



# Municipal bond separately managed accounts

Franklin Templeton Fixed Income



Not FDIC Insured | May Lose Value | No Bank Guarantee



# Franklin—A tax-free leader

The following pages discuss important considerations for today's municipal bond investors as well as Franklin's municipal bond capabilities:

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Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by affiliated subadvisors of Franklin Templeton. Management is implemented by FTPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee.

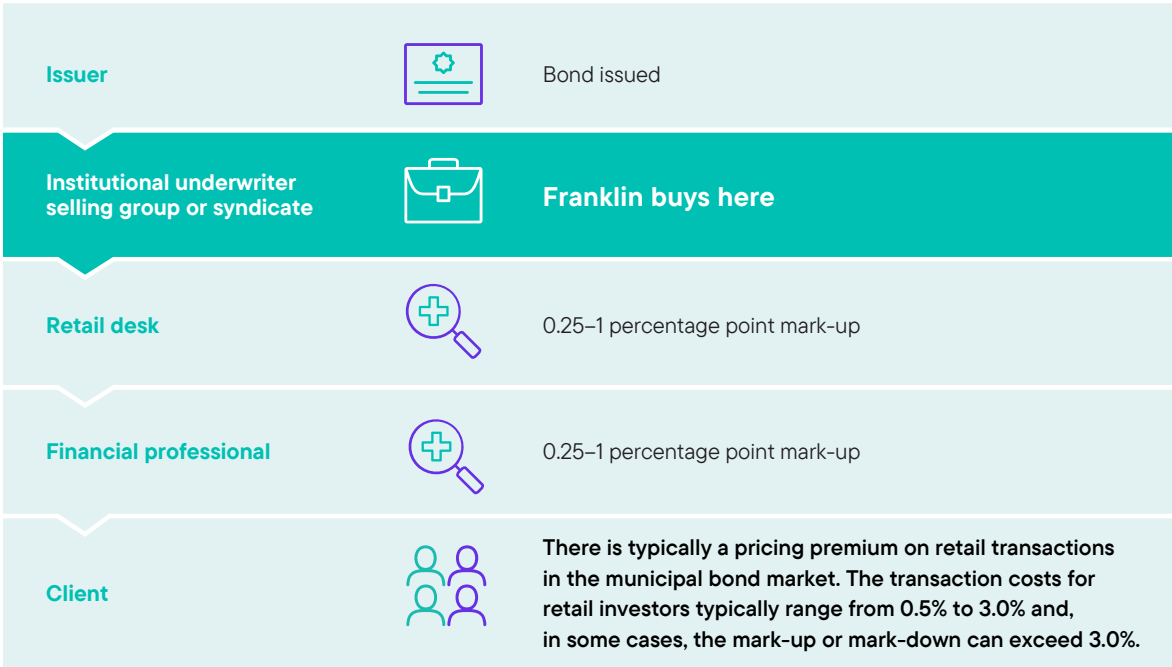
On December 1, 2022, Legg Mason Private Portfolio Group, LLC (LMPPG) changed its name to Franklin Templeton Private Portfolio Group, LLC (FTPPG).

# Benefits of professional municipal bond management

We believe there are four key reasons why professional municipal bond management can be beneficial today. A managed portfolio may benefit individuals by providing potential pricing advantages, stringent credit research, unconstrained access to primary and secondary market supply, and active management in a time of changing interest rates.

## 1 | Institutional pricing advantage and buying power

Our institutional expertise seeks to provide clients with favorable pricing through access to inventory, efficient coupon reinvestment and institutional execution.



The mark-up represented by each row can be 0.25 to 1 percentage point per bond.

