

# Franklin Small-Mid Cap Growth Fund

Advisor Class: FSGAX Class A: FRSGX

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** US stocks advanced during the second quarter of 2025. After rebounding from April's lows, equity markets continued to rally through June despite bouts of volatility. The S&P 500 Index and Nasdaq Composite Index closed the period with solid gains after hitting new record highs at the end of June, while the Dow Jones Industrial Average hovered near its all-time high. 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. Large-capitalization equities gained the most, followed by mid- and small-cap stocks, and growth stocks outperformed value by a wide margin in all three market-cap tiers.
- **Detractors:** Stock selection in the information technology (IT) and financials sectors detracted most from the fund's performance relative to the Russell Midcap Growth Index benchmark. Stock selection and an underweight in the software industry proved adverse for the IT sector's relative results, while stock selection in the capital markets industry pressured relative returns in the financials sector.
- **Contributors:** Stock selection and an overweight in the communication services sector had a significant positive impact on relative returns and, to a lesser extent, stock selection and an underweight in the health care sector and an underweight in the energy sector also worked in our favor.
- **Outlook:** We are hopeful as we enter the second half of the year that financial markets can focus on the potential long-term structural benefits of a Trump 2.0 policy agenda that might include initiatives to rebalance global trade and stimulate growth through tax reform and deregulation.

## Performance Review

- The fund underperformed the Russell Midcap Growth Index benchmark in the second quarter of 2025. In the financials sector, shares of insurance and risk management firm Arthur J. Gallagher experienced a decline, primarily due to lowered growth expectations and investor reaction to the revised guidance. We exited the position during the reporting period.
- A leading detractor at the stock level was nutrition products company BellRing Brands in the consumer staples sector. While the company reported strong performance across its protein-focused portfolio, it raised concerns about inventory reductions and profit-margin pressures in the second half of the year. We believe BellRing continues to benefit from various tailwinds, including new capacity, improved inventory tracking and ramped-up promotions and marketing.
- In contrast, the fund benefited from a position in Roblox in the communication services sector. The online gaming platform operator reported increased user engagement and revenue growth in the first quarter of 2025. Stronger bookings, sustained cost management and the integration of artificial intelligence (AI) into its platform contributed to market-share gains for the company.

## Outlook

- Our outlook for financial markets remains cautious, reflecting the magnitude and complexity of the current political and economic climate. While challenging, active management allows us to pursue alpha by taking advantage of market volatility as a chance to initiate or build up positions in what we believe are high-quality businesses. These businesses have strong balance sheets and market-leading competitive positions, and they are levered to durable secular growth themes.
- One theme is technology, which continues to be a large area of opportunity as more companies adopt AI in their efforts to lower costs and increase productivity. We see significant growth potential for the industrials sector, fueled by trends that include the reshoring of US manufacturing, electrification and meaningful infrastructure investment. Our outlook for health care is also bullish. Wide-ranging innovations (e.g., genomics, robotics, personalized medicine) and meaningful demographic shifts support our convictions.
- Deregulation could positively impact the energy sector by helping to increase fossil fuel production and streamlining the permitting process for oil, natural gas and coal; additionally, it could boost support for offshore drilling and nuclear power. The financials sector could also benefit as deregulation and lower taxes could help boost profits. With a stronger economy and lower regulatory burden, banks may see an increase in lending activity, and fintech innovation could surge.
- Our strategy is designed to address both upward and downward market cycles, which are historically not unusual in equity markets. A diversified approach helps us participate in both ongoing market strength and anticipated rotation in market leadership. We invest in what we regard as great businesses positioned to potentially benefit from secular growth over a long-term horizon.

## Top Equity Issuers (% of Total)

Holding	Fund
ROBLOX CORP	3.65
AXON ENTERPRISE INC	3.41
ARES MANAGEMENT CORP	2.80
DOORDASH INC	2.60
VERISK ANALYTICS INC	2.51
DATADOG INC	2.23
CLOUDFLARE INC	2.14
DEXCOM INC	2.07
FAIR ISAAC CORP	1.97
VEEVA SYSTEMS INC	1.91

## Sector Allocation (% of Total)

Sector	Fund
Information Technology	26.43
Industrials	18.23
Consumer Discretionary	14.50
Financials	12.53
Health Care	11.61
Communication Services	7.76
Energy	2.54
Utilities	1.30
Other	2.35
Cash & Cash Equivalents	2.76

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	354713869	FSGAX	14.33	4.32	13.46	14.76	7.66	9.60	10.73	14.33	4.32	13.46	14.76	7.66	9.60	10.73	0.63	0.61	—	—	2/14/1992
Class A	354713109	FRSGX	14.27	4.19	13.16	14.47	7.40	9.33	10.46	7.98	-1.55	6.93	12.33	6.19	8.71	10.27	0.88	0.86	5.50	—	2/14/1992
Benchmark 1	—	—	18.20	9.79	26.49	21.46	12.66	12.12	—	18.20	9.79	26.49	21.46	12.66	12.12	—	—	—	—	—	—
Benchmark 2	—	—	10.94	6.20	15.16	19.70	16.64	13.64	—	10.94	6.20	15.16	19.70	16.64	13.64	—	—	—	—	—	—

Benchmark(s)

Benchmark 1= Russell Midcap Growth Index

Benchmark 2= S&P 500 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 08/31/2025 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.** The **investment style** may become out of favor, which may have a negative impact on performance. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. 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

**Dow Jones Industrial Average (DJIA)** is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

**Nasdaq Composite Index** is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX.

Important Information

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 **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved. The **Russell Midcap Growth Index** measures the performance of the mid-cap growth 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.

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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.