



Franklin Intermediate Fixed Income SMA

First Quarter 2019

Franklin Separately Managed Accounts

Portfolio Profile

INVESTMENT MANAGEMENT TEAM

Tom Runkel, CFA

Vice President

Director of Portfolio Strategies

Years with Firm: 32

Years Industry Experience: 36

Jacob Chu

Vice President

Portfolio Manager

Years with Firm: 18

Years Industry Experience: 22

For more information, please contact your Franklin Templeton separately managed account sales team at (800) 822-8464.

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INVESTMENT PHILOSOPHY

The strategy focuses on investments in high-quality bonds, seeking to take advantage of relative valuation differences between asset classes, sectors, issuers and individual bond issues, with the objective of producing a high level of current income and generating total return opportunities.

INVESTMENT PROCESS

In choosing investments, our intermediate fixed income team follows a disciplined, client-specific process that includes using proprietary, relative value analysis to make top-down allocation decisions among U.S. Treasury securities, U.S. agency securities and corporate bonds. Managers and analysts then perform bottom-up, fundamental research that emphasizes credit quality and liquidity. Portfolios are constructed targeting benchmark neutral duration.

Our portfolio managers do not attempt to make interest rate bets through extending or reducing portfolio duration. Rather, they seek to add value primarily through asset allocation and security selection. Further, each client account is evaluated for risk tolerance, income and liquidity needs, maturity date and sector restrictions.

BENCHMARK

Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index

CURRENT ATTRIBUTES

Credit Sector Spreads Remain Attractive versus Government Sectors

- Corporate credit spreads have rebounded from their 4Q 2018 underperformance but are still wider than their early February 2018 cycle tights.
- We have tactically trimmed our overweight in Corporate credit over the last month and are monitoring the market for another entry point.
- Although relatively late in the business cycle, corporate balance sheets are generally healthy, and the U.S. economy continues to grow at a modest pace, supporting corporate bond valuations.
- Our less economically cyclical holdings should help mitigate potential market volatility.

Five Reasons to Invest in the Franklin Intermediate Fixed Income SMA Today

- 1| We believe our disciplined investment process of identifying relative value opportunities should be rewarded in today's market environment.
- 2| We remain overweight in both the investment grade corporate sector and in government agency senior debt and are well-positioned to benefit from potential spread tightening.
- 3| Higher interest rates could trigger allocation shifts out of low-yielding cash and long duration bonds into intermediate duration assets.
- 4| We are underweight Treasuries and have a position in TIPS as a hedge against inflation.
- 5| Our duration-neutral approach avoids making significant interest rate bets and seeks to limit volatility.

FTI is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FTI has a financial interest.

Not FDIC Insured | May Lose Value | No Bank Guarantee

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COMPOSITE PERFORMANCE SUMMARY (USD)

Average Annual Total Returns (%)

	MARCH 31, 2019									
	1-Month ¹	1-Quarter ¹	YTD ¹	1-Year ¹	3-Year	5-Year	10-Year	15-Year	20-Year	Since Inception ²
Intermediate Fixed Income SMA Composite—"Pure" Gross	1.24	2.55	2.55	4.22	1.60	2.07	3.42	3.54	4.36	4.85
Intermediate Fixed Income SMA Composite—Net	1.22	2.32	2.32	3.07	0.45	0.94	2.32	2.44	3.28	3.79
Bloomberg Barclays U.S. Intermediate Gov/Credit Bond Index	1.35	2.32	2.32	4.24	1.66	2.12	3.15	3.33	4.29	4.82

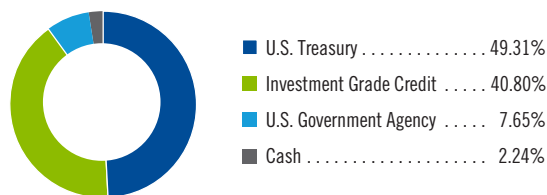
Calendar Year Returns (%)

	YEAR ENDING DECEMBER 31,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Intermediate Fixed Income SMA Composite—"Pure" Gross	6.08	6.89	6.10	5.34	4.99	-0.49	2.65	1.23	2.10	2.24	0.47
Intermediate Fixed Income SMA Composite—Net	4.95	5.77	5.04	4.24	3.90	-1.51	1.59	0.13	0.95	1.06	-0.71
Bloomberg Barclays U.S. Intermediate Gov/Credit Bond Index	5.08	5.24	5.89	5.80	3.89	-0.86	3.12	1.07	2.08	2.14	0.88

