Lifesmart Portfolios Deliver Solid Gains



Franklin LifeSmart Funds Q&A

Q3 2025

Relative performance for nearly all LifeSmart Portfolios benefited from underweight exposure to fixed income and, for most portfolios, an off-benchmark allocation to alternatives.

Most vintages benefited from regional positioning in fixed income: an overweight US bond allocation, along with underweight exposure to non-US bonds.

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

Financial market sentiment improved and global equity markets collectively advanced through the third quarter of 2025 as tariff anxieties gradually eased, many central banks tilted more accommodative and leadership among technology-related stocks persisted. July's tone improved on clearer trade signals and resilient US earnings; August added gains despite episodic volatility around new tariff measures and September capped the quarter with a US Federal Reserve (Fed) rate cut that steadied rate-sensitive assets and lifted risk appetite.

US stocks generally brushed aside labor market weakness and persistent inflation to focus on strong earnings and fading recession fears. The US economy grew at an annual rate of 3.8% in the second quarter of 2025. Consensus forward earnings-per-share (EPS) growth forecasts for US stocks remained in double digits, while there was also a clear improvement in the magnitude and breadth of earnings revisions. Investor sentiment was bolstered further by an interest-rate cut in September, which was particularly beneficial for small-cap stocks.

At its September meeting, the Fed reduced the federal funds target rate by 25 basis points (bps) to 4.00%-4.25%. Median future policy rate expectations contained within the released Summary of Economic Projections showed a potential for two more cuts by the end of 2025; however, the split between members favoring one cut or two was almost even. The annual US core Consumer Price Index (CPI) rose to 3.1% in August, pressured by higher shelter costs. A consumer confidence survey from The Conference Board found concerns over jobs and unemployment rose sharply in September.

European equities collectively posted gains in the third quarter but lagged the United States and Asia, as measured by MSCI indexes in US-dollar terms. Improving corporate earnings and share-buyback activity balanced idiosyncratic political risks. September's turbulence in France—Prime Minister Bayrou's defeat and the subsequent appointment of Sébastien Lecornu—kept sovereign yield spreads in focus. UK equities gained in the quarter, with large-capitalization exporters and energy names supportive despite persistent domestic macroeconomic uncertainty. As expected, the European Central Bank (ECB) unanimously left the deposit facility rate on hold at 2.00% during its September meeting.

The US Treasury (UST) yield curve steepened slightly in the third quarter, as yields fell more sharply at the short end of the curve in response to elevated expectations for Fed easing.

How did the glide path—or starting point for each portfolio—impact performance during the three months ended September 30, 2025?

LifeSmart Retirement Fund portfolios delivered solid absolute gains in the third quarter. Shorter- and mid-dated vintages outperformed their respective blended benchmarks, while longer-dated vintages trailed their blended benchmarks, although still posting positive returns.

Cross-asset allocations strengthened relative returns across nearly all vintages, benefiting from an underweight to fixed income and, for most portfolios, an off-benchmark allocation to alternatives. For the LifeSmart Retirement Income Fund, which is more conservatively positioned to prioritize downside-risk mitigation and income generation, a fixed income overweight dampened relative returns.

A key driver of relative outperformance for short- and mid-date vintages was regional positioning in fixed income: an overweight allocation to US fixed income, along with underweight exposure to non-US bonds. This contribution was most pronounced for these vintages, as fixed income comprises a larger component of the portfolios. For those vintages furthest from maturity, fixed income represents a smaller allocation relative to other LifeSmart funds, and hence this benefit was less. For these longer-dated vintages, a small underweight to emerging market equities slightly detracted.

We entered the third quarter with neutral equity exposure as we assessed the impact of ongoing tariff policy and amid heightened economic uncertainty. The portfolios were also underweight fixed income during the period. We were concerned about sustained upward pressure on long-term US Treasury yields. Fiscal deficit concerns were at the forefront of attention as we doubted that tax cuts to US citizens and corporates under President Trump's "One Big Beautiful Bill" are unlikely to be paid for by receipts from tariffs.

We raised equity exposure to overweight late in the third quarter as we believe positive corporate earnings revisions and guidance reflected generally robust corporate fundamentals, supporting equity market momentum. In addition, several major central banks were currently easing into strengthening economies, offering a tailwind to stocks.

We remained underweight bonds, reflecting a number of fundamental considerations: high and rising national debt and the potential for buyers of new Treasury issuance to demand a higher term premium. We switched to a shorter-duration profile in the third quarter amid upward pressure on US longer-term yields.

This equity overweight and fixed-income underweight positioning strengthened relative performance for most vintages. Returns for Advisor Class shares of LifeSmart Retirement Fund portfolios ranged from 3.64% to 7.10%.

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 exposure 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 blended benchmarks.

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

Fund selection in US equity and, for most vintages, international equity weakened relative performance. In contrast, fund selection in fixed income generally supported results.

On an underlying fund level, Franklin Growth Fund and Putnam Large Cap Value Fund were the detractors from relative performance for most portfolios, although both funds posted healthy gains in terms of absolute performance. Putnam Large Cap Value Fund outperformed its benchmark value index, thus serving its style exposure role in the portfolio. ClearBridge International Growth Fund and Franklin U.S. Treasury Bond ETF also weighed on relative returns for most portfolios.

