

Franklin Convertible Securities Fund

Advisor Class: FCSZX Class A: FISCX

Commentary | as of June 30, 2025

Key Takeaways

- **Convertible Securities Market:** US and global convertible bonds (CBs) rebounded solidly from early April's tariff-driven selloff and continued to rally in May and June. CB investors applauded cooling tensions in the Middle East and dovish US Federal Reserve commentary in June, rounding out a quarter in which the asset class posted a return of 7.4%, based on the FTSE Global Focus Convertible Index. Performance among US-based CBs varied greatly in 2025's second quarter as equity-sensitive convertibles (+18.4%) soared above balanced convertibles (+11.2%) and "busted" (credit-/rate-sensitive) convertibles (+4.5%) by wide margins (as measured by ICE BofA indexes in US-dollar terms). Generally, higher-beta (i.e., more volatile) pockets of the asset class and cyclical sectors outperformed the broader CB market amid the trade deal optimism, including high-yield issuers, high-delta (i.e., more equity-sensitive) equity alternatives, materials, industrials and information technology (IT).
- **Contributors:** Widespread gains in the IT, industrials, health care and financials sectors, which provided the bulk of the fund's absolute returns. Industrials holdings posted exceptionally strong returns of nearly 30%.
- **Detractors:** Consumer staples and utilities convertibles, which had only a minimal negative impact, in addition to a handful of other mild or modest individual detractors that reduced the overall gains in other sector allocations.
- **Outlook:** We anticipate that elevated interest rates—as compared to five years ago—may lead to companies seeking to refinance straight debt with lower-coupon convertible debt.

Performance Review

- Nine out of 11 sector allocations were net contributors, none more so than IT (21.3% of the portfolio at June-end), which saw solid and broad-based gains that were led by key contributors Snowflake (cloud data analytics platform), Microchip Technology (analog semiconductors and microcontrollers), Hewlett Packard Enterprise (HPE, which specializes in data, cloud, edge computing and artificial intelligence [AI]-driven business technology solutions), and IT services provider Cloudflare (web performance, security and reliability solutions). IT, which spearheaded the rally in both US and global equity markets, was supported by several tech giants that exceeded consensus earnings expectations in their first-quarter 2025 financials, driven in many cases by sustained demand for AI infrastructure and cloud services. These results alleviated wider concerns about potential slowdowns in AI spending, reinforcing investor confidence. Another significant driver was the temporary US-China trade agreement announced on May 12, which paused steep US tariffs on Chinese imports and China's high tariffs on US products. This deal mitigated fears of supply-chain disruptions, particularly for semiconductors.
- The industrials sector was another key area of strength as all holding posted double-digit percentage gains including US-based Axon Enterprise (sub-lethal energy weapons, body cameras, drones and cloud-based evidence management software for law enforcement), QXO (roofing, waterproofing, and complementary building products tailored for contractors and distributors; purchased during the period), engineering contractor Fluor, and Uber Technologies (platform for ride-hailing, food delivery and freight transportation services).
- Other key individual contributors included Inmed (sold by June-end), the strongest of 10 contributors in the health care sector; and Wayfair, an e-commerce company specializing in affordable furniture and home goods.
- On the downside, eight of the fund's sector allocations contained at least one detractor, including the consumer discretionary sector, as China-based e-commerce giant Alibaba Group Holding, along with US-based Booking Holdings (sold by period-end) and Burlington Stores, failed to advance. Bouts of volatility surfaced in retailers and travel services due to a shared factor: heightened US tariff pressures and trade war concerns. These types of companies, which are heavily reliant on global supply chains and consumer spending, signaled headwinds linked to increased costs and/or reduced demand. China-based Alibaba was impacted by US tariffs targeting Chinese imports, while some of our positions in US-based retailers, which are dependent on imported goods, warned of profit-margin pressures from potential tariff-related cost hikes.
- Elsewhere, select consumer staples companies, including key detractor Freshpet, a maker of high-quality natural dog and cat food, also fared poorly during the quarter. Freshpet faced economic headwinds, increased competition and operational challenges that included a prior product recall. Overall gains in IT were pared by relatively modest losses in Viavi Solutions (network testing/monitoring solutions and optical security technologies such as facial recognition) and one other, lesser detractor. Battery-grade lithium producer Albemarle's stock selloff reduced the fund's overall gain in the materials sector.

Outlook

- **We expect convertible and equity market volatility to persist in the near term as investors are contending with decelerating global economic growth amid heightened macroeconomic and policy uncertainty exacerbated by the Trump administration's global trade policy framework.** 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. Through this uncertainty, 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 uncertainty and volatility.
- New CB issuance in 2025 has resumed a solid uptrend as global issuance now totals just under \$70.5 billion, which in the year-ago comparison is well above the \$60.5 billion of convertibles we saw in the first six months of 2024. 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 2025 and 2026 are "out of the money" (i.e., their conversion price is higher than the underlying stock's current price), according to our research. As such, these issuers are likely to refinance—rather than convert—their bonds, potentially leading to another factor that increases new issuance.

Morningstar Rating™

Overall Rating as of June 30, 2025

★★★★★ (5-Star) Advisor Class

★★★★★ (5-Star) Class A

As of 06/30/2025 the fund's Advisor Class and Class A shares received a 5 star overall Morningstar rating™, measuring risk-adjusted returns against 73, 69 and 61 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
MICROCHIP TECHNOLOGY INC	2.45
CLOUDFLARE INC	2.45
UBER TECHNOLOGIES INC	2.32
WELLTOWER INC	2.24
QXO INC	2.22
SNOWFLAKE INC	2.21
APOLLO GLOBAL MANAGEMENT INC	2.15
HEWLETT PACKARD ENTERPRISE CO	2.13
REXFORD INDUSTRIAL REALTY INC	2.12
SHIFT4 PAYMENTS INC	2.12

Sector Allocation (% of Total)

Sector	Fund
Information Technology	21.30
Health Care	18.32
Consumer Discretionary	13.10
Financials	9.72
Industrials	9.06
Utilities	7.06
Real Estate	5.24
Communication Services	4.23
Other	7.31
Cash & Cash Equivalents	4.67

Average annual total returns and fund expenses (%) - as of June 30, 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	7.32	4.45	16.63	12.29	9.07	11.19	9.81	7.32	4.45	16.63	12.29	9.07	11.19	9.81	0.59	0.58	—	—	4/15/1987
Class A	353612104	FISCX	7.30	4.36	16.33	12.03	8.80	10.91	9.68	1.40	-1.38	9.92	9.93	7.58	10.29	9.52	0.84	0.83	5.50	—	4/15/1987
Benchmark	—	—	11.18	9.01	18.66	8.67	6.64	8.27	—	11.18	9.01	18.66	8.67	6.64	8.27	—	—	—	—	—	—

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

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®, 06/30/2025. 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, 4 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.

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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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