Fund Selection Strengthened Relative Performance in the First Quarter

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Franklin LifeSmart Funds Q&A

Q1 2025

Despite a challenging period for investment markets, nine of the 10 LifeSmart Portfolios performed better than their respective benchmarks.

Fund selection drove relative performance in the first quarter, with contributions across all equity regions.

Most portfolios held higher equity allocations compared to their benchmarks during the first quarter, which detracted as US equities declined. We neutralized our view on global equities in April.

How were market conditions in the first quarter of calendar 2025?

After starting 2025 on a strong note, global equities collectively declined during the rest of the first quarter due to investor concerns about US economic growth, US President Donald Trump's trade policy and a broadening trade war. As measured by MSCI indexes in US-dollar terms, developed market equities modestly underperformed the global index, while emerging market equities significantly outpaced it with positive results.

In the United States, stocks experienced heightened volatility during the first quarter amid concerns about Trump's tariff policies, inflation concerns, and the US Federal Reserve's (Fed's) interest-rate path, with some investors fearing a potential recession or stagflation (stagnant economy and high inflation). Underwhelming earnings reports and guidance from some companies and significantly lower consumer confidence also hindered investor sentiment. Despite reaching a new closing high earlier in the quarter, the S&P 500 Index ended the quarter with a drawdown. The technology-heavy NASDAQ Composite Index suffered a significantly larger decline than the S&P 500.

In contrast, European stocks produced strong gains for the first quarter and outperformed equities in other major regions amid signs of economic improvements in the eurozone and the United Kingdom, interest-rate cuts by the European Central Bank (ECB) and the Bank of England, and early optimism about a potential Russia-Ukraine ceasefire. Better-than-expected earnings reports by some companies and increased fiscal budgets by many of the region's countries, notably Germany, further supported investor sentiment. However, concerns about Trump's tariff announcements on European Union and UK goods weighed on equities. In Asia, stocks collectively posted a modest gain for the first quarter in US-dollar terms, driven partly by the strong performance of Chinese stocks amid investor enthusiasm about DeepSeek, signs of a more supportive stance from the Chinese government, and less-severe-than-feared US tariffs on Chinese products. In Japan, a stronger yen, along with US tariffs on imported vehicles and certain automobile components (scheduled to begin in early April), weighed on stocks.

The Fed kept the federal funds target rate unchanged at its January and March meetings after cutting it three times in 2024 for a total of 100 basis points (bps). The yield on the 10-year US Treasury note began the quarter at 3.78% and ended the quarter at 4.21%. Over the period, US Treasury (UST) yields fell across much of the curve. (The yield curve is a graphical representation of the yields/interest rates of bonds with equal credit quality but differing maturity dates.)

How did the glide path—or starting point for each portfolio—impact performance during the three months ended March 31, 2025?

Most LifeSmart Retirement Fund portfolios held higher equity allocations compared to their benchmarks during the first quarter. This positioning detracted as US equities declined amid geopolitical and macroeconomic concerns. We neutralized our view on global equities in April, lowering US equity allocations and increasing international equity exposure, following the magnitude and inconsistency of recent US policy changes.

In contrast, cross-asset allocation effects for most funds were supported by off-benchmark exposure to alternatives, namely a style premia ETF that delivered positive performance. This ETF is designed to pursue diversification and downside mangement benefits by investing in four style factors.

Returns for Advisor Class ranged from -0.42% to 1.15%. Each LifeSmart Retirement Fund invests in a mix of stocks and bonds, creating a diversified target-date portfolio designed for a retirement saver expecting to retire around the date in each trust's name. We use an important tool called a glide path to adjust allocations among asset classes over time, helping reduce risk approaching the target date. With the glide path as a reference point, our portfolio managers make tactical decisions and invest in actively managed strategies, seeking to outperform their index-based benchmarks.

What strategies contributed to or detracted from benchmark-relative performance?

Nine of the 10 vintages performed better than their respective benchmarks in the first quarter, led by fund selection across asset classes. Conversely, cross-asset allocation weighed on relative performance, as most vintages were overweight equity and underweight fixed income.

Although the vintages' international and emerging market equity funds all delivered positive absolute performance in the quarter, regional allocations in equities detracted. Vintages were overweight US and, for longer-dated portfolios, underweight emerging markets. Vintages were also underweight international equities for part of the period, and this also hampered relative results.

Conversely, regional allocations in fixed income strengthened relative performance, as vintages were overweight US and underweight international bonds.

