

LifeSmart Retirement Funds performed better than their benchmarks amid a volatile first quarter



Franklin LifeSmart Funds Q&A

Q1 2026

Underlying fund selection strengthened relative results, notably in equity.

Asset allocation effects were generally supportive in shorter-dated portfolios and detractive in portfolios furthest from retirement.

How were market conditions in the first quarter of calendar 2026?

Global equity markets experienced a challenging first quarter of 2026. Non-US markets began the year strongly, helped by a weaker US dollar, improving sentiment toward Europe, continued enthusiasm for semiconductors and artificial intelligence (AI) and renewed investor interest in lower-valued markets. By contrast, the United States lagged as the market broadened away from a concentration in large growth stocks. The quarter became more challenging in March as equities slipped. The escalation of the Iran conflict drove a sharp rise in oil and gas prices, and reduced confidence that central banks would ease policy quickly.

US equities endured a difficult first quarter as geopolitical risk intensified. Technology shares came under pressure as investors questioned whether rising AI-related capital expenditure would translate into adequate returns, accelerating a rotation away from technology that helped value shares outperform their growth peers. The backdrop became more challenging in March as conflict in the Middle East disrupted energy markets and sharply lifted oil prices, adding inflation risk to already fragile sentiment.

In both January and March, the US Federal Reserve (Fed) left the federal funds target range unchanged, while describing inflation as still somewhat elevated and uncertainty about the outlook as high. Macroeconomic releases over the period pointed to slower but still positive growth, alongside mixed progress on inflation and a softer labor market. The US Consumer Price Index data fell year-on-year in January and held steady in February.

European equities were volatile but ended the first quarter slightly lower overall. At the start of the quarter, European stocks benefited from optimism that easier monetary policy and improving cyclical conditions could help the region. By March, the external backdrop had become more difficult. Higher oil and gas prices, softer confidence and worries about the impact of the war on European manufacturing and consumers pulled equity markets back from their earlier highs.

For the three-month reporting period, US stocks returned -4.33%, as measured by the S&P 500 Index [TR]. International stocks returned -1.24%, as measured by the MSCI EAFE Index [NR], while emerging market (EM) stocks, as measured by the MSCI EM Index [NR], returned

-0.17%. Global equities, as measured by the MSCI World Index [NR], returned -3.57%.

Global aggregate bond indexes generally posted small declines in the first quarter. Most developed market and EM sovereign bond yields rose during the period, as stagflationary concerns dominated moves following the onset of the war in the Middle East. US Treasury yields rose sharply across the curve, which flattened slightly amid market expectations for an imminent hawkish policy pivot. The US investment-grade corporate sub-index of the Bloomberg US Aggregate Bond Index returned -0.50% for the quarter. High-yield bonds returned -0.30%, as measured by the JPMorgan Developed High Yield Index, while global bonds, as measured by the FTSE World Government Bond Index, returned -1.05%.

How did the glide path—or starting point for each portfolio—impact performance during the three months ended March 31, 2026?

All but one of the LifeSmart Retirement Fund portfolios performed better than their respective benchmarks, although the portfolios experienced modest drawdowns amid market turbulence. At the vintage level, returns for Advisor Class ranged from -2.08% to 19.73%.

Asset allocation effects were mixed: Allocations were beneficial in shorter-dated portfolios (those closer to retirement). Our conservative positioning in these funds, including lower exposure to equities, proved beneficial for the first quarter as stock markets experienced a challenging environment, notably in March.

For longer-dated portfolios, asset allocation detracted due to a larger equity overweight and underweight bond exposure during the risk-off environment in late February and March. Our preference for equities reflected resilient global growth and strong corporate fundamentals.

Most portfolios benefited from an off-benchmark allocation to alternatives through the Franklin Systematic Style Premia ETF. The fund is an actively managed, systematic, multi-asset long/short strategy that seeks absolute returns with low correlation to traditional asset classes. The fund delivered a first-quarter gain, in contrast to declines for the equity and bond benchmarks.

Regionally, our preference for US equities over non-US equities in our glide paths weighed on relative performance in the quarter. One of the headwinds we saw for international equities was a subdued macro backdrop in the eurozone, including more vulnerability to higher energy prices and weak domestic demand.

Regional allocations within asset classes had mixed results. The portfolios maintained a significant overweight position in US bonds, with minimal allocation to international bonds. This approach contributed positively to their relative performance. Conversely, regional stock allocations weakened relative results. The portfolios were underweight emerging and international equities and overweight US stocks. Our favorable view of US stocks reflected resilient economic growth and solid earnings results for most of the period.

For the retirement income fund, asset allocation strengthened relative returns, supported by a fixed income overweight and equity underweight, as well as a cash position. Regional allocations followed the same performance impacts as longer-dated funds.

In terms of positioning, the funds remained overweight US equities with a value tilt, reflecting a constructive macro backdrop and expectations for broader market participation. However, we lowered the overweight US exposure and neutralized our style preference in March amid higher uncertainty. We increased exposure to emerging market stocks in February, as earnings revisions are improving and AI capital expenditures were supportive. However, we then also adjusted to a more neutral EM equity exposure in March as political uncertainty climbed.

The portfolios remained underweight fixed income during the period. Within the asset class, we are underweight government bonds and expect yields to move higher. The Iran conflict could reignite inflation and keep Fed rates higher for a longer period than previously thought.

We added slightly to cash during the period, influenced by elevated global uncertainty.

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

Fund selection meaningfully strengthened relative performance in equity, led by Putnam Large Cap Value Fund (which benefited from an investor rotation into value from growth) and Franklin core equity funds focused on international and emerging markets equities. These two core equity funds leverage a manager conviction component from Franklin Templeton's investment teams to combine fundamental and quantitative investing. In contrast, Putnam Large Cap Growth Fund was the largest detractor for most portfolios. Franklin Growth Fund and ClearBridge International Growth Fund modestly curbed results.

