FRANKLIN TEMPLETON

Franklin Convertible Securities Fund

Advisor Class: FCSZX Class A: FISCX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Convertible Securities Market:** As weakness in AI-related securities reversed some of the strong gains that had driven performance during the first half of 2026, the US and global convertible bond (CB) markets generally declined in the third quarter (as measured by ICE BofA indexes in US dollar terms). Performance within the CB asset class varied as global equity-sensitive convertibles (-11.6%) fared worse than balanced CBs (-5.5%) and "busted" (credit-/rate-sensitive) convertibles (-1.1%) in 3Q26. Year-to-date, global CBs have returned 12.1% (and 13.6% in the US alone), comparable to global stocks and ahead of corporate and sovereign debt. CB primary issuance in September totaled $26.9 billion globally (led by the US's nearly $14 billion, and Asia's nearly $9 billion), capping a record total for 3Q26 (over $66 billion). The new supply came from a diverse set of industries ranging from AI to cybersecurity to biotechnology. Year-to-date issuance now totals $203.8 billion and has already surpassed 2025's previous record-high annual level ($167 billion).
- **Contributors:** Modest absolute gains in the financials, consumer staples, health care and materials sectors; when combined, these holdings covered about 30% of the portfolio (on average).
- **Detractors:** Negative returns for seven out of 11 sector allocations, with most of the loss concentrated in information technology (IT), industrials, consumer discretionary and utilities holdings.
- **Outlook:** While AI-related convertible issuance could moderate somewhat amid continued market volatility, we remain constructive on the outlook for the convertible securities market, supported by record issuance and favorable refinancing dynamics, according to our analysis. In particular, we would welcome greater diversification in new issuance across sectors such as health care, industrials, consumer and energy, which would broaden our investment opportunity set and support the long-term development of the asset class.

Performance Review

- On an absolute basis, the fund's (Advisor Class without sales charges) 3Q26 returns reflected the surge in bond yields and cheapening in the AI theme, especially in Asia where the losses were more significant than for US-based CBs. This was an important distinction as roughly 92% of the portfolio's holdings were US-based on September 30, compared to less than 3% in Asia. In our view, the summer's AI-related pullback reinforced the importance of our disciplined investment approach and focus on balanced convertibles. We have positioned the portfolio with less exposure to highly equity-sensitive convertibles than many of our peers and have generally avoided more speculative areas of the AI ecosystem, including data centers and neocloud providers, where we believe business quality, capital intensity and valuation present meaningful risks.
- Mixed IT sector results were aided by rallies in Hewlett Packard Enterprise (enterprise servers, networking and hybrid cloud), Snowflake (cloud data and AI platform) and Cloudflare (cloud networking and cybersecurity), along with five lesser contributors. However, their gains were more than offset by nine detractors, including double-digit declines for MKS (semiconductor manufacturing equipment/components), MACOM Technology Solutions (analog and RF semis), Nova (semi metrology equipment), Onto Innovation (semi inspection, metrology and process-control equipment) and Microchip Technology (analog chips and microcontrollers). HPE's position in enterprise infrastructure improved amid strong demand for its AI servers and networking gear. Snowflake saw accelerating adoption of AI offerings that boosted platform consumption and engagement across its ecosystem. Conversely, MKS's 2Q26 earnings didn't exceed elevated investor expectations, while planned capacity investments and a drop in gross-margin guidance raised profitability concerns. MACOM was typical of many IT firms in that its decline seemed to be driven more by sector-wide equity valuation compression than by deteriorating company fundamentals, echoing the weakness among its optical-networking peers. We've maintained a relatively cautious stance toward areas of software where we believe AI disruption risk remains underappreciated, while favoring companies with durable competitive advantages and clear AI monetization opportunities.
- The other major contributors included gold producer B2Gold (+27%), which was benefiting from elevated gold prices, strong mining operations and record free cash flows; impressive gains for Apollo Global Management (sold by period-end) and other alternative asset managers; The Chef's Warehouse (+15%) in consumer staples; and Tempus AI (+25%), Repligen (+14%), Bruker (+6%) and Haemonetics (+13%) in health care. In particular, North American specialty food distributor The Chef's Warehouse, which supplies high-end restaurants and foodservice operators with ingredients and seafood, reported resilient demand in its fine-dining channels and easing cost inflation.
- Conversely, absolute detractors were more concentrated in the industrials, consumer discretionary and utilities sectors. All seven industrials holdings traded lower, including QXO (building products distribution and installation) and Knight-Swift Transportation (freight transportation and logistics). QXO's CB value fell the most (-16%) as investors reacted to slower-than-expected progress on acquisitions and caution around integration risks. Sentiment was further impacted by macro softness in residential construction, which pressured volumes and margins. In consumer discretionary, the downside was driven by Burlington Stores (discounted apparel, footwear, accessories and home goods), whose 2Q26 same-store sales missed consensus estimates. Utilities CBs sustained widespread declines as rising long-term bond yields made their dividends less attractive while increasing financing costs for the sector's heavily indebted, capital-intensive companies.

