustainability of AI.

- We are hopeful and enthusiastic about the productivity gains from AI, as its use cases continue to develop and multiply. We also think the potential disruptive implications from DeepSeek (the company is not held by the fund)—a cost-effective rival to other leading AI models—are overstated. If anything, we believe DeepSeek's breakthroughs in efficiency are a net positive for the overall AI ecosystem, signaling a path forward in terms of cheaper access to AI for many consumers and businesses.

- Within the aerospace and defense industry, a new class of startups is challenging the primacy of the large, established contractors. These nimble companies are developing innovative new technologies, including autonomous drones and sophisticated military software. The cryptocurrency space is also maturing, with relevant applications in smart contracts and payment systems coming to the fore. The use cases for robotics are also accelerating as AI improves the software behind the hardware. Genomics is still early in its development, with scientists and managers addressing the complexities of the medicine to achieve approval from the US Food & Drug Administration. Finally, green energy initiatives continue to generally advance worldwide, with the cost curve coming down, particularly for solar energy, and with new ideas around nuclear and geothermal energy grabbing attention.

## Top Equity Issuers (% of Total)

| Holding | Fund |
|---|---|
| NVIDIA CORP | 9.91 |
| AMAZON.COM INC | 8.48 |
| MICROSOFT CORP | 7.53 |
| META PLATFORMS INC | 5.78 |
| ALPHABET INC | 4.83 |
| MASTERCARD INC | 4.16 |
| BROADCOM INC | 3.36 |
| SERVICENOW INC | 3.20 |
| APPLE INC | 2.48 |
| INTUITIVE SURGICAL INC | 2.32 |

## Average annual total returns and fund expenses (%)

| Class | CUSIP | Ticker | Without Sales Charge | | | | | | | With Maximum Sales Charge | | | | | | | Expenses | | Sales Charges | | Inception |
| | | | 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 | 353496680 | FDYZX | -12.44 | -12.44 | -0.09 | 6.08 | 14.46 | 13.82 | 9.89 | -12.44 | -12.44 | -0.09 | 6.08 | 14.46 | 13.82 | 9.89 | 0.54 | 0.54 | — | — | 1/1/1968 |
| Class A | 353496201 | FKDNX | -12.49 | -12.49 | -0.33 | 5.81 | 14.18 | 13.53 | 9.81 | -17.30 | -17.30 | -5.81 | 3.84 | 12.89 | 12.89 | 9.71 | 0.79 | 0.79 | 5.50 | — | 1/1/1968 |
| Benchmark 1 | — | — | -9.97 | -9.97 | 7.76 | 10.10 | 20.09 | 15.12 | — | -9.97 | -9.97 | 7.76 | 10.10 | 20.09 | 15.12 | — | — | — | — | — | — |
| Benchmark 2 | — | — | -4.27 | -4.27 | 8.25 | 9.06 | 18.59 | 12.50 | — | -4.27 | -4.27 | 8.25 | 9.06 | 18.59 | 12.50 | — | — | — | — | — | — |

## Benchmark(s)

Benchmark 1=Russell 1000 Growth 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 5/15/2008. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/15/2008, 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. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 01/31/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns.

## What are the Risks?

**All investments involve risks, including possible loss of principal. Equity securities** are subject to price fluctuation and possible loss of principal. 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. 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

The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

## 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 **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. Source: FTSE.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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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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