Franklin Municipal Green Bond SMA

Franklin Separately Managed Accounts

Municipals
March 31, 2025

Product Commentary

Performance Review

- The municipal (muni) bond market, as measured by the Bloomberg Municipal Bond Index, posted a slightly negative result for the first quarter of 2025 (Q1). January and February saw positive returns supported by healthy inflows of funds and steady demand, while returns posted in March reversed those gains. Data for US fourth-quarter 2024 gross domestic product showed an annualized increase of 2.4% for the quarter, a deceleration from the third quarter's 3.1% expansion. Growth was driven primarily by consumer and government spending increases, while investments declined. Against this backdrop, the benchmark 10-year US Treasury (UST) note's yield ended Q1 36 basis points (bps) lower, at 4.21%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	A modestly long duration position contributed to results for the quarter as muni bond yields fell.
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HURT	Our underweight to bonds with five to seven years to maturity hurt relative performance for the quarter.
	A tilt toward higher-rated securities detracted from returns as they tended to underperform their lower-quality counterparts.
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Outlook & Strategy

- This strategy invests primarily in muni bonds that promote environmental sustainability, or "green bonds." In order to determine a green bond's authenticity, the investment manager completes due diligence on each bond to be purchased to determine whether it meets the green bond definition. For example, the strategy invests in water and sewer projects that reduce the runoff of wastewater back into the environment and housing projects that have been designated as energy efficient.
- There was a significant swing in market sentiment across Q1 as participants digested the first few months of the new Trump administration. January saw positive excess returns across a number of sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetite during February and March as unclear tariff policies became the market's focus. Throughout the quarter, investment-grade munis underperformed USTs. Despite modest outflows in March, muni funds overall benefited from steady inflows earlier in the quarter.
- Muni credit fundamentals remain broadly stable, with signs of improvement even in sectors that struggled post-pandemic, though revenue growth is moderating, and economic tailwinds are slowing. High reserves and fiscal flexibility continue to support most issuers, and credit ratings are expected to remain steady over the next six months, though sector-specific challenges persist.
- Potential policy changes under the Trump administration, such as the possible elimination of tax exemptions for certain bonds and the cancellation of federal leases, are adding uncertainty to the muni market outlook, alongside broader concerns about how federal decisions may impact local economies. At the same time, US consumer sentiment is softening, and overall uncertainty around the economic growth outlook has increased in response to the administration's proposed reforms and policy direction.
- However, hard data continues to indicate a resilient US economy. The labor market appears to have reached an equilibrium of a low level of both new additions and layoffs, with a still-low unemployment rate, and economic activity remains solid.
- Going forward, our economists are looking to deregulation and tax reforms to support growth over the medium term. The heightened uncertainty surrounding the administration's trade policy and the impact on US businesses makes US Federal Reserve policy difficult to predict. It remains to be seen whether risks are skewed toward a significant slowdown in growth or higher inflation. However, our economists remain optimistic on US growth, considering that the economy remains on solid footing and pro-growth measures are still expected. Consequently, we are penciling in only one 25-bp rate reduction in 2025, though an absence of rate cuts this year is also possible.

Product Details[1]

Inception Date	10/31/2018
Benchmark	Bloomberg Municipal 1-15 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	3 Year	5 Year	Since Inception (10/31/2018)
Franklin Municipal Green Bond SMA - Pure GROSS	-0.03	-0.03	1.31	0.96	0.23	1.80
Franklin Municipal Green Bond SMA - NET	-0.40	-0.40	-0.18	-0.53	-1.25	0.47
Bloomberg Municipal 1-15 Year Index	0.39	0.39	1.57	1.93	1.26	2.22

Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020	2019
Franklin Municipal Green Bond SMA - Pure GROSS	0.77	4.63	-8.93	0.09	5.34	8.30
Franklin Municipal Green Bond SMA - NET	-0.72	3.09	-10.29	-1.39	3.79	7.65
Bloomberg Municipal 1-15 Year Index	0.88	5.26	-5.95	0.86	4.73	6.44

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.

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The primary benchmark for this composite is the Bloomberg Municipal Bond 1-15 Year Index, which is a market value weighted index engineered for the long-term tax-exempt bond market. The index is a broad measure of the municipal bond market with maturities of at least one year.

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

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