FRANKLIN
SMALL CAP VALUE FUND

AS OF 12/31/10

FUND GOAL
The fund seeks long-term total return by investing at least 80% of its net assets in the securities of smaller companies (market capitalizations under $3.5 billion at the time of purchase).

FUND DATA
Assets: $1.7 billion
Number of Holdings: 115
Inception: 3/11/96
Beta: 1.00
Dividends: Annually in December

Symbol by Class:

<table>
<thead>
<tr>
<th>A</th>
<th>C</th>
<th>R</th>
<th>Advisor</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRV/LX</td>
<td>FRVFX</td>
<td>FVFRLX</td>
<td>FVADX</td>
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MAXIMUM SALES CHARGES
Class A: 5.75% initial sales charge
Class C: 1% contingent deferred sales charge (CDSC) in the first year only

TOTAL ANNUAL OPERATING EXPENSES
Class A: 1.44%; Class C: 2.17%

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 you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

GROWTH OF A $10,000 INVESTMENT—CLASS A (Without Sales Charge)
March 11, 1996–December 31, 2010

<table>
<thead>
<tr>
<th>Initial Investment</th>
<th>$10,000</th>
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<tbody>
<tr>
<td>$40,000</td>
<td>$36,943</td>
</tr>
<tr>
<td>$30,000</td>
<td></td>
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<tr>
<td>$20,000</td>
<td></td>
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<tr>
<td>$10,000 Initial Investment</td>
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If the sales charge had been included, the return would have been lower.

AVERAGE ANNUAL TOTAL RETURNS (As of December 31, 2010)
With Maximum Sales Charges

<table>
<thead>
<tr>
<th>Class</th>
<th>Inception Date</th>
<th>1 Yr</th>
<th>5 Yrs</th>
<th>10 Yrs</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3/11/96</td>
<td>19.70%</td>
<td>3.75%</td>
<td>8.47%</td>
<td>8.79%</td>
</tr>
<tr>
<td>C</td>
<td>9/3/96</td>
<td>25.12%</td>
<td>4.24%</td>
<td>8.36%</td>
<td>8.16%</td>
</tr>
</tbody>
</table>

Without Sales Charges

<table>
<thead>
<tr>
<th>Class</th>
<th>1 Yr</th>
<th>5 Yrs</th>
<th>10 Yrs</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>27.00%</td>
<td>4.99%</td>
<td>9.11%</td>
<td>9.23%</td>
</tr>
<tr>
<td>C</td>
<td>26.12%</td>
<td>4.24%</td>
<td>8.36%</td>
<td>8.16%</td>
</tr>
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PORTFOLIO BREAKDOWN

- Capital Goods .......................................................... 24.01%
- Energy .................................................................... 12.02%
- Insurance .................................................................. 11.99%
- Materials ................................................................... 7.60%
- Retailing ................................................................. 7.54%
- Automobiles & Components ...................................... 5.85%
- Consumer Durables & Apparel .................................... 4.46%
- Other ..................................................................... 20.23%
- Fixed Income ........................................................... 0.08%
- Cash ...................................................................... 6.21%

TOP 10 HOLDINGS

1. As of 12/31/10. Holdings are subject to change. For updated information, please call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included in the top 10 holdings list.

2. Source: © 2011 Thomson Reuters, 12/31/10. Beta measures the fund’s market-related risk over a three-year period. The Russell 2000® Value Index has a beta of 1.00. A beta lower than 1.00 indicates historically lower volatility than the index; higher than 1.00 indicates historically higher volatility.

3. Class A: Prior to 8/3/98, fund shares were offered at a lower initial sales charge; thus, actual returns may have differed. Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual returns would have differed. The fund offers other share classes, subject to different fees and expenses, which will affect their performance.

4. Due to rounding, the sum of portfolio holdings may not equal 100%.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE
MANAGER’S PERSPECTIVE

“Our value philosophy is simple: We look for bargains among the under-researched and unloved—decent, small-cap companies that have been ignored by Wall Street. We employ a bottom-up investment philosophy to uncover out-of-favor companies with good growth prospects, strong balance sheets, capable management and bargain valuations. A company’s hidden value may include valuable intangibles such as brand names, trademarks or established distribution networks, which may not be reflected in its current stock price. We also search for ‘fallen angels,’ former high price-to-earnings companies that may have dropped sharply in price, but we believe still possess strong long-term potential. Simply put, we are bargain seekers—looking for $1 worth of value for 80 cents.” —William J. Lippman, Portfolio Manager

CALENDRAL YEAR TOTAL RETURNS—CLASS A (Without Sales Charge)

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<tbody>
<tr>
<td>Large</td>
<td>27.00%</td>
<td>31.57%</td>
<td>-32.78%</td>
<td>-2.78%</td>
<td>16.80%</td>
<td>9.13%</td>
<td>24.81%</td>
<td>32.34%</td>
<td>-9.63%</td>
<td>15.12%</td>
</tr>
<tr>
<td>Small</td>
<td>22.22%</td>
<td>-0.82%</td>
<td>-23.75%</td>
<td>29.37%</td>
<td>——</td>
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</tbody>
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If the sales charge had been included, the returns would have been lower.

GAIN FROM OUR PERSPECTIVE®

Franklin Templeton’s distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

Specialized Expertise

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

- **Franklin.** Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.
- **Templeton.** Founded in 1940, Templeton pioneered international investing and, in 1954, launched what became the industry’s oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.
- **Mutual Series.** Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

5. CFA® and Chartered Financial Analyst® are trademarks owned by CFA Institute.

6. Source: Morningstar®, 9/30/10. The style box reveals a fund’s investment style. The vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth). Placement is determined by fund portfolio holding figures most recently entered into Morningstar’s database and corresponding market conditions. Shaded areas show the past 3 years of quarterly data. Past performance does not guarantee future results. © 2011 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

WHAT ARE THE RISKS?

The fund’s investments in smaller-company stocks carry special risks as such stocks have historically exhibited greater price volatility than larger-company stocks, particularly over the short term. Additionally, smaller companies often have relatively small revenues, limited product lines and a small market share. In addition, the fund may invest up to 25% of its total assets in foreign securities, which involve special risks, including currency fluctuations and political uncertainty. These and other risks are detailed in the fund’s prospectus.

Investors should carefully consider a fund’s investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.