



Franklin Limited Maturity Municipal SMA

Franklin Separately Managed Accounts

Municipals
March 31, 2025

Product Commentary

Performance Review

- The municipal (muni) bond market, as measured by the Bloomberg Municipal Bond Index, posted a slightly negative result for the first quarter of 2025 (Q1). January and February saw positive returns supported by healthy inflows of funds and steady demand, while returns posted in March reversed those gains. Data for US fourth-quarter 2024 gross domestic product showed an annualized increase of 2.4% for the quarter, a deceleration from the third quarter's 3.1% expansion. Growth was driven primarily by consumer and government spending increases, while investments declined. Against this backdrop, the benchmark 10-year US Treasury (UST) note's yield ended Q1 36 basis points (bps) lower, at 4.21%.

QUARTERLY KEY PERFORMANCE DRIVERS

HELPED	The strategy's overweight to muni bonds with 10 or more years to maturity contributed to relative results as muni bond yields fell over the quarter.
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HURT	The strategy's underweight to overall duration detracted from relative performance for the quarter. This impact was driven by an underweight to bonds with five to 10 years to maturity.
	The strategy's tilt toward higher-rated bonds curbed results as lower-quality issues fared better than their higher-quality counterparts.
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Outlook & Strategy

- There was a significant swing in market sentiment across Q1 as participants digested the first few months of the new Trump administration. January saw positive excess returns across a number of sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetite during February and March as unclear tariff policies became the market's focus. Throughout the quarter, investment-grade munis underperformed USTs. Despite modest outflows in March, muni funds overall benefited from steady inflows earlier in the quarter.
- Muni credit fundamentals remain broadly stable, with signs of improvement even in sectors that struggled post-pandemic, though revenue growth is moderating, and economic tailwinds are slowing. High reserves and fiscal flexibility continue to support most issuers, and credit ratings are expected to remain steady over the next six months, though sector-specific challenges persist.
- Potential policy changes under the Trump administration, such as the possible elimination of tax exemptions for certain bonds and the cancellation of federal leases, are adding uncertainty to the muni market outlook, alongside broader concerns about how federal decisions may impact local economies. At the same time, US consumer sentiment is softening, and overall uncertainty around the economic growth outlook has increased in response to the administration's proposed reforms and policy direction.
- However, hard data continues to indicate a resilient US economy. The labor market appears to have reached an equilibrium of a low level of both new additions and layoffs, with a still-low unemployment rate, and economic activity remains solid.
- Going forward, our economists are looking to deregulation and tax reforms to support growth over the medium term. The heightened uncertainty surrounding the administration's trade policy and the impact on US businesses makes US Federal Reserve policy difficult to predict. It remains to be seen whether risks are skewed toward a significant slowdown in growth or higher inflation. However, our economists remain optimistic on US growth, considering that the economy remains on solid footing and pro-growth measures are still expected. Consequently, we are penciling in only one 25-bp rate reduction in 2025, though an absence of rate cuts this year is also possible.

Product Details^{1,2}

Inception Date	12/31/1999
Benchmark	Linked Bloomberg Municipal Managed Money Short/Intermediate (1-10 Year) Index

1. 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.

2. Prior to July 1, 2022, the index used was the Bloomberg Municipal Bond 3 Year (2-4 Y) Index. After July 1, 2022, the index used was the Bloomberg Municipal Managed Money Short/Intermediate (1-10 Year) Index.

Performance Data

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception (12/31/1999)
Franklin Limited Maturity Municipal SMA - Pure GROSS	0.39	0.39	1.62	1.59	0.68	1.28	2.25	2.74
Franklin Limited Maturity Municipal SMA - NET	0.02	0.02	0.12	0.09	-0.80	-0.12	1.37	1.98
Linked Bloomberg Municipal Managed Money Short/Intermediate (1-10 Year) Index	0.48	0.48	1.23	1.91	1.16	1.32	2.20	2.66

Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Franklin Limited Maturity Municipal SMA - Pure GROSS	0.69	4.00	-5.06	-0.30	3.63	4.54	1.76	2.10	-0.04	2.44
Franklin Limited Maturity Municipal SMA - NET	-0.80	2.47	-6.47	-1.77	2.10	3.89	0.93	0.22	-1.78	1.27
Linked Bloomberg Municipal Managed Money Short/Intermediate (1-10 Year) Index	-0.17	4.48	-2.61	0.40	2.97	3.67	1.76	1.56	0.08	1.18

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward). Please visit www.franklintempleton.com for the latest performance figures. Past performance is not a guarantee of future results. An investment in this strategy can lose value.

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" 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.

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Investment Team

Jeff Snyder
Years with Firm 27
Years Experience 27

Dylan G. Sanderson
Years with Firm 21
Years Experience 21

Francisco Rivera
Years with Firm 30
Years Experience 31

Chris Sperry, CFA
Years with Firm 29
Years Experience 29

Lloyd Nemerever, CFA
Years with Firm 3
Years Experience 32

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The Bloomberg Managed Money Short/Intermediate Index covers the investment grade USD-denominated tax exempt bond market. It is a subset of the US Municipal Index and includes only bonds issued within the past 5 years with a maturity range of one to ten years. Bonds must have an index rating Aa3 and above. Bonds whose purpose is for health care or housing are excluded. The index was created in April 2005 with monthly data backfilled to its inception date of July 1, 1993.

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**FRANKLIN
TEMPLETON**

One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN/342-5236
franklintempleton.com