

# Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** US small-cap stocks, as measured by the Russell 2000 Index, advanced during the second quarter of 2025. After rebounding from April's lows on US tariff policy, small-cap equity markets continued to rally through June despite bouts of volatility. 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.
- **Contributors:** Stock selection and an overweight in industrials, an underweight in real estate and stock selection and an underweight in health care contributed to relative returns. QinetiQ Group, Babcock International and Elementis were among the biggest contributors.
- **Detractors:** Security selection in information technology, communication services and financials curbed relative results. Detractors included ACI Worldwide, Cable One and Avient.
- **Outlook:** While we believe there are reasons to be optimistic about the markets, we think uncertainty surrounding trade and geopolitics could continue to be destabilizing factors in the near term. Economically sensitive small-cap stocks are down about 10% from post-election highs. While we are seeing some attractive entry points to quality names, we think a more favorable interest rate environment and clarity around trade policy would support near-term appreciation.

## Performance Review

- The Fund (Advisor Class) outperformed its benchmark, the Russell 2000 Value Index, for the quarter ended June 30, 2025.
- QinetiQ, a provider of solutions for the UK Ministry of Defense and other NATO allies, contributed to performance, helped by a continued commitment to returning cash to shareholders through share repurchases. The stock has also reacted favorably to the prospects of increased defense spending in the United Kingdom and EU countries.
- Babcock International, a UK-based aerospace company, contributed to relative returns on optimism the company may benefit from a step-up in UK and European defense spending. The company also boosted its fiscal year earnings forecast on strong growth in its nuclear and marine businesses and announced a share buyback program.
- ACI Worldwide, a payment systems company, detracted from relative results. Despite a strong first-quarter earnings report, full-year earnings guidance was disappointingly left largely unchanged. Additionally, the company unexpectedly announced its chief financial officer's retirement during its earnings call.
- Cable One, a broadband communications provider, detracted after reporting weak financial results and eliminating its long-standing dividend. The company lost a greater-than-expected number of subscribers, which exacerbated secular concerns around the competitive threat from fixed wireless access and fiber. Cable One's decision to eliminate its long-standing dividend in favor of using free cash flow for debt paydowns compounded the concerns.

## Outlook

- While we believe there are reasons to be optimistic about the markets, we think uncertainty surrounding trade and geopolitics could continue to be destabilizing factors in the near term.
- Economically sensitive small-cap stocks are down about 10% from post-election highs. While we are seeing some attractive entry points to quality names, we think a more favorable interest rate environment and clarity around trade policy would support near-term appreciation.
- Several parts of the US economy, such as employment, remain stable. US Federal Reserve policymakers are holding rates steady as they wait for possible increases in inflationary pressure due to tariffs. Chairman Powell has reiterated that future rate decisions will be data dependent.
- US consumers are cutting spending on select non-essential goods and services, such as motor vehicles and auto parts, meals out and hotel stays. Home sales are also under pressure. During the second quarter, US household income fell due to decreases in government social benefits, which affects over one-fifth of the population. Consumers may continue to pull back if their disposable income decreases, or economic uncertainty persists.
- We remain focused on identifying opportunities to improve the quality of our positions at relatively attractive valuations. We will continue to follow our process of targeting historically successful companies, with understandable business models, good corporate governance and low debt, that we view as temporarily trading at depressed levels, relative to future earnings power. This investment approach constitutes our competitive advantage and may provide meaningful upside potential and possible downside risk management during turbulent periods.

## Morningstar Rating™

Overall Rating as of June 30, 2025



**(4-Star) Advisor Class**



**(3-Star) Class A**

As of 06/30/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 477, 446 and 369 Small Value funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

## Top Equity Issuers (% of Total)

Holding	Fund
QINETIQ GROUP PLC	3.06
ACI WORLDWIDE INC	2.77
CHART INDUSTRIES INC	2.73
VALMONT INDUSTRIES INC	2.63
CNO FINANCIAL GROUP INC	2.61
HORACE MANN EDUCATORS CORP	2.57
SANMINA CORP	2.56
ENVISTA HOLDINGS CORP	2.53
FIRST INTERSTATE BANCSYSTEM INC	2.53
SOUTHSTATE CORP	2.52

## Sector Allocation (% of Total)

Sector	Fund
Financials	32.82
Industrials	27.14
Consumer Discretionary	11.40
Information Technology	10.17
Materials	8.14
Health Care	2.53
Energy	2.00
Real Estate	1.82
Utilities	1.67
Cash & Cash Equivalents	2.32

## 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	355148503	FVADX	5.53	-1.46	8.29	10.64	12.71	8.02	9.24	5.53	-1.46	8.29	10.64	12.71	8.02	9.24	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	5.47	-1.55	8.03	10.36	12.43	7.75	8.89	-0.33	-6.97	2.10	8.30	11.17	7.15	8.68	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	4.97	-3.16	5.54	7.45	12.47	6.72	—	4.97	-3.16	5.54	7.45	12.47	6.72	—	—	—	—	—	—

## Benchmark(s)

Benchmark = Russell 2000 Value 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](http://franklintempleton.com).

The fund began offering Advisor Class shares on 12/31/1996. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, 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 02/28/2026 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. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. **Real estate investment trusts (REITs)** are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments. 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

A **buyback** is the repurchase of outstanding shares (repurchase) by a company in order to reduce the number of shares on the market.

**Free cash flow (FCF)** is a measure of financial performance calculated as operating cash flow minus capital expenditures.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. Source: FTSE.

## Important Information

**Due to continued strong inflows and increased assets under management, Franklin Small Cap Value Fund closed to new investors with limited exceptions effective May 27, 2021. Existing shareholders may continue to add money to their accounts.**

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 Value Index** measures the performance of the small-cap value segment of the U.S. equity universe. Source: FTSE.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

**Morningstar Rating™:** Source: Morningstar®, 06/30/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 4, 3 and 4 and fund's Class A shares received a Morningstar Rating of 3, 2 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings.

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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](http://www.franklintempleton.com). Please read it carefully.**



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