## 2 | Rigorous credit research

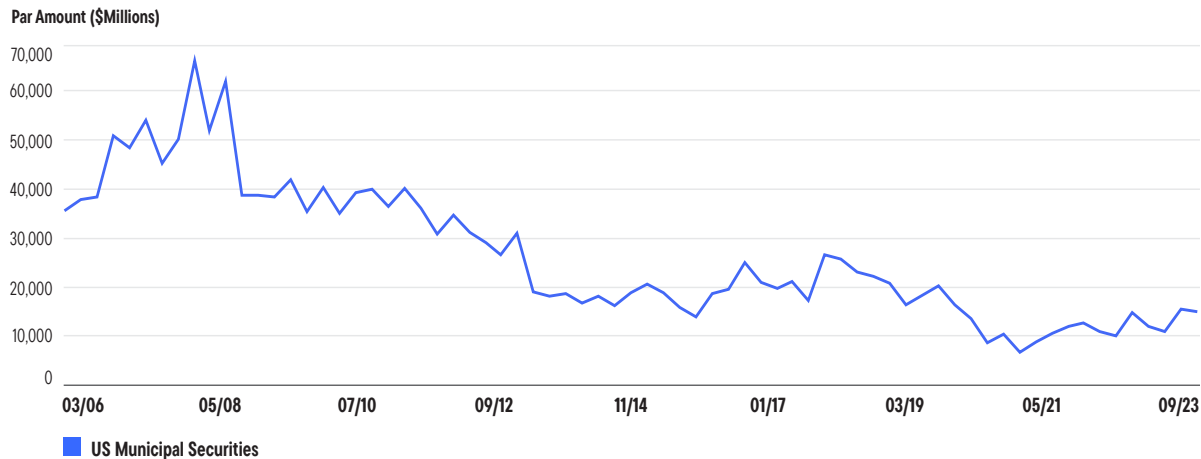
The combination of recent municipal bankruptcies, treatment of creditor claims and the increasing pressure on state and local governments (brought on by inexorably increasing public pension and benefit obligations) demands a significant shift in how municipal general fund debt must be analyzed. Our investment approach focuses on high-quality, essential-service sectors, while being mindful of the fiscal challenges and political uncertainty that many state and local governments face.

### 3 | Market access in time of reduced dealer inventory

New supply of municipal bonds has been constrained and has remained relatively low. Our broad presence in the market provides investors greater access to a wide range of municipal securities in a time of reduced inventory.

#### US Municipal Securities Held by Broker Dealers<sup>1</sup>

March 31, 2006–September 30, 2023



### 4 | Active portfolio management in all interest rate environments

We manage our strategies with a focus on maximizing tax-free income for investors.

**When rates do rise and volatility increases,** our strategies typically sell lower-yielding positions and replace them with higher-yielding securities, resulting in an increase in portfolio turnover and seeking higher distributions of tax-free income for clients.

**And as interest rates decline and volatility decreases,** our strategies seek to capitalize on market liquidity to optimize credit quality, diversification and overall portfolio structure. This approach seeks to help manage long-term investment income and preserve shareholder capital.

Through active portfolio management, institutional trade execution, and ongoing research and analysis, our bond team constructs a customized municipal bond portfolio to accommodate individual client needs.

1. Source: Federal Reserve Board.

# Separately managed accounts— Helping investors pursue their goals

In today's marketplace, investors have a wide array of options for their investments. High-net-worth investors may wish to take advantage of the potential benefits of having their assets managed on a separate account basis.



## Personal portfolio management

We can accommodate a client's unique investment goals, risk tolerance, liquidity needs and objectives such as control over certain taxes, cash flow, turnover and continuous portfolio maintenance.



## Investment flows and control

SMA's eliminate the impact of activity an investor may experience in a commingled fund. For instance, shareholder withdrawals in a declining market could force a mutual fund to sell assets and potentially cause capital gain distributions. In addition, investors hold each individual bond in their account, which is different than a mutual fund structure.



## Values

Separate account management allows clients to establish investment guidelines that reflect their moral and ethical values. Furthermore, client guidelines can take into account extraordinary economic exposure from other investments they may already own.

**For those clients looking to potentially transition a portfolio of municipal bonds, the Franklin SMA team can offer a personalized analysis of their current portfolio holdings.**

## Your after-tax return matters

Investing in municipal bonds may allow investors to receive income free of federal, state and possibly local income tax.

- We avoid bonds subject to the alternative minimum tax (AMT) and de minimis tax liabilities.<sup>2</sup>
- Each bond purchase establishes a separate cost basis, a potentially advantageous strategy for minimizing capital gains on the sale of bonds or in gifting situations.
- Our managers focus on maximizing tax-free income and preserving capital in client accounts.

