FRANKLIN TEMPLETON

Franklin Corporate Ladder 1-3 Year SMA

Franklin Separately Managed Accounts

Municipals
March 31, 2025

Product Commentary

Performance Review

- Risk assets broadly faltered in the first three months of 2025 as investors shifted their focus from potentially business friendly initiatives toward trade policy and the possibility of stagflation (i.e., economic stagnation and high inflation). Soft economic data, including forward-looking indicators such as consumer sentiment surveys, dipped considerably. In the first quarter, investment-grade (IG) index spread levels moved 14 basis points wider as investors reacted to increased uncertainty and the impact that trade policy scheduled to be announced in early April may have on corporate and consumer behavior. While spreads moved wider to begin 2025, levels at quarter-end remained well within historical ranges and through levels in the last growth and recession scare during 2022. The two-year US Treasury (UST) note's yield fell to 3.88% after starting the quarter at 4.24%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality
HELPED	Consumer Non-Cyclicals	Underweight Consumer Cyclicals	Security Selection in BBB Rated Bonds
	—	—	—
	—	—	—
HURT	Energy	Underweight Banking	Security Selection in A- Rated Bonds
	—	—	—
	—	—	—

- UST yield curve positioning was the main detractor from the strategy's relative results, primarily due to our underweight in duration across the yield curve versus the benchmark in a falling yield environment.
- Security selection had a muted impact on performance for the quarter, with a contribution from our selection in the consumer non-cyclicals sector being partially offset by negative results from selection in energy-related issues.
- Sector allocations also had a neutral effect on returns. An underweight to consumer cyclical securities lifted results, while an underweight to the banking sector offset those gains.
- Rating allocations did not have a meaningful impact on returns. Security selection in BBB rated bonds helped results, but selection in A- rated bonds curbed performance.

Outlook & Strategy

- In corporate credit markets, volatility in UST yields and market technical forces are likely to continue having a material impact on asset class returns moving forward. Corporate fundamentals, which have been less of a performance driver than demand technicals, could have a greater impact on performance if consumers pull back on spending or if corporations delay or postpone investment, given the broader macroeconomic overhang.
- Corporate fundamentals remain broadly supportive, with many IG-rated issuers having flexibility and cushion to deal with changing economic conditions. However, uncertainty surrounding policy and tariffs will impact sectors differently. The auto sector, for example, is poised to realize direct impacts from tariff policy that cloud the fundamental picture for companies in that space moving forward, and the sector has seen notable volatility in bond prices. Energy and chemicals will likely see earnings volatility from demand shocks.
- However, asset class technicals have turned cloudier—while current levels of all-in yields are attractive, in our view, hesitation from overseas buyers amid destabilization in the United States dampens the technical demand backdrop. Estimates for new-issue supply for the rest of 2025 stand at US$1 trillion, with US$550 billion priced so far, which remains a sizable amount. Forward issuance may have to come with concessions, given the uncertain macro environment.

Product Details[1]

Inception Date	12/31/2022
Benchmark	Bloomberg US Corporate 1-3 Year Index

1. A composite is an aggregation of one or more portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the fully discretionary portfolios in the composite. The composite return information provided herein includes the returns of Franklin Templeton, high-net-worth individual and institutional client portfolios and with respect to any periods prior to the inception of Franklin Templeton, reflects the performance of any such other portfolios.

Performance Data

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	Since Inception (12/31/2022)
Franklin Corporate Ladder 1-3 Year SMA - Pure GROSS	1.45	1.45	5.48	5.09
Franklin Corporate Ladder 1-3 Year SMA - NET	1.08	1.08	3.93	3.54
Bloomberg US Corporate 1-3 Year Index	1.62	1.62	6.15	5.52

Calendar Year Returns (USD %)

	2024	2023
Franklin Corporate Ladder 1-3 Year SMA - Pure GROSS	5.01	4.97
Franklin Corporate Ladder 1-3 Year SMA - NET	3.46	3.42
Bloomberg US Corporate 1-3 Year Index	5.28	5.47

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit www.franklintempleton.com for the latest performance figures. Past performance is not a guarantee of future results. An investment in this strategy can lose value.

Performance data represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. 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.

Investment Team

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Years Experience 42

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Years with Firm 24
Years Experience 28

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The primary benchmark for this composite is the Bloomberg US Corporates 1-3 Years Index. This index is a market value weighted fixed income index comprised of investment grade, fixed-rate, taxable corporate bond issues whose maturity ranges between one and three years. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

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