Outlook

- **We expect convertible and equity market volatility to persist in the near term** as investors contend with heightened macroeconomic, geopolitical and policy uncertainty, exacerbated by fluidity in the Trump administration's global trade policy framework.
- **Through this uncertainty, we continue to invest in balanced convertibles that, in our analysis, can participate more in their respective underlying equity's upside than downside.** We believe that the favorable upside-to-downside capture dynamic offered by balanced convertibles can be even more valuable in times of greater uncertainty and volatility.

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 09/30/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 73, 69 and 62 Convertibles 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Top Holdings (% of Total)

Issuer	Fund
HEWLETT PACKARD ENTERPRISE CO	3.65
SNOWFLAKE INC	3.18
ALPHABET INC	3.11
WELLTOWER INC	2.85
MACOM TECHNOLOGY SOLUTIONS HOLDINGS INC	2.71
BRUKER CORP	2.45
MKS INC	2.45
MICROCHIP TECHNOLOGY INC	2.33
BRIDGEBIO PHARMA INC	2.32
JAZZ PHARMACEUTICALS PLC	2.11

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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	Date
Advisor Class	353612641	FCSZX	-2.61	8.93	12.29	15.57	6.15	12.37	9.96	-2.61	8.93	12.29	15.57	6.15	12.37	9.96	0.58	0.57	—	—	4/15/1987
Class A	353612104	FISCX	-2.67	8.73	11.96	15.28	5.88	12.09	9.83	-8.03	2.76	5.81	13.14	4.69	11.46	9.67	0.83	0.82	5.50	—	4/15/1987
Benchmark	—	—	-7.32	4.70	2.77	12.76	2.58	9.39	—	-7.32	4.70	2.77	12.76	2.58	9.39	—	—	—	—	—	—

Benchmark(s)

Benchmark =ICE BofA Convertibles Total Return Alternatives 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.*

The fund began offering Advisor Class shares on 5/15/2008. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/15/2008, a restated figure is used based on the fund's Class A 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. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 02/28/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

What are the Risks?

All investments involve risks, including possible loss of principal. Convertible securities are subject to the risks of stocks when the underlying stock price is high relative to the conversion price and debt securities when the underlying stock price is low relative to the conversion price. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default**. Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Unrated debt securities** have less public information and independent credit analysis and they may be subject to a greater risk of illiquidity, price changes or default. **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.** 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

Convertible securities are bonds or preferred stocks that can be converted into a preset number of shares of common stocks after a predetermined date.

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 **ICE BofA Convertibles Total Return Alternatives Index** comprises domestic securities of all quality grades that are convertible into U.S. dollar-denominated common stock, ADRs or cash equivalents and have a delta (measure of equity sensitivity) that indicates the security likely has a balance between the debt and equity characteristics of the security.

Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

Morningstar Rating™: Source: Morningstar®, 09/30/2026. 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 Class A shares received a Morningstar Rating of 3, 4 and 5 and fund's Advisor Class shares received a Morningstar Rating of 3, 4 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) 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.

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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. Please read it carefully.

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