

Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US small-cap equities, as measured by the Russell 2000 Index, climbed in the fourth quarter. While investors continued to pile into artificial intelligence stocks, corporate earnings were strong and the market advance broadened in the quarter, with both small-cap and value stocks performing well.
- **Contributors:** Stock selection in the information technology and consumer discretionary sectors, along with stock selection and an underweight in real estate contributed to relative results. Individual contributors included MKS, Liberty Energy and Bread Financial.
- **Detractors:** Stock selection in industrials, stock selection and an underweight in health care and a lack of exposure to communication services detracted from relative returns. Among the detractors were QinetiQ Group, Gates Industrial and ACI Worldwide.
- **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 December 31, 2025.
- MKS, which offers technological solutions to semiconductor manufacturing, electronics and packaging and specialty industrial applications, contributed to relative returns. The company's latest quarterly results were robust, with ongoing momentum in its electronics and packaging equipment business driven by artificial intelligence applications and stronger semiconductor growth. We expect these businesses to see strong growth over the next few years.
- Liberty Energy, an oilfield services and power generation service provider, contributed to relative results following increasing customer interest for its behind-the-meter power generation services from data center owners and operators.
- QinetiQ, a provider of test and evaluation services to the UK Ministry of Defence, underperformed due to continued headwinds in the company's short-cycle UK intelligence business. The United Kingdom's publication of the Strategic Defense Review (SDR) this past summer is an important step for the government to define future spending priorities, but the release of new contracts has remained slow and negatively impacted growth.
- Gates Industrial, an industrial components manufacturer, detracted from relative results in the quarter. Despite delivering another solid quarterly earnings report, the stock declined as the company updated investors about an upcoming one-time cost headwind for 2026 to help permanently reduce its cost structure.

Outlook

- The US economy is in a delicate balance, with GDP growth supported by higher-end consumer and business spending. According to some estimates, capital spending on artificial intelligence (AI) powered as much as 92% of US GDP growth through July 2025.
- The disparity between low- and high-income earners remains. Higher-income consumers increased their spending throughout the back half of the year, while the lower-end consumer pulled back. However, we think provisions in the new tax bill will likely support consumers at both ends of the spectrum in 2026.
- Small companies are not insulated from the effects of the "AI trade" which has dominated US markets the last few years. While the main subjects of the AI discussion are large-cap hyperscalers, many small companies are unsung heroes of AI technology. Physical component manufacturers provide essential pieces such as sensors, capacitors and transceivers used in data storage, cooling, power management and other essential elements of technology. As AI capex continues, these companies stand to benefit from increased demand for their products.
- US policies continue to change, diverging from past norms and disrupting long-standing political and trade alliances. The United States' pullback from NATO has raised the risks of continued geopolitical uncertainty. Attacks on Fed independence, pending US Supreme Court rulings on Trump tariffs, and continued policy shifts are likely to keep volatility elevated, in our opinion.
- 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 December 31, 2025



(4-Star) Advisor Class



(4-Star) Class A

As of 12/31/2025 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 462, 439 and 362 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
ACI WORLDWIDE INC	3.19
MKS INC	2.64
CNO FINANCIAL GROUP INC	2.62
VONTIER CORP	2.60
COLUMBIA BANKING SYSTEM INC	2.57
ENVISTA HOLDINGS CORP	2.56
SOUTHSTATE BANK CORP	2.44
REGAL REXNORD CORP	2.39
GAP INC/THE	2.38
ELEMENTIS PLC	2.36

Average annual total returns and fund expenses (%) - as of December 31, 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	2.59	7.55	7.55	10.75	9.00	9.98	9.39	2.59	7.55	7.55	10.75	9.00	9.98	9.39	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	2.54	7.31	7.31	10.48	8.72	9.71	9.05	-3.10	1.40	1.40	8.41	7.50	9.09	8.84	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	3.26	12.59	12.59	11.73	8.88	9.26	—	3.26	12.59	12.59	11.73	8.88	9.26	—	—	—	—	—	—

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

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.

Important data provider notices and terms available at 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®, 12/31/2025. 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 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.