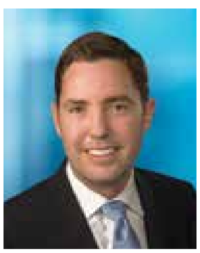
FRANKLIN TEMPLETON

March 2019

THE CASE FOR GROWTH: INSIGHTS INTO INNOVATION INVESTING

We believe there is no greater force for driving growth and creating value in the economy than innovation. Everywhere, companies are talking about innovation. Start-ups, multinational corporations, and companies of every size in-between trumpet their "innovative" products and services. They create "centers of innovation" and boast of the myriad ways in which they empower employees to think creatively and bring new ideas to the table. It takes a skilled investor to see through the hype and identify true innovation that will have lasting impact.



Matthew Moberg
VP and Portfolio Manager
Franklin DynaTech Fund

Franklin DynaTech Fund has been investing in innovation for over fifty years. We know that innovation-based growth isn't going away, and we understand that real innovation is more than a new product or service; it applies novel solutions to meet evolving requirements in a market or needs that have yet to be expressed. It is inevitably transformative and frequently disruptive. Since the fund's inception, we have sought to identify the companies and industries offering products, processes and technologies that reshape their markets and create opportunities for growth that we believe are likely to be sustainable over the long term.

Innovation-Based Growth Is Here to Stay

Innovation and growth go hand in hand, but many investors may wonder whether the growth style of investing can continue to outperform value-style investing. While growth has outperformed in recent years—particularly since the Global Financial Crisis—the return of significant volatility in 2018 has many investors positioning themselves more defensively, fearing that growth may have had its day.

Bull markets don't last forever, and markets correct. We may well see many growth-style stalwarts retreat. But as long-term investors, we don't make our investment decisions based on the economic cycle. Although value stocks may have periods of resurgence, many traditional value industries are facing significant challenges from fast-moving competitors, well-funded new market entrants, and advances in technology. Most of these challenges have their roots in innovation.

The Pace of Disruption Is Increasing

Across the investment landscape, the pace of disruption is increasing. Companies once considered highly attractive can suffer from disintermediation, their products or services rendered obsolete. Many industries are facing challenges. In transportation, cheaper and faster competitors are rethinking how we move people and goods, while in retail, online competition is driving prices down and curtailing pricing power for traditional brick-and-mortar businesses. In manufacturing, companies are embracing digital solutions and data analytics and using robotics and artificial intelligence to create significant new efficiencies.

We believe value stocks are likely to still see periods of outperformance, but the question is whether such outperformance can be sustainable when disruption is occurring at a frenetic pace. Our sense is that things may be different this time, and that the rate of change is accelerating. In this environment, we believe "value" recoveries are likely to be episodic.

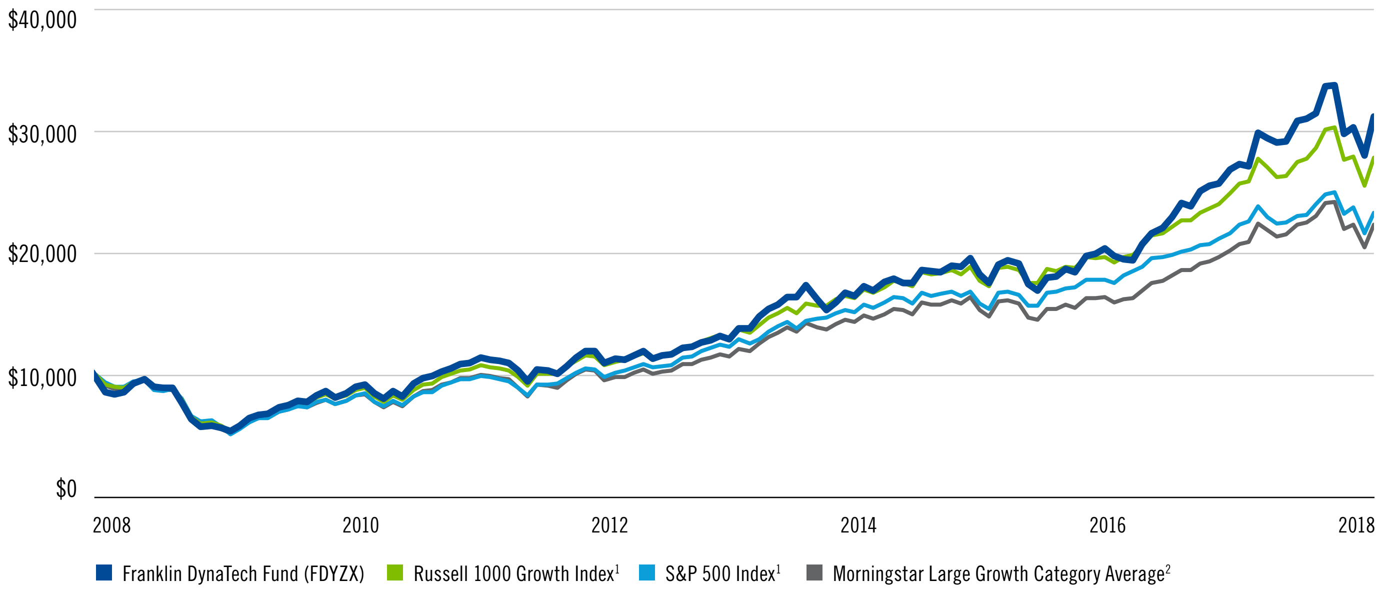
We Anticipate a Bias Toward Growth Over the Long Term