Conversely, several US and international equity funds outperformed their respective indexes and contributed, including Franklin U.S. Core Equity (IU) Fund, Franklin U.S. Large Cap Multifactor Index ETF, Templeton Developing Markets Trust and, in alternatives, Franklin Systematic Style Premia ETF.

Fund selection in fixed income contributed to relative performance in shorter-dated vintages. With corporate bond spreads tightening during the quarter, BrandywineGLOBAL High Yield Fund and Franklin Investment Grade Corporate ETF delivered favorable relative returns.

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 reduce equity exposure during turbulent markets, especially during the retirement savings home stretch.

What is your near-term outlook for the markets?

We upgraded our view of equities as we entered the final quarter of 2025, as we weighed extended equity valuations against a generally positive macro environment, broadly strong corporate fundamentals and monetary policy easing.

The strength of the current global equity rally has surprised many market participants, considering stocks have brushed off tariff uncertainty, inflation concerns and labor market weakness, with some equity indexes posting gains close to 30% since a post-Liberation Day nadir in early April. US technology-related stocks have done even better, with the Nasdaq Composite Index rising almost 50% in the same period. Such a powerful advance naturally brings some caution.

We prefer to take a measured approach, examining the underlying macroeconomic and corporate environment. Our analysis finds a broadly positive setup for equities, where improving business activity and solid economic growth have provided the platform for a strong second-quarter earnings season. Consensus forward earnings-pershare growth forecasts for global stocks have risen into double digits, led by US companies, while there is also a clear improvement in the magnitude and breadth of earnings revisions.

From a policy standpoint, signs of US labor market weakness provided the Fed with a reason to cut interest rates in September, even as core inflation remained above target. Policy easing amid relatively steady economic growth has bolstered equity market momentum, despite investors already anticipating the move.

Fair value analysis does suggest to us that equities are expensive relative to history, with most good news appearing to be priced in, but we place a greater emphasis on fundamentals. In addition, measures of sentiment remain surprisingly neutral, while positioning also looks restrained—notably among discretionary investors—suggesting the rally may have room to run.

We still believe that growth could slow against the backdrop of tariff uncertainty, but that expectation has not yet manifested in weaker corporate guidance. This strengthens our conviction in a responsibly bullish approach to risk as we move into the final quarter of 2025.

From a cross-asset perspective, we have balanced this stance by strengthening our pessimism toward fixed income. As noted earlier, from our perspective market expectations for Fed easing are too lofty given resilient growth and persistent inflation pressures, while fiscal instability could put further upward pressure on long-term yields.

Franklin LifeSmart Retirement Target Funds

Performance returns (%) as of 9/30/2025

							Expense ratio (%)	
Advisor Class	Q3	1 Year	5 Year	10 Years	Since Inception	Inception Date	Gross	Net
Franklin LifeSmart 2060 Retirement Target Fund	7.04	15.64	_	_	10.35	1/29/2021	2.72	0.45
2060 Blended Benchmark	7.27	16.52	_	_	10.69			
Franklin LifeSmart 2055 Retirement Target Fund	7.10	15.71	12.16	10.31	9.00	5/1/2015	1.19	0.45
2055 Blended Benchmark	7.27	16.52	12.79	10.90	9.34			
Franklin LifeSmart 2050 Retirement Target Fund	7.01	15.49	12.14	10.33	9.59	7/1/2013	1.02	0.45
2050 Blended Benchmark	7.13	16.22	12.68	10.83	9.95			
Franklin LifeSmart 2045 Retirement Target Fund	6.67	14.64	11.52	9.99	7.88	8/1/2006	0.81	0.45
2045 Blended Benchmark	6.71	15.32	12.07	10.49	7.74			
Franklin LifeSmart 2040 Retirement Target Fund	6.19	13.44	10.64	9.47	8.85	7/1/2013	0.94	0.45
2040 Blended Benchmark	6.07	13.99	10.89	9.88	9.16			
Franklin LifeSmart 2035 Retirement Target Fund	5.72	12.36	9.52	8.75	7.19	8/1/2006	0.75	0.45
2035 Blended Benchmark	5.51	12.81	9.61	9.13	7.04			
Franklin LifeSmart 2030 Retirement Target Fund	5.27	11.19	8.44	7.91	7.51	7/1/2013	0.89	0.45
2030 Blended Benchmark	4.90	11.51	8.36	8.28	7.82			
Franklin LifeSmart 2025 Retirement Target Fund	4.74	9.94	7.28	7.04	6.28	8/1/2006	0.78	0.45
2025 Blended Benchmark	4.29	10.23	6.98	7.34	6.14			
Franklin LifeSmart 2020 Retirement Target Fund	4.25	8.73	6.13	6.00	5.83	7/1/2013	1.22	0.45
2020 Blended Benchmark	3.67	8.93	5.65	6.20	5.99			
Franklin LifeSmart Retirement Income Fund	3.64	6.85	5.52	5.10	5.15	8/1/2006	1.20	0.51
Income Blended Benchmark	3.43	8.44	4.32	5.20	4.80			
MSCI All Country World Index	7.62	17.27	13.55	11.91	8.03			
Bloomberg Multiverse Index	0.70	2.68	-1.26	1.38	2.59			

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. 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.

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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.



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