FRANKLIN TEMPLETON

Franklin Small-Mid Cap Growth Fund

Advisor Class: FSGAX Class A: FRSGX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** US equities rebounded strongly during the second quarter of 2026, recovering from a weak start to the year as investor confidence improved despite ongoing geopolitical uncertainty. Sentiment was supported by robust corporate earnings, particularly from companies exposed to AI infrastructure, with continued increases in capital expenditure reinforcing confidence that the AI investment cycle remained intact. At its two meetings during the quarter, the US Federal Reserve left interest rates on hold. The easing of Middle East tensions and a decline in oil prices helped alleviate inflation concerns, encouraging a broad recovery in risk assets. The Nasdaq Composite Index outperformed the S&P 500 Index and Dow Jones Industrial Average. By investment style, growth investing surpassed value in each cap segment, while across the market as a whole, small-cap stocks performed better than their large- and mid-cap counterparts.
- **Contributors:** The fund fared better than its benchmark in the first quarter, with allocation effects working in our favor. Stock selection and an overweight to the information technology (IT) sector lifted relative returns, as did stock selection in the industrials sector.
- **Detractors:** Conversely, stock selection had a negative impact on relative returns. In particular, selection in the communication services and financials sectors held back relative performance.
- **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.

Top Equity Issuers (% of Total)

Holding	Fund
DATADOG INC	3.65
COMFORT SYSTEMS USA INC	3.30
CLOUDFLARE INC	3.00
AXON ENTERPRISE INC	2.60
TARGA RESOURCES CORP	2.60
SNOWFLAKE INC	2.43
NATERA INC	2.38
ROYAL CARIBBEAN CRUISES LTD	2.20
VISTRA CORP	2.19
LUMENTUM HOLDINGS INC	2.04

Performance Review

- The fund (Advisor Class without sales charges) fared better than the Russell Mid-Cap Growth Index benchmark in the first quarter. In the IT sector, an out-of-benchmark position in Arteris was a leading contributor. The semiconductor company is a beneficiary of the surge in AI spending, and reported record earnings and raised guidance during the period.
- Also in IT, Credo Technology Group supported relative results. The company's connectivity products are in high demand amid the rapid buildout of AI data centers, and the company also reported record earnings and raised guidance sharply during the period.
- Conversely, an underweight position in Rocket Lab USA weighed on relative returns in the industrials sector. The company secured a string of Space Force contracts and has a $2.2B backlog, and investors see the company's Neuron reusable rocket as a viable competitor to SpaceX.

Outlook

- 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 mega-capitalization technology-related stocks—has driven the majority of index returns, benefiting from scale and AI leadership. 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.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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	354713869	FSGAX	15.05	10.15	8.76	11.83	1.37	11.55	10.68	15.05	10.15	8.76	11.83	1.37	11.55	10.68	0.60	0.59	—	—	2/14/1992
Class A	354713109	FRSGX	15.00	10.02	8.50	11.55	1.12	11.28	10.40	8.68	3.96	2.54	9.47	-0.02	10.65	10.22	0.85	0.84	5.50	—	2/14/1992
Benchmark 1	—	—	14.55	7.27	6.17	15.60	6.03	13.04	—	14.55	7.27	6.17	15.60	6.03	13.04	—	—	—	—	—	—
Benchmark 2	—	—	15.20	10.21	22.32	20.61	13.41	15.51	—	15.20	10.21	22.32	20.61	13.41	15.51	—	—	—	—	—	—

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.*
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

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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.

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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.

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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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