

Franklin Templeton Alternative Completion Portfolios

Commentary | as of September 30, 2025

Key Takeaways

- Markets: Global equity markets advanced through the third quarter of 2025 as tariff anxieties gradually eased, central banks became more accommodative, and technology leadership 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 Federal Reserve rate cut that steadied rate-sensitive assets and lifted risk appetite. Credit markets broadly witnessed positive absolute returns over the period, as spreads tightened. Lower-rated credits generally outperformed their higher-rated counterparts. The global commodities complex appreciated mildly and unevenly in the third quarter as economic risks remained tilted to the downside, with near-term global growth vulnerable to ongoing inflation and trade fragmentation.
- Contributors: Franklin Systematic Style Premia ETF was the leading contributor.
- **Detractors:** BlackRock's Event Driven Equity Fund was the leading detractor.
- Outlook: We adopt a positive view of risk assets ahead of the final quarter of 2025, as we weigh extended equity
 valuations against a generally positive macro environment, strong corporate fundamentals and monetary policy easing.

Performance Review

- On an absolute basis, Franklin Systematic Style Premia ETF delivered the highest return for the quarter. BrandywineGLOBAL Multi-Sector Opportunities Fund was the only holding to post a negative return.
- On a relative basis, Franklin Systematic Style Premia ETF was the leading contributor. In addition, Virtus AlphaSimplex
 Managed Futures Strategy Fund, Franklin US Low Volatility High Dividend Index ETF and K2 Alternative Strategies Fund
 contributed to relative performance. BlackRock Event Driven Equity Fund was the leading detractor, followed by John
 Hancock Diversified Macro Fund, BrandywineGLOBAL Multi-Sector Opportunities Fund and NYLI Merger Arbitrage ETF.
- Within Franklin Systematic Style Premia ETF, the long-short single-stock equities strategy was a key driver of gains during the quarter, bolstered by the momentum and carry factors, with an additional, more modest contribution from the value factor. Both the long US equity strategy and the international sleeve significantly boosted performance. The commodities substrategy also was a substantial contributor, driven in part by the value factor, with additional support from the carry factor. Foreign exchange was a notable contributor, aided by long positioning in the US dollar. Mexican peso (MXN) longs and New Zealand dollar (NZD) shorts helped fuel gains, as the MXN appreciated against the dollar, while the NZD slid. The equity futures strategy contributed during the period. Long positioning, on average, in indexes from South Africa and Spain drove gains, with additional contribution from Canada. Short positioning in French and Australian indexes also bolstered performance. In contrast, the largest detractor was the short side of the long-short equity portfolio, which is made up of total return swaps. The flows and low beta factors weighed on returns, partially offset by gains from cross-asset allocation and the momentum factor.
- Within Franklin US Low-Volatility High Dividend Index ETF, both allocation and selection detracted from relative results
 over the period. Lack of exposure to several heavily weighted index constituents was a key driver of relative
 underperformance. For example, chipmaker NVIDIA and semiconductor firm Broadcom did not meet requirements for
 inclusion in the portfolio. In addition, heavy allocations to the consumer staples and real estate sectors held back relative
 performance during a period when investors embraced risk. In contrast, underweight positions and selection in the health
 care, financials and materials sectors were beneficial.
- The Long Short Equity and Global Macro strategies in Franklin K2 Alternative Strategies Fund drove the portfolio's
 quarterly advance, led by Long Short Equity subadvisors ActusRay and Electron. Relative Value subadvisor Apollo was also a
 key contributor. Overall, all four primary strategies and all 10 underlying managers contributed, along with the Strategic
 Overlay. At the asset-class level, long fixed income positioning made the largest contribution, followed by equity positioning,
 which was long overall. Cash and commodity positioning also contributed, though more modestly.

Outlook

- We adopt a positive view of risk assets ahead of the final quarter of 2025, as we weigh extended equity valuations against a
 generally positive macro environment, strong corporate fundamentals and monetary policy easing.
- The strength of the recent equity rally has brought warnings about irrational exuberance, especially where retail investors are concerned. However, we prefer to take a more measured approach, examining the underlying macro and corporate environment for signs of weakness.
- Our analysis finds a broadly positive setup for risk assets, where improving business activity and solid economic growth has
 provided the platform for strengthening global earnings-per-share (EPS) growth forecasts. From a policy standpoint, US labor
 market weakness provided the US Federal Reserve (Fed) with a reason to cut interest rates in September, which should
 further bolster equity market momentum.
- Fair value analysis does suggest to us that equities are expensive, with most good news priced in, but we place greater
 emphasis on fundamentals. In addition, measures of sentiment remain surprisingly neutral, while positioning also looks
 restrained—notably among discretionary investors—suggesting the rally has room to run. This strengthens our conviction in a
 responsibly bullish approach to risk as we move into the final quarter of 2025.

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	3.19	2.00	3.47	1.20	2.19	-1.18	_	_	_	_	-1.58	3/31/2018
Pure Gross of Fees	3.95	3.51	5.78	4.23	5.25	1.79	_	_	_	_	1.38	3/31/2018
Benchmark	3.19	5.10	5.65	5.84	4.72	3.61	_	_	_	_	2.93	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = HFRX GLOBAL HEDGE FUND INDEX

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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.

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Glossary

Momentum factor is a phenomenon where stocks tend to maintain recent price trends in the future.

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

Mortgage-backed securities (MBS) are investments that represent claims on the money generated by pools of mortgage loans.

The Purchasing Managers Index is based on a monthly survey of supply chain managers across multiple industries, covering upstream and downstream activity.

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

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