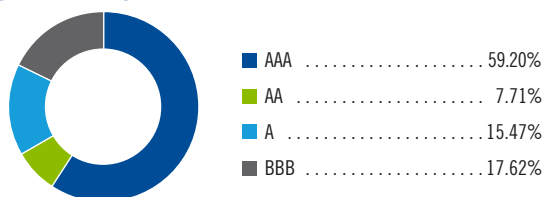
Risk Statistics Period Ending March 31, 2019³

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Standard Deviation				
Intermediate Fixed Income SMA Composite	1.91	2.02	1.98	2.26
Bloomberg Barclays U.S. Intermediate Gov/Credit Bond Index	2.07	2.12	2.08	2.26
Tracking Error	0.56	0.37	0.38	0.73
Information Ratio	-0.04	-0.15	-0.14	0.38
Sharpe Ratio	1.10	0.20	0.67	1.33

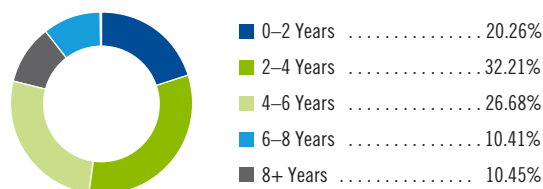
MODEL PORTFOLIO SECTOR BREAKDOWN (% of Total)⁴



MODEL PORTFOLIO QUALITY BREAKDOWN (% of Total)^{4,5}



MODEL PORTFOLIO MATURITY BREAKDOWN (% of Total)⁴



MODEL PORTFOLIO CHARACTERISTICS⁴

	Intermediate Fixed Income SMA	Bloomberg Barclays U.S. Intermediate Gov/Credit Bond Index
Weighted Average Coupon	2.50%	2.70%
Weighted Average Current Yield	2.49%	2.68%
Weighted Average Yield to Worst	2.63%	2.62%
Weighted Average Yield to Maturity	2.63%	2.63%
Weighted Average Price (USD)	\$99.92	\$100.57
Weighted Average Maturity	4.33	4.32
Average Duration	3.87	3.90
Number of Holdings	30	4,843

EXPLANATORY NOTES

The information and opinions stated are as of March 31, 2019, and are based on the Franklin Intermediate Fixed Income SMA Composite, unless otherwise indicated.

1. Cumulative total returns.

2. Inception: 3/31/94.

3. Information is supplemental to the historical performance of the Franklin Intermediate Fixed Income SMA Composite, comprising the portfolios of all accounts following that mandate, and is based on “pure” gross-of-fees performance for that composite. Periods over one year are annualized.

4. Figures may not add up to 100% due to rounding. Cash and equivalents are deemed to have a 0% Maturity and Duration, be Non-Callable and have an AAA rating. Portfolio characteristics, maturity breakdown, duration breakdown, sector breakdown and quality breakdown are based on the Franklin Intermediate Fixed Income SMA model portfolio, representative of the investment strategy. The model portfolio represents the estimated allocation that would be used for new accounts coming in updated as of the end of each calendar quarter. The allocation of existing accounts may differ from the allocation used for new accounts due to differences in the timing of purchases and sales, changes in the purchase and sell list during the course of a quarter, general market conditions, and factors specific to each existing account due to client considerations. The calculation for the weighted average is based on market value weights with the exception of Weighted Average Price. Weighted Average Price is based on par value.

5. Quality Weightings: Ratings shown are assigned by one or more Nationally Recognized Statistical Credit Rating Organizations (“NRSRO”), such as Standard & Poor’s, Moody’s and Fitch. The ratings are an indication of an issuer’s creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned to the country rating provided by an NRSRO, if available. The AA category includes unrated cash equivalents maturing in seven days or less. The NR category consists of rateable securities that have not been rated by an NRSRO. The N/A category may encompass negative cash, net currency forwards, negative derivative exposure (market value), and nonrateable securities (e.g., equities).

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Franklin Templeton Investments

For over six decades, individuals and institutions around the world have viewed Franklin Templeton Investments as a trusted partner in asset management. We leverage the expertise of multiple, independent investment teams to deliver truly specialized expertise across a wide range of styles and asset classes, from traditional to alternative strategies and multi-asset solutions. Our over 170 investment professionals are on the ground across the globe, spotting investment ideas and potential risks firsthand. Collectively, they allow us to offer clients a unique investment perspective, shaped by local expertise, global context and a long-term investment horizon.

