

Franklin Equity Income SMA

Commentary | as of September 30, 2025

Key Takeaways

- Markets: US equities delivered strong performance over the third quarter of 2025, buoyed, in part, by easing trade
 tensions and optimism surrounding artificial intelligence (AI). The US Federal Reserve's (Fed's) interest-rate cut in
 September also supported market sentiment, as did generally robust corporate earnings. Both the S&P 500 Index and
 the Nasdaq Composite Index ended the quarter at new record highs, while returns for the Dow Jones Industrial Average
 were more muted. In this environment, growth investing surpassed value in the large-capitalization tier, while it was the
 reverse in the mid- and small-capitalization segments, with small-cap stocks overall performing better than their largeand mid-cap counterparts.
- Contributors: The strategy (pure gross of fees and net of fees) outperformed the Russell 1000 Value Index as stock selection decisions worked in our favor. In absolute terms, the financials, industrials, information technology (IT) and health care sectors had the largest positive impact on returns.
- Detractors: Allocation decisions detracted from results relative to the benchmark. In absolute terms, materials was the
 only sector that turned negative, due to our chemicals industry exposure.
- Outlook: As equity markets have fully recovered from April lows and many indexes have reached new highs, we are
 mindful of valuation risks and higher expectations that are present. Our focus remains on the opportunities for individual
 companies held in the portfolio as well as on understanding the durability of end markets and the earnings impact of
 tariffs

Performance Review

- Morgan Stanley delivered strong performance in the financials sector. The global financial services company reported solid second-quarter 2025 financial results driven by growth in its institutional and wealth management businesses, while an increase in capital markets improved its forward outlook.
- United Rentals was the strongest performer within the industrials sector. The company is seeing improved sequential trends, including growth in fleet productivity, better-than-expected general rent revenue and sequential progress on gross profit margins. In contrast, heating, ventilation and air conditioning company Carrier Global detracted from sector returns despite issuing solid second-guarter financial results.
- The health care sector benefited from a position in Johnson & Johnson (JNJ). The pharmaceutical giant reported strong
 second-quarter financial results and raised its full-year guidance, bolstered by the addition of Intra-Cellular Therapies (an
 acquisition completed in April 2025) to its neuroscience portfolio. We continue to see JNJ as a company with a highly
 resilient business and a leader in the medical technology industry.
- Conversely, in the consumer staples sector, Philip Morris International's shares declined over the period due to a mix of
 profit-taking by some investors, weakening cigarette volumes and a slight second-quarter 2025 revenue miss despite the
 company exceeding consensus earnings estimates and raising its full-year guidance. The company's tobacco-free products,
 however, continue to grow strongly.

Outlook

- We continue to look for opportunities where we expect realized earnings to be either more resilient or grow faster than
 consensus and where long-term market leadership is underappreciated. Today's environment presents some uncertainty;
 however, we believe themes around IT productivity, broad infrastructure, and asset management could prove to be
 particularly attractive and durable.
- We have had a positive view of the outlook for corporate earnings and financial markets overall given the likelihood of lower regulations aiding several industries, favorable tax policy and ongoing productivity gains from technology. We believe this could support broader market participation across industries.
- Despite the positive backdrop that we see, some companies may report mixed results in the third quarter due to uneven
 order patterns and tariff headwinds. However, we believe the transitory impacts of tariffs may be more muted, particularly
 among strong companies benefiting from secular themes. If correct, we believe our efforts to find these high-quality
 companies can have beneficial outcomes over time.
- Equity-linked notes and convertible securities continue to be helpful tools for performance, risk mitigation and income
 generation. Given our focus on quality and the use of these securities, we believe the portfolio is positioned to navigate
 periods of higher volatility.

Top Equity Issuers (% of Total)

Holding	Portfolio
JPMORGAN CHASE & CO	4.55
MORGAN STANLEY	3.60
BANK OF AMERICA CORP	3.19
CHEVRON CORP	3.08
JOHNSON & JOHNSON	2.63
CHARLES SCHWAB CORP/THE	2.38
DUKE ENERGY CORP	2.29
WALMART INC	2.28
PROCTER & GAMBLE CO/THE	2.25
PARKER-HANNIFIN CORP	1.95

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	6.82	12.52	12.03	10.54	16.21	11.72	_	_	_	_	15.46	3/31/2020
Pure Gross of Fees	7.59	14.16	14.51	13.83	19.65	15.05	_	_	_	_	18.89	3/31/2020
Benchmark	5.33	9.32	11.65	9.44	16.96	13.88	_	_	_	_	16.45	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = Russell 1000 Value Index

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

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Glossary

Convertible securities are bonds or preferred stocks that can be converted into a preset number of shares of common stocks after a predetermined date.

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of NASDAQ securities and includes over 3,000 stocks. Source: Nasdaq OMX. The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. Source: FTSE.

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