FRANKLIN TEMPLETON

Franklin Small Cap Growth Fund

Advisor Class: FSSAX Class A: FSGRX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Global equities delivered solid gains during the third quarter of 2026, supported by resilient economic growth and robust corporate earnings, even as elevated inflation, geopolitical tensions and tighter monetary policy weighed on sentiment. The increase in bond yields hurt small caps, with losses mainly occurring in September.
- **Contributors:** Stock selection was beneficial during the period. Stock selection in the information technology (IT) and materials sectors contributed to performance.
- **Detractors:** Conversely, stock selection and an overweight in the industrials sector and stock selection in the consumer discretionary sector detracted from performance.
- **Outlook:** We have a constructive outlook on US small-cap stocks and believe the environment may become more supportive as earnings growth accelerates, underpinned by quality fundamentals, and economic activity broadens beyond mega cap companies.

Performance Review

- The fund performed broadly in line with its benchmark, the Russell 2000 Growth Index, for the quarter ended September 30, 2026.
- Bioprocessing company Repligen aided relative results in the health care sector. Shares advanced as strong demand for its bioprocessing products drove double digit organic revenue growth and prompted management to raise its full-year growth and earnings outlook.
- In the industrials sector, Andersen Group helped returns as the company continued an aggressive acquisition strategy, expanding its geographic reach while broadening its consulting capabilities in areas including AI, digital transformation and cybersecurity.
- Staying in the industrials sector, HVAC equipment manufacturer AAON declined as investors focused on margin pressures associated with the company's rapid expansion of production capacity, despite demand remaining strong, particularly for data center cooling equipment.
- Also in industrials, nuclear components and services provider BWX Technologies declined despite strong operating performance, as investors reassessed elevated valuations following a strong earlier run.

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 intrinsic value, aiming for significant growth over a three-to-five-year time horizon. We look for signs such as accelerated revenue, improved 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.

Top Equity Issuers (% of Total)

Holding	Fund
SITIME CORP	2.12
LATTICE SEMICONDUCTOR CORP	1.94
JFROG LTD	1.94
GUARDANT HEALTH INC	1.74
REPLIGEN CORP	1.72
CACTUS INC	1.63
BWX TECHNOLOGIES INC	1.59
MATADOR RESOURCES CO	1.58
SERVICETITAN INC	1.54
FORGENT POWER SOLUTIONS INC	1.53

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			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	-9.45	5.74	12.17	14.86	2.34	10.01	8.18	-9.45	5.74	12.17	14.86	2.34	10.01	8.18	0.82	0.82	—	—	5/1/2000
Class A	354713620	FSGRX	-9.52	5.53	11.89	14.58	2.08	9.74	7.88	-14.49	-0.29	5.74	12.44	0.93	9.12	7.65	1.07	1.07	5.50	—	5/1/2000
Benchmark 1	—	—	-9.39	10.71	12.05	17.55	4.72	9.90	—	-9.39	10.71	12.05	17.55	4.72	9.90	—	—	—	—	—	—
Benchmark 2	—	—	2.30	12.75	15.74	22.88	13.79	15.33	—	2.30	12.75	15.74	22.88	13.79	15.33	—	—	—	—	—	—

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.
Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 08/31/2027 without Board consent. 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.

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.

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

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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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