

**Product Commentary****Performance Review**

- The municipal (muni) bond market, as measured by the Bloomberg Municipal Bond Index, recorded negative total returns for the first quarter of 2024. However, muni bonds fared better than duration-matched US Treasuries (USTs) and recorded positive excess returns. While the period saw increased investor optimism (backed by the US economy's continued strength), disinflation proceeded slowly, indicating "sticky" price pressures. Consequently, the US Federal Reserve (Fed) pushed back against hopes of imminent rate cuts, though the Fed's updated economic projections from March indicated that policymakers still maintained their outlook for three rate cuts in 2024. Against this backdrop, demand for muni bonds picked up—with positive fund flows year-to-date—while issuance has come in higher than that witnessed over the same period in 2023. Revenue-related issues performed slightly better than general obligation (GO) bonds during the quarter. From a ratings standpoint, lower-rated securities outperformed their higher-quality counterparts.

**QUARTERLY KEY PERFORMANCE DRIVERS**

HELPED	The strategy's duration, which is shorter than that of the benchmark, contributed to relative returns for the period as UST yields rose significantly during the quarter.
	Our underweight to muni bonds with 15 to 20 years to maturity helped results, as did our underweight to bonds with two or fewer years to maturity.
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HURT	An overweight to AAA rated muni bonds, along with an underweight to AA rated munis, detracted from results for the period as lower-rated issues outperformed their higher-quality counterparts. Drawing on the expertise of our dedicated municipal research team, we remain focused on issuers that we believe possess strong fiscal underpinnings.
	The strategy's overweight to bonds with 10 to 15 years to maturity hurt relative performance for the quarter as munis moved in sync with rising UST rates.
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**Outlook & Strategy**

- Investor sentiment oscillated between exuberance at the perceived imminence of a Fed rate cutting cycle and caution due to persistent price pressures, which weighed on tax-free muni bond performance during the quarter. However, technical supply/demand conditions were positive, as new issuance was robust and fund inflows turned positive (driven primarily by flows into retail mutual fund vehicles). Anecdotal evidence suggests that this trend may continue, as asset allocators retain high cash and cash-equivalent balances that they are starting to re-allocate to the sector, and especially if compelling opportunities should arise. Muni bond yields remain at historically elevated levels and can be particularly appealing for those investors who target tax-adjusted yields. A major catalyst that we are looking at for inflows to pick up more significantly is the flattening of the UST yield curve inversion and a return to its typical, upward sloping shape. Going forward, declining yields (when the Fed begins to ease monetary policy) should provide a tailwind for bond investors in 2024.
- Fundamentals in the muni market remain stable and should be supportive of the asset class over the medium to long term. We have likely reached the peak of the credit cycle, which saw rating upgrades significantly outpace downgrades. Going forward, the credit environment is set to normalize over the next year or more, though continued economic stability and improved financial positions should defend against any sharper deterioration. State and local governments have many tools to address potential challenges, particularly as they still retain large "rainy-day" funds that were bolstered by federal COVID-19 aid, increased during the pandemic recovery, and maintained with conservative budgeting and fiscal discipline. Nevertheless, a disciplined fiscal approach will remain crucial to deal with slower revenue growth, the runoff of COVID-related aid, rising expenses and higher borrowing costs. While we are not worried about a spike in defaults, worsening macroeconomic conditions will mean that rigorous bottom-up research and strong security selection will be particularly important in finding those credits that have the potential to outperform across market cycles.
- The US economy continues to exhibit signs of strength. A still-robust labor market and solid wage and real disposable income growth, along with strong household balance sheets, should remain supportive of consumption going forward. Nevertheless, this trend may slow compared with the prior year, due to a significantly smaller savings cushion. In terms of inflation, stubbornly elevated readings for the core and "supercore" Consumer Price Index (i.e., non-housing services inflation) are likely to worry the Fed, which will seek evidence of a sustained move lower before it embarks on monetary policy easing. We continue to think that the last mile of disinflation will prove harder and take longer than many had hoped. This, in turn, can cause some spread volatility over the near term. It is our view that these instances can potentially provide an attractive entry point into the tax-exempt muni bond market. We believe there are opportunities to find value within the sector across the credit spectrum.

**Product Details<sup>1</sup>**

Inception Date	03/31/1995
Benchmark	Bloomberg Managed Money Intermediate Index

**Performance Data<sup>2</sup>****Average Annual Total Returns (USD %)**

	3 Mths	YTD	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception (03/31/1995)
Franklin Intermediate Municipal SMA - Pure GROSS	-0.52	-0.52	1.72	-0.50	1.14	2.07	3.11	4.14
Franklin Intermediate Municipal SMA - NET	-0.89	-0.89	0.21	-1.98	-0.25	0.96	2.13	3.16
Bloomberg Managed Money Intermediate Index	-0.80	-0.80	2.06	-0.47	1.44	2.36	3.35	4.35

**Calendar Year Returns (USD %)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Franklin Intermediate Municipal SMA - Pure GROSS	4.57	-6.39	0.16	4.73	6.10	1.37	3.75	0.24	3.01	6.78
Franklin Intermediate Municipal SMA - NET	3.03	-7.78	-1.32	3.19	5.28	0.57	2.92	-0.58	2.17	5.91
Bloomberg Managed Money Intermediate Index	5.69	-7.22	0.39	5.70	7.10	1.22	4.88	-0.27	3.40	6.83

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**

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Years Experience 26

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Years with Firm 20  
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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.

2. Performance information is based on the Franklin Intermediate Municipal 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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Franklin Intermediate Municipal SMA Composite consists of all fully discretionary accounts with an intermediate municipal fixed income investment objective. 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 portfolios' assets) and non-wrap accounts that only pay an investment management fee to Franklin.

The primary benchmark for this composite is the Bloomberg Managed Money Intermediate Index, which is a rules based, market-value weighted index engineered for the tax-exempt bond market with maturities ranging from one to seventeen years. Prior to September 1, 2021, the primary benchmark was Bloomberg Municipal Bond Index. The benchmark was changed for all periods.

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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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