Fund selection in equities generally strengthened relative performance. On an underlying fund level, Putnam Large Cap Value Fund contributed to relative returns as US value stocks substantially outperformed US growth stocks in the first quarter. Franklin International Core Equity Fund also lifted relative results. Templeton Developing Markets Fund also benefited relative performance, supported by security selection in the consumer discretionary, health care and industrials sectors. Outside of equities, a small allocation to Franklin Systematic Style Premia ETF lifted relative returns.

In contrast, Franklin Growth Fund weighed on relative performance. The fund holds meaningful exposure to IT companies, which collectively declined in the quarter. Investors remained concerned about the potential effects of DeepSeek, a new AI model, on US companies' AI spending, as well as the impact of US tariffs on IT companies.

Franklin High Yield Corporate ETF also detracted from relative returns amid widening spreads in the bond sector. There was a significant swing in market sentiment across the first quarter as participants digested the first few months of President Trump's new administration's policies.

In shorter-vintage, fixed income-oriented LifeSmart funds, BrandywineGLOBAL Global Opportunities Bond Fund supported relative returns. The Fund's excess return was mainly due to the positive contribution from overweight duration exposure to both Mexico and US corporate bonds. Mexican bonds rallied on the back of soft domestic growth and falling inflation, which strengthened the country's macroeconomic fundamentals. Conversely, Franklin Investment Grade Corporate ETF hampered results as US financial markets priced in a higher likelihood of recession in 2025, resulting in a widening of spreads.

In total, how did the glide path, tactical allocation, and security selection impact performance relative to peers?

In near-retirement vintages, we increase allocations to more defensive assets and integrate flexibility to retreat from equity during turbulent markets, especially during the retirement savings home stretch.

What is your near-term outlook for the markets?

As we entered April, a tariff announcement from the United States was front and center in the news. While the events are still unfolding at time of writing, we share a few thoughts. Typically, our investment strategy is to avoid selling into fear. This is especially prudent given the potential for rapid changes to policy. Given the rapid and sizeable changes, any tactical tilts now carry more risk.

Some of the signposts we are watching include: 1) growth data and corporate guidance, 2) demand elasticity as a reaction to potentially increased prices, 3) measures of sentiment and market volatility, and 4) positioning data and flows of systematic sellers. We continue to closely monitor developments.

While global growth has been resilient in 2025 as of March-end, we note that clear signs of it slowing are emerging in the coincident and leading economic indicators we track. Meanwhile, our thematic views are tempered by persistent and heightened policy uncertainty.

While US leading economic indicators of global growth may be showing some signs of weakness, we recognize that noisy data are affecting the growth narrative. A deterioration in US retail sales, consumer confidence and short-term growth forecasts have all been impacted by external influences such as weather events and seasonality. The Federal Open Market Committee downgraded its growth forecast in March but still expects the US economy to expand by 1.7% in 2025, a healthier rate than the ECB's projection for the eurozone, at 0.9%.

With that said, the new US administration's "America First" narrative has prompted economies in other global regions, most notably Europe, to stimulate their own economies with wide-ranging fiscal spending initiatives. This proactive approach has shifted the narrative away from US exceptionalism and fueled rising share prices and improved earnings estimates elsewhere. For example, Germany has approved an ambitious package of fiscal measures including a relaxation of its "debt brake," which previously limited the country's net borrowing to 0.35% of GDP. The changes have generated a significant boost to defense spending, alongside half a trillion euros for investment in national infrastructure projects. Despite this optimism, it is likely to take some time for stimulus to feed through into the real economy, as highlighted by eurozone growth expectations and purchasing managers' index (PMI) data, which remain anemic. The potential impact of US tariffs is also not fully understood, while the Ukraine war adds additional uncertainty.

Taking these considerations into account, in March we downgraded our view on US equities and have become more optimistic towards Europe, resulting in a neutral outlook for both regions.

