FRANKLIN TEMPLETON

Franklin Templeton Strategic Real Return Portfolios

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** Global equities advanced in the fourth quarter, led higher by emerging markets (EM) and European stocks. Markets were characterized by a rotation toward value, based on investor concerns about elevated technology stock valuations amid fears of an artificial intelligence (AI) bubble. The US Federal Reserve (Fed) cut interest rates in October and December, in line with softening labor market data and falling inflation. The Bank of Canada (BoC) maintained its policy rate at 2.25% on December 10, citing stable inflation and resilient gross domestic product (GDP) growth despite ongoing US trade policy uncertainty. The BoC cut rates in both September and October. Within the global commodities complex, metals advanced during a period defined by record highs, heightened speculative swings and dominant industrial demand narratives. Oil and many agricultural markets lagged.
- **Contributors:** The portfolio's global equity allocation was the leading contributor.
- **Detractors:** The portfolio's position in Vanguard Real Estate ETF detracted.
- **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

- In the fourth quarter of 2025, Franklin Templeton Strategic Real Return Portfolio (net of fees) outperformed its benchmark, the Bloomberg US Treasury: US TIPS Index (gross of fees).
- Asset allocation was the primary driver of absolute performance over the period.
- On a relative basis, positioning in in the fixed income sleeve weighed on returns.

Outlook

- Current activity indicators show growth above six-month averages in the United States, EMs and Europe. In addition, continued disinflation trends have provided some room for central banks to bolster accommodative fiscal policy by cutting interest rates.
- Discounting some noise in the data, we are encouraged by US annual Consumer Price Index (CPI) inflation, which fell to 2.7% in November, while annual core inflation (less food and energy) also moved closer to target, at 2.6%. A combination of lower inflation pressures and softening employment data provides a good background for stimulative Fed policy, although we only expect to see one more rate cut in the first half of 2026.
- Equally importantly, corporate fundamentals show little sign of weakening, in our opinion, as trailing earnings growth remains strong. In addition, global forward earnings expectations are being revised higher, alongside earnings guidance breadth.

Average annual total returns (%) - as of December 31, 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	0.22	3.37	6.81	6.81	5.07	3.78	3.40	1.23	—	—	1.80	2/28/2010
Pure Gross of Fees	0.96	4.90	10.00	10.00	8.21	6.89	6.49	4.27	—	—	4.85	2/28/2010
Benchmark	0.13	2.24	7.01	7.01	4.23	1.12	3.09	2.91	—	—	3.12	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg U.S. Treasury: U.S. TIPS

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" (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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What are the Risks?

All investments involve risks, including possible loss of principal. These models include funds which engage in a variety of investment strategies involving certain risks. The model's risks are directly related to the risks of the underlying funds and may include, but is not limited to, the risks as described below. Model allocation strategies are not designed to maximize return or predict the highest performing fund or group of funds within each class in the model. There are expenses associated with the underlying funds in addition to any fees charged by the sponsor firm. **Equity securities** are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **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. **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. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Short selling** is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. **Real estate investment trusts (REITs)** are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. The managers' **environmental social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance. **Diversification** does not guarantee a profit or protect against a loss. The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results.

Glossary

The **Consumer Price Index (CPI)** is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.

Forward earnings are an estimate of a next period's earnings of a company.

Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

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The **Bloomberg U.S. TIPS Index** is an unmanaged index that measures the performance of intermediate (one to ten year) U.S. Treasury inflation-protected securities.

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Source: Bloomberg Indices.

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