

Product Commentary

Performance Review

- The municipal (muni) bond market, as measured by the Bloomberg Municipal Bond Index, posted a slightly negative result for the first quarter of 2025 (Q1). January and February saw positive returns supported by healthy inflows of funds and steady demand, while returns posted in March reversed those gains. Data for US fourth-quarter 2024 gross domestic product showed an annualized increase of 2.4% for the quarter, a deceleration from the third quarter's 3.1% expansion. Growth was driven primarily by consumer and government spending increases, while investments declined. Against this backdrop, the benchmark 10-year US Treasury (UST) note's yield ended Q1 36 basis points (bps) lower, at 4.21%.
- The high-yield muni strategy's fared performance better than that of its benchmark, the Bloomberg Municipal Bond Index, for the quarter.
- Our overweight to bonds that do not have external credit ratings contributed to relative returns.
- Sector exposure was also a driver of relative results. We focus on revenue-related bonds, including pre-paid gas structured bonds and muni bond real estate issues from land development and housing projects, which continued to outperform during the quarter. Security selection within the sectors curbed performance.
- Our overweight to duration detracted from returns as muni yields fell less than UST yields over the quarter.

Outlook & Strategy

- There was a significant swing in market sentiment across Q1 as participants digested the first few months of US President Donald Trump's new administration. January saw positive excess returns across a number of sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetite during February and March as unclear tariff policies became the market's focus. Throughout the quarter, investment-grade munis underperformed USTs. Despite modest outflows in March, muni funds overall benefited from steady inflows earlier in the quarter.
- Muni credit fundamentals remain broadly stable, with signs of improvement even in sectors that struggled post-pandemic, though revenue growth is moderating, and economic tailwinds are slowing. High reserves and fiscal flexibility continue to support most issuers, and credit ratings are expected to remain steady over the next six months, though sector-specific challenges persist.
- Potential policy changes under the Trump administration, such as the possible elimination of tax exemptions for certain bonds and the cancellation of federal leases, are adding uncertainty to the muni market outlook, alongside broader concerns about how federal decisions may impact local economies. At the same time, US consumer sentiment is softening, and overall uncertainty around the economic growth outlook has increased in response to the administration's proposed reforms and policy direction.
- However, hard data continues to indicate a resilient US economy. The labor market appears to have reached an equilibrium of a low level of both new additions and layoffs, with a still-low unemployment rate, and economic activity remains solid.
- Going forward, our economists are looking to deregulation and tax reforms to support growth over the medium term. The heightened uncertainty surrounding the administration's trade policy and the impact on US businesses makes US Federal Reserve policy difficult to predict. It remains to be seen whether risks are skewed toward a significant slowdown in growth or higher inflation. However, our economists remain optimistic on US growth, considering that the economy remains on solid footing and pro-growth measures are still expected. Consequently, we are penciling in only one 25-bp rate reduction in 2025, though an absence of rate cuts this year is also possible.

Product Details¹

Inception Date	10/31/2022
Benchmark	Bloomberg Municipal Bond Index

Performance Data

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	Since Inception (10/31/2022)
Franklin High Yield Municipal SMA - Pure GROSS	-0.16	-0.16	2.48	7.58
Franklin High Yield Municipal SMA - NET	-0.53	-0.53	0.97	6.00
Bloomberg Municipal Bond Index	-0.22	-0.22	1.22	5.04

1. A composite is an aggregation of one or more portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the fully discretionary portfolios in the composite. The composite return information provided herein includes the returns of Franklin Templeton, high-net-worth individual and institutional client portfolios and with respect to any periods prior to the inception of Franklin Templeton, reflects the performance of any such other portfolios.

Calendar Year Returns (USD %)

	2024	2023
Franklin High Yield Municipal SMA - Pure GROSS	3.66	10.21
Franklin High Yield Municipal SMA - NET	2.13	8.59
Bloomberg Municipal Bond Index	1.05	6.40

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit www.franklintempleton.com for the latest performance figures. Past performance is not a guarantee of future results. An investment in this strategy can lose value.

Performance data represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. Periods less than one year are not annualized. Performance results are for the composite which includes all actual, fully discretionary accounts with substantially similar investment policies and objectives managed to the composite's investment strategy. Composite returns are stated in U.S. dollars and assume reinvestment of any dividends, interest income, capital gains, or other earnings. The composite may include account(s) that are gross of fees and pure gross of fees. "Pure" gross-of-fee returns do not reflect the deduction of any expenses, including transaction costs. A traditional (or "true") gross-of-fee return reflects performance after the reduction of transaction costs but before the reduction of the investment advisory fee. The gross-of-fee return may include a blend of "true" gross-of-fee returns for non-wrap accounts and "pure" gross-of-fee returns for wrap accounts. Net-of-fee returns is reduced by a model "wrap fee" (1.5% is the maximum anticipated wrap fee for fixed income portfolios) which includes trading expenses as well as investment management, administrative and custodial fees. The model wrap fee used represents the highest anticipated wrap fee applicable to the strategy. Actual fees and account minimums may vary.

Investment Team

Jeff Snyder

Years with Firm 27
Years Experience 27

Dylan G. Sanderson

Years with Firm 21
Years Experience 21

Francisco Rivera

Years with Firm 30
Years Experience 31

Chris Sperry, CFA

Years with Firm 29
Years Experience 29

Lloyd Nemerever, CFA

Years with Firm 3
Years Experience 32

Daniel Workman, CFA

Years with Firm 21
Years Experience 22

Important Information

The information contained in this piece is not a complete analysis of every material fact regarding the market and any industry, sector, security or portfolio. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. Because market and economic conditions are subject to rapid change, opinions provided are valid only as of the date of the material, and are subject to change without notice. The manager's opinions are intended solely to provide insight into how the manager analyzes securities, may differ from that of other affiliated managers, and are not a recommendation or individual investment advice for any particular security, strategy or investment product. Any securities discussed may not represent an account's entire portfolio and in the aggregate may represent a small percentage of an account's portfolio holdings. There is no assurance that any such securities will remain in an account's portfolio, or that securities sold have not been repurchased. It should not be assumed that any securities transactions discussed were or will prove to be profitable. The information provided should not be considered a recommendation to purchase, sell or hold any particular security. All indexes are unmanaged and cannot accommodate direct investment. Investors should review their investment objectives, risk tolerance and liquidity needs before choosing a manager. There is no guarantee that investment strategies will work under all market conditions, and investors should evaluate their ability to invest for the long term, especially during periods of market downturns. Please refer to www.franklintempleton.com for more information about the portfolio, including objective, risks and investment process.

Franklin Templeton claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organisation, nor does it warrant the accuracy or quality of the content contained herein.

The primary benchmark for this composite is the Bloomberg® Municipal Bond Index. This index is a sector market value capitalization weighted fixed income index comprised of general obligation, revenue, insured and pre-refunded/escrowed municipal bonds selected to be representative of the market. The Bloomberg Municipal Bond Index is an unmanaged index representing the investment environment existing during the time periods shown.

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. The manager may **consider environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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

Important data provider notices and terms available at www.franklintempletondatasources.com.

These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.



**FRANKLIN
TEMPLETON**

One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN/342-5236
franklintempleton.com