FRANKLIN TEMPLETON

Franklin Technology Fund

A (acc) USD: AEDFXA56C024 | **Commentary | as of 30 June 2026**

Key Takeaways

- **Markets:** Global equities delivered robust gains during the second quarter of 2026 (2Q26), buoyed by improving corporate earnings and a decisive rotation into technology-driven growth themes. The de-escalation of geopolitical tensions in the Middle East and the subsequent decline in energy prices provided a constructive backdrop for risk assets, while the AI-driven capital expenditure cycle remained a dominant force, underpinning earnings revisions across sectors.
- **Contributors:** Effective security selection across several core industry allocations, including semiconductors, systems software, tech hardware, application software, and electronic components.
- **Detractors:** A mix of declines or lagging gains in 12 out of 16 off-benchmark industries, with relative returns hindered foremost by interactive media and services, broadline retail, and movies/entertainment holdings.
- **Outlook:** We expect the list of AI beneficiaries to broaden further as model costs decline and capabilities improve. This dynamic has been unfolding in line with our expectations and is supported by strong earnings from key technology leaders that highlighted robust cloud and AI infrastructure demand.

Performance Review

Past performance does not predict future returns.

- The fund's (Class A, net of fees) 2Q26 outperformance versus the MSCI World Information Technology Index was driven almost entirely by security selection, while asset allocation was a minor headwind that reflected the cost of holding non-benchmark sector and industry exposures. A key factor was an overweighting in leading semiconductor and AI infrastructure companies and underweighting in slower-growing legacy IT constituents in the benchmark.
- Semiconductor holdings covered 39% of the portfolio and combined for a 66% gain, with results versus the index aided by impressive rallies for overweight or off-benchmark contributors such as Arm Holdings (+133%), Micron Technology (+242%), Marvell Technology (+202%), SK Hynix (+63%; purchased during the period) and Advanced Micro Devices (+185%). Keeping less than half the index's 19.5% exposure to chipmaking giant NVIDIA further lifted relative returns as NVIDIA's 15% gain trailed the benchmark. Chip stocks notched their best quarter on record despite intermittent selloffs. Aside from robust financial metrics and momentum during the 1Q26 earnings season, AI data centre buildout remained the dominant narrative, with NVIDIA, AMD, Broadcom (also held by the fund) and other GPU/network names setting new highs as hyperscale capex and AI infrastructure orders remained solid. At the same time, the "old economy" side of semis inflected: earnings from analogue and power management names showed evidence that a roughly two-year industrial destocking phase had ended and demand was re-accelerating, especially for industrial and automotive chips.
- The fund's limited exposures to mega-capitalisation laggards such as Microsoft (up only 1% in 2Q26) in systems software, and Apple (+14%) in the tech hardware industry, were helpful. When combined, they covered just over 8% of the portfolio while representing more than 28% of the cap-weighted index. Apple and Microsoft still delivered strong earnings and robust forward guidance, even as both navigated supply chain and investor sentiment headwinds.
- Other pockets of relative and absolute strength included electronic components, where off-index Samsung Electro-Mechanics (purchased during the period) more than quadrupled in value; and semi materials and equipment, as overweight positions in Applied Materials and Lam Research more than doubled. Samsung reported a sharp earnings inflection and guidance upgrade tied to exploding demand for high-value multilayer ceramic capacitors (MLCCs) and advanced package substrates used in AI servers and accelerators. Anticipation of double-digit MLCC price hikes, alongside structurally tighter supply conditions down the AI hardware supply chain, helped fuel the rally.
- Despite a solid combined gain of more than 71% for the fund's pre- and post-initial public offering (IPO) investments in Space Exploration Technologies (SpaceX), communication services sector stocks (comprising about 10% of the portfolio) were the largest single source of allocation underperformance. Off-benchmark interactive media and services industry investments in Meta Platforms and China-based Tencent Holdings failed to advance, while the roughly 23% gain for Alphabet (Google) trailed the benchmark. In contrast to the sharp rally in AI infrastructure and "picks-and-shovels" stocks, all three companies sat on the disadvantaged side of this phase of the AI trade: large, ad-driven platforms with heavy but noisy AI capex, less visible incremental monetisation and persistent regulatory overhangs.
- Tech-adjacent e-commerce detractors Amazon.com, Alibaba Group Holding and MercadoLibre posted mixed and relatively weak returns. Investors treated them more as cyclical, macro-sensitive consumer and fintech platforms than as pure AI or infrastructure beneficiaries, making them natural funding sources during the AI-led rally. Ongoing investment in logistics, cloud and fintech, together with regulatory overhangs (notably in China) and near-term margin and valuation concerns, further tempered appetite even as underlying revenue growth remained robust.

