FRANKLIN TEMPLETON

Franklin Income SMA

Commentary | as of September 30, 2026

Key Takeaways

- **Markets:** US equities, as measured by the S&P 500 Index, advanced over the third quarter, though performance diverged sharply during the period as leadership rotated between value- and growth-oriented areas of the market. Corporate earnings were notably robust, but September saw large-cap growth and technology stocks reassert themselves amid narrowing market breadth, while small-cap stocks posted their weakest month since March 2025.
- **Contributors:** The equity side of the portfolio contributed to the fund's absolute returns. Moreover, an underweight allocation to fixed income assisted relative results, as did stock selection and a slight underweight exposure to equities.
- **Detractors:** Fixed income positioning detracted from absolute performance, while security selection within fixed income weakened relative returns.
- **Outlook:** While markets may continue to react to evolving headlines, we believe the underlying drivers of US economic growth remain intact, supported by ongoing capital investments and resilient US consumer spending. Against this backdrop, diversification and flexibility remain central to our approach as we navigate the rest of the year.

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 September 30, 2026. The strategy also outperformed the benchmark on a net of fee basis for the period.
- Over the course of the quarter, the fund **increased its fixed income allocation** and **decreased its equity exposure**.
- Fixed income allocation to **energy companies had a positive effect** on absolute fund performance. Meanwhile, **US Treasuries (USTs), as well as the information technology (IT) and consumer discretionary sectors, hindered returns** during the period.
- On an individual issuer basis, **Venture Global Partners II, Bausch Health Companies and Cloud Software Group were the top performers** within the fund's fixed income positioning. In contrast, **USTs, Community Health Systems and Oracle detracted** from returns.
- In terms of equities, the fund **benefited from positions within the energy, IT and health care sectors**. However, **utilities, consumer discretionary and industrials companies detracted** from absolute results.
- **Chevron, ExxonMobil and Microsoft added value** within the fund's equity holdings. Meanwhile, **Home Depot, International Business Machines and Morgan Stanley detracted** from returns during the period.

Outlook

- **Economy**: The outlook for economic growth and inflation continues to be a major area of focus for the fund. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, remain sources of volatility. 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**: Following an extended period of concentrated market leadership, 2026 has been characterized by periods of elevated equity market dispersion and significant sector and style rotation, creating opportunities for active stock selection. As leadership narrowed in September, it created opportunities to add to positioning within the financials and utilities 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 have increased relative to 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 look increasingly attractive for an income-generating strategy, but credit spreads remain tight, 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 from meaningful spread compression.
- **High-Yield Corporate Bonds**: Although we think the high-yield market offers attractive yields, we remain balanced and selective with a focus on strong company 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
UNITED STATES TREASURY NOTE/BOND	5.28
CHS/COMMUNITY HEALTH SYSTEMS INC	3.15
ALPHABET INC	2.32
CHEVRON CORP	2.32
EXXON MOBIL CORP	2.30
ORACLE CORP	2.19
AMAZON.COM INC	2.12
PROCTER & GAMBLE CO	1.95
SALESFORCE INC	1.88
JPMORGAN CHASE & CO	1.86

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of September 30, 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	-1.35	0.14	3.32	5.56	7.87	4.02	—	—	—	—	5.57	6/30/2019
Pure Gross of Fees	-0.61	1.63	5.63	8.71	11.09	7.13	—	—	—	—	8.72	6/30/2019
Benchmark	-1.24	2.21	5.06	6.42	10.43	5.54	—	—	—	—	6.13	—

*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).

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Past performance is not a guarantee of future results. An investment in this strategy can lose value. Please visit 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.

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

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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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.

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