Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX | **Commentary | as of September 30, 2025**

Key Takeaways

- **Markets:** US small-cap equities, as measured by the Russell 2000 Index, delivered strong performance over the third quarter, buoyed, in part, by easing trade tensions. The US Federal Reserve's (Fed) interest-rate cut in September also supported market sentiment, as did robust corporate earnings.
- **Contributors:** An underweight in real estate, a lack of exposure to consumer staples and an overweight in information technology contributed to relative results. Individual contributors included Chart Industries, MKS and Knowles.
- **Detractors:** Stock selection in consumer discretionary, industrials and health care detracted from relative returns. Among the detractors were Mattel, WillScot Holdings and Regal Rexnord.
- **Outlook:** The fund continues to focus on finding profitable, high-quality companies trading at depressed levels relative to their future earnings power to generate attractive returns for clients over time. This quarter, we saw quality names underperform the broader small-cap market and less liquid names outperform. Given the high number of small-cap companies with negative earnings and potentially unsustainable debt levels, we believe a continued focus on quality and the valuation of these businesses remains critical for long-term small-cap investing success.

Top Equity Issuers (% of Total)

Holding	Fund
ACI WORLDWIDE INC	3.33
QINETIQ GROUP PLC	2.81
VALMONT INDUSTRIES INC	2.78
COMMERCIAL METALS CO	2.70
MKS INC	2.66
CNO FINANCIAL GROUP INC	2.61
HORACE MANN EDUCATORS CORP	2.55
ENVISTA HOLDINGS CORP	2.50
GATES INDUSTRIAL CORP PLC	2.47
VONTIER CORP	2.45

Performance Review

- The Fund (Advisor Class without sales charges) underperformed its benchmark, the Russell 2000 Value Index, for the quarter ended September 30, 2025.
- Mattel, a manufacturer of toy products, detracted during the period after it provided full-year guidance that was weaker than investor expectations. The company's new guidance assumes it will need to provide increased promotional support to support holiday demand, given recent price increases Mattel and the industry are putting into place in response to tariff-driven cost increases.
- WillScot, a provider of modular offices and portable storage containers, underperformed despite recently reporting in-line results and maintaining guidance for the current year. Utilization rates continue to decline due to pressures on the non-residential construction market, which has been a headwind to growth and the stock price.
- Chart Industries, which makes equipment for the industrial gas and energy industries, boosted relative results. During the reporting period, US-based energy technology company Baker Hughes announced that it would acquire Chart for $13.6 billion in cash, resulting in a jump in Chart's share price.
- MKS supported relative performance, as quarterly results came in at the high end of guidance due to strength in semiconductors and electronics and packaging due to NAND memory upgrades and artificial intelligence. Results support our thesis that the company's end markets are recovering and that MKS can outperform.

Outlook

- The US Federal Reserve cut interest rates by 25 basis points during the quarter and has signaled an additional cut at its next meeting. The prospect of lower borrowing costs is accretive to business and consumer spending and could support small-cap stocks.
- Despite a lack of clarity on tariff policy, businesses are generally moving forward with capital spending plans. Artificial intelligence (AI) continues to be a key area of investment for many businesses and has been a large driver of equity market appreciation. While we are optimistic about the eventual efficiency gains this technology can bring, we are cautious about the length of the timeline, level of return expectations currently being priced into the market and the enormous amounts of capital chasing an inherently uncertain return.
- Consumer sentiment continues to trend lower due to sticky inflation and an uncertain jobs market although there remains a wide disparity between the low- and high-end consumers. However, many hard economic indicators remain strong. Gross domestic product (GDP) growth is robust, and the S&P Global US Sector PMI shows expansion across all private sectors except for health care in September. Private sector new job creation has stalled, but muted new jobless claims are keeping the unemployment rate steady.
- Despite softening sentiment, the US consumer continues to spend. Middle- and high-income consumers are helping to support the economy, with increasing outlays across all goods and services categories in August, particularly in non-essential areas.
- 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.

Average annual total returns and fund expenses (%) - as of September 30, 2025

			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	355148503	FVADX	6.39	4.84	5.25	14.24	13.79	10.05	9.38	6.39	4.84	5.25	14.24	13.79	10.05	9.38	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	6.30	4.65	4.98	13.95	13.51	9.78	9.03	0.45	-1.11	-0.79	11.82	12.23	9.16	8.83	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	12.60	9.04	7.88	13.56	14.60	9.22	—	12.60	9.04	7.88	13.56	14.60	9.22	—	—	—	—	—	—

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.*

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 **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

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 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. 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.

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