

Franklin LifeSmart Funds Q&A

Q4 2025

LifeSmart Retirement Fund portfolios outperformed their respective benchmarks, led by strong fund selection across asset classes.

Fund selection in equities strengthened relative returns, notably in the United States.

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

Global equities finished the fourth quarter of 2025 modestly higher as investors weighed easing inflation trends and expectations for lower policy rates in 2026 against slowing growth and persistent geopolitical risks. US stocks advanced into year-end, while other regions were mixed—benefiting from pockets of technology- and artificial intelligence (AI)-led strength but constrained by currency moves, uneven domestic demand and sector-specific headwinds. Markets were characterized by a rotation toward value, as some investors worried about the valuations of technology stocks. International stocks collectively outperformed their US peers.

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 technology valuations. Continued monetary easing by the US Federal Reserve (Fed) along with a constructive shift in US-China relations 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. Small- and mid-capitalization US stocks, represented by the Russell 2000® Index, delivered positive returns but trailed their large-cap peers, represented by the S&P 500 and the Nasdaq Composite Index.

The Fed cut interest rates in October and December, in line with softening labor market data and falling inflation. The Fed also emphasized caution and signaled potentially limited further easing. Headline US unemployment rose to 4.6% in November, while US annual Consumer Price Index (CPI) inflation fell to 2.7% in November, down from 3.0% in September.

European equities were broadly firmer over the quarter, but with pronounced dispersion across countries and sectors. Investors focused on the evolving outlook for European Central Bank policy and energy and defense-related developments. Cyclicals tended to track shifts in global manufacturing sentiment, while industrial automation and select technology names benefited from elevated geopolitical tensions and expectations for structurally higher defense spending across Europe.

The US Treasury (UST) yield curve steepened as Fed easing helped yields fall at the short end, while remaining anchored at the long end of the curve. The US investment-grade corporate sub-index of the Bloomberg U.S. Aggregate Bond Index returned 0.84% for the quarter, with lower-rated credits generally outperforming their higher-rated counterparts.

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

LifeSmart Retirement Fund portfolios outperformed their respective benchmarks, led by strong fund selection across asset classes. Every underlying fund delivered positive absolute returns during the quarter. All portfolios were overweight equities and meaningfully underweight bonds, which supported relative returns. Our preference for equities reflects strong corporate fundamentals, as evidenced by positive forward earnings revisions and guidance. At the vintage level, returns for Advisor Class ranged from 2.11% to 3.54%.

Fund selection in US equity was supportive, including a value fund and a US core equity fund. Within the fixed income allocation, an overweight allocation to US bonds and underweight to international bonds also lifted relative results. We prefer US exposure due to macroeconomic headwinds for global bonds. Global bonds may be adversely impacted by above-trend growth, persistent inflation and more hawkish monetary policy.

Also contributing in most portfolios was an off-benchmark allocation to alternatives investments through a systematic-style premia exchange-traded fund (ETF). The fund is an actively managed, systematic, multi-asset long/short strategy that seeks absolute returns with low correlation to traditional asset classes.

In contrast, our preference within equities for the United States over international US stocks was a peer-relative headwind. Support for international equities included a weakening US dollar, lower valuations relative to US stocks, strong earnings growth in many markets and a rotation away from leading US technology stocks.

Although underlying US bonds funds had positive performance on an absolute return basis, fund selection modestly weakened relative results, resulting from investment-grade bonds and US Treasuries. These bond sectors trailed their peers in the asset class. In the equity space, a growth fund underperformed as growth stocks trailed their value stock peers in the quarter.

We entered the fourth quarter with an overweight equity allocation for nearly all portfolios, and maintained this positioning throughout the period. We find the macro backdrop broadly positive, while corporate fundamentals look rock solid following an impressive third-quarter earnings season. Trailing earnings and forward earnings growth expectations for global equities are positive, as sales and margins remain healthy despite tariff uncertainty. US companies lead the way, where results have beaten expectations by a historically high percentage, and forward guidance from those companies continues to show positive momentum.

The portfolios also remained underweight fixed income during the period. Sticky inflation and rising fiscal deficits have added upward pressure to long-term government bond yields. From our perspective, the global macro background has been broadly bearish for bonds, with above-trend growth, persistent inflation and more hawkish monetary policy. Loose fiscal discipline and de-dollarization are also adding to uncertainty.

This equity overweight and fixed-income underweight positioning strengthened relative performance for most vintages.

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?

Fund selection in equities strengthened relative returns, with US stock funds leading the way. On an underlying fund level, Franklin U.S. Core Equity Fund and Putnam Large Cap Value Fund led contributors, with the latter fund buoyed by the investor style rotation into value equities during the period. Conversely, selection in international equities detracted, with ClearBridge International Growth Fund (held in most portfolios) underperforming amid style headwinds. Still, every underlying equity fund posted gains in terms of absolute performance.

Fund selection in fixed income modestly dampened relative results in all but the longest-dated portfolios, although every underlying bond fund delivered gains in the quarter. The Franklin Investment Grade Corporate ETF dampened relative returns as lower-rated credits collectively outperformed their higher-rated counterparts. This trend supported the Franklin High Yield Corporate ETF, which helped relative performance. Funds with meaningful exposure to US Treasuries were slight detractors.

