

Franklin Convertible Securities Fund

Advisor Class: FCSZX Class A: FISCX

Commentary | as of December 31, 2025

Key Takeaways

- **Convertible Securities Market:** On a global basis, convertible bonds (CBs) had mixed but overall positive results in 2025's fourth quarter (as measured by ICE BofA indexes in US dollar terms). Performance within the asset class varied greatly as global equity-sensitive convertibles (+8.8%) finished the quarter far ahead of both "busted" (credit-/rate-sensitive) convertibles (+0.1%) and balanced convertibles (-1.2%). In the United States alone, the rally in equity-sensitive convertibles was somewhat stronger (+9.9%), countered by a weak gain for US-based busted CBs (+0.2%) and losses in the balanced category (-1.9%). For 2025 as a whole, global CBs returned 21% as optimism linked to artificial intelligence (AI) and the direction of interest rates overcame trade and geopolitical volatility, and convertibles were among the leading performers on a global cross-asset basis. Global CB issuance ended 2025 on a strong note as December contributed \$12.3 billion, more than twice the long-term monthly average, pushing full-year global new supply up to \$166.5 billion, the most since 2001 and just \$200 million shy of the all-time record.
- **Contributors:** Health care, information technology (IT), materials and utilities sector holdings foremost.
- **Detractors:** Declines for industrials, financials, consumer discretionary and communication services CBs.
- **Outlook:** We expect convertible and equity market volatility to persist as investors contend with heightened economic and policy uncertainty, exacerbated by fluidity in the Trump administration's shifting global trade policy framework.

Performance Review

- Seven out of 11 sector allocations contributed to the fund's absolute 4Q25 returns. Health care companies dominated the leaderboard, led by double-digit percentage gains for BridgeBio Pharma (clinical-stage biotechnology firm aimed at genetic diseases and cancers), Bruker (scientific instruments and analytical/diagnostic tools), PTC Therapeutics (rare disease-focused biopharmaceutical company with both marketed products and high-impact pipeline assets) and Jazz Pharmaceuticals (neuroscience, oncology and rare diseases). Bruker, which posted the largest return in the group, has seen improved order trends in key areas of the business.
- Mixed results in the IT sector were supported foremost by solid rallies for convertibles issued by Lumentum Holdings, MACOM Technology Solutions Holdings (analog, radio-frequency, microwave and photonic semiconductor products for communications, industrial and defense systems) and MKS (instruments, systems and process-control solutions serving advanced manufacturing, semiconductors and industrial markets). Unlike many AI-linked CB issuers, top overall contributor Lumentum—a photonics company that makes optical and laser components used mainly in fiber-optic communications, data centers, 5G networks and 3D sensing—rallied more than 80% on strong AI-driven growth and revenue projections. Lumentum's core business is enabling faster, more efficient movement of data using light instead of electricity. According to our analysis, AI demand is showing up across Lumentum's AI infrastructure product portfolio.
- Gains in the materials sector were led by an outsized return of more than 50% for battery-grade lithium producer Albemarle, which benefited from stronger-than-expected third quarter (3Q25) revenues and a recent bounce in lithium carbonate futures prices, which surged to their highest levels in about a year, signaling that a prolonged price slump may be reversing.
- Conversely, results in the industrials sector were pressured by deteriorating consumer sentiment-driven selloffs in ride-hailing and mobility services platform providers Uber Technologies and Lyft. There was also some downside in IT as Wolfspeed, Cloudflare, Nutanix and others traded lower. Some technology-linked financials holdings also fared poorly, including Coinbase Global and Shift4 Payments. We continue to see a heightened level of participation in the convertible market by cryptocurrency-linked issuers. While we have some crypto exposure to Bitcoin treasury and mining companies through our position in cryptocurrency exchange and digital asset infrastructure platform operator Coinbase, we have largely not participated in these crypto-linked issuers given quality concerns and their more heavily levered balance sheets.
- Results in the consumer discretionary sector would have been better if not for Peloton Interactive's substantial decline, along with a smaller loss for Alibaba Group Holding, a leading Chinese multinational specializing in e-commerce, cloud computing, digital media and fintech. Peloton is a fitness technology company offering interactive exercise equipment—like stationary bikes and treadmills—combined with subscription-based live and on-demand workout classes. Peloton has been facing declining equipment demand, a shrinking subscriber base in its higher-margin "connected fitness" business and still-unsatisfactory growth prospects. We remain constructive on Peloton and believe it can reinvigorate subscriber growth through its newly-refreshed equipment lineup, a new AI-driven system called "Peloton IQ" and high-quality fitness content.

Outlook

- **Along with signs of decelerating employment growth, the key risks we are monitoring include those associated with inflation, tariffs and trade negotiations, and geopolitical conflicts.** We believe the US Federal Reserve (Fed) has made good progress in bringing US inflation back down toward its target level. Meanwhile, US employment data has softened in recent months, which we think makes the Fed's timing around future interest-rate reductions more complicated as it seeks to achieve its dual mandate of stable prices and maximum employment. We are also monitoring the trade policy environment, as additional tariffs could have implications for inflation and supply-chain resilience in 2026, and could further complicate the Fed's rate decisions. The continuing war in Ukraine, events unfolding in Venezuela and Iran, along with other military conflicts that periodically appear, emphasize the currently volatile nature of global geopolitics.
- **We are optimistic about AI's expanding use cases and will continue to participate in this category primarily through investments in AI infrastructure, software and global consumer applications.** We are also monitoring the AI landscape for evidence that the returns on capital can support the significant investments being made by hyperscalers, and we currently prefer to gain some of our overall AI exposure through less obvious beneficiaries, including businesses like Snowflake, Lumentum, Hewlett Packard Enterprise and Alibaba (all held by the fund as of December 31, 2025).

Morningstar Rating™

Overall Rating as of December 31, 2025

★★★★★ (5-Star) Advisor Class

★★★★ (4-Star) Class A

As of 12/31/2025 the fund's Advisor Class shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 74, 70 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.

Top Holdings (% of Total)

Issuer	Fund
BRIDGEBIO PHARMA INC	2.72
WELLTOWER INC	2.42
PTC THERAPEUTICS INC	2.41
HEWLETT PACKARD ENTERPRISE CO	2.29
JAZZ PHARMACEUTICALS PLC	2.27
WAYFAIR INC	2.22
LYFT INC	2.21
MICROCHIP TECHNOLOGY INC	2.14
ALBEMARLE CORP	2.13
BURLINGTON STORES INC	2.12

Average annual total returns and fund expenses (%) - as of December 31, 2025

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	353612641	FCSZX	3.08	13.83	13.83	13.39	5.77	12.39	9.92	3.08	13.83	13.83	13.39	5.77	12.39	9.92	0.59	0.58	—	—	4/15/1987
Class A	353612104	FISCX	2.98	13.54	13.54	13.08	5.50	12.11	9.79	-2.68	7.30	7.30	10.98	4.31	11.48	9.63	0.84	0.83	5.50	—	4/15/1987
Benchmark	—	—	-1.85	18.07	18.07	10.67	2.67	9.59	—	-1.85	18.07	18.07	10.67	2.67	9.59	—	—	—	—	—	—

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.

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.

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

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.

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®, 12/31/2025. 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 3, 5 and 5 and fund's Class A 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 Advisor Class and Class A 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.