FRANKLIN TEMPLETON

Franklin Income SMA

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US equities collectively delivered solid gains during the fourth quarter of 2025, maintaining their upward trajectory against a backdrop of generally robust corporate earnings, despite some mixed economic signals and investor concerns about stretched technology valuations. Continued monetary easing by the US Federal Reserve (Fed), along with a constructive shift in US-China relations, supported investor sentiment.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the strategy's absolute returns, while security selection assisted relative returns.
- **Detractors:** Selection within energy weakened relative fixed income returns.
- **Outlook:** We believe fixed income yields remain attractive, and we are constructive on equity markets despite volatility within certain sectors. Broad diversification and a high degree of flexibility underpin our approach to navigating the year ahead. Our diversified portfolio is designed to pursue income stability while selectively participating in secular growth themes using tools like equity-linked notes.

Top Holdings (% of Total)

Issuer	Portfolio
GOVERNMENT OF THE UNITED STATES OF AMERICA	10.72
COMMUNITY HEALTH SYSTEMS, INC.	3.06
JPMORGAN CHASE & CO.	2.95
EXXON MOBIL CORP.	2.32
THE SOUTHERN CO.	2.19
THE BOEING CO.	2.12
JOHNSON & JOHNSON	2.07
FREDDIE MAC	2.07
CHEVRON CORP.	1.98
MORGAN STANLEY	1.91

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 December 31, 2025. The strategy also outperformed the benchmark on a net of fee basis for the period.
- Over the course of the quarter, the fund **decreased both its fixed income and equity allocations**.
- Fixed income allocations to **the health care and consumer discretionary sectors, as well as securitized products, had a positive effect** on the strategy's absolute performance. Meanwhile, **energy hindered fixed income returns** during the period.
- On an individual issuer basis, **Community Health Systems, US Treasuries and Tronox Holdings were the top performers** within the strategy's fixed income positioning. In contrast, **Venture Global Partners II, FMC and Ardagh detracted** from returns.
- In terms of equities, the strategy **benefited from positions within the health care, materials and financials sectors**. However, **the consumer discretionary and utilities sectors detracted** from absolute returns.
- **Albemarle, Merck & Co. and Johnson & Johnson added value** within the strategy's equity holdings. Meanwhile, **Home Depot, Procter & Gamble and Southern 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, could weigh on investor sentiment and the broader economy. 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 Fed policy. We expect stimulative benefits from 2025 fiscal policy to support growth in early 2026.
- **Equities**: Market breadth in equity markets has narrowed in recent months. While index level valuations are elevated, opportunities continue to evolve below the index levels, which we feel favors active management. 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**: Interest-rate volatility has declined, despite continued uncertainty regarding tariffs and concerns about their ultimate impact on growth, inflation and corporate fundamentals. 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 have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment. With credit spreads at historically tight 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 continue to have a vigilant approach to security selection within our high-yield portfolio, with our preference for companies that have a greater degree of flexibility to deal with upcoming maturities.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns (%) - as of December 31, 2025-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	2.40	5.92	10.30	10.30	7.26	6.09	—	—	—	—	6.65	6/30/2019
Pure Gross of Fees	2.92	7.01	12.58	12.58	9.48	8.29	—	—	—	—	8.86	6/30/2019
Benchmark	1.29	5.16	10.06	10.06	8.81	5.72	—	—	—	—	6.05	—

*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 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: Returns for periods less than one year are not annualized. Pure Gross of fee returns do not reflect the deduction of any expenses, including transaction costs. Net composite returns referenced above represent Pure Gross composite performance of the portfolio reduced by an annual fee of 2.08%, the maximum fee charged by Primerica Advisors to clients invested in the strategy through the Lifetime Investment Platform wrap fee program. Total returns presented assume reinvestment of any dividends, interest income, capital gains, or other earnings. Net-of-fee returns are reduced by a model "wrap fee" which includes trading expenses as well as investment management, administrative and custodial fees. The composite may include account(s) that are gross of fees and pure gross of fees. Pure gross of fees do not include trading costs. Returns reflect the reinvestment of dividends and other earnings. All performance is reported in US dollars.
The composite is comprised of accounts that are separately managed accounts (SMAs) managed in accordance with the strategy.
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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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