Franklin Convertible Securities Fund

Advisor Class: FCSZX Class A: FISCX | **Commentary | as of March 31, 2025**

Key Takeaways

- **Convertible Securities Market:** US and global convertible bonds (CBs) advanced in January and February 2025 before backtracking somewhat in March, when the global CB asset class returned -1.6% for the month (as measured by ICE BofA indexes in US-dollar terms) as tariff-driven losses in the United States and Asia more than offset gains in Europe. March's downdraft trimmed the full first-quarter 2025 (1Q25) return of global CBs to 1.4%, which was still compelling as convertibles stayed ahead of most other types of assets; relative to global stocks (per the MSCI All Country World Index), investment-grade and high-yield corporate bonds, as well as sovereign debt, global CBs remained near the front in local-currency terms. These global gains contrasted with negative returns for the pool of US-based CBs, in which performance varied greatly as equity-sensitive convertibles (-8.2%) fared considerably worse than balanced convertibles (-1.9%) and "busted" (credit-/rate-sensitive) convertibles (-0.3%).
- **Detractors:** In absolute terms, the portfolio's mixed 1Q25 results were tilted to the downside as the gains in six out of 11 sector allocations were more than offset by the losses in the other five, with information technology (IT) faring the worst.
- **Contributors:** Overall declines were partially offset by gains in the health care, real estate, utilities, communication services, materials and energy sectors; when combined, these holdings covered 42.29% of the portfolio at quarter-end.
- **Outlook:** We expect convertible and equity market volatility to persist in the near-term as the market is contending with heightened macroeconomic and policy uncertainty, exacerbated by the recent introduction of the Trump administration's global trade policy framework.

Performance Review

- IT sector convertibles remained a core fund focus, at 21.03% of total net assets at quarter-end, and were a notable area of weakness. Although Guidewire Software (enterprise software for the property and casualty industry), Cloudflare (network and cybersecurity services) and a handful of others traded higher, most IT holdings sold off including key detractors Hewlett Packard Enterprise (HPE; global edge-to-cloud solutions for business operations and digital transformation) and Wolfspeed (a leading developer of silicon carbide and gallium nitride semiconductors).
- A smaller exposure to financials sector convertibles (9.61% of the portfolio at quarter-end) also fared poorly as all related holdings depreciated, including key detractors Apollo Global Management and Ares Management. Widening concerns about global economic instability, including potential recessions in certain regions and escalating trade wars, have historically created volatility and investor caution around financial services, asset management and fintech CBs such as those held by the fund. We believe some of this sentiment-driven selling may have set company fundamentals aside as investors rotated into industries and sectors perceived as safer during times of uncertainty, though some fintech and digital transaction firms did report quarterly earnings that fell short of consensus expectations.
- In terms of absolute contributors, most of the fund's health care holdings traded higher, none more so than key contributor Insmed (therapies for a range of serious rare diseases). Insmed provided a highly positive business update, including strong financial performance with promising future projections, and clinical trial progress on several pipeline drugs.
- Mixed results in the consumer discretionary sector were supported by a robust rally for Chinese tech infrastructure and e-commerce conglomerate Alibaba Group Holding, which partially offset the declines in Peloton Interactive and others. Alibaba confirmed a new partnership with Apple (not held by the fund) to bring artificial intelligence (AI) features to iPhones sold in China, and it introduced an upgraded in-house AI model called Qwen2.5, which was well-received by the market.
- Welltower, a real estate investment trust focused on senior housing, post-acute care facilities and outpatient medical properties, was the top contributor among four real estate sector holdings, three of which advanced.

