

Franklin Rising Dividends SMA

Commentary | as of September 30, 2025

Key Takeaways

- Markets: US equities delivered strong performance over the third quarter of 2025, buoyed by increasing clarity around tariff policy and easing trade tensions, anticipation of interest-rate cuts and the ongoing strength in artificial intelligence (AI)-driven technology-related companies. The US Federal Reserve's (Fed's) interest-rate cut in September also supported market sentiment, as did generally robust corporate earnings. The S&P 500 Index ended the quarter at new record highs. Ten of the 11 S&P 500 sectors advanced, led by information technology (IT), communication services and consumer discretionary. The consumer staples sector was the sole decliner. In this environment, growth investing surpassed value in the large-capitalization tier, though that was reversed in the mid- and small-cap segments. Small-cap stocks overall performed better than their large- and mid-cap counterparts.
- Contributors: A lack of exposure to the real estate sector contributed on a relative basis, along with stock selection in the health care and consumer discretionary sectors.
- Detractors: The key driver of underperformance across the IT and communication services sectors and the
 automobiles industry (in the consumer discretionary sector) was the strategy's lack of exposure to several heavilyweighted, growth- and technology-oriented index constituents—including chipmaker NVIDIA, Google parent Alphabet,
 electric vehicle maker Tesla and data analytics company Palantir Technologies—that advanced sharply but did not meet
 the portfolio's dividend screen for investment.
- Outlook: Our view has been that the United States will likely reach trade agreements with key partners while finding some common ground with China, thereby supporting economic growth. We believe further economic support should come from favorable tax policy, deregulation, onshoring, IT productivity gains and infrastructure spending. As we had anticipated, second-quarter earnings reports reflected both the impact of uneven order patterns from prior tariff fears, as well as the incorporation of tariffs into full-year guidance. We believe the portfolio is well-positioned, should near-term turbulence return in the US equity markets, given our focus on resilient companies that can drive free cash flow during tougher environments. Over the last year-plus, we have made changes to the portfolio intended to improve its potential to perform relative to its benchmark across a full a business cycle. By adding to areas of higher conviction and broadening exposures to what we view as attractive secular themes, we have seen improved performance in stronger markets, while still demonstrating attractive downside capture.

Performance Review

- Over the quarter, Franklin Rising Dividends SMA (pure gross of fees) underperformed its benchmark, the S&P 500 Index. The strategy also underperformed the index on a net-of-fee basis for the period.
- A lack of exposure to NVIDIA (IT sector) and Google parent Alphabet (communication services) combined to account for
 more than half of the portfolio's quarterly relative underperformance as these companies' shares advanced sharply. Neither
 company meets the strategy's dividend screen for investment.
- Within the portfolio's holdings, the largest relative detractor was diversified software company Roper Technologies, which
 may have exhibited ongoing weakness amid an intra-sector IT rotation toward more Al-driven firms. Roper posted solid
 second-quarter revenue growth and raised its guidance, but profit-margin pressures and investor concerns around the cost
 of acquisitions in a competitive environment weighed on the stock. We appreciate Roper's free cash flow generation and
 transition to an asset-light, software-focused business.
- Enterprise cloud software provider Oracle was the strategy's largest relative contributor. The company's strong cloud
 revenue growth, robust earnings and upbeat forward guidance helped lift its stock. Shares declined in August amid a broad
 pullback in Al-related stocks but rebounded in September, surging higher as the company reaffirmed robust demand,
 reported a massive backlog and booked revenue forecast for its Oracle Cloud Infrastructure business.

Outlook

- We remain cautiously optimistic, despite ongoing tariff-related uncertainty: Our view is that the United States will likely reach trade agreements with key partners, which should support economic growth. We believe further support could come from favorable tax policy, deregulation, onshoring and infrastructure spending. Despite the positive backdrop, we anticipate that third quarter earnings could be mixed, given that prior tariff fears resulted in some uneven order patterns during the first and second quarters. We believe the portfolio is well-positioned, should near-term turbulence return in equity markets, given our focus on resilient companies that can drive free cash flow during tougher environments. We are focused on determining the earnings outlook for our portfolio holdings, as well as those of companies we are considering for investment.
- We also actively monitor key gauges of economic activity, as well as policy announcements, to evaluate if adjustments to
 position sizing are warranted. One positive development is that US inflation has moderated and is trending toward the Fed's
 goal.
- We aim for attractive performance across full market cycles. As market volatility has increased at times in 2025, we have seen some opportunities to add to certain holdings. We believe the portfolio is well-positioned for a range of economic outcomes.
- We remain encouraged by dividend trends for our portfolio companies, which have continued to grow their dividends faster
 than the overall market. Despite elevated uncertainty and some recent reductions in earnings estimates for the broader
 market, earnings are still expected to grow for the S&P 500 Index this year, implying that dividend growth could follow. We
 regard recent company announcements in relation to dividend increases as encouraging. Even if trends were to soften, we
 believe dividend growth for companies held in the portfolio has the potential to outpace that of the broader market over time.

Top Equity Issuers (% of Total)

Holding	Portfolio
Microsoft Corporation	9.37
Broadcom Inc.	5.35
Oracle Corporation	3.68
Apple Inc.	3.57
Visa Inc. Class A	3.19
JPMorgan Chase & Co.	3.15
Linde plc	2.81
Walmart Inc.	2.73
Stryker Corporation	2.54
Texas Instruments Incorporated	2.41

Average annual total returns (%) - as of September 30, 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	4.29	11.60	9.35	6.03	13.37	9.31	10.12	_	_	_	8.82	6/30/2015
Pure Gross of Fees	5.05	13.23	11.78	9.20	16.73	12.57	13.40	_	_	_	12.07	6/30/2015
Benchmark	8.12	19.96	14.83	17.60	24.94	16.47	15.30	_	_	_	14.16	_

^{*}Cumulative total returns

Benchmark(s)

Benchmark = S&P 500 Index

The strategy returns shown are preliminary composite returns, subject to future revision (downward or upward).

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Glossary

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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