

Franklin Small Cap Growth Fund

Advisor Class: FSSAX Class A: FSGRX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the AI trade and geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure spurred a rotation away from mega-capitalization growth toward value stocks. At its two meetings during the quarter, the US Federal Reserve left its benchmark interest rate on hold. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk. The Nasdaq Composite Index underperformed the S&P 500 Index, while the Dow Jones Industrial Average proved more resilient. By investment style, value investing surpassed growth across market-cap tiers, with small- and mid-cap stocks performing better than their large-cap counterparts.
- **Detractors:** Stock selection in the financials sector and an overweight in the information technology (IT) sector detracted significantly from relative performance. Stock selection in the capital markets industry was a drag on the financials sector, while allocation and stock selection effects in the software industry weighed on the IT sector.
- **Contributors:** For the quarter, stock selection and an overweight in the energy sector was a top contributor to relative returns, benefiting from the effects of surging oil prices. The health care and communication services sectors also added to relative performance, helped by stock selection and allocation decisions in the biotechnology industry and media industry, respectively.
- **Outlook:** We have a constructive outlook on US small-cap stocks and believe the environment may become more supportive as earnings growth accelerates, interest-rate cuts ease financing pressures and economic activity broadens beyond mega-cap companies.

Top Equity Issuers (% of Total)

Holding	Fund
AAR CORP	2.82
BWX TECHNOLOGIES INC	2.70
ARCOSA INC	2.48
GRANITE CONSTRUCTION INC	2.29
NEW YORK TIMES CO/THE	2.08
RBC BEARINGS INC	2.04
LATTICE SEMICONDUCTOR CORP	1.94
LUMENTUM HOLDINGS INC	1.93
ONTO INNOVATION INC	1.83
AAON INC	1.71

Performance Review

- The fund (Advisor Class without sales charges) underperformed the Russell 2000 Growth Index. Top individual detractors were from the IT sector. Shares of software tools provider ServiceTitan fell as valuation concerns and software-as-a-service demand weakness outweighed solid fiscal fourth-quarter 2026 operating results.
- A broader market pivot away from software stocks had a negative impact on shares of software development platform GitLab despite the company's fiscal fourth-quarter earnings beat.
- Conversely, the IT sector was helped by a position in phototonics specialist Lumentum Holdings, whose shares rallied after the company reported strong fiscal second-quarter 2026 financial results and upbeat forward guidance, driven by surging demand for artificial intelligence data-center optics.

Outlook

- Our view on US equities remains positive but selective. In an environment where growth is available but not abundant, our focus is on owning high-quality franchises with durable competitive advantages, often supported by secular tailwinds. We invest in small, growing companies trading below our estimates of their intrinsic value, with the potential for growth over a three-to-five-year time horizon. We look for signs such as accelerated revenue, improved profit margins and expansion into higher-quality markets as part of our decision-making process.
- In 2026, we are focused on structural themes shaped by AI and automation, which are now producing measurable productivity gains not only in the IT sector but also in the health care, financials, industrials and energy sectors. We are also monitoring potential risks for the US economy, including inflation, regulatory pressures, geopolitical friction, infrastructure bottlenecks and unfavorable policy shifts.
- Fiscal and economic conditions appear to be supportive of growth. We expect continued innovation-led expansion underpinned by quality fundamentals in an environment where we think disciplined, active management has an advantage.

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	354713653	FSSAX	-3.86	-3.86	18.79	11.53	0.15	10.76	7.94	-3.86	-3.86	18.79	11.53	0.15	10.76	7.94	0.79	0.79	—	—	5/1/2000
Class A	354713620	FSGRX	-3.96	-3.96	18.44	11.25	-0.11	10.48	7.65	-9.25	-9.25	11.91	9.18	-1.23	9.86	7.41	1.04	1.04	5.50	—	5/1/2000
Benchmark 1	—	—	-2.81	-2.81	23.58	12.26	1.62	9.79	—	-2.81	-2.81	23.58	12.26	1.62	9.79	—	—	—	—	—	—
Benchmark 2	—	—	-4.33	-4.33	17.80	18.31	12.07	14.16	—	-4.33	-4.33	17.80	18.31	12.07	14.16	—	—	—	—	—	—

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

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

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. The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe.

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.