Outlook

- **Widespread tariffs increase the risks of slowing economic growth, stoking inflation and disrupting supply chains.** There are still many unknowns, including potential retaliatory measures from US trading partners and the negotiating power of both partners and impacted industries seeking exemptions. We continue to invest in balanced convertibles that, in our analysis, provide more upside than downside compared with their underlying equities. We believe that this favorable upside-to-downside capture that we have always pursued is even more valuable in these times of greater uncertainly and volatility.
- **We saw a year-over year uptrend in CB issuance in 2024 and are hopeful that the market can remain robust in 2025, despite a slow start to the year.** For reference, 2023 issuance totaled $79.4 billion as it essentially doubled from 2022's 28-year low and returned to a more normal pre-pandemic level. In 2024, issuance rose to almost $119 billion. Although new CB issuance has gotten off to a sluggish start in 2025 amid high levels of macroeconomic and geopolitical uncertainty, the pace improved in February and March. Globally, $13.3 billion of convertibles were priced in March—more than double February's total, after February's issuance roughly doubled January's total. Year-to-date, global issuance now totals $22.8 billion, which is below the $25.3 billion of convertibles we saw in the first three months of 2024.
- **We anticipate that elevated interest rates, despite the monetary policy easing by many central banks, may lead to companies seeking to refinance straight debt with lower-coupon convertible debt.** Additionally, companies that issued convertibles during the wave of issuance that began in 2020 will soon see their debt becoming a current liability on their balance sheets. Approximately 70% of the convertibles maturing in 2025 and 2026 are "out of the money," according to our research. As such, these issuers will need to refinance—rather than convert—their bonds, likely leading to another factor that increases new issuance. Additionally, there is a wall of maturities coming in the high-yield market and many of those issuers, when faced with significantly higher coupons than the maturing debt, may choose to tap the convertible market, where their cash coupon cost will be lower. The potential for these scenarios to unfold contributes to our general optimism about the convertible securities market's future level of new issuance.

Morningstar Rating™

Overall Rating as of March 31, 2025

★★★★★ **(5-Star)** Advisor Class

★★★★★ **(5-Star)** Class A

As of 03/31/2025 the fund's Class A and Advisor Class shares received a 5 star overall Morningstar rating™, measuring risk-adjusted returns against 72, 69 and 57 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.

Top Holdings (% of Total)

Issuer	Fund
INSULET CORP	2.32
WELLTOWER INC	2.26
REXFORD INDUSTRIAL REALTY INC	2.18
APOLLO GLOBAL MANAGEMENT INC	2.16
JAZZ PHARMACEUTICALS PLC	2.15
CLOUDFLARE INC	2.14
SHIFT4 PAYMENTS INC	2.09
UBER TECHNOLOGIES INC	2.08
PTC THERAPEUTICS INC	2.05
CENTERPOINT ENERGY INC	2.05

Sector Allocation (% of Total)

Sector	Fund
Information Technology	21.03
Health Care	20.40
Consumer Discretionary	13.41
Financials	9.61
Utilities	7.36
Industrials	7.30
Real Estate	6.55
Communication Services	4.28
Other	7.52
Cash & Cash Equivalents	2.54

Average annual total returns and fund expenses (%)

			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	-2.68	-2.68	8.72	4.31	13.86	10.46	9.67	-2.68	-2.68	8.72	4.31	13.86	10.46	9.67	0.59	0.58	—	—	4/15/1987
Class A	353612104	FISCX	-2.74	-2.74	8.40	4.05	13.58	10.18	9.54	-8.09	-8.09	2.44	2.10	12.29	9.56	9.38	0.84	0.83	5.50	—	4/15/1987
Benchmark	—	—	-1.95	-1.95	4.13	-1.37	8.46	7.16	—	-1.95	-1.95	4.13	-1.37	8.46	7.16	—	—	—	—	—	—

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 02/28/2026 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. **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.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

Important Information

Franklin Convertible Securities Fund closed to new investors with limited exceptions on 8/29/18. Existing investors may continue to purchase additional shares of the fund.

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.

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 Class A shares received a Morningstar Rating of 5, 5 and 5 and fund's Advisor Class shares received a Morningstar Rating of 5, 5 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.

Franklin Distributors, LLC. Member FINRA/SIPC.

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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