

Franklin U.S. Focused Growth 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 (Al). Central bank actions—notably the US Federal Reserve's interestrate cut and the potential for 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 Al,
 cloud, data infrastructure, semiconductors and software.
- Detractors: Stock selection in communication services, consumer discretionary, industrials and health care.
- Contributors: Stock selection in IT, especially in the software and IT services industries; stock selection in the financials sector; and a supportive stock selection and underweighting in the hotels, restaurants and leisure industry.
- Outlook: While we believe the excitement around the progress in both agentic Al and Generative Al (GenAl) as well as
 data-driven experimentation is merited as a widening array of industries test Al's novel business applications, other
 parts of the economy are also exciting—including aerospace and defense, robotics, genomics and green energy.

Performance Review

- The U.S. Focused Growth strategy (pure gross of fees and net of fees) had mixed 3Q25 results and lagged the Russell 1000 Growth Index based on security selection and, to a lesser extent, detrimental allocation choices.
- In the communication services sector, support from Roblox's (overweight) impressive rally was more than offset by a much larger investment in key detractor Meta Platforms as its share price fell slightly.
- Relative returns were further curbed by selloffs or subpar gains in several off-benchmark or overweight holdings including Amazon.com and MercadoLibre (e-commerce), Axon Enterprise (aerospace and defense industry), Intuitive Surgical (health care equipment and supplies), ServiceNow (software), electronic trading platform operator Tradeweb Markets, and Costco Wholesale (consumer staples).
- Turning to the key contributors, the strategy was invested in three IT-related industries (out of six in total), all of which
 contributed to relative performance. In the software industry, heavily-overweighted stakes in AppLovin and Cadence Design
 Systems surpassed the benchmark return, including an outsized gain of more than 100% for AppLovin. An underweighting in
 Microsoft also helped, as it rose less than half as much as the index. In IT services, off-index Shopify more than doubled the
 benchmark return. Most semiconductor and semiconductor equipment stocks also boosted relative returns, led by off-index
 Taiwan Semiconductor Manufacturing and overweight Broadcom.
- NVIDIA, Broadcom and other semiconductor holdings (covering almost 24% of total net assets at September-end) 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 other key individual contributors were situated outside the IT sector and posted quarterly gains that surpassed the index by a wide margin, including Robinhood Markets (financials).
- Aside from our active equity holdings, returns versus the benchmark were further enhanced by the portfolio's lack of
 exposure to underperforming real estate, energy, utilities and materials sector companies.

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 Al, 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 Anduril and Palantir Technologies (neither is held by the strategy), 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 Al 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.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA CORP	13.27
MICROSOFT CORP	9.94
AMAZON.COM INC	8.15
META PLATFORMS INC	8.09
BROADCOM INC	5.61
ALPHABET INC	5.59
MASTERCARD INC	3.94
TESLA INC	3.50
APPLOVIN CORP	3.39
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	3.08

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	7.82	34.77	17.12	24.57	31.12	11.29	_	_	_	_	19.84	3/31/2020
Pure Gross of Fees	8.60	36.68	19.70	28.24	34.97	14.61	_	_	_	_	23.39	3/31/2020
Benchmark	10.51	30.22	17.24	25.53	31.61	17.58	_	_	_	_	23.91	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = Russell 1000 Growth Index

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

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

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