2. The de minimis rule determines whether the price appreciation of securities purchased at a discount will be taxed at the ordinary income tax rate or the capital gains tax rate. If a discount is less than 0.25% of the face value for each full year from the date of purchase to maturity, then it is too small (that is, de minimis) to be considered a market discount for tax purposes. Instead, the accretion is a capital gain.

# A pioneer in tax-free investing

We are experts in the municipal bond marketplace and one of the few managers that participates in all segments of the market. We have a large and experienced team that focuses exclusively on munis. Their experience helps to identify opportunities and indications of risk that others might miss. We believe this is critical given the immense size of the municipal bond market.

**40<sup>+</sup>**

Years of  
experience

Since 1977, we have had a proven and disciplined conservative investment process with a focus primarily on income.

**\$57<sup>+</sup> billion**

Total assets  
under management<sup>3</sup> (USD)

We are one of the largest municipal bond managers in the nation.<sup>4</sup> Our reputation and sizeable assets give us access to almost every bond issue.

**22**

Investment  
professionals

As a team of municipal bond investment professionals—with an average of 26 years of financial industry experience, we have the expertise and resources to effectively navigate the vast and complex municipal bond market.

## Franklin Separately Managed Accounts

- Offer national and state-specific intermediate municipal fixed income portfolios<sup>5</sup>
- Provide a high level of service with direct access to portfolio managers to discuss portfolio strategy and market outlook

3. As of 12/31/23. Municipal bond assets under management figure includes US retail municipal bond fund assets and separately managed accounts.

4. Source: Morningstar Direct as of 12/31/2023. © 2024 Morningstar, Inc. All rights reserved.

5. State-specific mandates include Arizona, California, Colorado, Connecticut, Florida, Louisiana, Massachusetts, Maryland, Michigan, Missouri, Minnesota, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Utah and Virginia. State-preference mandates include Alabama, Georgia, Hawaii, Indiana, Kentucky and South Carolina. Certain state-specific portfolios may not be available in all programs. Additional state-specific portfolios may be available upon request and are subject to review. Strategy availability may vary by firm. For those strategies available at your firm, please contact your home office for details.

# Our three guiding beliefs

## 1 | **Active research matters**

An active, research-driven approach is critical given the vast size and complexity of the municipal bond market. Our deep team of research analysts conduct comprehensive analysis of every opportunity across all sectors in the municipal bond universe, covering the quality spectrum in both primary and secondary markets.

## 2 | **Seek to take advantage of relative value opportunities**

We seek to identify and capture attractive relative value opportunities across the municipal bond landscape by carefully analyzing and managing yield curve positioning, credit spreads, coupon structures, and call structures to help deliver tax-efficient portfolios, while aiming to provide attractive risk-adjusted returns.