Our view is that there will likely be a bias toward "growth" stocks over the long run. We see a number of structural impediments to strong GDP growth in the global economy, including high levels of debt across major economies, adverse demographics in developed markets, a lack of political will for serious structural reform, and rising geopolitical risk, just to name a few. In this anticipated low and slow growth environment, we believe investors will place a premium on companies that have "idiosyncratic growth drivers," and the capacity to grow revenues and earnings—regardless of extant GDP growth—by addressing secular shifts in the way we interact with friends and family, shop and pay for goods and services, treat our illnesses, and spend our leisure time.

FRANKLIN DYNATECH FUND (ADVISOR CLASS): A RECORD OF OUTPERFORMANCE

Growth of a $10,000 investment versus benchmark indexes and Morningstar Large Growth Category average

January 1, 2008–December 31, 2018



Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and investors may have a gain or loss when they sell their shares. Please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Investing in Franklin DynaTech Fund (Advisor Class) on January 1, 2008, would have resulted in a 40% loss over the first year. But remaining invested through December 31, 2018, would have resulted in a 9.81% average annual return. The fund also outperformed the S&P 500 and the Russell 1000 Growth Index over the period.

The Pace of Innovation Is Accelerating

Innovation is pervasive and there have been significant breakthroughs in fields including biotechnology, robotics, artificial intelligence, fifth generation wireless technologies, 3D printing, autonomous vehicles, nanotechnology and more. For Franklin DynaTech Fund, we expect four platforms of growth to generate considerable economic value over the next five to ten years.

As we look to the future, we believe:

- Robotics could potentially transform the ways in which goods are manufactured.
- Gene sequencing and implantable devices will likely have a deep impact in the healthcare sector.

1. Source: Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
2. Source: Morningstar.

- Blockchain, virtual currencies and electronic payments should make transactions more secure and convenient.
- Autonomous driving, electric-powered vehicles and the sharing economy are likely to change not only how we move from place to place but how we consume energy and fuel.

In each of these industries, we can apply our time-tested expertise to seek out the innovations that we believe will offer long-duration growth prospects and the greatest investment opportunities.

Franklin DynaTech Fund seeks to invest in sustainable companies at the cutting edge of innovation. But with nearly every company touting its innovation credentials, how do we identify those companies that should truly be able to generate long-lasting growth?

INVESTING IN INNOVATION DEMANDS ACTIVE MANAGEMENT

Fundamental Research Supports Manager Insights

Our ideation process is two-pronged. Thanks to our Silicon Valley location, we benefit from interacting with some of the world's leading innovators. Our team is constantly reaching out to thought leaders across industries, reading, and meeting with trailblazing companies to understand cutting edge technologies and ideas that could have transformative potential.

At the same time, our analysts are dedicated to fundamental stock research. Meticulous research helps us develop a deep understanding of the companies we look at. Our analysts specialize by sector, which allows them to follow one to three related industries and cover approximately 50–70 stocks. They meet management, speak with customers, analyze the competitive environment, and become intimately acquainted with the products or services offered. Analysts also employ a variety of valuation methods to arrive at a target price. They look for companies with superior management, strong financials, and sustainable competitive advantages.

In our view, it is difficult to screen for innovation. Historical and comparable valuation multiples may not be helpful. Selecting securities for an innovation-based portfolio requires an unorthodox approach. The team is likely to conduct additional research on companies that are trading above historical multiples rather than below, as the strategy seeks positive inflections, such as acceleration in earnings or price momentum.

In piecing together the mosaic that leads to an investment decision, we will look at factors suggesting a sustainable growth profile. These might include the pace of user adoption and the total addressable market for an innovative product or service. The combination of intense research with the ability to pursue themes in which we see opportunity is, in our opinion, the optimal strategy for pursuing long-term capital appreciation based on innovation.

