FRANKLIN TEMPLETON

Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** US small-cap stocks, as measured by the Russell 2000 Index, posted a net loss for the quarter, although the Russell 2000 Value Index gained in July and August when value stocks soundly outperformed their growth counterparts. In September, however, market breadth narrowed and small-cap stocks weakened regardless of style. Strong corporate earnings and a sturdy economic backdrop supported sentiment throughout much of the period.
- **Contributors:** Stock selection in the materials and financials sectors contributed to performance. Leading individual contributors included Whitecap Resources, Elementis and Eldorado Gold.
- **Detractors:** Stock selection in the energy, industrials and health care sectors detracted from performance. Leading individual detractors included Fortune Brands Innovations, Synaptics and Benchmark Electronics.
- **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 September 30, 2026. .
- Fortune Brands Innovations, a US-based home and security products company, detracted from relative performance as management cut guidance and flagged margin pressure in its water segment resulting from cost headwinds and operational disruptions. Elevated leverage and uncertainty around its Fiberon business further dampened sentiment.
- Benchmark Electronics, a US-based electronics manufacturing services provider, detracted from relative returns despite continued strong financial performance as investors seemingly questioned the durability of AI related demand.
- Whitecap Resources, a Canada-based energy producer that develops oil and natural gas assets, helped relative performance during the period. Shares rerated after a quarterly update underscored the company's capital allocation discipline and operational execution. The company's cash flow resilience and attractive dividend helped support the company's multiple during a volatile period.
- Elementis, a UK-based specialty additives producer serving global coatings and personal care markets, had a positive impact on relative performance as investors recognized its shift from restructuring to peer-leading organic growth and margin expansion. Gains in coatings and firm energy end-markets, plus mix improvement from hectorite, supported higher-quality earnings and bolstered investor confidence in the company's ability to meet full-year targets.

Outlook

- Small-cap stocks can be heavily influenced by the macroeconomic environment. They are highly economically sensitive and can react to changes in interest rates and inflation levels. Generally, multiples of small-cap stocks have compressed, despite expectations of substantial earnings growth in future quarters. In our opinion, the market is anticipating tightening financial conditions, and this is affecting investor sentiment and risk appetites. In the third quarter, quality companies generally outpaced their less-profitable counterparts as investors are becoming more cautious. We think our focus on quality companies may benefit us in this environment.
- The US economy remains on solid footing. The Commerce Department revised the initial 1.5% second quarter GDP estimate upward to 2.2%. Revisions to several categories, including consumer spending and investment (which includes data center construction spending), underscore how important both elements are to the ongoing health of the US economy. A substantial slowdown in current or expected AI spending could affect both the broader economy and the stock market.
- A second source of economic support is consumer spending, which is bolstered by high-income households, as the K-shaped economy persists. Increasing gas, food and energy prices, which consume a larger percentage of low- and middle-income earners' wages, are crowding out other expenditures from this segment of the population.
- The situation in Iran remains uncertain and will likely continue to stoke price volatility and elevate global asset risk premiums for the duration of the conflict. Restricted travel through the Strait of Hormuz negatively impacts consumers around the world, as governments work to manage supply shocks and rapidly increasing prices. In addition to oil and liquified natural gas, shipments of refined products, aluminum, and fertilizer, among others, are also affected. Inflationary pressure brought on by the conflict has contributed to a higher interest rate environment in the US, as the US Federal Reserve attempts to battle above-target inflation.
- 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 September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 09/30/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 455, 437 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. 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	3.33
ROSEBANK INDUSTRIES PLC	2.67
SELECT WATER SOLUTIONS INC	2.59
ASHLAND INC	2.55
CNO FINANCIAL GROUP INC	2.54
WSFS FINANCIAL CORP	2.38
SOUTHSTATE BANK CORP	2.38
ELEMENTIS PLC	2.37
COLUMBIA BANKING SYSTEM INC	2.26
MELROSE INDUSTRIES PLC	2.25

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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	355148503	FVADX	-5.32	14.79	17.76	15.62	8.16	9.62	9.65	-5.32	14.79	17.76	15.62	8.16	9.62	9.65	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	-5.38	14.56	17.47	15.33	7.89	9.35	9.30	-10.59	8.26	11.01	13.17	6.68	8.73	9.10	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	-4.91	16.96	20.77	17.92	7.80	9.40	—	-4.91	16.96	20.77	17.92	7.80	9.40	—	—	—	—	—	—

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 02/28/2027 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.

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.

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®, 09/30/2026. 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. Please read it carefully.

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