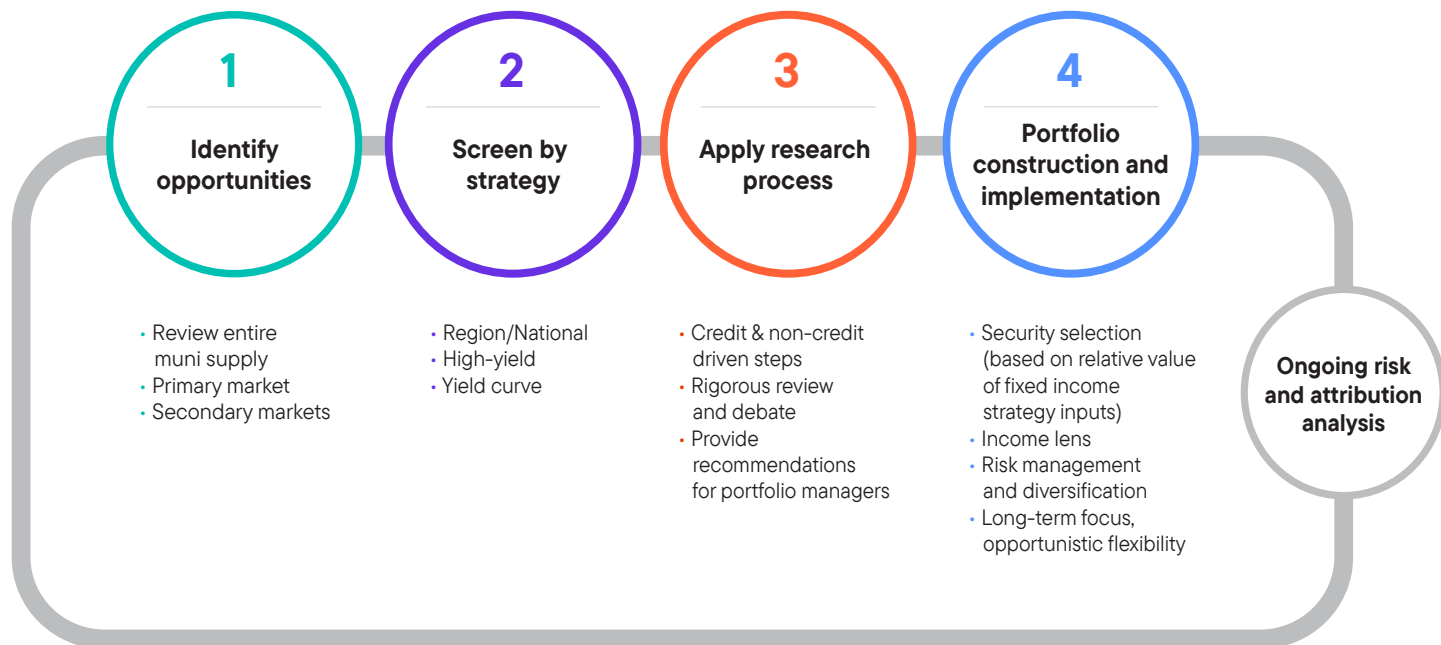
## 3 | **Emphasis on risk management**

Our team places a premium on risk management which is incorporated fully within our deep credit research process, portfolio construction process and with an independent risk management team, enabling us to better understand, quantify and optimize where we allocate risk across our portfolios.



# Investment process

## In-depth fundamental research of the entire municipal market



## Portfolio construction—Franklin Municipal SMA

### Parameters:

- Maturity structure
  - Diversified maturity structure to mitigate reinvestment and yield curve risk
  - Target intermediate-term maturities of five- to 15-year maturity at purchase
- Diversification
  - Portfolios are diversified to help create an optimum risk/reward balance
- Portfolio quality
  - High-quality portfolio to reduce default risk
  - Issues are investment grade or better

### We avoid bonds:

- With short calls or hidden call features
- Subject to AMT and de minimis rules
- Which are illiquid and not sold at reasonable prices

*Diversification does not assure a profit or protect against market loss.*

# Franklin Municipal SMA—Strategy overview

**Intermediate Municipal SMA**—Our largest strategy by AUM, we believe this is the optimal strategy for high-net-worth clients who wish to own individual bonds.

The strategy seeks to provide tax-exempt income and preservation of capital by managing a portfolio comprised primarily of high quality intermediate-term municipal bonds with attractive relative value while seeking exposure to the intermediate portion of the yield curve.

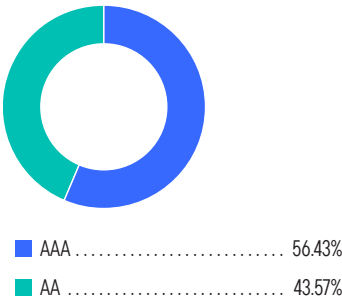
## Composite Portfolio Characteristics<sup>6,7</sup>

As of December 31, 2023

	Intermediate Municipal SMA
Option Adjusted Duration	5.42 Years
Weighted Average Maturity	8.43 Years
Weighted Average Coupon	4.83%
Weighted Average Yield to Worst	2.68%
Weighted Average Yield to Maturity	3.13%
Weighted Average Price (Market USD)	\$110.49
AMT Exposure	0.00%