We believe that only through active management is it possible to identify and capitalize upon these inflection points. Our experience as an active manager, with years of insight into the impact of innovation, gives us a leg up in identifying the companies that offer the most promising new products, processes and services, and weighting them appropriately in our portfolio given our evolving perception of reward/risk.

Our Holdings in FAANG Demonstrate the Efficacy of Our Approach

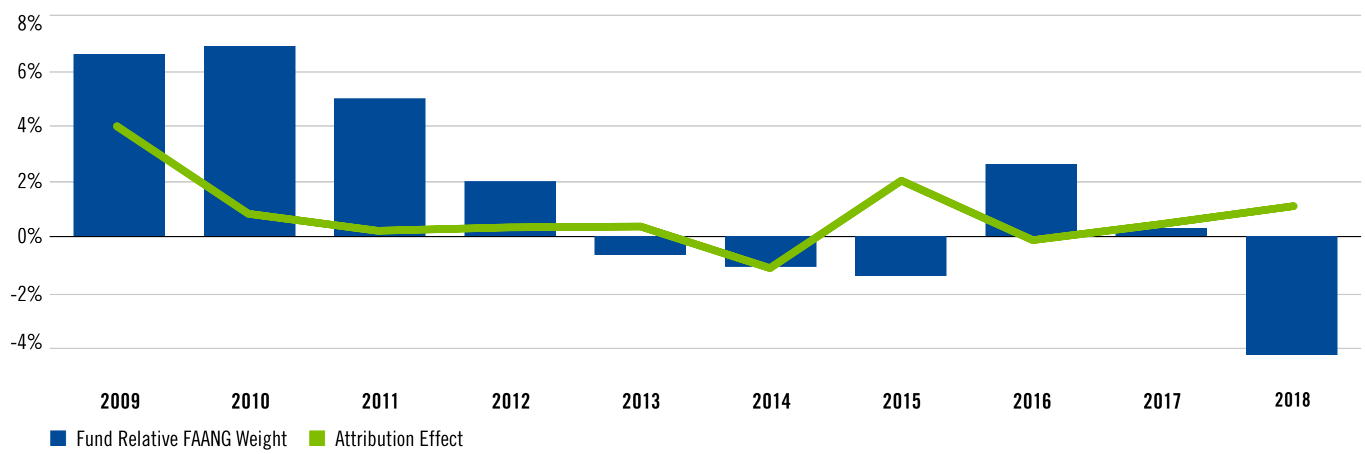
It can be difficult for investors to recognize the inflection points for innovation-based growth. One of the greatest advantages of our active management approach is our ability to do just that. As an example, take our investments in the FAANG stocks (Facebook, Amazon, Apple, Netflix, Google/Alphabet) over the last decade. With these stocks included among Franklin DynaTech Fund's holdings as of end-December 2018, some might be tempted to think of the fund as a FAANG portfolio.

However, our level of conviction regarding the FAANGs has differed greatly from that of the market—and hence our benchmark index—across time. As you will note from the chart below, the fund's aggregate FAANG exposure was consistently overweight from 2009–2012. Today, our position has evolved to underweight the index. Importantly, according to our attribution analysis, our relative allocation to FAANGs was accretive to performance in every calendar year from 2009–2018, with the exception of 2014 and 2016.

Perhaps most notably, Franklin DynaTech Fund's underweight allocation to the FAANGs was quite pronounced as of January 2019. However, this underweight does not result from a more skeptical view of the FAANGs overall. The benefit of active management is our ability to allocate based on our level of conviction regarding the pace of innovation at each company and the sustainability of the growth it creates. Our view may be very different from that of the market.

Our Conviction-Based Allocation to FAANGs Over Time Has Benefited Franklin DynaTech Fund (Advisor Class)[3]

Relative Weights (Average Annual) of FAANG Stocks (vs. Russell 1000 Growth Index) vs. Attribution Effects, 2009–2018



For illustrative purposes only. Holdings are subject to change. Past performance is no guarantee of future results.

