

# Franklin Utilities Fund

Advisor Class: FRUAX Class A: FKUQX

Commentary | as of March 31, 2025

## Key Takeaways

- **Markets:** US equities experienced heightened volatility during the first quarter of 2025 amid concerns about President Donald Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's (Fed's) interest-rate path, with some investors fearing a potential recession or stagflation (economic stagnation and high inflation). Underwhelming earnings reports and guidance from some companies and significantly lower consumer confidence also hindered sentiment. US stocks collectively declined in the first quarter, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index ending with losses. Small-capitalization stocks struggled over the quarter, followed by large- and mid-cap equities. In all three market-cap tiers, value stocks performed better than growth, with large-cap value stocks ending modestly positive.
- **Contributors:** While the fund's returns was positive, it lagged the benchmark's result. At the industry level, multi-utilities was the only contributor to relative returns. Several individual holdings from various industries also benefited relative performance.
- **Detractors:** Stock selection decisions worked against us, resulting in the fund's relative underperformance. Stock selection and an underweight in the water utilities industry detracted significantly from relative returns.
- **Outlook:** We expect the equity market to remain volatile as tariffs and policy information unfold. For longer-term, patient investors, we think there are reasons for optimism. We believe that no matter what comes, innovators can find new ways to create value in a changing world. We are finding what we consider to be high-quality companies on sale today that we believe are resilient in tariff and recessionary environments and have excellent long-term prospects.

## Performance Review

- The fund lagged the performance of the S&P 500 Utilities Index benchmark in the first quarter of 2025. The three largest relative detractors were from the electric utilities industry. An underweight in the rising shares of American Electric Power was a drag on relative returns but was a contributor on an absolute basis. The company has extensive infrastructure with a transmission network spanning over 40,000 miles. It operates under a regulated revenue model, which provides a fairly consistent cash flow. Additionally, it has a customer base of over five million customers across 11 states, ensuring a relatively steady demand for electricity.
- Edison International's stock has experienced a year-to-date decline amid worries that the company's equipment may have sparked the Eaton Fire and related concerns about the viability of the California Wildfire Fund.
- In contrast, an underweight in Constellation Energy limited our exposure to its stock's decline. It was among several energy companies rattled by the launch of Chinese artificial intelligence (AI) startup DeepSeek (not a fund holding), broadly considered a threat to electricity demand growth due to its highly efficient and cost-effective AI technology.

## Outlook

- Utilities entered 2025 with a positive outlook given numerous capital deployment opportunities and the potential for lower expectations on inflationary data.
- A resurgence in commercial and industrial development in the United States is driving an expected uptick in the usage of electricity and natural gas utility services. Many companies in the sector have acknowledged they expect a significant increase in electricity demand over the next several years compared to what they experienced over the past decade.
- Because the AI industry requires a large buildout of data-center infrastructure—with each new data center requiring significant power resources to support that infrastructure—utilities have recently been recognized as a potential secondary beneficiary of the AI revolution.
- Utilities are also spending record levels of capital in transmission and distribution (T&D) to make the grid more reliable and resilient. The increasing severity of weather in the past several years is requiring the improvement of T&D infrastructure so that it can be less impacted by storm activity—all electric utilities are making this a top priority.
- Utilities remain sensitive to long-term interest rates. As expected, the Fed started shifting its monetary policy from one of tightening to one of easing. The uncertainty of future interest-rate cuts will likely keep sector performance volatile compared to historical levels. With increased levels of capital spending and the future uncertainty of interest rates, several utilities have signaled a change in dividend policy toward one paying out a lower percentage of earnings. Dividends remain a key component of the investment opportunity for utility investors, but directing more cash toward organic reinvestment in the business seems reasonable to us.

## Morningstar Rating™

Overall Rating as of March 31, 2025



**(4-Star) Advisor Class**



**(3-Star) Class A**

As of 03/31/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 57, 57 and 50 Utilities 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.

## Top Equity Issuers (% of Total)

| Holding            | Fund |
|--------------------|------|
| NEXTERA ENERGY INC | 8.91 |
| SOUTHERN CO/THE    | 5.68 |
| ENERGY CORP        | 5.65 |
| DUKE ENERGY CORP   | 4.77 |
| EVERGY INC         | 4.41 |
| SEMPRA             | 3.92 |
| VISTRA CORP        | 3.89 |
| PG&E CORP          | 3.83 |
| PPL CORP           | 3.81 |
| NISOURCE INC       | 3.80 |

## Sector Allocation (% of Total)

| Industry                                     | Fund  |
|--|-------|
| Electric Utilities                           | 59.08 |
| Multi-Utilities                              | 27.60 |
| Independent Power Producers & Energy Traders | 4.88  |
| Oil & Gas Storage & Transportation           | 3.26  |
| Renewable Electricity                        | 2.06  |
| Gas Utilities                                | 1.56  |
| Water Utilities                              | 1.13  |
| Cash & Cash Equivalents                      | 0.42  |

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

| Class         | CUSIP     | Ticker | Without Sales Charge |       |       |      |       |       |           | With Maximum Sales Charge |       |       |      |       |       |           | Expenses |      | Sales Charges  |      | Inception Date |
|---------------|-----------|--------|----------------------|-------|-------|------|-------|-------|-----------|---------------------------|-------|-------|------|-------|-------|-----------|----------|------|----------------|------|----------------|
|               |           |        | 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 |                |
| Advisor Class | 353496854 | FRUAX  | 4.26                 | 4.26  | 26.67 | 7.01 | 11.98 | 9.46  | 9.89      | 4.26                      | 4.26  | 26.67 | 7.01 | 11.98 | 9.46  | 9.89      | 0.56     | 0.56 | —              | —    | 9/30/1948      |
| Class A       | 353496474 | FKUQX  | 4.20                 | 4.20  | 26.37 | 6.75 | 11.69 | 9.22  | 9.79      | 0.29                      | 0.29  | 21.63 | 5.40 | 10.84 | 8.80  | 9.73      | 0.81     | 0.81 | 3.75           | —    | 9/30/1948      |
| Benchmark 1   | —         | —      | 4.94                 | 4.94  | 23.87 | 5.27 | 10.82 | 9.54  | —         | 4.94                      | 4.94  | 23.87 | 5.27 | 10.82 | 9.54  | —         | —        | —    | —              | —    | —              |
| 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=S&amp;P 500 Utilities Index

Benchmark 2=S&amp;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](http://franklintempleton.com).

The fund began offering Advisor Class shares on 12/31/1996 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, a restated figure is used based on the fund's Class A1 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.** 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. Securities issued by **utility companies** have been historically sensitive to interest rate changes. When interest rates fall, utility securities prices, and thus a utilities fund's share price, tend to rise; when interest rates rise, their prices generally fall. 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

**Dow Jones Industrial Average (DJIA)** is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

**Nasdaq Composite Index** is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX.

**Stagflation** is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

**Stagnation** is a prolonged period of little or no growth in an economy.

## 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 Utilities Index** comprises those companies included in the S&P 500 that are classified as members of the GICS utilities sector. Source: © S&P Dow Jones Indices LLC. All rights reserved. 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.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

**Morningstar Rating™.** Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-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, and does not take into account the effects of sales charges and loads, 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. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 4, 3 and 4 and fund's Class A shares received a Morningstar Rating of 3, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings.

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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](http://www.franklintempleton.com). Please read it carefully.**



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