

# Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** US equities, as measured by the Russell 1000 Index, fell during the quarter, on both fears about the impact spiking energy prices would have on the global economy following the closure of the Strait of Hormuz and on concerns about potential artificial intelligence disruption in a range of businesses. However, small-cap companies and more value-oriented parts of the market which are less exposed to potential AI disruption outperformed the broader large-cap market.
- **Contributors:** Stock selection in industrials, stock selection and an overweight in information technology and stock selection in financials bolstered relative results. Individual contributors included semiconductor manufacturing products supplier MKS, industrial company Regal Rexnord and UK-based aerospace firm Senior.
- **Detractors:** Security selection in consumer discretionary, an underweight in energy and stock selection in materials curbed relative returns. Among the detractors were toymaker Mattel, payments firm ACI Worldwide and life science tools company Bruker.
- **Outlook:** 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.

## Performance Review

- The Fund (Advisor Class without sales charges) underperformed its benchmark, the Russell 2000 Value Index, for the quarter ended March 31, 2026.
- Toy manufacturer Mattel detracted from relative results after reporting weak holiday results and worse-than-expected guidance for 2026. After a strong start to the holiday, in December, the company saw demand slow and consumers show more elasticity. The weaker 2026 guidance was primarily driven by management choosing to significantly ramp up investments to drive future revenue growth. Mattel expects to receive a return on this investment in the future, but it is putting pressure on near-term estimates.
- ACI Worldwide, a payment systems provider, weighed on relative performance. Despite delivering another strong quarterly earnings report, the stock declined as valuations across payment companies compressed amid persistent concerns about potential disintermediation from artificial intelligence and emerging fintech technologies, such as blockchain.
- MKS, which supplies instruments, subsystems, systems, process control technologies and specialty chemical products used in manufacturing semiconductors, contributed to relative results. Recent quarterly results underscore our thesis that the company's end-markets have been cyclically underearning and management's cost controls set up the company for strong earnings growth in an upcycle. It should also benefit from exposure to artificial intelligence, in our view.
- Regal Rexnord, a diversified capital goods producer, outperformed during the period, following fourth-quarter results that showed a modest improvement in organic growth relative to earlier in the year. Additionally, the company reported strong order growth in the fourth quarter, suggesting growth could further accelerate in 2026.

## Outlook

- The disparity between low- and high-end US consumers continues to grow, exacerbated by increasing fuel and fertilizer prices that impact lower-end consumers at the gas pump, grocery store and elsewhere. With lower-end consumers struggling, economic growth has been supported by higher-end consumer and business spending. However, if these pull back, GDP growth may stall. For now, the job market is stagnant but stable, which helps support confidence and reduces the likelihood of a dramatic pullback on household spending.
- Although artificial intelligence (AI) continues to be a key driver of US economic growth, the market is struggling with the duration of the spending cycle and potential investment return profile. Projected capex increases show hyperscalers poised to outspend their free cash flow generation in 2026, with some already turning to debt financing to fund AI infrastructure investment. We expect AI spending to eventually slow, as the current pace is not sustainable. When this happens, it is possible the areas of the market that have benefited most from AI spending may be impacted.
- Among value companies, the industrials sector has been a leading performer, receiving a tailwind from AI investment. However, we are encouraged that general demand within the industrials sector has strengthened over the first quarter, even in areas shielded from the AI trade. As earnings season progresses, we will pay particular attention to capex announcements to see if changing AI investment plans affect our portfolio companies or the general investment landscape.
- US gross domestic product (GDP) grew at a modest 0.7% during the fourth quarter. This second reading was revised downward from the first estimate due to lower rates of consumer spending, government spending, exports and business investment than originally detected.
- 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 March 31, 2026



**(4-Star) Advisor Class**



**(4-Star) Class A**

As of 03/31/2026 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 460, 437 and 360 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

## Top Equity Issuers (% of Total)

Holding	Fund
ACI WORLDWIDE INC	3.27
WHITECAP RESOURCES INC	2.93
ROSEBANK INDUSTRIES PLC	2.80
REGAL REXNORD CORP	2.71
SELECT WATER SOLUTIONS INC	2.60
WSFS FINANCIAL CORP	2.60
COLUMBIA BANKING SYSTEM INC	2.60
SOUTHSTATE BANK CORP	2.55
ENVISTA HOLDINGS CORP	2.54
GATES INDUSTRIAL CORP PLC	2.46

## 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	355148503	FVADX	4.53	4.53	20.40	11.60	6.02	9.91	9.47	4.53	4.53	20.40	11.60	6.02	9.91	9.47	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	4.47	4.47	20.11	11.32	5.76	9.63	9.13	-1.27	-1.27	13.50	9.24	4.57	9.01	8.92	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	4.96	4.96	28.09	13.79	5.80	9.61	—	4.96	4.96	28.09	13.79	5.80	9.61	—	—	—	—	—	

## 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 02/28/2027 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

**Duration** is a measure of the sensitivity of a bond's price to changes in interest rates.

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

**Gross domestic product (GDP)** is the market value of all final goods and services produced within a country in a given period of time.

The **Russell 1000 Index** measures the performance of the large-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.

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

Source: FTSE.

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

**Morningstar Rating™:** Source: Morningstar®, 03/31/2026. 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 Class A shares received a Morningstar Rating of 3, 3 and 4 and fund's Advisor Class shares received a Morningstar Rating of 3, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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.**