

Franklin High Yield Municipal SMA

Commentary | as of September 30, 2025

Key Takeaways

- Markets: In the third quarter of 2025 (Q3), new issuance of municipal (muni) bonds exceeded the average seen in the
 past few years, driven by a 34% year-over-year surge in July issuance. By quarter end, the yield on the benchmark 10year US Treasury (UST) note fell by eight basis points (bps) to 4.15%, while the 30-year UST yield decreased by four bps
 to 4.73%. US markets rose on clearer tariff policies, economic resilience and a more dovish Fed, which cut rates by 25
 bps to 4.00%-4.25% in September.
- Contributors: Overweight allocation to muni bonds rated below investment grade.
- **Detractors**: Underweight muni bonds with two to five years to maturity.
- Outlook: Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more
 challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying
 relative value and preserving portfolio quality.

Performance Review

- Over the quarter, Franklin High Yield Municipal SMA Composite outperformed its benchmark, Bloomberg Municipal Bond Index
- The strategy's duration, which is longer than that of the benchmark, helped relative returns for the period due to
 underweight to muni bonds with 20 or more years as muni yields in the longer-maturity portion of the muni yield curve fell.
 Conversely, exposure to lower-maturity issues detracted from results.
- An overweight to AAA rated muni bonds, along with an underweight to AA rated munis, curbed results for the period as lower-rated issues fared modestly better than their higher-rated. Drawing on the expertise of our dedicated municipal research team, we remain focused on issuers that we believe possess strong fiscal underpinnings.

Outlook

- Muni bond issuance exceeded historical averages in Q3 as issuers, who had been reluctant to issue new bonds under the
 looming threat to their tax-exempt status, came to market. Positive fund flows into the asset class were not able to keep up
 with the supply. The muni bond yield curve continues to steepen, with longer-maturity bond valuations cheapening
 somewhat.
- Fundamentals remain broadly stable, however, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields are near multi-year highs, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Average annual total returns (%) - as of September 30, 2025

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	3.00	1.93	1.39	-0.17	_	_	_	_	_	_	5.64	10/31/2022
Pure Gross of Fees	3.38	2.69	2.52	1.32	_	_	_	_	_	_	7.21	10/31/2022
Benchmark	3.00	2.87	2.64	1.39	_	_	_	_	_	_	5.17	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit www.franklintempleton.com for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Fees: 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.

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What are the Risks?

All investments involve risks, including 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. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. Investments in underlying funds are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. 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. Portfolios focused on a single state are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

Glossary

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year. Source: Bloomberg Indices.

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