

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	3.41	5.88	3.41	12.05	7.67	5.63	—	—	—	—	6.93	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 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.

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The composite is comprised of accounts that are separately managed accounts (SMAs) managed in accordance with the strategy.

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Glossary

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

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