COMPLIANCE STATEMENT

Franklin Separately Managed Accounts claims compliance with the Global Investment Performance Standards (GIPS®).

Franklin Separately Managed Accounts (the “firm”) manages domestic equity and fixed income portfolios for high net worth individuals and institutional clients, applying a bottom-up, research-oriented process that utilizes proprietary screening models and top-down risk controls in managing its portfolios. Franklin Separately Managed Accounts is a division of Franklin Templeton Portfolio Advisors, Inc. (“FTPA”), a subsidiary of Franklin Resources, Inc. (“FRI”) and is a unit of the broader Franklin organization. At Franklin Separately Managed Accounts, brokerage, administrative, custodial and investment management fees are charged together as a percentage of the portfolios’ assets (comprehensive fee or “wrap-fee”) or may in some instances be charged separately (unbundled fee). Retail and Institutional separate accounts managed by affiliated Franklin entities are not included in the firm definition. Franklin Separately Managed Accounts was previously known as Franklin Portfolio Advisors prior to June 30, 2012. Franklin Portfolio Advisors was previously known as the Franklin Private Client Group prior to October 1, 2004.

Franklin Intermediate Fixed Income SMA Composite consists of all fully discretionary accounts with an intermediate taxable fixed income investment objective and for which the brokerage (including trading expenses), administrative, custodial, and investment management fees are charged together as a percentage of the portfolios’ assets (“wrap fee”). 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 U.S. corporate bonds. All accounts in the composite have a wrap fee (also known as a bundled or “comprehensive” fee) for all time periods presented. The primary risks inherent in this strategy include interest rate risk and credit risk from the credit component of the strategy. Between June 30, 2012 and December 31, 2012, the composite name was Franklin Intermediate Fixed Income SMA Wrap Fee Composite. Prior to June 30, 2012, the composite name was Franklin Portfolio Advisors Intermediate Fixed Income Composite–Wrap Fee.

Net-of-fees returns have been reduced by the total “wrap-fee” which includes brokerage fees (including trading expenses), administrative, custodial and investment management fees. Gross performance returns presented are “pure” gross-of-fees returns, which are before wrap fees, including brokerage fees related to trading expenses for transactions executed through the sponsor. “Pure” gross-of-fees returns are presented as supplemental information only. Both net- and “pure” gross-of-fees returns assume the reinvestment of dividends, interest, and realized and unrealized capital gains and losses. **Past performance does not guarantee future results and results may differ over future time periods.**

The primary benchmark for this composite is the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index. The benchmark is broadly indicative of the style of the composite and is provided for comparative purposes only to represent the investment environment existing during the time periods shown. The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is a subset of the Bloomberg Barclays U.S. Aggregate Index and includes Treasuries, Government-Related issues and USD Corporates.

The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is an unmanaged index representing the investment environment during the time periods shown. The index is a market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and ten years. It is presented for comparison purposes only and is provided to represent the investment environment existing during the time periods shown.

The information contained in this piece is not a complete analysis of every material fact regarding the market and any industry sector, a security or a portfolio. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to the completeness or accuracy. Because market and economic conditions are subject to rapid change, opinions provided are valid only as of the date of the material. Portfolio holdings and the manager’s analysis of these issuers, market sectors, and of the economic environment may have changed since the date of the material. The manager’s opinions are intended solely to provide insight into how the manager analyzes securities and are not a recommendation or individual investment advice for any particular security, strategy or investment product.

Risk Statistic Definitions:

Standard Deviation: A measure of the degree to which a composite’s returns varies from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that a composite’s performance will fluctuate from the average return.

Tracking Error: The active risk of the portfolio that measures the dispersion of the portfolio’s return minus the benchmark’s return.

Information Ratio: A measure of consistency in excess return. The excess return over a benchmark divided by the standard deviation of excess return.

Sharpe Ratio: The difference between the average portfolio return and the average risk-free return, where risk is defined as the standard deviation of portfolio returns.

Additional information regarding the firm’s policies and procedures for calculating and reporting performance results is available upon request. To receive a complete list of composite descriptions and/or a presentation that adheres to the GIPS® standards for any composite, contact your Franklin Templeton separately managed account sales team at (800) 822-8464 or visit www.franklintempleton.com.



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