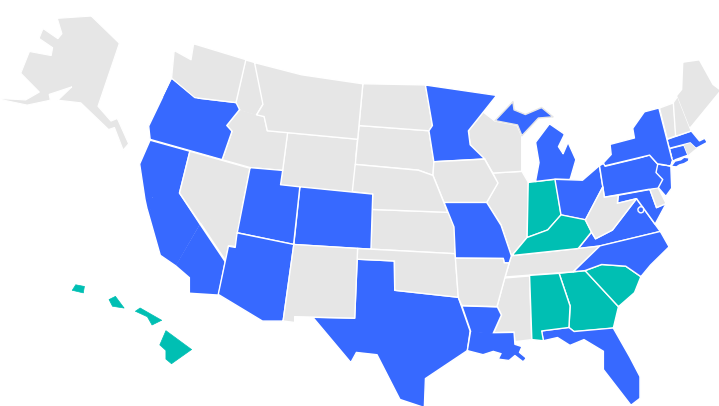
## Composite Quality Breakdown<sup>6,8</sup>

As of December 31, 2023 (% of Total)



## State-specific portfolios

We offer a national portfolio, 20 state-specific portfolios and six state-preference portfolios.<sup>5</sup> Other state-specific portfolios also may be available upon request.



State-specific portfolios	State-preference portfolios
<ul style="list-style-type: none"><li>• Arizona</li><li>• California</li><li>• Colorado</li><li>• Connecticut</li><li>• Florida</li><li>• Louisiana</li><li>• Maryland</li><li>• Massachusetts</li><li>• Michigan</li><li>• Minnesota</li></ul>	<ul style="list-style-type: none"><li>• Missouri</li><li>• New Jersey</li><li>• New York</li><li>• North Carolina</li><li>• Ohio</li><li>• Oregon</li><li>• Pennsylvania</li><li>• Texas</li><li>• Utah</li><li>• Virginia</li></ul>
	<ul style="list-style-type: none"><li>• Alabama</li><li>• Georgia</li><li>• Hawaii</li><li>• Indiana</li><li>• Kentucky</li><li>• South Carolina</li></ul>

6. Information is based on the Franklin Intermediate Municipal SMA Composite. Figures may not add up to 100% due to rounding. Cash and equivalents is deemed to have a 0% Maturity and Duration, be Non-Callable and have an AAA rating. The allocation of existing accounts may differ from the allocation used for new accounts due to differences in the timing of purchases and sales, changes in the purchase and sell list during the course of a quarter, and factors specific to each existing account due to client considerations.

7. Yield figures quoted should not be used as an indication of the income that has or will be received. Yield figures are based on the portfolio's underlying holdings and do not represent a payout of the portfolio.

8. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. When ratings from multiple agencies are available, the highest is used, consistent with the portfolio investment process. Ratings reflect an NRSRO's opinion of an issuer's creditworthiness and typically range from AAA (highest) to D (lowest). The Refunded category consists of refunded bonds secured by US government or other high-quality securities. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of third-party ETFs and securities that only have a short-term rating and are not cash equivalents. Cash includes equivalents, which may be rated.

# Customized solutions to accommodate your specific needs

## Each portfolio is unique

When requested to fund a portfolio with your existing holdings, we review each security for fit with our philosophy, seeking to minimize taxable events and maximize total return.

## Over the life of the portfolio

- We continuously seek out new investment opportunities to maintain the structure of the portfolios with appropriate, high-quality, tax-exempt securities.
- Our team of portfolio managers reviews portfolios weekly, evaluating:
  - Diversification
  - Income structure
  - Interest rates
  - Market structure
  - Maturity structure
  - Portfolio quality
  - Portfolio structure
  - Trading liquidity
  - Yield curve
- We monitor investments daily using our proprietary database to ensure that your portfolio is well positioned.

## High level of service

Franklin Templeton offers a range of services designed to assist advisors and their clients in understanding the municipal market and ensuring a quality experience.

**Personalized portfolio analysis.** For clients with municipal bond holdings, we offer a detailed breakdown of their current municipal fixed income holdings, including analysis of maturity, quality, call and coupon as they compare with our Intermediate Municipal Fixed Income portfolio.

**Representative portfolios.** Provide an example of how the portfolios are allocated by call, quality and yield-to-maturity breakdowns given variable parameters of maturity, state and account size.

**For more information on these services or about our SMAs, please contact your Franklin Templeton Sales Representative at (800) DIAL BEN/342-5236.**

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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. **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. An investor may be subject to the federal Alternative Minimum Tax, and state and local taxes may apply.



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