

# Franklin Small-Mid Cap Growth Fund

Advisor Class: FSGAX Class A: FRSGX

Commentary | as of December 31, 2025

## Key Takeaways

- Markets:** US equities delivered solid gains over the fourth quarter of 2025, maintaining their upward trajectory against a backdrop of generally robust corporate earnings, despite some mixed economic signals and investor concerns about stretched valuations in technology-related stocks. Continued monetary easing by the US Federal Reserve, along with a constructive shift in US-China relations, also underpinned investor sentiment. The outperformance of the Magnificent Seven mega-capitalization technology stocks during the quarter boosted returns for the S&P 500 Index and the Nasdaq Composite Index, while the relatively strong performance of the Dow Jones Industrial Average reflected the enduring strength of blue-chip companies. By investment style, value investing surpassed growth in the large-, mid- and small-capitalization tiers, with large-cap stocks performing better than their mid- and small-cap counterparts.
- Contributors:** The fund (Advisor Class without sales charges) fared better than its benchmark in the fourth quarter, with stock selection decisions working in our favor. Leading sectors for relative returns included information technology (IT), health care and financials. Within IT, choosing stocks in the software industry and the semiconductors and semiconductor equipment industry had a significant positive impact.
- Detractors:** Conversely, stock selection had a negative impact on relative returns in the industrials, communication services and consumer discretionary sectors. The portfolio was also hampered by the weak performance of several individual holdings.
- Outlook:** While headline risks continue to influence market sentiment and create uncertainty, we continue to stay true to our process. We look for indiscriminate selling on quality stocks to add to our portfolio, and we trim positions when market expectations become too exuberant. Secularly, we see an abundance of innovation taking place across virtually every economic sector, which we believe bodes favorably for well-positioned small- and mid-cap companies.

## Performance Review

- The fund (Advisor Class without sales charges) fared better than the Russell Midcap Growth Index benchmark in the fourth quarter. Natera was a top contributor in the health care sector. Shares of the specialty diagnostics provider rose after it delivered positive third-quarter financial results with notable volume growth in its minimal residual disease testing business. We believe Natera possesses a first-mover advantage and competitive advantage in data in the attractive recurrence monitoring market.
- While the communication services sector was a relative detractor at the sector level, our holding in the New York Times was a top three contributor to the fund's relative performance. The newspaper and media company reported strong third-quarter financial results helped by durable digital subscription growth and greater advertising demand across its portfolio of products.
- In contrast, Roblox's stock underperformed in the communication services sector as management indicated slowing profit growth and higher spending on developer payouts, which concerned investors. We continue to have a high conviction in the long-term growth prospects of Roblox and its ability to take market share in the global gaming space.

## Outlook

- As we enter 2026, our view on US equities remains positive but selective. In an environment where growth is available but not abundant, our focus is on owning high-quality franchises with durable competitive advantages, often supported by secular tailwinds.
- In recent years, a small group of mega-capitalization innovators—dominated by the Magnificent Seven—has driven the majority of index returns, benefiting from scale and AI leadership. Looking toward 2026, we believe conditions should favor a broadening of equity market leadership, with opportunities emerging across sectors beyond IT and companies below the mega-cap threshold, which can offer an advantage for small- and mid-cap companies.
- In 2026, we are focused on structural themes shaped by AI and automation, which are now producing measurable productivity gains not only in the IT sector but in the health care, financials, industrials and energy sectors. We are also monitoring potential risks for the US economy, including inflation, regulatory pressures, geopolitical friction, infrastructure bottlenecks and unfavorable policy shifts.
- Fiscal and economic conditions appear to be aligning to support growth. We expect continued innovation-led expansion underpinned by quality fundamentals in an environment where we think disciplined, active management has an advantage.

## Top Equity Issuers (% of Total)

Holding	Fund
ROYAL CARIBBEAN CRUISES LTD	2.99
ROBLOX CORP	2.83
HOWMET AEROSPACE INC	2.79
ARES MANAGEMENT CORP	2.46
VERTIV HOLDINGS CO	2.38
CARVANA CO	2.24
MONOLITHIC POWER SYSTEMS INC	2.19
BURLINGTON STORES INC	2.14
DATADOG INC	2.13
CENCORA INC	2.12

## 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		
			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	354713869	FSGAX	-3.26	3.00	3.00	13.61	1.43	10.45	10.52	-3.26	3.00	3.00	13.61	1.43	10.45	10.52	0.60	0.59	—	—	2/14/1992
Class A	354713109	FRSGX	-3.31	2.75	2.75	13.33	1.18	10.18	10.25	-8.63	-2.91	-2.91	11.21	0.04	9.56	10.06	0.85	0.84	5.50	—	2/14/1992
Benchmark 1	—	—	-3.70	8.66	8.66	18.64	6.65	12.49	—	-3.70	8.66	8.66	18.64	6.65	12.49	—	—	—	—	—	—
Benchmark 2	—	—	2.66	17.88	17.88	23.00	14.43	14.82	—	2.66	17.88	17.88	23.00	14.43	14.82	—	—	—	—	—	—

## Benchmark(s)

Benchmark 1=Russell Midcap Growth Index

Benchmark 2=S&amp;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 [frankltempleton.com](http://frankltempleton.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 08/31/2026 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.** 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.

The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

**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. The **Russell Midcap Growth Index** measures the performance of the mid-cap growth segment of the U.S. equity universe.

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

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