FRANKLIN TEMPLETON

Franklin Small Cap Growth Fund

Advisor Class: FSSAX Class A: FSGRX | **Commentary | as of September 30, 2025**

Key Takeaways

- **Markets:** US equities delivered strong performance over the third quarter of 2025, buoyed, in part, by easing trade tensions and optimism surrounding artificial intelligence (AI). The US Federal Reserve's (Fed's) interest-rate cut in September also supported market sentiment, as did generally robust corporate earnings. Both the S&P 500 Index and the Nasdaq Composite Index ended the quarter at new record highs, while returns for the Dow Jones Industrial Average were more muted. In this environment, growth investing surpassed value in the large-capitalization tier, while it was the reverse in the mid- and small-capitalization segments, with small-cap stocks overall performing better than their large- and mid-cap counterparts.
- **Detractors:** Both stock selection and allocation effects were drags on the fund's overall relative performance. Stock selection in the information technology (IT) sector was the largest source of negative relative returns, followed by stock selection and an overweight in the consumer staples sector and stock selection in the consumer discretionary sector.
- **Contributors:** The bulk of the fund's relative strength came from stock selection in the financials and health care sectors, which benefited from investments in the capital markets and biotechnology industries, respectively.
- **Outlook:** The performance of small-cap stocks in general has been positive so far this year, supported by valuations that we consider to be favorable, as well as by earnings growth and monetary policy. In our view, future performance will likely depend on the health of the US economy, along with Fed decisions and overall investor confidence. We believe small-cap growth stocks are attractively valued, both relative to large caps and in light of their underlying growth potential.

Performance Review

- The fund's (Advisor Class without sales charges) return was positive but lagged that of the Russell 2000 Growth Index. Hindering relative returns was monday.com in the IT sector. Shares of the cloud-based collaborative platform provider fell due to a weak outlook, despite strong second-quarter financial results.
- In the consumer staples sector, shares of BellRing Brands declined. Retailer inventory adjustments and reduced full-year 2025 guidance were headwinds for the nutrition products company.
- Benefiting relative returns was our holding in Merus in the health care sector. There were several catalysts for its stock's outperformance of the broader market, including the company's promising clinical trial results for a head and neck cancer treatment and an announcement of its takeover by a Danish biotechnology company.

Outlook

- While headlines have focused on trade tensions, elevated interest rates and fiscal uncertainty, both historical precedent and current market performance reinforce our core thesis that the enduring strength of US businesses and capital markets should help drive global economic growth into the next decade. We believe US companies and the broader economy continue to be powered by structural advantages and secular growth drivers.
- In broad terms, US companies have pioneered breakthroughs that have reshaped industries—ranging from the internet and semiconductors to genomics and defense technologies. In our view, US companies are positioned at the forefront of generative artificial intelligence (AI), semiconductors, biotechnology and space exploration, creating powerful long-term tailwinds for investors seeking exposure to the world's leading growth companies.
- We see powerful secular tailwinds that potentially support US market leadership in the years ahead. Generative AI and automation can unlock productivity and cost savings across sectors. Pro-business policies—such as infrastructure investment, deregulation and tax incentives—continue to foster domestic growth. Onshoring and supply-chain diversification are reviving domestic manufacturing and boosting output, particularly in the advanced industrial and energy markets.
- In our view, economic conditions remain constructive for risk assets, with resilient growth, moderate inflation and broadly supportive monetary and fiscal policy. Corporate fundamentals also appear healthy, in our view, amid improved earnings revisions. Our strategy maintains a diversified approach designed to help us participate in ongoing market strength while remaining adaptable to shifts in market leadership.

Top Equity Issuers (% of Total)

Holding	Fund
BWX TECHNOLOGIES INC	3.72
AAR CORP	2.65
ARCOSA INC	2.54
LATTICE SEMICONDUCTOR CORP	2.19
GRANITE CONSTRUCTION INC	2.04
SITIME CORP	2.04
VONTIER CORP	1.96
HOULIHAN LOKEY INC	1.85
ONTO INNOVATION INC	1.82
NEW YORK TIMES CO/THE	1.81

Average annual total returns and fund expenses (%) - as of September 30, 2025

			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	354713653	FSSAX	5.72	1.58	4.82	16.12	4.97	10.34	8.02	5.72	1.58	4.82	16.12	4.97	10.34	8.02	0.79	0.79	—	—	5/1/2000
Class A	354713620	FSGRX	5.66	1.38	4.53	15.83	4.70	10.06	7.73	-0.17	-4.19	-1.22	13.66	3.53	9.44	7.49	1.04	1.04	5.50	—	5/1/2000
Benchmark 1	—	—	12.19	11.65	13.56	16.68	8.41	9.90	—	12.19	11.65	13.56	16.68	8.41	9.90	—	—	—	—	—	—
Benchmark 2	—	—	8.12	14.83	17.60	24.93	16.47	15.30	—	8.12	14.83	17.60	24.93	16.47	15.30	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=Russell 2000 Growth Index

Benchmark 2=S&P 500 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 5/1/2000. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/1/2000, 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.
The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

What are the Risks?

All investments involve risks, including possible loss of principal. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. 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

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding $7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX.

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 **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved. The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE.

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

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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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