

Franklin Rising Dividends SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** US equities broadly declined during the first quarter of 2026 as the escalating conflict in the Middle East weighed heavily on markets. Oil prices surged, renewing concerns about inflation and raising further uncertainty over the path of monetary policy. Many technology-focused stocks declined during the quarter, especially software names, as investors reassessed the durability of the artificial intelligence (AI) trade amid a rotation away from mega-capitalization technology stocks and toward more cyclical and defensive areas of the market. The energy sector advanced sharply, while materials and utilities also outperformed. Information technology, financials and consumer discretionary were among the largest declining sectors.
- **Contributors:** Stock selection in the consumer discretionary sector, as well as the semiconductor and semiconductor equipment industry. Overweights to materials and industrials.
- **Detractors:** Stock selection in the health care and financials sectors, and an overweight to Microsoft. An underweight allocation to the consumer staples sector and an overweight to the information technology sector.
- **Outlook:** While macro uncertainty—including the path of interest rates, geopolitics and technological disruption—may contribute to bouts of volatility, we believe that well-managed businesses with the ability to grow free cash flow can remain well positioned to sustain and raise dividends over time.

Performance Review

- During the quarter, Franklin Rising Dividends SMA Composite (pure gross of fees and net of fees) underperformed its primary benchmark, the Nasdaq US Broad Dividend Achievers Index, due to sector allocation effects and stock selection. The strategy held up better than its secondary benchmark, the S&P 500 Index, for the quarter.
- Performance detractors included stock selection in the health care and financials sectors, an underweight in the consumer staples sector and overweight positions in the information technology sector, led by Microsoft amid AI spending concerns, softer Azure results, and broader weakness in software and mega-cap technology stocks. An off-benchmark position in Ares Management weighed on returns amid private credit concerns, while an underweight in Exxon Mobil pressured relative performance as its shares rose due to rising oil prices.
- Semiconductor equipment maker Applied Materials (not part of the benchmark) reported better-than-expected quarterly results and guidance amid robust demand tied to AI processors and customers' expanding production amid a global memory chips shortage
- Positioning in the consumer discretionary sector contributed to relative returns, largely due to a position in off-price retailer Ross Stores (not part of the benchmark), which benefited from resilient demand from value-focused consumers. Overweight allocations to the materials and industrials sectors also aided performance. Within materials, industrial gasses firm Linde was a top overall contributor as shares rebounded following a quarterly earnings beat, robust 2026 guidance and a dividend raise.

Outlook

- The war in Iran, which began in late February, created a great deal of uncertainty, and while the escalation weighed on global equity markets in March, strategies focused on quality and resilience remained relatively well positioned. The portfolio has demonstrated its effective downside capture characteristics relative to the S&P 500 Index during this period.
- As geopolitical tensions in the Middle East have shown some signs of easing in subsequent weeks, we have patiently looked for opportunities that we believe could benefit the strategy should the equity market begin to once again favor more cyclical leaders. If so, market drivers that we believe were present at the beginning of the year could lead the market in the second quarter and through the second half of 2026. In our view, a gradual normalization of economic growth and inflation, increased dispersion across sectors and a renewed focus on fundamentals and cash flow durability, should again be beneficial to the strategy.
- In this setting, we see attractive opportunities for dividend growth investors, as companies with strong balance sheets, pricing power and disciplined capital allocation continue to differentiate themselves from more leveraged or speculative peers. While macro uncertainty—including the path of interest rates, geopolitics and technological disruption—may contribute to bouts of volatility, we believe that well-managed businesses with the ability to grow free cash flow can remain well positioned to sustain and raise dividends over time.
- Our strategy remains focused on identifying high-quality companies with durable competitive advantages and financial flexibility to compound income and total return for shareholders through a full market cycle.

Top Equity Issuers (% of Total)

Holding	Portfolio
Microsoft Corporation	5.98
Broadcom Inc.	4.61
Apple Inc.	3.86
JPMorgan Chase & Co.	3.73
Walmart Inc.	3.50
Linde plc	3.30
Visa Inc. Class A	3.06
Eli Lilly and Company	2.91
Johnson & Johnson	2.63
Morgan Stanley	2.61

Average annual total returns (%) - as of March 31, 2026

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	-3.11	-2.97	-3.11	8.28	6.96	5.70	8.79	—	—	—	8.09	6/30/2015
Pure Gross of Fees	-2.39	-1.52	-2.39	11.51	10.16	8.86	12.03	—	—	—	11.31	6/30/2015
Benchmark 1	-0.24	1.68	-0.24	13.82	14.23	10.67	11.68	—	—	—	11.56	—
Benchmark 2	-4.33	-1.79	-4.33	17.80	18.32	12.06	14.16	—	—	—	13.27	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=NASDAQ US Broad Dividend Achievers Index

Benchmark 2=S&P 500 Index

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Fees: 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" (3.0% is the maximum anticipated wrap fee for equity and balanced portfolios) 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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What are the Risks?

All investments involve risks, including possible loss of principal. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. **Dividends** may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time. **Equity securities** are subject to price fluctuation and possible loss of principal. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. **Active management** does not ensure gains or protect against market declines. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

Glossary

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

Important Information

Effective February 1, 2026, the portfolio changed its primary benchmark to the Nasdaq US Broad Dividend Achievers® Index.

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or portfolio. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the portfolio's selection process. Holdings are subject to change.

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The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. The **Linked Nasdaq US Broad Dividend Achievers® Index** reflects performance of the S&P 500 Index from the fund's inception through 12/05/2003 and Nasdaq US Broad Dividend Achievers® Index thereafter. The **Nasdaq US Broad Dividend Achievers® Index** includes US companies with at least ten consecutive years of increasing annual dividend payments.

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