

# Franklin Convertible Securities Fund

Advisor Class: FCSZX Class A: FISCX

Commentary | as of March 31, 2026

## Key Takeaways

- Convertible Securities Market:** On a global basis, convertible bonds (CBs) returned 2.3% in the first quarter of 2026 (1Q26), as measured by ICE BofA indexes. Within the United States, performance within the asset class varied widely as equity-sensitive convertibles (+15.7%) diverged from both balanced convertibles (+0.1%) and “busted” (credit-/rate-sensitive) convertibles (-0.7%). Overall results were pressured by widespread selling in March, when the asset class collectively fell 5.5% as investor concerns around the war in Iran and the resilience of the artificial intelligence (AI) trade took out some of the air from a number of formerly high-flying pockets of CBs, including Asia and AI. On the supply side, the global CB market remained quite active and priced \$53.3 billion in new issuance during 1Q26, more than double 2025’s first quarter pace and potentially on a run-rate for another strong year of more than \$150 billion by year-end 2026. The bulk of the capital-raising activity was to fund new capital expenditure (capex) projects and refinancings, though a large portion was also slated for opportunistic general corporate purposes. Although AI-linked names were among the hardest hit in terms of absolute performance during the quarter, they dominated primary issuance volumes. According to some analysts, issuers whose existing CBs are comfortably “in the money” may now be incentivized to flush and refinance such deals given the issuer-favorable backdrop of still-high underlying share prices and tight credit spreads, well-supported stock volumes, and strong investor demand for new paper.
- Detractors:** Financials, consumer discretionary, health care, industrials and consumer staples sector convertibles.
- Contributors:** Information technology (IT), materials, utilities and real estate sector holdings foremost.
- Outlook:** We expect convertible and equity market volatility to persist in the near term as investors are contending with heightened macroeconomic, geopolitical and policy uncertainty, exacerbated by fluidity in the Trump administration’s shifting global trade policy framework. The sharp escalation of military actions involving Iran has introduced additional risks, contributing to higher oil prices and increased volatility across energy and broader risk assets.

## Performance Review

- On an absolute basis, the fund (Advisor Class without sales charges) posted a small 1Q26 decline amid negative returns in five out of 11 sector allocations. Downside was driven by alternative asset managers such as Ares Management (focused on credit, private equity, real estate and infrastructure strategies), KKR & Co. (investing across private equity, credit, infrastructure and real estate) and Apollo Global Management (private equity, credit and real assets). In our view, the private markets complex is still adjusting to a world of tighter credit conditions and mixed sentiment on future deal activity. Concerns over AI and software disruption were also a primary influence as investors sold tech and software names on the idea that some businesses might underperform in the AI era, and because many private credit and private equity portfolios have exposure to such industries. That dynamic has spilled over into sentiment around alternatives players.
- There was also a common IT-related pressure point that helped explain why Snowflake and several others pulled back. They were part of the sector-wide cooling in tech and software valuations driven by profit-taking, doubts about AI-related spending payoffs and a rotation into other parts of the market. This tech-focused volatility put pressure on cloud, data and enterprise IT companies held by the fund, as investors reset expectations for growth versus valuation.
- Fintech holdings also fared poorly, while consumer discretionary sector detractors such as The RealReal, Wayfair, Peloton Interactive and DoorDash posted double-digit percentage losses.
- Among the key absolute contributors, IT sector CBs covered about 24% of the portfolio (on average) and had mixed results that were supported foremost by the impressive rallies in optical and photonic components developer Lumentum Holdings; communications network testing, monitoring and optical technologies specialist Viavi Solutions (sold by period-end); MKS, which supplies critical process equipment, subsystems and measurement solutions that enable advanced semiconductor and electronics manufacturing; MACOM Technology Solutions Holdings; and Nova, specializing in metrology and process control systems for semiconductor manufacturers.
- Three of the fund’s sector allocations—materials, utilities and energy—contained no detractors. While lithium producer Albemarle led the gains in materials, CenterPoint Energy and all five other positions in utilities companies also appreciated.

## Outlook

- We believe that elevated interest rates—as compared to five years ago—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 now see, or could soon see, their debt become a current liability on their balance sheets. Many of the convertibles maturing in 2026 are “out of the money” (i.e., their conversion price is higher than the underlying stock’s current price). As such, these issuers are likely to refinance—rather than convert—their CBs, potentially introducing another factor that increases new issuance. Additionally, there is a wall of maturities coming in the high-yield bond 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 is likely to 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.
- 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 the hyperscalers (cloud companies that build and run huge, centralized computing infrastructures to train and operate AI models at global scale), 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 well as some of the utilities which will provide for the expanding power generation needs linked to these AI workloads.

## Morningstar Rating™

Overall Rating as of March 31, 2026



**(4-Star) Advisor Class**



**(4-Star) Class A**

As of 03/31/2026 the fund’s Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 74, 70 and 63 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
BRIDGEBIO PHARMA INC	2.76
ALBEMARLE CORP	2.68
WELLTOWER INC	2.63
JAZZ PHARMACEUTICALS PLC	2.50
BURLINGTON STORES INC	2.46
MKS INC	2.33
MACOM TECHNOLOGY SOLUTIONS HOLDINGS INC	2.33
HEWLETT PACKARD ENTERPRISE CO	2.31
PTC THERAPEUTICS INC	2.25
MICROCHIP TECHNOLOGY INC	2.21

## Average annual total returns and fund expenses (%) - as of March 31, 2026

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	-1.01	-1.01	15.78	11.47	5.19	12.31	9.82	-1.01	-1.01	15.78	11.47	5.19	12.31	9.82	0.58	0.57	—	—	4/15/1987
Class A	353612104	FISCX	-1.03	-1.03	15.54	11.20	4.94	12.03	9.69	-6.46	-6.46	9.18	9.13	3.75	11.40	9.54	0.83	0.82	5.50	—	4/15/1987
Benchmark	—	—	0.12	0.12	20.56	10.43	1.96	9.72	—	0.12	0.12	20.56	10.43	1.96	9.72	—	—	—	—	—	

## 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](http://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

**Capital Expenditure (capex)** are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

**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](http://www.franklintempletondatasources.com). All data is subject to change.

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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®, 03/31/2026. 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 4 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](http://www.franklintempleton.com). Please read it carefully.**