

FUND CHARACTERISTICS (AS OF 12/31/13)

NASDAQ Symbol **FRSGX** 2/14/92 Fund Inception Date Dividends Annually in December Investment Style Growth Benchmark Russell Midcap Growth Index Lipper Classification Mid-Cap Growth Funds US OE Mid-Cap Morningstar Category™ Growth Total Net Assets—All Share 3,786 million Classes Number of Issuers 137 Maximum Initial Sales Charge 5.75%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™ Traditional



Load Waived



As of December 31, 2013 the fund's Class A shares received a traditional 2 star overall Morningstar Rating™ and a load waived 3 star Morningstar Rating™, measuring risk-adjusted returns against 638, 548 and 416 U.S.-domiciled US OE Mid-Cap Growth funds over the 3-, 5- and 10-year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Load waived Class A share Morningstar Ratings do not include front-end sales charges and are intended for investors who have access to such purchase terms (e.g., fee-based programs and participants of a defined contribution plan). Investors should contact their financial advisor to determine their eligibility to purchase Class A shares without paying the sales charge.

Franklin Small - Mid Cap Growth Fund—Class A

PRODUCT PROFILE **FOURTH QUARTER 2013**

FUND DESCRIPTION

The fund seeks long-term capital growth by investing at least 80% of its net assets in equity securities of small and medium-sized companies, within the market capitalization ranges of the Russell 2500TM Index for small-sized companies and Russell Midcap® Index for medium-sized companies, at the time of purchase.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended December 31, 2013 (%)

| | 3 Mths* | YTD* | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | Since Incept (2/14/92) |
|-----------------------------|---------|-------|-------|-------|-------|--------|---------------------------|
| With Sales Charge | 2.67 | 30.61 | 30.61 | 11.23 | 20.40 | 8.12 | 10.70 |
| Without Sales Charge | 8.92 | 38.58 | 38.58 | 13.45 | 21.84 | 8.76 | 11.00 |
| Russell Midcap Growth Index | 8.23 | 35.74 | 35.74 | 15.63 | 23.38 | 9.77 | 9.63 |

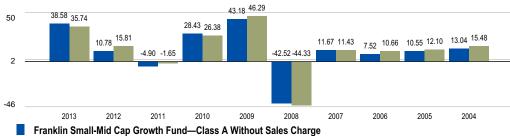
Total Annual Operating Expenses—0.98%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment returns and principal values will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Average Annual Total Returns for Periods Ended December 31, 2013 (%)



Calendar Year Returns As of December 31, 2013 (%)



Russell Midcap Growth Index

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

For information related to the "Fund Characteristics," "Third-Party Fund Data," and "Performance Data" sections, please see Explanatory Notes.

^{*}Cumulative Total Returns.

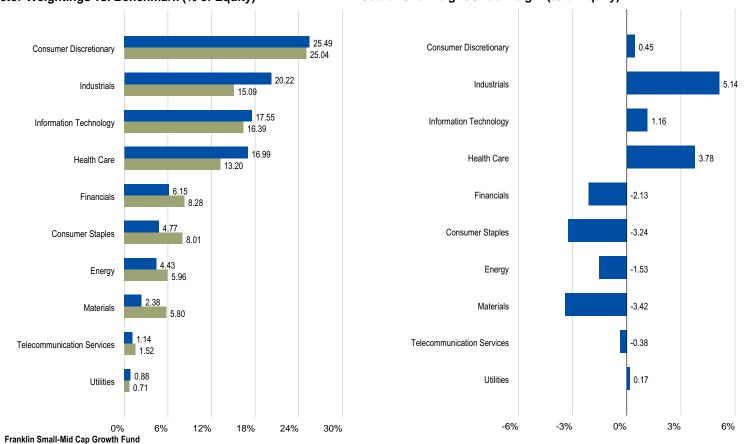
PORTFOLIO DIVERSIFICATION (AS OF 12/31/13)

