FRANKLIN TEMPLETON

Franklin U.S. Focused Growth SMA

Commentary | as of June 30, 2026

Key Takeaways

- **Markets:** Global equities delivered robust gains during the second quarter of 2026, buoyed by improving corporate earnings and a decisive rotation into technology-driven growth themes. The de-escalation of geopolitical tensions in the Middle East and the subsequent decline in energy prices provided a constructive backdrop for risk assets, while the AI-driven capital expenditure cycle remained a dominant force, underpinning earnings revisions across sectors.
- **Contributors:** Outperformance versus the benchmark index across 10 out of 11 equity sectors, with effective security selection accounting for the entirety of the strategy's excess return.
- **Detractors:** Lagging gains in the IT services industry (due to stock selection); overall declines in aerospace and defense (due to stock selection); and detrimental overweighting and stock selection among e-commerce companies in the broadline retail industry.
- **Outlook:** For the rest of 2026, we expect AI-related business attention to shift further toward application-layer software, as maturing agentic systems begin to drive durable productivity gains across the broader economy.

Performance Review

- The US Focused Growth strategy (pure gross of fees and net of fees) posted widespread 2Q26 gains and substantially outperformed the Russell 1000 Growth Index, with most of the stock selection-driven benefits arising in the information technology (IT) sector, where roughly 56% of the portfolio was invested (on average). These results underscore the increasing dispersion within the AI investment theme, where leadership is rotating rapidly among memory, foundry and infrastructure names. The concentrated overweight in IT—particularly within the AI memory chip complex—proved rewarding, as top overweight contributors like Sandisk and Micron Technology delivered extraordinary returns of more than 200% each, fueled by structural demand for NAND (flash) and high-bandwidth memory in AI data centers, and landmark supply agreements.
- Along with Micron, nearly all other off-index or overweighted semiconductor and semi equipment holdings rallied well beyond the benchmark, including key contributors KLA, Taiwan Semiconductor Manufacturing, ASML Holding and Broadcom. Aside from robust financial metrics and momentum during the 1Q26 earnings season, AI data center buildout remained the dominant narrative, with Broadcom, NVIDIA—a modest underweight contributor and the strategy's largest holding—and other GPU/network names setting new highs as hyperscale capex and AI infrastructure orders remained solid. At the same time, the "old economy" side of semis inflected: earnings from analog and power management names showed evidence that a roughly two-year industrial destocking phase had ended and demand was reaccelerating, especially for industrial and automotive chips. This combination meant the market stopped viewing the rally as a narrow AI trade and started to price in a synchronized upturn across data center, industrial, auto and communications end-markets.
- Outside IT, there was stock selection-based strength in the industrials sector, where Bloom Energy and other overweighted electrical equipment names involved with AI-linked energy infrastructure posted exceptional gains; and in health care, where biotechnology stocks such as Ascendis Pharma and Natera combined for a 28% gain. Bloom's order backlog grew as it continued to provide fast-to-deploy clean energy to data centers that are willing to have off-grid power, including Oracle's agreement to purchase up to 2.8 gigawatts of fuel-cell power for its facilities, with an initial 1.2 gigawatts contracted for 2026-2027 (Oracle is not held by the strategy).
- Aside from the portfolio's active investments, its strategic lack of exposure to consumer staples, real estate, utilities and materials companies further enhanced relative returns as all four sectors underperformed the benchmark index.
- Turning to the key detractors, off-index Shopify's guidance-driven selloff and Kratos Defense & Security Solutions' (overweight; sold by period-end) post-offering overhang were among the primary headwinds. In general, Shopify and other IT services-oriented names were sometimes seen as margin-pressured, potentially disrupted by AI and/or agentic commerce, or "show-me" stories rather than direct winners. Aerospace and defense stocks like Kratos, Axon Enterprise and Elbit Systems (purchased during the period) sold off as they faced concerns about "peak defense" spending and potential overvaluation, and as positive business developments like increased defense budgets and military conflicts had already been priced into their elevated stock valuations. In health care, robotic-assisted surgical system specialist Intuitive Surgical traded lower as investors grew concerned about moderating long-term procedure growth, rising competitive threats and tariff-related margin pressures, despite another quarter of strong operating results.
- Overweight or off-index e-commerce holdings, including Amazon.com and MercadoLibre, trailed the benchmark average. Investors treated them more as cyclical, macro-sensitive consumer and fintech platforms than as pure AI or infrastructure beneficiaries, making them natural funding sources during the AI-led rally. Ongoing investment in logistics, cloud computing and fintech, together with regulatory overhangs (notably in China) and near-term margin and valuation concerns, further tempered appetite even as underlying revenue growth remained robust.
- Aside from its active stock holdings, the strategy's cash position (averaging 2.8% of total net assets) was a bigger drag on overall performance versus the Russell 1000 Growth Index than any individual stock detractors except AMD. A lack of portfolio exposure to several IT index component stocks—Palo Alto Networks, Applied Materials, CrowdStrike Holdings, Astera Labs, Datadog and more—also had a substantial negative impact.

Outlook

- **Many of the most important innovations across the economy continue to depend on advances in computing power, semiconductors, networking and digital infrastructure.** Periods of volatility in these areas can create valuation dislocations, even as demand for advanced computing, automation and intelligent systems keeps growing. We continue to invest in businesses that sit at the foundation of this ecosystem and help enable innovation across industries, from AI workloads and data center expansion to industrial modernization and connected devices.

Top Equity Issuers (% of Total)

Holding	Portfolio
NVIDIA CORP	10.02
ALPHABET INC	8.43
AMAZON.COM INC	8.19
MICROSOFT CORP	5.10
APPLE INC	4.80
SANDISK CORP	4.63
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	4.45
BROADCOM INC	4.07
KLA CORP	3.51
META PLATFORMS INC	3.28

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of June 30, 2026-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	23.83	8.26	8.26	14.04	21.77	7.73	—	—	—	—	18.32	3/31/2020
Pure Gross of Fees	24.69	9.85	9.85	17.43	25.37	10.95	—	—	—	—	21.83	3/31/2020
Benchmark	16.74	5.33	5.33	17.71	22.58	13.71	—	—	—	—	21.99	—

*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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For fee schedules, contact your financial professional, or if you enter into an agreement directly with Franklin Templeton Private Portfolio Group, LLC ("FTPPG"), refer to FTPPG's Form ADV Part 2A disclosure document. Management and performance of individual accounts may vary for reasons that include the existence of different implementation practices and model requirements in different investment programs.

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Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

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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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