



Franklin Small Cap Growth SMA

Franklin Separately Managed Accounts

Growth
March 31, 2025

Product Commentary

Performance Review

- US equities experienced heightened volatility during the first quarter of 2025 amid concerns about President Donald Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's interest-rate path, with some investors fearing a potential recession or stagflation (economic stagnation and high inflation). Underwhelming earnings reports and guidance from some companies and significantly lower consumer confidence also hindered sentiment. US stocks collectively declined in the first quarter, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index ending with losses. Small-capitalization stocks struggled over the quarter, followed by large- and mid-cap equities. In all three market-cap tiers, value stocks outperformed growth, with large-cap value stocks ending modestly positive.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Intra-Cellular Therapies Inc.	Information Technology (Stock Selection)
	Kratos Defense & Security	Industrials (Stock Selection)
	Beacon Roofing Supply Inc.	Communication Services (Stock Selection)
HURT	Freshpet Inc.	Financials (Stock Selection)
	Allegiant Travel Co.	Consumer Staples (Stock Selection)
	Flywire Corp.	Health Care (Stock Selection, Underweight)

- The fund underperformed the Russell 2000 Growth Index benchmark in the first quarter of 2025. Relative performance was significantly hurt by stock selection in the financials sector and a position in Flywire. The company reported a fourth-quarter 2024 revenue miss and dramatically reduced its 2025 outlook, sending the shares of the payments processor lower. Flywire provides services specifically designed to help international students manage their education payments more easily. This is a core business for the company and changes in student visa policies in Canada has impacted the number of international students it services.
- A leading individual detractor was an off-benchmark position in Freshpet in the consumer staples sector. The pet food company issued fourth-quarter 2024 financial results that missed consensus analyst estimates, causing its stock to decline. The company reported modest fourth-quarter top-line growth deceleration; however, it saw strong volume trends and significant profit-margin upside following continued operational and cost-management improvements.
- While health care was a relative detractor at the sector level, the fund's off-benchmark investment in Intra-Cellular Therapies (sold by period end) was a top relative contributor. The shares of the biopharmaceutical company soared following news of its acquisition by Johnson & Johnson (not a fund holding).

Outlook & Strategy

- Recent equity market volatility is not surprising given the uncertainty about tariffs and their potential impact on the economy. As clarity emerges, we are likely to learn more about the new presidential administration's investor-friendly policies, such as deregulation and tax cuts, which should help improve investor sentiment, in our view.
- In broad terms, consumers continue to spend, employment is still stable, corporate earnings remain fairly steady, and we are on the cusp of an innovation-led business cycle driven by artificial intelligence (AI) and factory reshoring (i.e., moving production back to the company's home country). While the Magnificent Seven group of US mega-capitalization technology-related stocks played a key role in 2024's equity market rally, we see growing opportunities beyond these market leaders.
- As bottom-up fundamental investors, our focus is on analyzing individual companies rather than broader market trends or economic cycles. We invest in sectors that, in our analysis, deliver consistent, sustainable earnings growth and are backed by potentially sustainable secular growth tailwinds, such as information technology with its advancements in AI. We believe the health care sector can be one of the biggest beneficiaries of innovation, whether it is AI applications or new drug discoveries. We are also paying attention to the industrials sector as the United States undergoes an industrial renaissance with companies reshoring their production and new technology making factories more competitive on a world-class basis.
- Our strategy is designed to address both upward and downward market cycles, which are historically not unusual in equity markets. A diversified approach helps us participate in both ongoing market strength and anticipated rotation in market leadership. We invest in what we regard as great businesses positioned to potentially benefit from secular growth over a long-term horizon.

Product Details¹

Inception Date	12/31/1997
Benchmark	Russell 2000 Growth Index

Not FDIC Insured | No Bank Guarantee | May Lose Value

Performance Data²

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	10 Year	20 Year	Since Inception (12/31/1997)
Franklin Small Cap Growth SMA - Pure GROSS	-11.74	-11.74	-6.74	1.56	11.68	8.10	9.94	9.99
Franklin Small Cap Growth SMA - NET	-12.42	-12.42	-9.48	-1.41	8.44	5.76	7.99	8.03
Russell 2000 Growth Index	-11.12	-11.12	-4.86	0.78	10.78	6.14	8.06	6.31

Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Franklin Small Cap Growth SMA - Pure GROSS	13.27	29.70	-28.76	-0.21	43.66	33.53	0.82	22.71	8.87	-3.76
Franklin Small Cap Growth SMA - NET	9.99	25.98	-30.90	-3.12	39.57	31.84	-0.57	21.08	7.36	-5.00
Russell 2000 Growth Index	15.15	18.66	-26.36	2.83	34.63	28.48	-9.31	22.17	11.32	-1.38

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

Michael McCarthy, CFA
Years with Firm 32
Years Experience 33

Brad Carris, CFA
Years with Firm 23
Years Experience 23

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2. 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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Franklin Small Cap Growth SMA Composite consists of all fully discretionary accounts with a small cap growth investment objective and for which the brokerage (including trading expenses), administrative, custodial, and investment management fees are charged together as a percentage of the portfolio's assets ("wrap fee"). All accounts in the composite have a wrap fee (also known as a bundled or "comprehensive" fee) for all time periods presented. Effective April 2, 2012, Franklin Advisers, Inc., assumed responsibility for Franklin Separately Managed Accounts' small cap strategy accounts, including those in the Franklin Small Cap Growth SMA Composite. Franklin Advisers, Inc. is a sub adviser to Franklin Separately Managed Accounts.

The primary benchmark for this composite is the Russell 2000 Growth Index, which is a float-adjusted market capitalization weighted equity index comprised of securities of small-cap U.S. companies with high price-to-book ratios and high forecasted growth values.

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