

Franklin Growth Opportunities SMA

Commentary | as of September 30, 2025

Key Takeaways

- Markets: US equities delivered strong performance over the third quarter of 2025, buoyed, in part, by easing trade
 tensions and optimism surrounding artificial intelligence (AI). The US Federal Reserve's (Fed's) interest-rate cut in
 September also supported market sentiment, as did generally robust corporate earnings. Both the S&P 500 Index and
 the Nasdaq Composite Index ended the quarter at new record highs, while returns for the Dow Jones Industrial Average
 were more muted. In this environment, growth investing surpassed value in the large-capitalization tier, while it was the
 reverse in the mid- and small-capitalization segments, with small-cap stocks overall performing better than their largeand mid-cap counterparts.
- Detractors: Both stock selection and allocation decisions worked against us relative to the Russell 3000 Growth Index benchmark. Stock selection and an overweight in the industrials sector; stock selection and an underweight in the information technology (IT) sector; and stock selection in the communication services sector were leading drivers of negative relative performance.
- Contributors: Stock selection in the real estate sector offered modest relative returns, while the majority of positive
 relative returns were at the individual stock level.
- Outlook: While headline risks continue to influence market sentiment, we think the bigger story for investors is
 technological innovations, particularly in artificial intelligence (AI). Advances in AI and related technologies are
 transforming industries and, in our view, creating growth potential for long-term investors. Innovative companies in
 sectors and industries 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 (pure gross of fees) underperformed the Russell 3000 Growth Index benchmark in the third quarter of 2025. The strategy also underperformed the index on a net-of-fee basis for the period. In the industrials sector, shares of law enforcement technology company Axon Enterprise were pressured by investor concerns about its \$900 million acquisition of AI firm Prepared (not a portfolio holding). Despite Axon's strong stock performance over the past year, many investors reacted negatively to the acquisition and potential integration risks, leading to a double-digit-percentage stock decline during the quarter. Despite the near-term underperformance, we view Axon as a beneficiary of AI and a key component to the digitalization of law enforcement and emergency services.
- In the IT sector, an underweight in technology giant Apple was a relative detractor, but the position was a contributor in absolute terms. Apple has struggled to demonstrate how generative Al will be integrated into its ecosystem, but its share price rallied following a positive outcome from the Department of Justice on Apple's relationship with Google (a subsidiary of portfolio holding Alphabet) and after the company announced plans to build a US manufacturing plant to help reduce its dependence on China and secure lower tariffs. In contrast, shares of mobile marketing platform operator AppLovin received a boost from its inclusion in the S&P 500 Index, benefiting returns in the IT sector.
- Another relative contributor at the stock level was Roblox in the communication services sector. The online gaming platform
 operator reported strong bookings year-over-year in the second quarter, helped by improved algorithmic discovery and
 virality of games. We continue to have high conviction in the long-term growth prospects of Roblox and its ability to increase
 its market share in the global gaming market.

Outlook

- While headlines have focused on trade tensions, elevated interest rates and fiscal uncertainty, both historical precedent and
 current market performance reinforce our core thesis that the enduring strength of US businesses and capital markets
 should help drive global economic growth into the next decade. We believe US companies and the broader economy
 continue to be powered by structural advantages and secular growth drivers.
- In broad terms, US companies have pioneered breakthroughs that have reshaped industries—ranging from the internet and semiconductors to genomics and defense technologies. In our view, US companies are positioned at the forefront of generative AI, semiconductors, biotechnology and space exploration, creating powerful long-term tailwinds for investors seeking exposure to the world's leading growth companies.
- We see secular tailwinds that potentially support US market leadership in the years ahead. Generative AI and automation can
 unlock productivity and cost savings across sectors. Pro-business policies—such as infrastructure investment, deregulation
 and tax incentives—continue to foster domestic growth. Onshoring and supply-chain diversification are reviving domestic
 manufacturing and boosting output, particularly in the advanced industrial and energy markets.
- In our view, economic conditions remain constructive for risk assets, with resilient growth, moderate inflation and broadly supportive monetary and fiscal policy. Corporate fundamentals also appear healthy, in our view, amid improved earnings revisions. Our strategy maintains a diversified approach designed to help us participate in ongoing market strength while remaining adaptable to shifts in market leadership.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corporation	9.18
Microsoft Corporation	7.16
Meta Platforms Inc Class A	7.11
Broadcom Inc.	5.38
Apple Inc.	4.93
Amazon.com, Inc.	4.67
Mastercard Incorporated Class A	3.14
Alphabet Inc. Class A	3.09
Netflix, Inc.	2.98
AutoZone, Inc.	2.37

Average annual total returns (%) - as of September 30, 2025-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	3.14	19.69	6.81	8.39	21.98	7.17	11.10	_	_	_	9.99	6/30/2015
Pure Gross of Fees	3.89	21.42	9.19	11.62	25.58	10.37	14.41	_	_	_	13.27	6/30/2015
Benchmark	10.41	29.79	16.82	24.79	30.76	17.03	18.26	_	_	_	17.08	_

^{*}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 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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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. 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. Source: FTSE. Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

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