FRANKLIN TEMPLETON

Franklin Small Cap Growth Fund

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

Key Takeaways

- **Markets:** US equities rebounded strongly during the second quarter of 2026, recovering from a weak start to the year as investor confidence improved despite ongoing geopolitical uncertainty. Sentiment was supported by robust corporate earnings, particularly from companies exposed to AI infrastructure, with continued increases in capital expenditure reinforcing confidence that the AI investment cycle remained intact. At its two meetings during the quarter, the US Federal Reserve left interest rates on hold. The easing of Middle East tensions and a decline in oil prices helped alleviate inflation concerns, encouraging a broad recovery in risk assets. The Nasdaq Composite Index outperformed the S&P 500 Index and Dow Jones Industrial Average. By investment style, growth investing surpassed value in each cap segment, while across the overall market, small-cap stocks performed better than their large- and mid-cap counterparts.
- **Detractors:** Stock selection in the information technology (IT), financials and communication services sectors were the largest drags on performance, while stock selection and an overweight to the energy sector also hurt.
- **Contributors:** Stock selection and an underweight in the materials sector supported relative returns, as did stock selection and an overweight in the health care sector and stock selection in the real estate sector.
- **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
ONTO INNOVATION INC	2.42
ARCOSA INC	2.18
SITIME CORP	2.16
LATTICE SEMICONDUCTOR CORP	2.13
BWX TECHNOLOGIES INC	2.03
CREDO TECHNOLOGY GROUP HOLDING LTD	1.91
AAON INC	1.89
RBC BEARINGS INC	1.83
GRANITE CONSTRUCTION INC	1.82
FORGENT POWER SOLUTIONS INC	1.81

Performance Review

- The fund (Advisor Class without sales charges) underperformed the Russell 2000 Growth Index. In the industrials sector, nuclear technology supplier BWX Technologies held back relative returns. Shares slid amid a broader selloff in the aerospace and defense industry. The company's fundamentals remain strong as they continue to execute on a record backlog.
- In the energy sector, Matador Resources Company was a detractor. Shares of the independent oil and gas producer fell during the period due to oil price volatility, and investors were lukewarm to the company's acquisitions in the Delaware Basin.
- Conversely, Onto Innovation, a semiconductor capital equipment company focused on process control and inspection, boosted relative results in the IT sector. Shares in the company rebounded late in the period, as investors grew increasingly optimistic about the company's exposure to AI-driven semiconductor manufacturing.

Outlook

- Our outlook for financial markets remains cautious, reflecting the magnitude and complexity of the current political and economic climate. While challenging, active management allows us to pursue alpha by taking advantage of market volatility as a chance to initiate or build up positions in what we believe are high-quality businesses. These businesses have strong balance sheets and market-leading competitive positions, and they are levered to durable secular growth themes.
- One theme is technology, which continues to be a large area of opportunity as more companies adopt artificial intelligence in their efforts to lower costs and increase productivity. We see significant growth potential for the industrials sector, fueled by trends that include the reshoring of US manufacturing, electrification and meaningful infrastructure investment. Our outlook for health care is also bullish. Wide-ranging innovations (genomics, robotics, personalized medicine) and meaningful demographic shifts support our convictions.
- Deregulation could positively impact the energy sector by increasing fossil fuel production and streamlining the permitting process. Deregulation and lower taxes could serve many companies in the financials sector as they could help boost profits. With a stronger economy and lower regulatory burden, we think banks may see an increase in lending activity, and fintech innovation could surge.
- Our strategy is designed to address both upward and downward market cycles, and a diversified approach helps us participate in both ongoing market strength and anticipated rotation in market leadership. We invest in what we regard as great businesses positioned to potentially benefit from secular growth over a long-term horizon.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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	21.47	16.77	30.95	16.47	3.17	12.39	8.67	21.47	16.77	30.95	16.47	3.17	12.39	8.67	0.79	0.79	—	—	5/1/2000
Class A	354713620	FSGRX	21.43	16.62	30.65	16.19	2.91	12.12	8.37	14.78	10.20	23.45	14.02	1.75	11.48	8.14	1.04	1.04	5.50	—	5/1/2000
Benchmark 1	—	—	25.71	22.18	38.74	18.44	5.57	11.97	—	25.71	22.18	38.74	18.44	5.57	11.97	—	—	—	—	—	—
Benchmark 2	—	—	15.20	10.21	22.32	20.61	13.41	15.51	—	15.20	10.21	22.32	20.61	13.41	15.51	—	—	—	—	—	—

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.

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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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