FRANKLIN TEMPLETON

Franklin DynaTech SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** Robust corporate earnings helped global equities edge higher in the third quarter of 2026 (3Q26) and set several records despite a volatile backdrop: war-related trade risks sent Brent crude oil back above US$100 per 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 multidecade highs. Stock market gains were modest and narrowly driven among the 11 major equity sectors, with only energy, information technology (IT), health care and communication services finishing positive as rallying AI- and energy-related names masked declines across most industries.
- **Contributors:** Relative outperformance in nine out of 11 equity sectors, with consumer discretionary, industrials, health care and communication services providing the greatest benefit, mostly due to strong stock selection.
- **Detractors:** Security selection drags in IT, especially for tech hardware, memory and semiconductor holdings, though a lighter-than-benchmark stake in rallying software stocks also had a negative impact.
- **Outlook:** We remain optimistic about the global buildout of AI infrastructure. From semiconductors and memory to networking, power architecture and advanced cooling, companies are investing heavily to support the growing demand for AI compute. We believe these investments are laying the groundwork for a new era of productivity growth, much as railroads, electricity and the internet enabled prior waves of economic transformation. As AI capabilities continue to improve and adoption broadens, we expect the infrastructure supporting this ecosystem to remain an important area of innovation and investment opportunity.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corporation	12.14
Amazon.com, Inc.	8.20
Alphabet Inc. Class A	6.71
Meta Platforms Inc Class A	4.85
Apple Inc.	4.39
Broadcom Inc.	3.59
Microsoft Corporation	3.43
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	3.05
Sandisk Corporation	2.91
Celestica Inc.	2.28

Performance Review

- Security selection was the main driver of the DynaTech strategy's (pure gross of fees and net of fees) 3Q26 outperformance of the Russell 1000 Growth Index. The strategy benefited broadly from its exposures to rallying IT (averaging 54.7% of total assets) and health care (8.6% of the portfolio) companies, with notable strength in the IT services, communications equipment, biotechnology, and health care providers/services industries. The consumer discretionary sector was another source of stock selection alpha as strategy holdings fell 1%, versus a steep decline of more than 11% on the index.
- Some of the most significant individual contributions came from concentrated positions in Amazon.com, Natera and Cloudflare—each benefiting from distinct catalysts including Amazon Web Services (cloud computing) acceleration, genetic testing and diagnostics expansion, and AI-driven network security demand. Natera, offering noninvasive prenatal, oncology and transplant diagnostics, showed regulatory momentum and solid business execution. Natera was joined by several other rallying positions in biotech and life sciences tools/services, plus a heavily-overweighted position in Guardant Health, a precision oncology specialist that develops liquid biopsy tests for cancer screening and therapy selection. Biotech holdings were supported by a combination of positive clinical-trial and regulatory developments, accelerating merger-and-acquisition (M&A) activity, improved biotech funding and a broader investor rotation toward health care.
- Aside from its active holdings, the portfolio's lack of exposure to consumer staples, utilities, real estate and materials sector stocks also had a positive impact as they fared poorly within the benchmark universe.
- Conversely, idiosyncratic weakness in overweighted or off-index semiconductor and memory storage names—KLA, Lam Research, Taiwan Semiconductor Manufacturing, ASML Holding and SanDisk—were primary headwinds in IT, as elevated investor expectations, competitive pressures from Chinese entrants and sector-specific volatility weighed on returns despite broadly constructive fundamental backdrops. And while our underweightings in Micron Technology and Broadcom boosted relative returns as they sold off, other semi holdings beat the benchmark by wide margins, including off-index contributor SK Hynix (+21%; purchased during the period) and underweight detractor NVIDIA (+14%). Notably, semi companies came into July at the tail end of an extended rally. While the group was supported by ongoing vigorous AI-driven demand for advanced chips, memory and manufacturing equipment, some were contending with elevated valuations, uneven earnings and concerns about the sustainability of AI capital spending.
- In the industrials sector, the downside was anchored by losses for all four overweighted positions in electrical and energy equipment specialists, including key detractor Bloom Energy. Sentiment around Bloom, a US-based fuel cell and distributed power solutions provider, deteriorated following a short-seller report questioning its scandium supply chain and disclosure practices (Bloom uses scandium oxide in the ceramic electrolyte of its solid-oxide fuel cells). In our view, data centers are still driving a surge in new orders, and Bloom's backlog is growing faster than its accelerating revenue. Its systems have now been validated/approved by all major US hyperscalers plus more than a dozen neoclouds, AI labs and colocation operators.
- Software industry results were pressured by underweightings in Microsoft and Palantir Technologies as they returned 38% and 60%, respectively. Palantir, a data analytics and AI software company that builds platforms for governments and enterprises, posted solid 2Q26 financial results and raised its full-year guidance as booming demand for its AI platform fueled 149% annualized growth in US commercial revenue and 90% growth in US government revenue.

Outlook

- Many of the most important innovations across the economy continue to depend on advances in computing power, semiconductors, networking and digital infrastructure. Periods of volatility in these areas can create valuation dislocations, even as demand for advanced computing, automation and intelligent systems keeps growing. The fund continues to invest in businesses that sit at the foundation of this ecosystem and help enable innovation across industries, from AI workloads and data center expansion to industrial modernization and connected devices. And while technology remains an important area of exposure, the fund's strategy is broader and seeks to invest across areas of innovation where we believe the duration and pace of growth may be underestimated. This includes opportunities within the IT sector, but also across health care, industrials, power infrastructure, space, defense, robotics and other areas tied to long-term technological transformation.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	2.29	24.18	10.62	9.51	22.93	6.67	14.26	—	—	—	12.99	6/30/2015
Pure Gross of Fees	3.04	25.97	13.08	12.78	26.56	9.86	17.66	—	—	—	16.35	6/30/2015
Benchmark 1	0.92	17.82	6.30	7.50	24.26	13.66	18.16	—	—	—	16.76	—
Benchmark 2	2.30	17.85	12.75	15.74	22.89	13.79	15.33	—	—	—	14.30	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=Russell 1000 Growth Index

Benchmark 2=S&P 500 Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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All investments involve risks, including 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. **Equity securities** are subject to price fluctuation and possible loss of principal. The **investment style** may become out of favor, which may have a negative impact on performance. **Active management** does not ensure gains or protect against market declines. **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. 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.

Glossary

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

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The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe.

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