

Franklin Small Cap Value Fund

Advisor Class: FVADX Class A: FRVLX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** US small-cap stocks, as measured by the Russell 2000 Index, fell during the first quarter amid concerns about President Trump's tariff policies and their impact on economic growth and inflation.
- **Contributors:** Stock selection in consumer discretionary and energy as well as an underweight in health care contributed to relative returns. Individual contributors included Babcock International, Hanover Insurance Group, and Mattel.
- **Detractors:** Underweights in utilities and real estate and stock selection in communication services detracted from relative performance. Individual detractors included Chart Industries, Regal Rexnord and Knowles.
- **Outlook:** While we believe there are reasons to be optimistic about the markets, we think uncertainty surrounding trade and geopolitics could continue to be destabilizing factors in the near term. Economically sensitive small-cap stocks were down nearly 17% from post-election highs as of the end of the quarter. While we are seeing some attractive entry points to quality names, we think a resolution to the current tariff and tax uncertainty is necessary for near-term appreciation.

Performance Review

- The Fund (Advisor Class) fared better than its benchmark, the Russell 2000 Value Index, for the quarter ended March 31, 2025.
- Babcock International, a UK-based aerospace company, contributed to relative returns on optimism the company will benefit from a step-up in UK and European defense spending. The company also boosted its fiscal 2025 earnings on strong growth in its nuclear and marine businesses.
- The Hanover Insurance Group, a property and casualty insurer, rose during the period with strong operating results and forward outlook supported by rising net investment income as well as improving underwriting performance in personal lines. Results improved following significant increases in pricing as well as favorable changes to terms and conditions that reflect the insurer's focus on managing risk and volatility from catastrophe losses.
- Shares of Chart Industries, a global equipment manufacturer and service provider, were negatively impacted by its weaker-than-expected fourth-quarter earnings report and concerns about US demand due to policy uncertainty.
- Regal Rexnord, a manufacturer of electric motors and power transmission products, was negatively impacted by a continued challenging industrial environment pressuring revenue growth. In addition, concerns over tariffs remained an overhang.

Outlook

- While we believe there are reasons to be optimistic about the markets, we think uncertainty surrounding trade and geopolitics could continue to be destabilizing factors in the near term.
- Economically sensitive small-cap stocks were down nearly 17% from post-election highs as of the end of the quarter. While we are seeing some attractive entry points to quality names, we think a resolution to the current tariff and tax uncertainty is necessary for near-term appreciation.
- Parts of the US economy, like employment, remain robust. For the US economy to stay healthy, policies regarding tariffs, taxes and government spending need predictability and clarity. Although the US Federal Reserve kept rates unchanged in March, policymakers acknowledge increased uncertainty around the economic outlook and are guiding towards an interest rate cut later this year.
- US consumers have cut spending on discretionary items. The environment is also making it difficult for businesses to spend. The viability of projects funded by government grants, such as those involving infrastructure buildouts or chip foundries, are in question. Companies may shelve additional capital expenditure until the landscape is more predictable.
- We remain focused on identifying opportunities to improve the quality of our positions at relatively attractive valuations. We will continue to follow our process of targeting historically successful companies, with understandable business models, good corporate governance and low debt, that we view as temporarily trading at depressed levels, relative to future earnings power. This investment approach constitutes our competitive advantage and may provide meaningful upside potential and possible downside risk management during turbulent periods.

Morningstar Rating™

Overall Rating as of March 31, 2025



(4-Star) Advisor Class



(3-Star) Class A

As of 03/31/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 475, 449 and 361 Small Value funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Top Equity Issuers (% of Total)

Holding	Fund
HANOVER INSURANCE GROUP INC/THE	3.55
ACI WORLDWIDE INC	3.55
MATTEL INC	2.95
CNO FINANCIAL GROUP INC	2.88
COLUMBIA BANKING SYSTEM INC	2.78
SANMINA CORP	2.75
CHART INDUSTRIES INC	2.75
FIRST INTERSTATE BANCYSYSTEM INC	2.68
HORACE MANN EDUCATORS CORP	2.62
SOUTHSTATE CORP	2.60

Sector Allocation (% of Total)

Sector	Fund
Financials	31.75
Industrials	28.34
Consumer Discretionary	11.33
Information Technology	9.30
Materials	7.95
Energy	3.25
Health Care	2.02
Real Estate	1.88
Other	2.50
Cash & Cash Equivalents	1.69

Average annual total returns and fund expenses (%)

Class	CUSIP	Ticker	Without Sales Charge						With Maximum Sales Charge						Expenses		Sales Charges		Inception Date		
			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
Advisor Class	355148503	FVADX	-6.62	-6.62	-0.73	3.03	16.21	7.55	9.12	-6.62	-6.62	-0.73	3.03	16.21	7.55	9.12	0.73	0.72	—	—	3/11/1996
Class A	355148305	FRVLX	-6.66	-6.66	-0.97	2.78	15.92	7.28	8.77	-11.80	-11.80	-6.41	0.86	14.61	6.67	8.56	0.98	0.97	5.50	—	3/11/1996
Benchmark	—	—	-7.74	-7.74	-3.12	0.05	15.31	6.07	—	-7.74	-7.74	-3.12	0.05	15.31	6.07	—	—	—	—	—	

Benchmark(s)

Benchmark = Russell 2000 Value 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 02/28/2026 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. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. The **investment style** may become out of favor, which may have a negative impact on performance. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. **Real estate investment trusts (REITs)** are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments. 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.

Important Information

Due to continued strong inflows and increased assets under management, Franklin Small Cap Value Fund closed to new investors with limited exceptions effective May 27, 2021. Existing shareholders may continue to add money to their accounts.

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 **Russell 2000 Value Index** measures the performance of the small-cap value segment of the U.S. equity universe. Source: FTSE.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Morningstar Rating™: Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 3, 3 and 4 and fund's Class A shares received a Morningstar Rating of 3, 2 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings.

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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.