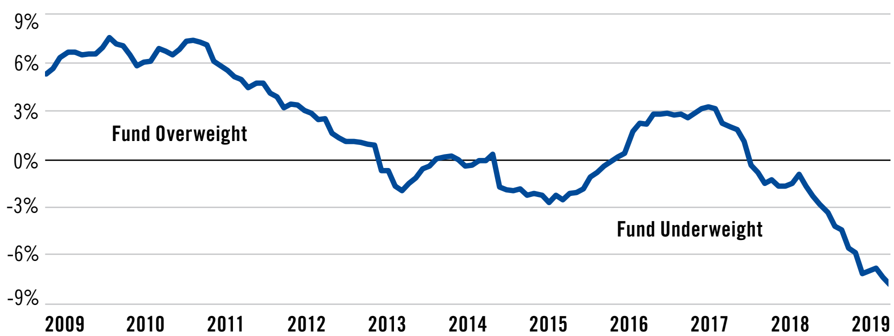
For example, over time we have become increasingly skeptical regarding Apple. Our concerns center on the slower pace of innovation and emerging signs of a secular shift in consumer demand away from Apple and the iPhone as the overall smartphone market becomes more commoditized.

The fund's FAANG underweight as of end-2018 is in no small part the result of our underweight allocation to Apple, which began in 2012. Critically, this underweight was a major relative performance contributor for Franklin DynaTech Fund in 2018. The company's disappointing pre-announcement of financial results late in the year confirmed our suspicions of more tempered growth in the iPhone installation base.

3. Source: FactSet. As of 12/31/18, Franklin DynaTech Fund held Facebook (0.55% of total net assets (TNA)); Amazon (6.71% of TNA); Apple (1.06% of TNA); Netflix (1.13% of TNA); and Alphabet (Google) (4.61% of TNA). Holdings subject to change.

FRANKLIN DYNATECH FUND: ALLOCATION TO FAANG STOCKS RELATIVE TO RUSSELL 1000 GROWTH INDEX[4]

The fund's % overweight or underweight relative to the benchmark demonstrates how our view on FAANGs has evolved over time
January 31, 2009–January 31, 2019



In October 2009, before the concept of "FAANG" even existed, the fund was 742 points overweight in these names. Five years later, in 2014, the fund was effectively at market weight. As of January 31, 2019, the fund was underweight the FAANGs by 756 basis points.

For illustrative purposes only. Holdings are subject to change.

Innovation is Often Mispriced

Innovation is often mispriced. In many cases it is adopted more quickly, and the growth lasts longer than the market anticipates. Our investment in VISA is a compelling example.[5] We identified VISA as a company with an attractive addressable market and potential for sustainable growth more than ten years ago. At that time, we believed strongly in the global secular trend of cash transactions moving to an electronic basis. In 2009, using a card to purchase a cup of coffee could have been embarrassing, suggesting the drinker might be low on funds. Today, buying a cup of coffee with cash is more likely to be considered unusual.

We saw the potential for card use to explode and we acted on our conviction, holding an overweight relative to our benchmark. As recently as 2016, credit and debit cards accounted for less than 10% of global consumer transactions, leaving considerable scope for growth ahead. VISA and Mastercard together create a duopoly in the payment processing infrastructure, and most electronic transactions are processed by one or the other.[5] Both companies also continue to invest in growth that should expand earnings over time.

4. Source: FactSet.
5. As of 12/31/18, Franklin DynaTech Fund held Visa (2.67% of TNA) and Mastercard (3.18% of TNA). Holdings are subject to change.

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INNOVATION IS EVERYWHERE

Formal GICS classifications don't always tell the whole story. The growth drivers for many of our holdings reflect evolution and innovation in the leisure, finance, health care and transportation sectors. At the end of September 2018, MSCI made several important changes in their GICS classification. Several sectors and industries were realigned. The Telecommunications Services sector was broadened and renamed Communication Services to include companies that facilitate communication and offer content through various media. The new sector includes some companies formerly classified as Consumer Discretionary and Info Tech. Significantly for the fund, Facebook and Google were moved from Info Tech, while Netflix was reclassified from Consumer Discretionary.

