

Franklin Templeton Digital Assets Core Crypto Capped SMA

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** US stocks were volatile due to concerns over the impact of Trump's tariffs on economic growth, inflation, and Fed policy, with fears of recession or stagflation. Despite traditional market volatility, positive momentum around regulation led cryptocurrency markets to rebound during the second quarter of 2025 (Q2 25).
- **Contributors:** Most holdings were positive contributors to the portfolio, including tokens in the Currency, Smart Contract Platforms, Infrastructure, and Decentralized Finance sectors.
- **Detractors:** Two tokens from the Smart Contract Platforms sector, Polkadot (DOT) and Optimism (OP), and one Infrastructure token, Filecoin (FIL), had slight negative contributions to the portfolio.
- **Outlook:** We believe that new blockchain technologies have the potential for capital appreciation that can be captured through strategic selection of their underlying tokens. We believe emerging blockchain technologies offer capital appreciation opportunities through selective exposure to their underlying tokens. Recent moves by the Trump Administration and several U.S. state governments to establish cryptocurrency reserves, establish rules for stablecoins and provide regulatory clarity on the market structure for digital assets aim to position the U.S. as a leading crypto hub.

Performance Review

- Franklin Templeton Digital Assets Core Capped seeks to provide capital appreciation through market capitalization weighted exposure to digital assets that pass our selection process, excluding stablecoins and meme coins. We cap Bitcoin and Ethereum at approximately 50% of the overall portfolio, allowing for a more even distribution and volatility across other alternative digital assets. In terms of sector allocation, we saw a decrease in the infrastructure sector, and an increase in currency, smart contract platforms and decentralized finance-focused tokens.
- Despite some uncertainty around macroeconomic factors that led to global market volatility, portfolio performance was positive for Q2 25. On a relative basis, all sectors contributed to the portfolio's positive performance.
- Bitcoin (BTC) and Ethereum (ETH), the top two largest assets in the portfolio, landed in the portfolio's top contributors. Bitcoin continued to see demand by institutional investors including corporate treasuries, reaching a historic price milestone of ~\$112k in mid-May. Ethereum's highly anticipated network upgrade Pectra brought improved scalability and security while launching new features. In addition, spot Ethereum Exchange Traded Products saw significant inflows in May and June, totaling to roughly \$1.7 billion and contributing to positive performance. Both BTC and ETH made positive contributions to the portfolio in Q2 25.
- Three tokens in the Smart Contract Platforms sector, Cosmos (ATOM), Optimism (OP) and Polkadot (DOT), were negative contributors to the portfolio this quarter. Cosmos (ATOM), known as the "internet of blockchains," is designed to enable blockchain interoperability. Optimism (OP), also a scaling solution for Ethereum, uses optimistic rollups to improve speed, scalability and cost-efficiency. Polkadot (DOT) is a blockchain designed to scale, connect, and secure application-specific blockchains known as parachains. Filecoin (FIL), an infrastructure token focused on digital storage and data retrieval, was also a negative contributor.

Outlook

- The second quarter of 2025 was marked by a strong rebound in the cryptocurrency markets, driven by institutional demand, regulatory clarity, and macroeconomic shifts. The overall crypto market cap surged 25.33% over the quarter to close out at ~\$3.35T. The S&P Cryptocurrency LargeCap Index, which tracks the largest and most liquid cryptocurrencies, rose by 26.94%, while the S&P Cryptocurrency MegaCap Index, focused on the two largest cryptocurrencies by market capitalization, Bitcoin and Ethereum, rose by 31.53%.
- Bitcoin's dominance climbed to 63.6% of the total crypto market cap, and its price reached an all-time high of approximately ~\$112K before ending the quarter near ~\$107K. Ethereum also posted gains, rising from \$1,805 to \$2,488, though it continued to lag behind Bitcoin in relative performance.
- The correlation between most traditional finance (TradFi) sectors and digital assets declined over the quarter, while commodities and the USD saw a slight increase. Despite this, the correlation between digital assets and commodities, including oil and gold, as well as the USD, were neutral to low. The correlation between digital assets and equities saw a slight decrease, remaining moderate.
- Macroeconomic clarity stabilized markets, with the White House's 90-day tariff pause easing inflation and boosting risk assets like equities and crypto. Regulatory momentum was significant, as the SEC ended its investigation into PayPal's PYUSD stablecoin and the U.S. Senate passed the GENIUS Act for stablecoin regulation. Several states advanced digital asset reserve legislation, aligning with the Trump administration's push for a national bitcoin reserve and digital asset stockpile.
- Overall, Q2 2025 was defined by renewed optimism, institutional validation, and regulatory clarity—setting the stage for continued momentum in the second half of 2025. With this regulatory acceleration, we believe that digital assets will continue to become a key focus for investors seeking long-term growth.

Top Holdings (% of Total)

Holding	Portfolio
Bitcoin	26.55
Ethereum	24.59
Solana	19.34
Chainlink	6.05
Avalanche	5.36
Polkadot	4.51
Uniswap	4.34
Aave	4.18
Cosmos	2.61
Render Token	2.45

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

Product	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Gross of Fees	24.67	-19.58	-19.58	0.04	34.74	—	—	—	—	—	34.74	6/30/2022
Net of Fees	23.81	-20.82	-20.82	-2.93	30.83	—	—	—	—	—	30.83	6/30/2022
Benchmark	26.94	0.60	0.60	40.49	58.91	—	—	—	—	—	58.91	—

*Cumulative total returns

Benchmark(s)

Benchmark =S&P Cryptocurrency Large Cap Index (USD)

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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” (3.0% is the maximum anticipated wrap fee for equity and balanced 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. 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.

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What are the Risks?

All investments involve risks, including possible loss of principal. Digital assets are subject to risks relating to immature and rapidly developing technology, security vulnerabilities of this technology, credit risk of digital asset exchanges, regulatory uncertainty, high volatility in their value/price, unclear acceptance by users and global marketplaces, and manipulation or fraud. **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.

Glossary

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

The **S&P Cryptocurrency MegaCap Index** measures the performance of the digital assets Bitcoin and Ethereum. Source: © S&P Dow Jones Indices LLC. All rights reserved.

The abbreviation “**SEC**” can refer to the **Securities and Exchange Commission**, a U.S. federal agency that regulates the securities markets and protects investors.

GENIUS Act refers to the Guiding and Establishing National Innovation for U.S. Stablecoins Act, a U.S. federal law enacted on July 18, 2025, that establishes a regulatory framework for stablecoins. It’s the first significant piece of crypto legislation in the US, focusing on regulating stablecoin issuers and reserves, while also providing consumer protections and promoting financial stability.

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The **S&P Cryptocurrency Large Cap Index** measures the performance of digital assets listed on recognized open digital exchanges with large market capitalization and subject to liquidity requirements. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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