
Invest in Innovation, a Driver of Wealth Creation

Webinar: Franklin Innovation Strategy Launched in Canada

“The most innovative companies are the wealth creators in the economy,” said Matt Moberg, Portfolio Manager of the new **Franklin Innovation Fund** and **Franklin Innovation Active ETF (FINO)**, which were just launched in Canada. In his webinar, Matt talked about five key platforms for innovation plus a strategy for investing in the opportunities created by innovative companies throughout the global economy. Here are his key takeaways.

Innovation is everywhere but often misunderstood

Innovation is a powerful growth engine across the global economy, and it is accelerating, in part because of the COVID-19 pandemic. Yet innovative companies are often misunderstood and, as a result, their stocks are often mispriced. For example, **Amazon.com Inc.** is a prominent company that is covered widely (and held by Franklin Innovation Fund), and its stock has long been considered very expensive. Even though it is consistently viewed as expensive, Amazon’s stock has been among the best performers for investors for years, indicating to us a general misunderstanding of valuation by the market, which may seem counterintuitive for a company so well known. Innovative companies are commonly mispriced as market participants often underestimate the duration of growth these companies can provide; rather than seeing profits competed away in short order, many of them grow and generate excess profits for seven, 10 and 15 years, some even longer. Their pace of growth may also be underestimated, which affects valuations as well. Franklin Innovation Fund invests in growth, but the portfolio team thinks like value investors as they look for companies they believe are misunderstood and undervalued – which can lead to outperformance.

Key platforms of innovation

Innovation is pervasive and expanding throughout retail, health care, industrials, technology, financials and other sectors. We have identified five major platforms where innovation is creating investment opportunities across sectors, industries, markets and geographies:

1. Global e-commerce, including media, the sharing economy and logistics.
2. Genomic breakthroughs in sequencers, diagnostics and editing.
3. Intelligent machines like robotics, 3D printing and the Internet of Things.
4. New finance such as e-payments, Blockchain, distributed lending.
5. Exponential data including artificial intelligence, machine learning, cloud computing.

Franklin Innovation Fund and Franklin Innovation Active ETF (FINO) invest across these platforms through diversified portfolios of long-term positions with a reasonable concentration of holdings. The aim is to invest at the intersection where new ideas can make great long-term investments.

Investing in innovators demands active management

Investing in innovation demands active management to find the opportunities created by mispricing, to have the discipline to hold stocks executing on their growth strategies for the long term, and to eliminate those which are not from the portfolio. As an active manager, Franklin Templeton is well placed to capture opportunities from value creation in the post-COVID economy. Headquartered in Silicon Valley, Franklin Templeton has a proven track record of identifying innovative companies in rapidly evolving sectors and businesses. Our investment teams constantly research and meet with leaders of innovative companies, both public and private. **Franklin DynaTech Fund** in the U.S. has been investing in innovative technologies since 1968, and Franklin Innovation Fund and Franklin Innovation Active ETF (FINO) deploy the same strategy for investing in innovation. Matt Moberg is a Portfolio Manager for all three funds.

The long-dated opportunity of innovation

Given the equity valuations of certain growth stocks, some investors may wonder if they missed the best opportunity to invest in innovation in 2020. But Matt says an allocation to innovation is important to client portfolios because innovative companies should be viewed as long-dated assets for long-term investments. The question is, as you look out to the next five, 10 or 15 years, do you believe these platforms of innovation are going to be a much greater part of the economy? Matt believes the major platforms for innovation offer a compelling opportunity to create a lot of value in the global economy and generate long-term wealth. Innovative companies can be found regardless of where we are in a market cycle, even during recessions, added Jocelyn Duncan, Vice President, Regional Sales, with Franklin Templeton Canada. She cited Microsoft, Hewlett-Packard and Airbnb as firms that started during downturns.

Now Available in Canada: The Franklin Innovation Strategy

Franklin Innovation Fund and Franklin Innovation Active ETF (FINO) invest primarily in companies that we believe are leaders in innovation, that pioneer new technologies, new products, new ideas, new methodologies or benefit from new industry conditions in the dynamically changing global economy. The funds have broadly diversified growth portfolios that focus on themes such as global e-commerce, genetic breakthroughs, intelligent machines, new finance and exponential data.

Both funds mirror the successful strategy of **Franklin DynaTech Fund**, a ***** Morningstar rated fund in the United States.

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