Outlook

- **We remain positive on technology sector fundamentals heading into July.** While the macroeconomic backdrop is not without risk, we see a relatively stable environment ahead as oil prices decline on the expectation of a US-Iran resolution. This, combined with the ongoing AI investment cycle, should support continued positive earnings revisions for the tech sector. Year-to-date, we've seen a 19% increase in 2026 earnings expectations for companies tracked by the MSCI World IT Index, driven largely by semiconductor and data centre hardware companies tied to AI capital investment. We expect strong fundamental performance in these industries to continue into the 2Q26 corporate earnings season (which starts in mid-July), as the demand backdrop for AI compute capacity remains robust. We're also finding opportunities beyond semiconductors, particularly in companies that are enabling or using AI and showing improved growth and/or profitability as a result.

Investment Overview

The Protected Cell is dedicated to investing in one or more share classes (each, an "Underlying Share Class") of Franklin Templeton Investment Funds –Franklin Technology Fund (the "Underlying Master Fund"). The investment objective of the Underlying Master Fund is capital appreciation. The Underlying Master Fund invests at least two thirds of its net invested assets in equity securities of US and non-US companies expected to benefit from the development, advancement, and use of technology and communication services and equipment.

Fund Overview

ISIN	AEDFXA56C024
Bloomberg	FRTFACU UH
Umbrella	Franklin Templeton Investments Feeder Funds
Fund Base Currency	USD
Fund Inception Date	29/07/2024
Share Class Inception Date	29/07/2024

Past performance does not predict future returns.

Discrete Annual Performance (%) - as of 30 June 2026

Class	06/25 06/26	06/24 06/25	06/23 06/24	06/22 06/23	06/21 06/22	06/20 06/21	06/19 06/20	06/18 06/19	06/17 06/18	06/16 06/17
A (acc) USD	43.75	—	—	—	—	—	—	—	—	—
Benchmark (USD)	38.63	—	—	—	—	—	—	—	—	—

Total Returns (%) - as of 30 June 2026

Class	1-Mo*	3-Mo*	YTD*	1-Yr*	3-Yr*	5-Yr*	Inception*	3-Yr	5-Yr	Inception	Inception Date
A (acc) USD	9.00	42.84	31.78	43.75	—	—	80.40	—	—	35.99	29/07/2024
Benchmark (USD)	-1.93	33.71	21.69	38.63	—	—	66.39	—	—	30.38	—

*Cumulative total returns. All other time periods are annualised returns.

Benchmark(s) and Type

MSCI World Information Technology Index	Comparator

The value of shares in the Fund and income received from it can go down as well as up, and investors may not get back the full amount invested.
Performance details provided are in share class currency, include the reinvested dividends gross of tax and are net of management fees. Sales charges, taxes and other locally applied costs have not been deducted. The fund's returns may increase or decrease as a result of changes to foreign exchange rates.

Up to date performance figures can be found on our website.
When performance for either the portfolio or its benchmark has been converted, different foreign exchange closing rates may be used between the portfolio and its benchmark.

What are the Risks?

The Fund does not offer any capital guarantee or protection and you may not get back the amount invested. The Fund is subject to the following risks which are materially relevant:

Potential investors should be aware that an investment in the Protected Cell involves a high degree of risk and is suitable only for investors who fully understand and who can bear the risks of such an investment for an indefinite period. Listed below are the 'Certain Risk Factors' relating to an investment in the Protected Cell. **Equity risk:** prices of equities may be affected by factors such as economic, political, market, and issuer-specific changes. Such changes may adversely affect the value of the equities regardless of company-specific performance. **Liquidity risk:** the risk that arises when adverse market conditions affect the ability to sell assets when necessary. Such risk may be triggered by (but not limited to) unexpected events such as environmental disasters or pandemics. Reduced liquidity may have a negative impact on the price of the assets. **Securities Lending risk:** the risk that default or insolvency of the borrower of securities lent by a Fund may lead to losses if collateral received realizes less than the values of securities lent. All potential investors must carefully read the sections entitled " Certain Risk Factors and Potential Conflicts of Interest" in the Prospectus and Supplement for a full discussion of all the risks before making an investment in the Protected Cell.

Complete information on the risks of investing in the Fund are set out in the Fund's prospectus.

Important Information

This feeder fund is dedicated to investing in one or more share classes of the Underlying Master Fund. Any information pertaining to the Underlying Master Fund has been provided for understanding and evaluating feeder fund only, there is no intention to promote the Underlying Master Fund. The Underlying Master Fund is not registered in the UAE for public distribution.

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The Fund may use financial derivatives or other instruments which may entail specific risks more fully described in the Fund's Prospectus and, where available, in the relevant Key Investor Information Document or any other relevant offering document.

Subscriptions to shares of the Fund can only be made on the basis of the current Prospectus of the Fund, the relevant supplement for a protected cell, and the relevant Key Investor Information Document (or any other relevant offering document), accompanied by the latest available audited annual report and the latest interim report if published thereafter. These documents can be found on our website at franklintempletonme.com or obtained, free of charge, from your local FT representative or the address below.

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