Franklin LifeSmart Retirement Target Funds

Performance returns (%) as of 3/31/2025

							Expense ratio (%)	
Advisor Class	**Q1**	**1 Year**	**5 Year**	**10 Years**	**Since Inception**	**Inception Date**	**Gross**	**Net**
Franklin LifeSmart 2060 Retirement Target Fund	-0.42	5.77	—	—	7.31	1/29/2021	2.72	0.45
2060 Blended Benchmark	-1.12	6.97	—	—	—			
Franklin LifeSmart 2055 Retirement Target Fund	-0.36	5.78	13.96	—	7.65	5/1/2015	1.19	0.45
2055 Blended Benchmark	-1.12	6.97	14.35	—	—			
Franklin LifeSmart 2050 Retirement Target Fund	-0.26	5.86	14.06	7.72	8.50	7/1/2013	1.02	0.45
2050 Blended Benchmark	-1.06	6.94	14.29	8.10	—			
Franklin LifeSmart 2045 Retirement Target Fund	-0.13	5.77	13.53	7.44	7.21	8/1/2006	0.81	0.45
2045 Blended Benchmark	-0.82	6.72	13.79	7.86	—			
Franklin LifeSmart 2040 Retirement Target Fund	0.14	5.69	12.65	7.08	7.93	7/1/2013	0.94	0.45
2040 Blended Benchmark	-0.47	6.41	12.60	7.40	—			
Franklin LifeSmart 2035 Retirement Target Fund	0.34	5.53	11.22	6.51	6.63	8/1/2006	0.75	0.45
2035 Blended Benchmark	-0.15	6.11	11.06	6.80	—			
Franklin LifeSmart 2030 Retirement Target Fund	0.64	5.39	9.78	5.84	6.75	7/1/2013	0.89	0.45
2030 Blended Benchmark	0.20	5.78	9.54	6.12	—			
Franklin LifeSmart 2025 Retirement Target Fund	0.93	5.31	8.39	5.14	5.84	8/1/2006	0.78	0.45
2025 Blended Benchmark	0.55	5.44	7.94	5.39	—			
Franklin LifeSmart 2020 Retirement Target Fund	1.15	5.09	7.01	4.32	5.22	7/1/2013	1.22	0.45
2020 Blended Benchmark	0.90	5.09	6.45	4.51	—			
Franklin LifeSmart Retirement Income Fund	0.82	6.27	5.89	3.81	4.90	8/1/2006	1.20	0.51
Income Blended Benchmark	1.07	4.89	4.68	3.77	—			
MSCI All Country World Index	-1.32	7.15	15.18	8.84	—			
Bloomberg Multiverse Index	2.63	3.26	-1.03	0.80	—			

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. 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.*

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 04/30/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Principal invested is not guaranteed at any time, including at or after the fund's retirement target date; nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. The investment risk of the retirement target fund changes over time as its asset allocation changes. Investments in underlying funds are subject to the same risks as, and indirectly bear the fees and expenses of, the **underlying funds**. **Equity securities** are subject to price fluctuation and possible loss of principal. **Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **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**. **Investments in equity-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. These and other risks are discussed in the fund's prospectus.. **Managed Distribution Policy Risks** - The fund is not guaranteed to achieve its investment goal nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. In addition, some of its distributions may be treated in part as a return of capital, which will decrease shareholders' cost basis in the fund and affect the amount of any capital gain or loss that they realize when selling or exchanging fund shares. The annual payout rate may be adjusted higher or lower from year to year and could vary substantially over time. It is possible for the fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its distributions to shareholders under the managed distribution policy. Investors who hold the fund within a tax-advantaged retirement account should consult their tax professionals to discuss tax consequences of receiving cash distributions. In addition, use of the fund or election of the option to receive distribution payments in cash may be restricted in certain retirement plans by the terms of the governing plan documents and/or the discretion of the plan administrator. Investors are strongly advised to consult with their financial professionals for assistance before selecting the appropriate fund, based on their goals and personal situations, including time horizon, retirement income needs, risk tolerance, and tax bracket. These and other risks are discussed in the funds' prospectuses.

The Blended Benchmark for LifeSmart Retirement Income is an allocation of 40% MSCI AC World Index-NR and 60% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2020 is an allocation of 51% MSCI AC World Index-NR and 49% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2025 is an allocation of 60% MSCI AC World Index-NR and 40% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2030 is an allocation of 69% MSCI AC World Index-NR and 31% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2035 is an allocation of 77% MSCI AC World Index-NR and 23% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2040 is an allocation of 86% MSCI AC World Index-NR and 14% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2045 is an allocation of 93% MSCI AC World Index-NR and 7% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2050 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2055 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2060 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. Allocations for the funds' Blended Benchmark reflect or map the fund's current target asset class allocations and may not be representative of the funds' historical asset class allocations. Prior to May 1, 2019, the Blended Benchmarks had an allocation to FTSE 3 Month U.S. T-Bill Index.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: 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. The **Bloomberg Multiverse Index** provides a broad-based measure of the global fixed-income bond market. Source: Bloomberg Indices. Important data provider notices and terms available at www.franklintempletondatasources.com.

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.

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