

Franklin Growth Opportunities SMA

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.
- 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 and stock selection in the information technology (IT) and communication services sectors were leading drivers of negative relative performance.
- Contributors:** Key relative contributors 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, 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 (pure gross of fees) underperformed the Russell 3000 Growth Index benchmark in the fourth quarter of 2025. In the communication services sector, Roblox's stock underperformed as management indicated higher spending on developer payouts, which could weigh on near-term profit growth. We continue to have high conviction in the long-term growth prospects of Roblox and believe the company is investing from a position of strength as it continues to take market share in the global gaming space.
- Also in the communication services sector, an underweight in Google parent company Alphabet limited our gains relative to the benchmark. The company has been benefiting from the positive impacts of AI on its business.
- In contrast, privately held Space Exploration Technologies, also known as SpaceX, was a top contributor in the industrials sector. The firm's Starlink internet business and Starship launch operations performed well in 2025, and it is planning an initial public offering in mid-2026.

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. The Growth Opportunities strategy has an active, fundamentally driven quality bias and employs a multi-cap approach designed to maintain a diversified portfolio. While we own many mega-cap leaders, we remain broadly underweight relative to the highly concentrated benchmarks. We view this positioning as balanced and complimentary to many of the concentrated passive indexes.
- Looking toward 2026, we believe conditions should favor a broadening of equity market leadership, with opportunities emerging across sectors beyond IT and in 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	Portfolio
NVIDIA Corporation	9.76
Microsoft Corporation	6.19
Broadcom Inc.	5.81
Apple Inc.	5.41
Amazon.com, Inc.	5.38
Meta Platforms Inc Class A	4.88
Alphabet Inc. Class A	4.10
Tesla, Inc.	3.07
Eli Lilly and Company	3.06
Mastercard Incorporated Class A	2.44

Average annual total returns (%) - as of December 31, 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	-3.55	-0.52	3.02	3.02	20.70	4.14	10.16	—	—	—	9.37	6/30/2015
Pure Gross of Fees	-2.82	0.96	6.11	6.11	24.26	7.26	13.44	—	—	—	12.63	6/30/2015
Benchmark	1.14	11.67	18.15	18.15	30.25	14.59	17.59	—	—	—	16.77	—

*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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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

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.

An **initial public offering (IPO)** is the process of offering shares in a private corporation to the public for the first time.

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.

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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