Top Ten Holdings

| Issuer Name | Industry | % of Total |
|-----------------------------------|--|------------|
| 1. AMETEK INC | Capital Goods | 1.52 |
| 2. AFFILIATED MANAGERS GROUP INC | Diversified Financials | 1.46 |
| 3. ROPER INDUSTRIES INC | Capital Goods | 1.43 |
| 4. ACTAVIS PLC | Pharmaceuticals, Biotechnology & Life Sciences | 1.41 |
| 5. JARDEN CORP | Consumer Durables & Apparel | 1.40 |
| 6. WYNN RESORTS LTD | Consumer Services | 1.33 |
| 7. WOLVERINE WORLD WIDE INC | Consumer Durables & Apparel | 1.32 |
| 8. GNC HOLDINGS INC | Retailing | 1.30 |
| 9. MEAD JOHNSON NUTRITION COMPANY | Food Beverage & Tobacco | 1.28 |
| 10. PERRIGO CO PLC | Pharmaceuticals, Biotechnology & Life Sciences | 1.27 |
| Total | | 13.73 |

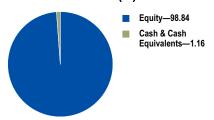
Sector Weightings vs. Benchmark (% of Equity)

Sector Overweight/Underweight (% of Equity)



Russell Midcap Growth Index

Portfolio Allocation (%)



Largest Sector Contributors

vs. Russell Midcap Growth Index

| Sector | Total Effect (%) |
|----------------------------|------------------|
| Consumer Discretionary | 0.65 |
| Financials | 0.51 |
| Industrials | 0.37 |
| Information Technology | 0.33 |
| Telecommunication Services | 0.06 |

Smallest Sector Contributors vs. Russell Midcap Growth Index

| Se | ctor | Total Effect (%) |
|-----|-----------------------|------------------|
| He | alth Care | -0.78 |
| Uti | lities | -0.07 |
| Ca | sh & Other Net Assets | -0.06 |
| Co | nsumer Staples | -0.05 |
| En | ergy | 0.00 |

Contributor data shown is for the period 10/1/13 to 12/31/13

PORTFOLIO CHARACTERISTICS (AS OF 12/31/13)—Fund vs. Russell Midcap Growth Index

| | Fund | Benchmark | | Fund | Benchmark |
|---|--------|-----------|-----------------------|--------|-----------|
| Weighted Average Market Capitalization (Millions) | 10,362 | 12,297 | Return on Equity | 14.01% | 18.50% |
| Median Market Capitalization (Millions) | 7,896 | 6,395 | Operating Margin | 14.97% | 17.45% |
| Historical 3 Yr Sales Growth | 22.96% | 16.87% | Net Margin | 8.47% | 10.28% |
| Historical 3 Yr EPS Growth | 23.19% | 14.97% | FY1 Price to Earnings | 22.24x | 21.34x |
| Estimated 3-5 Yr EPS Growth | 19.16% | 16.49% | P/E to Growth | 1.32x | 1.42x |
| | | | Price to Book | 4.54x | 4.82x |

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics (As of 12/31/13)

| Performance Risk Statistics | 3 Years | 5 Years | 10 Years |
|-----------------------------|---------|---------|----------|
| Standard Deviation | 16.29 | 18.05 | 18.00 |
| Alpha | -3.18 | -1.55 | -0.76 |
| Beta | 1.10 | 1.02 | 0.98 |
| Sharpe Ratio | 0.82 | 1.20 | 0.40 |
| Information Ratio | -0.72 | -0.49 | -0.27 |
| Tracking Error | 3.03 | 3.14 | 3.74 |
| R-Squared | 97.33 | 97.00 | 95.71 |

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GLOSSARY

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

<u>Beta:</u> 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%.

EPS Growth: Earning Per Share. The portion of a company's profit allocated to each outstanding share of common stock. Serves as an indicator of a company's profitability.

