Franklin Income SMA

Franklin Separately Managed Accounts

Income
March 31, 2025

Product Commentary

Performance Review

- US stocks experienced heightened volatility during 2025's first quarter amid concerns about US President Donald Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's (Fed's) interest-rate path, with some investors fearing a potential recession or stagflation (i.e., economic stagnation and high inflation). Underwhelming earnings reports and guidance from some companies, as well as significantly lower consumer confidence, also hindered sentiment. Despite reaching record highs early in the quarter, the S&P 500 Index and the Dow Jones Industrial Average ended the period with negative returns. The technology-heavy NASDAQ Composite Index suffered a significantly larger decline than the other two indexes as investors remained concerned about the potential effects of a Chinese company's new artificial intelligence (AI) model on US companies' AI spending. Against this backdrop, four out of the 11 S&P 500 sectors posted negative returns; consumer discretionary and information technology (IT) sold off the most, while the energy sector was a bright spot for performance as investors turned more defensive. Small-capitalization stocks struggled over the quarter, followed by large- and mid-cap equities.
- The Fed kept the federal funds target rate unchanged at its January and March meetings after cutting it three times in 2024 for a total of 100 basis points (bps). The Fed's preferred inflation gauge, the core personal consumption expenditures price index, rose at a higher-than-expected rate in February after cooling in January, remaining well above the Fed's 2% long-run target. The US labor market remained resilient despite economic uncertainty; while the number of new jobs added in February was below consensus expectations, it was higher than the downwardly revised figure for January. Meanwhile, the unemployment rate ticked slightly higher in February after edging lower for two consecutive months. The country's gross domestic product expanded in 2024's fourth quarter at a lower annualized rate than in the previous quarter as growth in consumer spending and government spending was partially offset by a decline in investment.

QUARTERLY KEY PERFORMANCE DRIVERS

	Equity Holdings	Equity Sectors	Fixed Income Holdings	Fixed Income Sectors/Industries
HELPED	Chevron	Energy	US Treasuries (USTs)	USTs
	Johnson & Johnson	Health Care	Federal Home Loan Mortgage	Securitized Products
	Exxon Mobil	Consumer Staples	CVS Health	Health Care
HURT	Target	IT	Community Health Systems	—
	Merck & Co.	Financials	Ardagh Holdings	—
	Broadcom	Industrials	Venture Global Partners II	—

- The 10-year UST note's yield decreased 36 bps during the quarter, reaching 4.21% by period-end. The fund's fixed income allocation decreased to under 52% of the portfolio by quarter-end and contributed to absolute returns.
- The fund's fixed income results were driven by USTs, securitized products and the health care sector. Federal Home Loan Mortgage contributed within securitized products, while CVS Health added value within health care. Although no sectors meaningfully detracted from the fund's fixed income performance, Community Health Systems, Ardagh Holdings and Venture Global Partners II weakened returns.
- The fund's equity allocation increased to roughly 46% of the portfolio by the end of the quarter, and stocks contributed to its absolute returns. The energy, health care and consumer staples sectors generated gains. Chevron and Exxon Mobil assisted returns within energy, while Johnson & Johnson contributed within health care.
- In contrast, the IT, financials and industrials sectors detracted from absolute equity returns. On an individual issuer basis, Target, Merck & Co. and Broadcom hindered returns.

Outlook & Strategy

- **Economy:** The economic growth outlook has been a major area of focus for the fund, as central banks around the world eased monetary policy to finish out 2024 and look to take cues from both inflation and employment data, as well as incoming policy impacts, to determine the path forward. The US economy remains resilient, largely driven by strong consumer spending on both goods and services, and while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions and trade-related risks as leading indicators of future economic performance and Fed policy.
- **Equities:** Following two years of narrow market breadth, 2025 began with underperformance from some of the leading performers over the last couple of years. This has led to increased market volatility and reduced index level valuations from their recent highs. While we remain selective in engaging with equities, the current market pullback has presented opportunities for increased engagement. As income-focused investors, our asset allocation mix is driven primarily by bottom-up security selection, with a focus on company fundamentals as opposed to the direction of the broader equity market. While the capital return story differs by sector, our holdings are focused on businesses that show an ability to support attractive dividend yields and grow them over time.

- **Treasuries/Government-Backed Bonds:** The intermediate part of the yield curve has remained volatile as the outlook for deficit spending, as well as longer-term economic growth and inflation expectations, has had an impact on the belly of the yield curve. 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:** While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment.
- **High-Yield Corporate Bonds:** While the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. The potential for growth deceleration necessitates a vigilant approach to security selection within our high-yield portfolio, so our preference continues to be companies that have a greater degree of flexibility to deal with upcoming maturities.

Product Details[1,2]

Inception Date	06/30/2019
Benchmark	Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index

Performance Data[3,4]

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	Since Inception (06/30/2019)
Franklin Income SMA - Pure GROSS	2.31	2.31	7.24	4.00	11.57	8.25
Franklin Income SMA - NET	1.79	1.79	5.06	1.88	9.32	6.06
Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index	3.18	3.18	7.08	4.78	8.35	5.68

Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020
Franklin Income SMA - Pure GROSS	7.21	8.73	-4.33	18.62	9.01
Franklin Income SMA - NET	5.03	6.52	-6.29	16.24	6.80
Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index	8.08	8.28	-8.00	11.44	4.62

Past performance is not an indicator or a guarantee of future performance.

Investment Team

Edward D. Perks, CFA
Years with Firm 32
Years Experience 32

Brendan Circle, CFA
Years with Firm 10
Years Experience 14

Todd Brighton, CFA
Years with Firm 24
Years Experience 24

1. **FOR PRIMERICA'S USE ONLY**
2. 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 Templeton, high-net-worth individual and institutional client portfolios and with respect to any periods prior to the inception of Franklin Templeton, reflects the performance of any such other portfolios.
3. Performance information is based on the Franklin Income SMA Composite. 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 Program 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. For investors that access strategies through the Primerica Advisors Lifetime Investment Program, Primerica Advisors or its service providers, not Franklin Templeton Private Portfolio Group, LLC (FTPPG), is responsible for implementing the strategy in your account. Gross performance of the strategy, as implemented by Primerica Advisors, will vary from FTPPG's composite performance. Net performance for individual investors will vary based on the fees charged by Primerica Advisors, as well as Primerica Advisors' management of its program and each client's account.
4. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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The Custom Franklin Income Strategy Benchmark is equivalent to the Blended 50% MSCI USD High Dividend Yield Index + 25% Bloomberg US High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index. The primary benchmark for the composite is a custom benchmark of 50% MSCI USA High Dividend Yield Index (USA High Div Yield) + 25% Bloomberg U.S. High Yield Very Liquid Index (High Yield Very Liquid) + 25% Bloomberg U.S. Aggregate Index (US Agg Index). 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, its parent index. The Bloomberg U.S. High Yield Very Liquid Index is a component of the U.S. Corporate High Yield Index designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. The Bloomberg U.S. Aggregate Index is a market value weighted fixed income index comprised of investment grade government, corporate, mortgage pass-through and asset-backed securities that are SEC registered, taxable, dollar denominated and fixed rate. The benchmark is rebalanced monthly.

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