

Franklin Small Cap Growth Fund

Advisor Class: FSSAX Class A: FSGRX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** US stocks advanced during the second quarter of 2025. After rebounding from April's lows, equity markets continued to rally through June despite bouts of volatility. The S&P 500 Index and Nasdaq Composite Index closed the period with solid gains after hitting new record highs at the end of June, while the Dow Jones Industrial Average hovered near its all-time high. Temporary delays in tariff hikes, reduced fears of a recession, growing expectations of interest-rate cuts later in the year and easing geopolitical tensions helped drive US stocks higher. Large-capitalization equities gained the most, followed by mid- and small-cap stocks, and growth stocks outperformed value by a wide margin in all three market-cap tiers.
- **Detractors:** Stock selection effects were the primary cause of the fund's underperformance of the Russell 2000 Growth Index benchmark. Stock selection in the information technology (IT) sector was a leading relative detractor. Stock selection and an overweight in the consumer staples sector and stock selection in the energy sector also hindered relative performance.
- **Contributors:** The bulk of the fund's relative strength came from stock selection and an underweight in the health care sector. To a lesser degree, the fund benefited from stock selection in the financials and consumer discretionary sectors. Overall, sector allocation decisions worked in our favor.
- **Outlook:** We are hopeful as we enter the second half of the year that financial markets can focus on the potential long-term structural benefits of a Trump 2.0 policy agenda that might include initiatives to rebalance global trade and stimulate growth through tax reform and deregulation.

Performance Review

- The fund's return was positive but lagged that of the Russell 2000 Growth Index. Relative returns in the IT sector were negatively impacted by stock selection in the semiconductors and semiconductor equipment industry, where Onto Innovation was a leading detractor. The process control solutions company issued disappointing second-quarter earnings guidance that weighed on its shares. We believe Onto operates in an attractive space (process control, metrology, inspection, lithography) during a time when semiconductor packaging complexity is increasing dramatically.
- Nutrition products company BellRing Brands was a top detractor in the consumer staples sector. While the company reported strong performance across its protein-focused portfolio, it raised concerns about inventory reductions and profit-margin pressures in the second half of the year. We believe BellRing continues to benefit from various tailwinds, including new capacity, improved inventory tracking and ramped up promotions and marketing.
- In contrast, in the industrials sector, BWX Technologies was a leading individual contributor to relative returns. The company is a supplier of nuclear components and fuel to the US Navy and the commercial nuclear power industry. We believe BWX can profit from the government's focus on bolstering defense spending.

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.

Top Equity Issuers (% of Total)

Holding	Fund
BWX TECHNOLOGIES INC	3.12
ARCOSA INC	2.35
KRATOS DEFENSE & SECURITY SOLUTIONS INC	2.20
AAR CORP	2.04
GRANITE CONSTRUCTION INC	1.98
SITIME CORP	1.95
VONTIER CORP	1.91
BELLRING BRANDS INC	1.84
INTEGER HOLDINGS CORP	1.84
COUCHBASE INC	1.82

Sector Allocation (% of Total)

Sector	Fund
Information Technology	26.82
Industrials	18.22
Health Care	17.83
Consumer Discretionary	12.02
Financials	10.17
Consumer Staples	5.46
Energy	2.71
Communication Services	2.47
Other	0.57
Cash & Cash Equivalents	3.74

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	354713653	FSSAX	10.19	-3.91	5.32	13.29	5.79	7.73	7.87	10.19	-3.91	5.32	13.29	5.79	7.73	7.87	0.84	0.83	—	—	5/1/2000
Class A	354713620	FSGRX	10.08	-4.05	5.04	13.01	5.52	7.46	7.57	4.01	-9.32	-0.71	10.91	4.34	6.85	7.33	1.09	1.08	5.50	—	5/1/2000
Benchmark 1	—	—	11.97	-0.48	9.73	12.38	7.42	7.14	—	11.97	-0.48	9.73	12.38	7.42	7.14	—	—	—	—	—	—
Benchmark 2	—	—	10.94	6.20	15.16	19.70	16.64	13.64	—	10.94	6.20	15.16	19.70	16.64	13.64	—	—	—	—	—	—

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. 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 08/31/2025 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. 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 **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. Source: FTSE. 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.

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.