

# Franklin Growth Opportunities SMA

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the AI trade and geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure spurred a rotation away from mega-capitalization growth toward value stocks. At its two meetings during the quarter, the US Federal Reserve left its benchmark interest rate on hold. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk. The Nasdaq Composite Index underperformed the S&P 500 Index, while the Dow Jones Industrial Average proved more resilient. By investment style, value investing surpassed growth across market-cap tiers, with small- and mid-cap stocks performing better than their large-cap counterparts.
- **Contributors:** Allocation effects benefited the fund's relative returns. Relative returns were helped most by stock selection and an underweight in the information technology (IT) sector and stock selection and an overweight in the industrials sector.
- **Detractors:** Stock selection in the consumer discretionary and communication services sectors weighed significantly on relative performance.
- **Outlook:** While headline risks continue to influence market sentiment, we think the bigger story for investors is technological innovations, particularly in AI. Advances in AI and related technologies are transforming industries and, in our view, are creating growth potential for long-term investors. Innovative companies in sectors across the economy are harnessing AI in their efforts to expand profit margins and drive revenue growth. We are seeing this in industries that deliver health care, manage logistics and more.

## Performance Review

- The strategy fared better than the Russell 3000 Growth Index benchmark in the first quarter of 2026 based on pure gross of fees, though it underperformed on a net of fee basis for the period. In the IT sector, an underweight position in Microsoft contributed positively to relative performance. Microsoft's stock declined as investors shifted away from mega-cap tech companies due to concerns about valuations, significant AI-related capital expenditures and uncertainty regarding the software giant's relationship with OpenAI (not a portfolio holding).
- Conversely, in the IT sector, AppLovin saw its shares decline as investors worried that slower ad sales, elevated valuations and market volatility might hinder the mobile marketing platform's growth.
- A leading individual contributor was Casey's General Stores in the consumer staples sector. The convenience store and fuel retailer benefited from strong fiscal third-quarter 2026 financial results that highlighted robust fuel margins, solid prepared food sales and continued loyalty program growth.

## Outlook

- We are closely monitoring the rapidly evolving conflict in Iran. The Strait of Hormuz remains a key variable, and the length of any disruption could likely determine whether this proves to be a temporary volatility event or a catalyst for more sustained repricing across oil, liquefied natural gas and related infrastructure assets. We have limited direct exposure to the energy sector but are monitoring how a sustained rise in energy prices could impact the portfolio.
- Overall, our view on US equities remains positive despite heightened risks. The US economy is relatively resilient to rising energy prices, but we are monitoring its potential impact on inflation and consumer spending. 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.
- The Growth Opportunities strategy has an active, fundamentally driven quality bias and employs a multi-cap approach to maintain a diversified portfolio. While we own many mega-cap leaders, we remain underweight relative to highly concentrated benchmarks. We view this positioning as balanced and complimentary to many of the concentrated passive indexes.
- 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 consumer-facing sectors. We are also monitoring potential risks for the US economy, including inflation, regulatory pressures, geopolitical friction, infrastructure bottlenecks and unfavorable policy shifts. We expect to see an innovation-led expansion underpinned by quality fundamentals in an environment where we believe disciplined, active management has an advantage.

## Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corporation	9.60
Apple Inc.	7.46
Alphabet Inc. Class A	6.29
Amazon.com, Inc.	5.01
Microsoft Corporation	4.51
Broadcom Inc.	4.45
Meta Platforms Inc Class A	4.11
Tesla, Inc.	2.79
Eli Lilly and Company	2.59
Amphenol Corporation Class A	2.37

## Average annual total returns (%) - as of March 31, 2026-PRELIMINARY

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	-9.72	-12.93	-9.72	4.22	12.63	2.64	9.76	—	—	—	8.11	6/30/2015
Pure Gross of Fees	-9.03	-11.60	-9.03	7.33	15.98	5.72	13.03	—	—	—	11.33	6/30/2015
Benchmark	-9.54	-8.51	-9.54	18.75	20.64	12.05	16.38	—	—	—	15.27	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Russell 3000 Growth Index

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).**

**Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit [www.franklintempleton.com](http://www.franklintempleton.com) for the latest performance figures.**

**Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.**

**Fees:** Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.

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## What are the Risks?

**All investments involve risks, including possible loss of principal.** To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **Equity securities** are subject to price fluctuation and possible loss of principal. The **investment style** may become out of favor, which may have a negative impact on performance. **Active management** does not ensure gains or protect against market declines. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. 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.

## 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.

**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.

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.

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The **Russell 3000 Growth Index** measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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Source: FTSE.

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