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.

Net Margin: The ratio of net profits to revenues for a company or business segment that shows how much of each dollar earned by the company is translated into profits.

Operating Margin: A measurement of what proportion of a company's revenue is left over after paying for variable costs of production such as wages, raw materials, etc.

P/E to Growth: A ratio used to determine a stock's value while taking into account earnings growth.

Price to Book: The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the ratio is the weighted average price/book ratio of the stocks it holds.

<u>Price to Earnings:</u> The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the weighted average P/E ratio of the stocks in the portfolio. P/E is a good indicator of market expectations about a company's prospects; the higher the P/E, the greater the expectations for a company's future growth in earnings.

R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

Return on Equity: A measurement of a corporation's profitability that reveals how much profit a company generates with the money shareholders have invested.

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.

<u>Standard Deviation:</u> A measure of the degree to which a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

<u>Tracking Error:</u> Measure of the deviation of the return of a fund compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment fund is managed, the smaller the tracking error.

MARKET REVIEW

The US equity bull market that began in March 2009 continued during the fourth quarter of 2013 and capped the best annual gain for the US stock market since 1997. Stocks of industries closely tied to economic growth generally fared best during the quarter. All 10 major equity sectors advanced, led by industrials, information technology, consumer discretionary and materials, while the more defensive and interest-rate-sensitive utilities and telecommunication services sectors had smaller gains. In broad terms, fourth-quarter performance was led by large-capitalization stocks, followed by smaller advances for small- and mid-cap equities. By investment style, growth stocks generally gained more than their value counterparts among large- and mid-cap companies, while value stocks outperformed in the small-cap tier. Geographically, US equities outperformed those of most other developed markets, as well as most emerging markets, for the quarter.

Key macroeconomic indicators, both domestic and foreign, bolstered the US stock market, as did the removal of uncertainty about when the US Federal Reserve (Fed) would begin tapering its bond-buying program. Diminished fiscal headwinds, low interest rates and inflation, and continued strength in corporate earnings also had a positive impact. In addition to strength in data regarding housing, household wealth, consumer sentiment and retail spending, other indications of a modestly accelerating US economy heading into 2014 included a five-year low in unemployment, a five-year high in manufacturing output, record export levels and the fastest gross domestic product growth in nearly two years. Signs of progress outside the US also factored heavily in the equity market rally: The global economy resumed its momentum as trade grew at its fastest rate since early 2011, Europe reported modest growth as it emerged from recession, Japan addressed persistent deflation and appeared to be succeeding, and China proposed reforms that could lead to an economic transformation.

PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE

Performance Review

Several sectors benefited relative fund performance during the quarter, with significant contributions from consumer discretionary, financials, information technology and industrials. In contrast, the health care sector was a meaningful detractor from relative returns.

In the consumer discretionary sector, Buffalo Wild Wings, Jarden and Homeaway reported solid third-quarter results, and their shares benefited relative performance. Casino resort operator Wynn Resorts also added to returns. Conversely, Lululemon Athletica and Shutterfly curbed relative fund performance.

In the financials sector, a significant underweighting in the real estate investment trusts industry was favorable for relative performance. A position in investment advisory firm Lazard benefited from third-quarter year-over-year earnings growth driven mostly by margin expansion.

In the information technology sector, NXP Semiconductors reported solid third-quarter results and issued guidance for sequential growth in the fourth quarter-news that boosted its stock. Semiconductor company Avago Technologies reported October-quarter financial results that exceeded consensus estimates, and it added to fund performance. However, positions in JDS Uniphase, Semtech and NetSuite dampened relative fund returns.

In the industrials sector, shares of DigitalGlobe, which supplies commercial earth imagery products and services, rose on news about enhanced capabilities and expanded commercial applications for its new satellite, which is scheduled to launch in 2014. A position in construction equipment rental company United Rentals also added to returns.