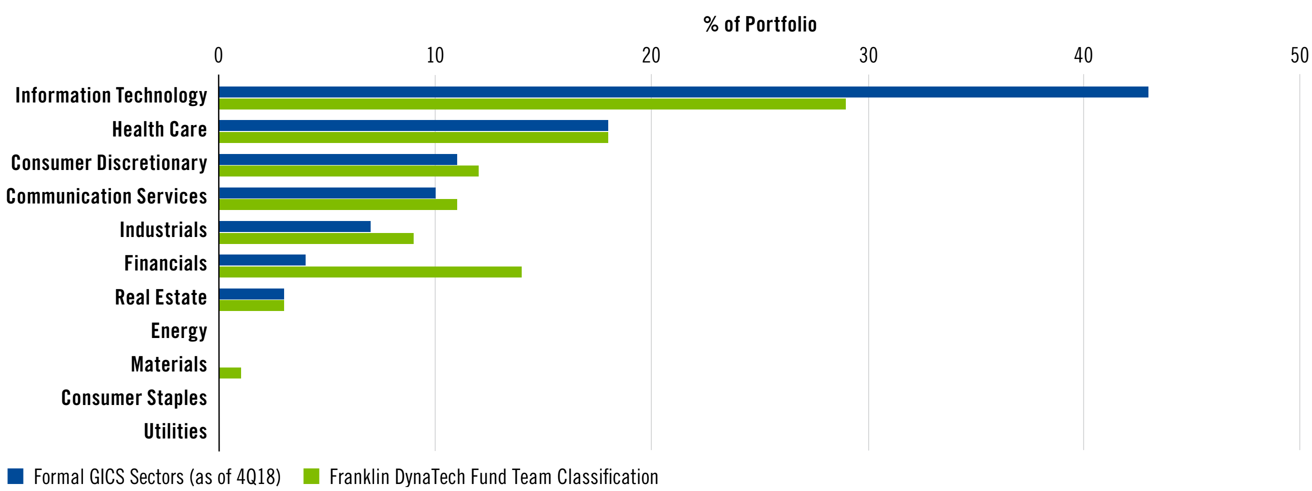
However, we believe that the reclassification does not go far enough in addressing the reality of many companies. For Franklin DynaTech Fund, we classify holdings according to the end-market served. Take, for example, Visa and MasterCard, which are classified as Information Technology according to GICS. These companies address the massive shift in the way consumers choose to pay for goods and services. They've enabled enormous growth in e-commerce and reflect the consumer's desire for greater convenience at the point of sale. Consequently, we believe that these names are more accurately classified as financial services companies.

Franklin DynaTech Fund Is Diversified Beyond "Tech"

The chart below compares the formal GICS sector allocation for the fund with our own end-market assessment, wherein we assign stocks to their industry according to the need that is being met or the secular trend that is being addressed. Using our classifications, we believe the portfolio is significantly less tech-heavy, and instead diversified across Health Care, Financials, Consumer Discretionary, Communication Services, and even Industrials.

FRANKLIN DYNATECH FUND: FORMAL GICS SECTOR ALLOCATIONS VS. FRANKLIN DYNATECH FUND TEAM CLASSIFICATION[6]

Holdings as of December 31, 2018



Based on our classifications, we believe Franklin DynaTech Fund is a diversified vehicle that is appropriate for the large cap growth allocation in a portfolio.

6. Source: FactSet and MSCI. MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

KEEPING A LONG-TERM PERSPECTIVE

We believe that innovation is here to stay and should drive growth in the years to come. In the low and slow growth environment that we have experienced since the end of the Global Financial Crisis, there has been a premium on companies that benefit from idiosyncratic drivers of growth. These companies cater to the evolving ways in which we shop, communicate, travel, experience technology and live our lives.

For investors seeking growth, we suggest looking beyond macroeconomic indicators, and short-term company earnings reports. Rather, we would ask whether you believe gene-based medicine, artificial intelligence, self-driving cars, virtual reality, and next-generation internet will be more or less relevant 10 years from now. If you believe these innovations will have a significant impact on how we live in the future, Franklin DynaTech Fund may be an optimal vehicle for harnessing the wealth creation power of these innovations and others over a long-term investment horizon.

FRANKLIN DYNATECH FUND (ADVISOR CLASS)

Average Annual Total Returns

Periods ended 12/31/18

	1-Year	3-Year	5-Year	10-Year
FDYZX	3.07%	13.48%	11.30%	16.84%
Russell 1000 Growth Index[7]	-1.51%	11.15%	10.41%	15.29%
S&P 500 Index[7]	-4.38%	9.26%	8.50%	13.12%
Morningstar Large Growth Category Average[8]	-2.18%	8.87%	8.03%	13.19%

Advisor Class Expense Ratio: 0.62%

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Advisor Class shares are only offered to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers multiple share classes, which are subject to different fees and expenses that will affect their performance. Please see the prospectus for details.

7. Source: Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
8. Source: Morningstar.

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.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Stocks historically have outperformed other asset classes over the long term but tend to fluctuate more dramatically over the short term. Investments in fast-growing industries like the technology and healthcare sectors (which have historically been volatile) could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing scientific or technological advancement or regulatory approval for new drugs and medical instruments. The fund may also invest in small- and mid-capitalization companies, which can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. These and other risks are described more fully in the fund's prospectus.

Your clients should carefully consider a fund's investment goals, risks, charges and expenses before investing. They should read the summary prospectus and/or prospectus carefully before they invest or send money. To obtain a prospectus, which contains this and other information, please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236.

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