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

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?

We retain measured conviction toward equities into 2026, as influential pillars of support for risk assets—such as inflation, policy and corporate fundamentals—remain healthy. These dynamics are fueling our belief that equities will likely continue to deliver positive returns for investors despite stretched valuations.

Economic activity indicators at year-end showed growth above six-month averages in the United States, emerging markets and Europe. In addition, moderating inflation trends have provided some room for central banks to bolster accommodative fiscal policy by cutting interest rates.

Equally importantly, corporate fundamentals show little sign of weakening, as trailing earnings growth remains strong. In addition, global forward earnings expectations are being revised higher, alongside earnings guidance breadth.

We recognize that recent developments around sentiment, positioning and momentum are valid arguments for a note of caution, as is a marginally less supportive macro backdrop. More optimistic sentiment among investors is a headwind for future equity returns, as is weaker price momentum resulting from an uptick in market volatility during October and November.

With that said, a stronger-than-expected jobs market, alongside falling inflation, strengthens the “goldilocks” environment for US stocks. We find this backdrop provides a persuasive argument for a “risk-on” approach, when combined with our conclusion that tariff-induced inflation pressures are now past their peak. Forward earnings expectations for growth equities remain strong and support our overweight allocation to core US equities.

In fixed income, we believe market expectations for Fed policy easing across the next 12 months are too optimistic. Although the US labor market continues to gradually cool, potential inflation and tariff pressures limit the likelihood of an extended rate cutting cycle by the Fed. For example, services inflation moderated toward the end of 2025, but goods inflation could remain sticky for some time.

We hold a neutral view on US investment-grade bonds. On the one hand, the bond sector has benefited from resilient corporate fundamentals and improved guidance. This strength is balanced against what we see as somewhat uncertain macro forecasts and relatively narrow credit spreads.

Franklin LifeSmart Retirement Target Funds

Performance returns (%) as of 12/31/2025

Advisor Class	Q4	1 Year	5 Year	10 Years	Since Inception	Inception Date	Expense ratio (%)	
							Gross	Net
Franklin LifeSmart 2060 Retirement Target Fund	3.46	21.60	—	—	10.55	1/29/2021	2.72	0.45
2060 Blended Benchmark	3.14	21.63	—	—	10.81			
Franklin LifeSmart 2055 Retirement Target Fund	3.54	21.83	10.46	10.38	9.13	5/1/2015	1.19	0.45
2055 Blended Benchmark	3.14	21.63	10.53	10.81	9.42			
Franklin LifeSmart 2050 Retirement Target Fund	3.46	21.48	10.39	10.36	9.69	7/1/2013	1.02	0.45
2050 Blended Benchmark	3.08	21.31	10.41	10.74	10.01			
Franklin LifeSmart 2045 Retirement Target Fund	3.27	20.43	9.80	10.01	7.95	8/1/2006	0.81	0.45
2045 Blended Benchmark	2.90	20.45	9.81	10.39	7.79			
Franklin LifeSmart 2040 Retirement Target Fund	2.98	18.93	9.02	9.46	8.92	7/1/2013	0.94	0.45
2040 Blended Benchmark	2.64	19.16	8.76	9.76	9.20			
Franklin LifeSmart 2035 Retirement Target Fund	2.89	17.85	8.10	8.75	7.25	8/1/2006	0.75	0.45
2035 Blended Benchmark	2.40	18.05	7.64	9.00	7.08			
Franklin LifeSmart 2030 Retirement Target Fund	2.56	16.42	7.16	7.86	7.57	7/1/2013	0.89	0.45
2030 Blended Benchmark	2.14	16.81	6.53	8.14	7.84			
Franklin LifeSmart 2025 Retirement Target Fund	2.32	15.04	6.18	7.02	6.32	8/1/2006	0.78	0.45
2025 Blended Benchmark	1.88	15.59	5.36	7.22	6.16			
Franklin LifeSmart 2020 Retirement Target Fund	2.12	13.65	5.23	5.98	5.88	7/1/2013	1.22	0.45
2020 Blended Benchmark	1.62	14.34	4.21	6.13	6.00			
Franklin LifeSmart Retirement Income Fund	2.11	10.25	4.57	5.16	5.19	8/1/2006	1.20	0.51
Income Blended Benchmark	1.52	13.93	3.26	5.25	4.81			
MSCI All Country World Index	3.29	22.34	11.19	11.72	8.11			
Bloomberg Multiverse Index	0.35	8.42	-1.88	1.50	2.58			

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 04/30/2026 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. **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.

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.

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.franklin templeton datasources.com.

Morningstar rankings are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Morningstar. Morningstar rankings may differ significantly from Morningstar's risk-adjusted star ratings. Past performance is not indicative of future results.

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

The **Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that measures the performance of the investment-grade universe of bonds issued in the United States. The index includes institutionally traded U.S. Treasury, government sponsored, mortgage and corporate securities. Source: Bloomberg Indices.

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.franklin templeton.com. Please read it carefully.



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