

# Franklin Income SMA

Commentary | as of March 31, 2026

## Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the artificial intelligence (AI) trade and as geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure spurred a rotation away from mega-capitalization growth stocks and toward value stocks. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns. Moreover, security selection and asset allocation assisted relative performance.
- **Detractors:** Overweight exposure to utilities weakened relative fixed income results, while stock selection among financials detracted from equity returns.
- **Outlook:** We remain vigilant amid ongoing uncertainties, selectively deploying capital during periods of market dislocation to enhance income and long-term total return potential. Having reduced fixed income exposure earlier in the year in favor of equity opportunities, we are now selectively increasing bond allocations as higher yields and wider spreads improve their relative attractiveness to us.

## Performance Review

- Franklin Income SMA (pure gross of fees) **outperformed its benchmark**, the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index, for the quarter ended March 31, 2026. The strategy also outperformed the benchmark on a net of fee basis for the period.
- Over the course of the quarter, the strategy **decreased its fixed income allocation** and **increased its equity exposure**.
- Fixed income allocations to **the energy, health care and materials sectors had a positive effect** on the strategy's absolute performance. Meanwhile, **financials, consumer discretionary and industrials securities hindered returns** during the period.
- On an individual issuer basis, **Venture Global Partners II, Community Health Systems and Tronox Holdings were the top performers** within the strategy's fixed income positioning. In contrast, **Goldman Sachs and Cleveland-Cliffs detracted** from returns.
- In terms of equities, the strategy **benefited from positions within the energy, utilities and materials sectors**. However, **the information technology (IT), financials and consumer discretionary sectors detracted** from absolute returns.
- **Exxon Mobil, Chevron and Albemarle added value** within the strategy's equity holdings. Meanwhile, **Microsoft, International Business Machines and JP Morgan Chase & Co. detracted from returns** during the period.

## Outlook

- **Economy:** The economic growth outlook continues to be a major area of focus for the strategy. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, is weighing on investor sentiment. Moreover, while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and US Federal Reserve policy.
- **Equities:** The start of 2026 has seen elevated equity market dispersion after an extended period of very narrow market leadership, which we feel favors active management. Recently, we have found select opportunities within the financials and IT sectors. Ultimately, given current valuations, we remain selective in engaging with equities and continue to focus on broad diversification across sectors while maintaining flexibility to capitalize on potential dislocations.
- **Treasuries/Government-Backed Bonds:** Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds:** Absolute yield levels remain attractive for an income-generating strategy, but credit spreads remain near cycle lows, despite some recent widening. With credit spreads at current levels, we believe future returns may be driven by interest-rate moves and carry rather than further spread compression.
- **High-Yield Corporate Bonds:** Although we think the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. We maintain a vigilant approach to security selection within our high-yield portfolio, with our preference for companies that have a greater degree of flexibility to address upcoming maturities.

## Top Holdings (% of Total)

Issuer	Portfolio
GOVERNMENT OF THE UNITED STATES OF AMERICA	7.83
COMMUNITY HEALTH SYSTEMS, INC.	3.17
CHEVRON CORP.	2.50
EXXON MOBIL CORP.	2.44
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	2.25
THE SOUTHERN CO.	1.97
THE BOEING CO.	1.90
PROCTER & GAMBLE CO.	1.88
JPMORGAN CHASE & CO.	1.58
PEPSICO, INC.	1.56

## Average annual total returns (%) - as of March 31, 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	3.18	5.41	3.18	11.06	6.71	4.69	—	—	—	—	5.97	6/30/2019
Pure Gross of Fees	3.93	6.97	3.93	14.36	9.90	7.82	—	—	—	—	9.14	6/30/2019
Benchmark	2.79	4.12	2.79	9.66	9.33	5.64	—	—	—	—	6.26	—

\*Cumulative total returns

## Benchmark(s)

Benchmark = Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index

**The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).**

**Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit [www.franklintempleton.com](http://www.franklintempleton.com) for the latest performance figures. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.**

**Fees:** 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" (3.0% is the maximum anticipated wrap fee for equity and balanced 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. 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.

**Franklin Templeton claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.**

**To obtain specific information on available products and services or a GIPS Report, contact your Franklin Templeton separately managed account sales team at (800) DIAL BEN/342-5236.**

## What are the Risks?

**All investments involve risks, including possible loss of principal.** The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results. **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. **Dividends** may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time. **Equity securities** are subject to price fluctuation and possible loss of principal. Investments in **equity-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Active management** does not ensure gains or protect against market declines. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. The **investment style** may become out of favor, which may have a negative impact on performance. 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.

## Glossary

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

## Important Information

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

**These materials are being provided for illustrative and informational purposes only. The information contained herein is obtained from multiple sources that are believed to be reliable. However, such information has not been verified, and may be different from the information included in documents and materials created by the sponsor firm in whose investment program a client participates. Some sponsor firms may require that these materials be preceded or accompanied by investment profiles or other documents or materials prepared by such sponsor firms, which will be provided upon a client's request. For additional information, documents and/or materials, please speak to your Financial Professional or contact your sponsor firm.**

Franklin Templeton (FT) is not undertaking to provide impartial advice. Nothing herein is intended to provide fiduciary advice. FT has a financial interest.

The **MSCI USA High Dividend Yield Index** is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index. The **Bloomberg US High Yield Very Liquid Index (VLI)** is a component of the US Corporate High Yield Index designed to track a more liquid component of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. The **Bloomberg US Aggregate Bond Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. Bloomberg Indices.

Important data provider notices and terms available at [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com). All data is subject to change.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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.

© Franklin Templeton. All rights reserved.

