FRANKLIN TEMPLETON

Franklin DynaTech SMA

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** Global equities delivered solid gains in 2025's third quarter (3Q25), buoyed in part by easing trade tensions and optimism surrounding artificial intelligence (AI). Central bank actions—notably the US Federal Reserve's interest-rate cut and its signaling of potential further monetary easing—supported market sentiment, as did generally robust corporate earnings. Global information technology (IT) stocks were volatile but ultimately topped all 10 other major equity sectors, supported by robust earnings and forward guidance from many IT and tech-adjacent firms—especially those tied to AI, cloud, data infrastructure, semiconductors and software.
- **Detractors:** Unfavorable security selection versus the Russell 1000 Growth Index in the consumer discretionary, health care, IT, communication services and financials sectors.
- **Contributors:** Relative strength in several industry allocations (including pharmaceuticals, electronic equipment/instruments/components, IT services and semiconductors) and the strategy's lack of investments in underperforming consumer staples, real estate, utilities and materials sector companies.
- **Outlook:** While we believe the excitement around the progress in both agentic AI and Generative AI (GenAI) as well as data-driven experimentation is merited as a widening array of industries test AI's novel business applications, other parts of the economy are also exciting—including aerospace and defense, robotics, genomics and green energy.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA Corporation	11.70
Microsoft Corporation	7.90
Amazon.com, Inc.	7.39
Meta Platforms Inc Class A	5.52
Broadcom Inc.	5.24
Alphabet Inc. Class A	4.88
Mastercard Incorporated Class A	3.21
AppLovin Corp. Class A	2.70
Shopify, Inc. Class A	2.52
Apple Inc.	2.29

Performance Review

- The DynaTech strategy (pure gross of fees and net of fees) had fairly broad-based 3Q25 gains yet lagged the Russell 1000 Growth Index based on stock selection, partially offset by the mild positive influence of sector and industry allocation choices. Results in the health care and financials sectors were negative in relative and absolute terms, while overall gains among consumer discretionary, IT, communication services and industrials stocks trailed those tracked by the index.
- Underweightings in select mega-capitalization tech-focused companies such as Apple and Tesla proved detrimental in relative terms (only) as they more than doubled the index's 3Q25 return, but they were still solid absolute contributors. Since this is a diversified strategy, we remain structurally underweight in the "Magnificent Seven" stocks (combined).
- Relative returns were also pressured by selloffs or subpar gains for off-benchmark or overweighted investments in e-commerce companies such as MercadoLibre (off-index) and Amazon.com; health care equipment and supplies stocks such as Intuitive Surgical (overweight); software names such as ServiceNow and monday.com (sold by period-end); electronic trading platform operator Tradeweb Markets in capital markets; and Axon Enterprise in aerospace and defense.
- Turning to the key contributors, four out of six IT-related industry allocations fared better than the index's corresponding industries in relative terms, including electronic equipment, instruments and components, boosted by a gain of more than 50% for off-benchmark Celestica; IT services (notably, off-index Shopify); and semiconductors and semiconductor equipment, including off-index Taiwan Semiconductor Manufacturing and overweight Monolithic Power Systems.
- NVIDIA, Broadcom and many of the strategy's other semiconductor holdings (averaging 21.6% of total net assets) continue to benefit from high demand in AI and data center applications. Rapid AI-related growth boosted their revenues, particularly in areas such as graphics processing units and high-bandwidth memory. We're seeing continued expansion in the foundry and memory markets, underpinned by AI and cloud infrastructure needs, as well as demand for device miniaturization. Semis and the broader IT sector also received US government support through tax incentives and a campaign to boost the country's AI initiatives and tech manufacturing. The United States eased export restrictions on certain AI chips to China, reviving investor confidence in sustained demand and supply continuity. Broader policy support, including America's AI Action Plan (announced in July), reinforced perceptions of the semiconductor industry's strategic importance.
- The software industry also contained some meaningful 3Q25 contributors—especially overweight AppLovin as its equity valued more than doubled, along with underweighting in Microsoft as its modest quarterly gain trailed the index.

Outlook

- **We are enthusiastic about the potential and current productivity gains from AI, as its use cases continue to develop.** Large language models (LLMs) and GenAI continue to advance at a fast pace, with the first returns on investment starting to coalesce, notably in digital advertising, where companies have demonstrated an ability to target their ads more effectively. Exciting use cases are also being proven elsewhere, including in e-commerce, finance and health care. We're also seeing progress in manufacturing, where predictive maintenance using "digital twins" (virtual replicas of physical assets or systems that simulate real-world performance) is gaining traction. Additionally, AI developers are focused on achieving agentic AI, which we would argue is already present in at least one instance in the language capability of the models. Other areas where agentic AI is quickly taking shape include software development and deep research.
- **We are tracking other bright spots for innovation in the economy beyond AI, including space, defense, cryptocurrency, robotics, genomics and green energy.** Space is undergoing a renaissance, with private-public partnerships beginning to dominate. Some longer-term goals include increased satellite efficacy and interplanetary travel. Regarding the aerospace and defense industry, a new class of companies, including Palantir Technologies (held by the strategy) and Anduril (not held) are challenging the primacy of large, established defense contractors. These nimble companies are developing innovative new technologies, including autonomous drones and sophisticated military software. The cryptocurrency space is maturing, with relevant applications in smart contracts and payment systems coming to the fore. The use cases for robotics are also accelerating as AI improves the software behind the hardware. Genomics is still early in its development, with scientists and managers addressing the complexities of the medicine to achieve regulatory approval. Finally, green energy initiatives continue to advance worldwide, with the cost curve—particularly for solar energy—coming down and with new ideas around nuclear and geothermal energy grabbing attention.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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

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	8.33	33.43	16.96	22.51	28.09	9.63	14.60	—	—	—	13.33	6/30/2015
Pure Gross of Fees	9.12	35.33	19.54	26.13	31.86	12.91	18.00	—	—	—	16.70	6/30/2015
Benchmark 1	10.51	30.22	17.24	25.53	31.61	17.58	18.83	—	—	—	17.71	—
Benchmark 2	8.12	19.96	14.83	17.60	24.94	16.47	15.30	—	—	—	14.16	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=Russell 1000 Growth Index

Benchmark 2=S&P 500 Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).
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Glossary

The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

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