

Product Commentary

Performance Review

- Although the US Federal Reserve (Fed) kept its fed funds rate unchanged at the November and December meetings, the dovish tilt in their December Summary of Economic Projections increased the median number of fed funds cuts in 2024 to three. This pivot caused US Treasuries (USTs) yields to rally significantly, pushing the benchmark 10-yr yield lower (which had hit an intra-day mid-October high above 5.00%), ending the period at 3.88%. The resulting positive sentiment spilled over into fixed income sectors as spreads tightened across most of the asset class. Within investment-grade (IG) corporate bonds, spreads for the index tightened 22 basis points (bps) over the period, ending at 99 bps.

QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality
HELPED	Communications	Overweight Insurance	Security Selection in BBB Rated Bonds
	—	Overweight Banking	Overweight A+ Rated Bonds
	—	Overweight Communications	Overweight A Rated Bonds
HURT	Banking	Lack of Technologies	Security Selection in BBB+ Rated Bonds
	US Treasuries (USTs)	Lack of Consumer Cyclicals	Security Selection in AA+ and A+ Rated Bonds
	Insurance	Lack of Real Estate Investment Trusts (REITS)	Underweight BBB- Rated Bonds

- Security selection detracted from the strategy's relative performance for the quarter, led by selection in banking, USTs, and insurance. This was partially offset by contributions from our selection in the communications sector.
- Sector allocations contributed to returns with positive results from overweight allocations to the insurance, banking, and communications segments. In contrast, lack of exposure to sectors including technologies, consumer cyclicals, and REITs hurt results.
- Rating allocations had a neutral impact on performance as gains for our overweights to A+ and A rated bonds, as well as security selection in BBB rated bonds, were offset by our underweight in BBB- rated bonds and security selection in BBB+, AA+, and A+ rated securities.
- Yield curve positioning weighed on returns as our slight underweight to duration curbed our relative performance.

Outlook & Strategy

- The Fed has a lot to be proud of. After a late start, it hiked rates fast and decisively; inflation has declined faster than most forecasters expected, while both growth and the labor market have remained stronger than the market dared to hope. In fact, as Chair Powell reminded us, most analysts predicted the US would fall into recession in 2023. We were at the optimistic end of the spectrum, arguing that if we did see a recession, it would be a short and shallow one.
- Predicting the effects of inflation and growth risks in 2024 is especially hard. Besides the economic uncertainty of a post-pandemic recovery, there is high geopolitical uncertainty, and the US is entering an election year. Fed Chair Powell's decision to supercharge the market rally when financial conditions had already eased substantially suggests that the Fed is much more relaxed about inflation risks. In our view, this dramatic easing in financial conditions increases the chance that the last mile of disinflation will be harder for markets to experience; we believe this could likely cause higher market volatility. Perhaps the last mile will not be that much harder, but it will likely be bumpier than markets now expect.
- Credit spreads tightened in the time period leading up to the Fed's December meeting, as well as afterwards. Within corporate credits, spreads moved to their tightest since January of 2022. All-in yields have fallen with declining UST yields and tighter spreads have made investment-grade (IG) corporate bonds less attractive at current levels as they continue to be priced for perfection past any impacts of slowing economic growth. There remains a significant overhang of idiosyncratic risk as some management teams are beginning to reduce earnings estimates.

Product Details¹

Inception Date	03/31/1994
Benchmark	Bloomberg U.S. Intermediate Government/Credit 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 Separately Managed Accounts, high-net-worth individual and institutional client portfolios and with respect to any periods prior to the inception of Franklin Separately Managed Accounts, reflects the performance of any such other portfolios.

Performance Data²

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception (03/31/1994)
Franklin Intermediate Fixed Income SMA - Pure GROSS	4.21	5.06	5.06	-1.17	1.80	1.77	3.09	4.28
Franklin Intermediate Fixed Income SMA - NET	3.83	3.51	3.51	-2.63	0.36	0.48	1.90	3.16
Bloomberg U.S. Intermediate Government/Credit Index	4.56	5.24	5.24	-1.63	1.59	1.72	2.90	4.23

Calendar Year Returns (USD %)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Franklin Intermediate Fixed Income SMA - Pure GROSS	5.06	-6.90	-1.31	6.12	6.73	0.47	2.24	2.10	1.23	2.65
Franklin Intermediate Fixed Income SMA - NET	3.51	-8.28	-2.77	4.56	5.52	-0.70	1.06	0.95	0.13	1.59
Bloomberg U.S. Intermediate Government/Credit Index	5.24	-8.23	-1.44	6.43	6.80	0.88	2.14	2.08	1.07	3.12

Franklin Separately Managed Accounts claims compliance for the periods January 1, 2004 to the present. Any performance presented prior to that date is not in compliance. **Past performance is not an indicator or a guarantee of future performance.**

Investment Team

Thomas Runkel, CFA
 Years with Firm 36
 Years Experience 40

Jacob K. Chu
 Years with Firm 22
 Years Experience 27

2. Performance information is based on the Franklin Intermediate Fixed Income SMA Composite. Net of fee returns are reduced with a model of 3% for equity and balanced strategies and 1.5% for fixed income strategies. Prior to 1/1/2020, net returns were net of actual total wrap fees and non-fee paying accounts used a model fee. Accounts in the composite may have been charged trading expenses in addition to the standard bundled fee which may reduce pure gross performance. Gross of fee returns for wrap account may be pure gross before wrap fees, including brokerage fees related to trading expenses for transactions executed through the sponsor. Pure gross of fee returns do not reflect the deduction of any expenses, including transaction costs. Returns assume the reinvestment of dividends, interest, and realized and unrealized capital gains and losses.

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Separately Managed Accounts (SMAs) are investment services provided by Franklin Templeton Private Portfolio Group, LLC (FTPPG), a federally registered investment advisor. Client portfolios are managed based on investment instructions or advice provided by affiliated subadvisors of Franklin Templeton. Management is implemented by FTPPG, the designated subadvisor or, in the case of certain programs, the program sponsor or its designee. On December 1, 2022, LMPPG changed its name to Franklin Templeton Private Portfolio Group, LLC (FTPPG).

Franklin Intermediate Fixed Income SMA Composite consists of all fully discretionary accounts with an intermediate taxable fixed income investment objective. The strategy seeks to generate a high level of current income as well as offer total return potential by investing in U.S. government and agency bonds and investment-grade (BBB or better) U.S. corporate bonds. The composite may include wrap fee accounts that pay a fully bundled fee (which includes trading expenses, administrative, custodial and investment management fees charged together as a percentage of the portfolio's assets) and non-wrap accounts that only pay an investment management fee to Franklin.

The benchmark for this composite is the Bloomberg U.S. Intermediate Government/Credit Index. This index is a market value weighted fixed income index comprised of government and corporate fixed-rate debt issues with maturities between one and ten years.

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **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. **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. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

The composite performance results are presented in U.S. Dollars and have been calculated using time-weighted total rates of return. Returns over one year are annualized. All returns assume the reinvestment of dividends, interest, and realized and unrealized capital gains and losses. Periods greater than one year are shown as average annual total returns. Performance data is shown rounded to the nearest hundredth. **Past performance is not an indicator or a guarantee of future performance.**

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