Negative relative performance in the health care sector was concentrated in the biotechnology industry, in which shares of Celldex Therapeutics, ARIAD Pharmaceuticals and Amarin declined in value and pressured the fund's results. Conversely, a position in Envision Healthcare Holdings added to returns.

Elsewhere, craft brewer The Boston Beer Company hindered relative performance in the consumer staples sector. Additionally, deepwater oil exploration company Cobalt International Energy announced disappointing results of a discovery off the coast of Angola that contained lower oil reserves than it expected--news that negatively impacted shares of this energy sector holding.

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

INVESTMENT PHILOSOPHY AND PROCESS

Philosophy

The Franklin U.S. Growth Team philosophy holds that companies with potential for long-term sustainable growth can provide significant opportunities for investors. Market participants can have a short-term perspective and underappreciate the value created by sustainable growth. We believe that the best potential for delivering attractive risk-adjusted returns is by identifying companies with potential for sustainable growth that is not already reflected in their current stock prices.

Investment Approach

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.

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 to target current 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
- Consider whether security prices fully reflect the balance of the sustainable growth opportunities relative to the business and financial risks

INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/13)

| Franklin Small - Mid Cap Growth Fund Management Team | Years with Firm | Years Experience |
|--|-------------------|--------------------------|
| Edward Jamieson | 26 | 38 |
| Michael McCarthy, CFA | 21 | 22 |
| James Cross, CFA | 15 | 16 |
| Franklin Equity Group Management Team | Years with Firm | Years Experience |
| Edward Jamieson - CIO Franklin Equity Group | 26 | 38 |
| Edward Perks, CFA - Director of Portfolio Management | 21 | 21 |
| Coleen Barbeau, CFA - Director of Global Growth | 30 | 33 |
| Donald G. Taylor - CIO U.S. Value | 17 | 32 |
| Michael McCarthy, CFA - Director of Equity Research | 21 | 22 |
| Franklin U.S. Growth Team | Number of Members | Average Years Experience |
| Investment Professionals | 10 | 23 |

WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Smaller, mid-sized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. Historically, these securities have experienced more price volatility than larger company stocks, especially over the short-term. To the extent the Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, it may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments. From time to time, the trading market for a particular security or type of security in which the Fund invests may become less liquid or even illiquid. These and other risks are described more fully in the fund's prospectus.

EXPLANATORY NOTES

FUND CHARACTERISTICS

Number of Issuers: All portfolio holdings are subject to change. Holdings of the same issuer have been combined.

THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 12/31/13. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Franklin Small-Mid Cap Growth Fund received a traditional Morningstar Rating of 2, 3 and 2 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Franklin Small-Mid Cap Growth Fund received Morningstar Ratings of 3, 4 and 3 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. Past performance does not guarantee future results. ©2014 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

The Russell index shown is a trademark/servicemark of the Frank Russell Company.

PORTFOLIO DIVERSIFICATION

Top Ten Holdings: Holdings of the same issuer have been combined. Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included. For updated information, call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com.

Sector Weightings/Sector Overweight/Underweight: Weightings as percent of equity (unless otherwise noted). Percentage may not equal 100% due to rounding. Information is historical and may not reflect current or future portfolio characteristics.

Largest/Smallest Sector Contributors: Total effect represents the opportunity cost of investment decisions in a group relative to overall benchmark

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

PORTFOLIO CHARACTERISTICS

Source: FactSet. The Price/Earnings ratio calculation for the weighted average uses harmonic means. The Estimated 3-5 Year EPS Growth uses simple weighted average means. There can be no assurance that the Estimated 3-5 Year EPS Growth will be realized. The Return on Equity calculation uses simple weighted average means.

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. All portfolio holdings are subject to change.



Franklin Templeton Distributors, Inc. One Franklin Parkway San Mateo, California 94403-1906 (800) DIAL BEN® (800) 342-5236 franklintempleton.com 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 advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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