FRANKLIN TEMPLETON

Franklin Small-Mid Cap Growth Fund

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

Key Takeaways

- **Markets:** US equities rose in the third quarter, with market leadership shifting from large-cap growth and semiconductor stocks towards value shares before reversing in September. Strong corporate earnings supported sentiment, although market breadth narrowed and small-cap stocks weakened late in the period.
- **Contributors**: Stock selection was beneficial during the period. Stock selection in the health care and industrials sectors were leading contributors to performance.
- **Detractors**: Stock selection in the energy and consumer discretionary sectors detracted from 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.

Performance Review

- The fund performed better than its benchmark, the Russell Midcap Growth Index, for the quarter ended September 30, 2026.
- Everpure, a U.S.-based enterprise data storage provider, helped relative performance after a strong earnings update reinforced confidence in the company's growth outlook. Management raised revenue guidance as demand remained robust across its core business, while rapid growth in Storage-as-a-Service offerings and increasing traction with hyperscale customers supported expectations for durable revenue growth.
- Cloudflare, a U.S.-based cloud security and edge networking company, improved performance after stronger-than-expected results and raised guidance reinforced confidence in its growth outlook. Investor sentiment was supported by growing demand for AI-related infrastructure and security services.
- Arteris, a U.S.-based semiconductor IP provider, weighed on relative performance in the information technology sector as shares retreated following substantial gains in the prior quarter. Despite reporting record revenue and raising full-year guidance, the company saw higher than expected operating expenses that weighed on profitability.
- An underweight allocation to Atlassian, an Australia-based collaboration software company, hurt relative returns in the IT sector. Shares in the company surged following strong quarterly results that highlighted accelerating cloud growth and increasing adoption of its AI tools.

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
CLOUDFLARE INC	4.67
SNOWFLAKE INC	3.98
DATADOG INC	3.77
COMFORT SYSTEMS USA INC	3.03
LUMENTUM HOLDINGS INC	2.79
TARGA RESOURCES CORP	2.68
DEXCOM INC	2.50
CENCORA INC	2.45
NATERA INC	2.28
VISTRA CORP	2.13

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	354713869	FSGAX	-4.79	4.88	1.46	11.92	0.43	10.27	10.44	-4.79	4.88	1.46	11.92	0.43	10.27	10.44	0.60	0.60	—	—	2/14/1992
Class A	354713109	FRSGX	-4.86	4.68	1.21	11.63	0.18	10.00	10.16	-10.09	-1.09	-4.36	9.54	-0.95	9.38	9.98	0.85	0.85	5.50	—	2/14/1992
Benchmark 1	—	—	-5.84	1.01	-2.73	15.35	4.92	11.86	—	-5.84	1.01	-2.73	15.35	4.92	11.86	—	—	—	—	—	—
Benchmark 2	—	—	2.30	12.75	15.74	22.88	13.79	15.33	—	2.30	12.75	15.74	22.88	13.79	15.33	—	—	—	—	—	—

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. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 08/31/2027 without Board consent. Actual expenses may be higher and may impact portfolio returns.

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.

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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