In fixed income, fund selection effects were muted for most portfolios. Contributors included Franklin U.S. Core Bond ETF (supported by an overweight allocation to mortgage-backed securities) and the Franklin U.S. Treasury Bond ETF (supported by yield curve positioning) delivered positive contributions. Conversely, the Franklin Investment Grade Corporate ETF weighed on returns as credit spreads widened in March.

Underlying fund performers for the Franklin LifeSmart Retirement Income Fund varied from other funds, given the increased focus on income and defensive investments. This conservative approach helped the fund's equity component deliver a gain during the first quarter, compared to a decline for the equity benchmark. Top contributors to relative returns included ClearBridge Tactical Dividend Income Fund, the JPMorgan Equity Premium Income ETF and Franklin International Core Dividend Tilt Index Fund. In fixed income, Franklin U.S. Core Bond ETF and Franklin U.S. Treasury Bond ETF also lifted relative performance. In contrast, BrandywineGLOBAL High Yield Fund weakened relative returns, as did long exposure to US equities through stock futures.

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

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.

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.

For vintages with longer time horizons to retirement, our glide path includes larger equity allocations, and this detracted from peer-related results in the first quarter. In addition, our preference for US equities over non-US equities in our glide paths weighed on peer-relative performance in the quarter.

What is your near-term outlook for the markets?

Our approach to equity markets remains cautious moving into April, as conflict in the Middle East continues to drive markets. Headlines and developments continue to change often.

Disruption of energy supplies is a main reason for tensions in financial markets at the time of writing. A complete resolution of hostilities is unlikely, in our view, meaning some challenges will likely remain, albeit reduced from current levels. As a result, we believe energy prices will remain elevated, feeding into inflation expectations, eroding private sector confidence and slowing economic growth.

With geopolitical events, outcomes are much more difficult to predict than events tied to traditional factors such as growth, inflation and policy. Although macro indicators remain resilient, we have seen some weakening recently that supports our neutral view for equities. Softer leading economic indicators and purchasing managers' index (PMI) data point to slowing growth, and sticky core inflation remains a concern.

Market expectations for monetary policy have pivoted around the energy price adjustment, as expectations for rate cuts have been priced out in most major economies. This may have a negative impact on growth by adding to borrowing costs and influencing business and consumer sentiment.

Conflict in the Middle East has not affected the positive outlook for corporate earnings as of early April. At the same time, we are mindful that earnings expectations tend to lag equity prices by roughly three to four months. An analysis of fast-moving economic indicators bears close-watching.

At the time of writing, there remains much uncertainty about the duration of the conflict or what a ceasefire or peace deal would look like. There is a chance that the energy price shock could have a material impact on inflation, but only if it becomes embedded in the real economy and starts to impact core inflation readings.

Franklin LifeSmart Retirement Target Funds

Performance returns (%) as of 03/31/2026

Advisor Class	Q1	1 Year	5 Year	10 Years	Since Inception	Inception Date	Expense ratio (%)	
							Gross	Net
Franklin LifeSmart 2060 Retirement Target Fund	-1.97	19.71	8.77	—	9.60	1/29/2021	2.51	0.45
2060 Blended Benchmark	-3.09	19.21	8.95	—	9.61			
Franklin LifeSmart 2055 Retirement Target Fund	-2.08	19.73	8.99	10.31	8.70	5/1/2015	1.08	0.45
2055 Blended Benchmark	-3.09	19.21	8.95	10.34	8.89			
Franklin LifeSmart 2050 Retirement Target Fund	-2.00	19.36	8.93	10.26	9.32	7/1/2013	0.93	0.45
2050 Blended Benchmark	-3.04	18.89	8.85	10.28	9.54			
Franklin LifeSmart 2045 Retirement Target Fund	-1.82	18.39	8.40	9.95	7.75	8/1/2006	0.75	0.45
2045 Blended Benchmark	-2.90	17.93	8.33	9.94	7.53			
Franklin LifeSmart 2040 Retirement Target Fund	-1.54	16.95	7.81	9.45	8.61	7/1/2013	0.83	0.45
2040 Blended Benchmark	-2.71	16.49	7.46	9.32	8.78			
Franklin LifeSmart 2035 Retirement Target Fund	-1.56	15.62	7.04	8.71	7.07	8/1/2006	0.70	0.45
2035 Blended Benchmark	-2.54	15.23	6.57	8.57	6.84			
Franklin LifeSmart 2030 Retirement Target Fund	-1.30	14.17	6.27	7.85	7.31	7/1/2013	0.80	0.45
2030 Blended Benchmark	-2.35	13.84	5.65	7.71	7.48			
Franklin LifeSmart 2025 Retirement Target Fund	-1.10	12.73	5.50	7.00	6.18	8/1/2006	0.72	0.45
2025 Blended Benchmark	-2.16	12.47	4.71	6.77	5.97			
Franklin LifeSmart 2020 Retirement Target Fund	-1.00	11.24	4.72	5.95	5.68	7/1/2013	1.16	0.45
2020 Blended Benchmark	-1.98	11.09	3.77	5.62	5.72			
Franklin LifeSmart Retirement Income Fund	-0.46	8.86	4.50	5.15	5.10	8/1/2006	1.11	0.42
Income Blended Benchmark	-1.92	10.55	3.06	4.64	4.65			
MSCI All Country World Index	-3.20	20.01	9.49	11.34	7.82			
Bloomberg Multiverse Index	-1.10	4.47	-1.22	0.81	2.49			

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.

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