Higher Equity Allocations Support Relative Results in the Fourth Quarter

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Franklin LifeSmart Funds Q&A

Q4 2024

During a challenging period for investment markets, six of the 10 LifeSmart Portfolios performed better than their respective benchmarks.

Portfolios benefited from higher equity allocations relative to fixed income compared to their benchmarks during a quarter when rising interest rates weighed on bond markets.

In fixed income, overweight allocations to the United States and underweights to international bonds strengthened relative results.

How were market conditions in the fourth quarter of calendar 2024?

Global equities collectively rose in local-currency terms in the fourth quarter of 2024, but the US dollar's strength against most currencies contributed to a slight decline in US-dollar terms. As measured by MSCI indexes in US-dollar terms, developed market equities fared better than a global index, while emerging market equities underperformed it. In terms of investment style, global growth stocks significantly outperformed global value stocks.

US stocks generally advanced in the fourth quarter despite retreating in December, with the S&P 500 Index, Dow Jones Industrial Average and NASDAQ Composite Index reaching new record highs. During the quarter, the US Federal Reserve (Fed) lowered the federal funds target rate by 25 basis points (bps) in November and another 25 bps in December. However, Fed Chair Jerome Powell's statement following the December meeting that policymakers can be more cautious about future rate cuts and the Fed's projection of two rate cuts in 2025—a decrease from the four cuts projected in September—weighed on stocks.

Outside the United States, European stocks generally declined in the fourth quarter due to investor concerns about the region's economic outlook, earnings warnings from automobile and consumer goods companies, political turmoil in Germany and France, and US President-elect Donald Trump's tariff threats. The region's stocks were further pressured by the US dollar's strength against the euro and the British pound. Most Asian equity markets declined in the fourth quarter amid investor concerns about political instability in South Korea, a potential US-China trade conflict and uncertainty whether China's stimulus measures are enough to end the country's real estate crisis. Meanwhile, Japan's gross domestic product grew sequentially in the third quarter at a slower pace than in the previous quarter.

Over the period, US Treasury (UST) yields moved higher across much of the curve, largely reflecting changing interest-rate expectations. Spread sectors generally tightened for the period as measures of credit-related stress improved somewhat. Ultra-short-dated bonds witnessed declines, while yields increased across longer tenors.

How did the glide path—or starting point for each portfolio—impact performance during the three months ended December 31, 2024?

LifeSmart Retirement Fund portfolios benefited from higher equity allocations relative to benchmarks during a quarter when rising interest rates weighed on bond markets. In longer-dated vintages, these cross-asset contributions were more than offset by detractive fund selection in US equity. Returns for Advisor Class ranged from -2.31% to -1.04%.

Each LifeSmart Retirement Fund invests in a mix of stocks and bonds, creating a diversified target-date portfolio designed for a retirement saver expecting to retire around the date in each trust's name. We use an important tool called a glide path to adjust allocations among asset classes over time, helping reduce risk approaching the target date. With the glide path as a reference point, our portfolio managers make tactical decisions and invest in actively managed strategies, seeking to outperform their index-based benchmarks.

What strategies contributed to or detracted from benchmark-relative performance?

Six of the 10 vintages performed better than their respective benchmarks in the fourth quarter as positive contributions from cross-asset allocations, along with regional allocations within asset classes, supported relative returns. In contrast, fund selection tended to detract from relative performance.

Relative returns were strengthened by a fixed income underweight and equity overweight, reflecting our cross-asset tactical preference. Looking at fixed income performance for most funds, a fixed income US overweight and international underweight supported results, as did fund selection in the United States. Within equity, an underweight to emerging markets strengthened relative returns in longer vintage LifeSmart funds.

Among the underlying funds contributing to relative performance, Franklin U.S. Core Equity Fund's performance was supported by stock selection in the information technology (IT) and health care sectors. Franklin Emerging Market Core Equity Fund also benefited relative returns, helped by stock selection in the consumer discretionary and real estate sectors and, on a regional basis, in China and South Korea. Franklin High Yield Corporate Bond ETF strengthened relative performance as corporate earnings supported fundamentals for sector bonds

In shorter-vintage, fixed income-oriented LifeSmart funds, selection in international fixed income detracted as BrandywineGLOBAL Global Opportunities Bond Fund underperformed in the quarter. Conversely, fund selection in US equity hampered relative returns, as Putnam Large Cap Value Fund and Franklin Growth Fund detracted. Putnam Large Cap Value Fund's relative performance was impaired by value stocks collectively trailing growth stocks. In addition, an underweight position in the top-performing financials sector, and overweight positions in relatively weak materials and health care sectors weighed on returns. For Franklin Growth Fund, stock selection in the IT sector detracted, as did stock selection in, and an overweight allocation to the industrials sector.

In international equity, Templeton Foreign Fund weighed on relative returns due to stock selection in the consumer discretionary and IT sectors, along with an overweight in South Korea and stock selection in the United Kingdom.

In shorter-vintage, fixed income-oriented LifeSmart funds, selection in international fixed income detracted as BrandywineGLOBAL Global Opportunities Bond Fund underperformed in the quarter. The fund's interest rate and currency positioning detracted from higher yields and a stronger US dollar.

In total, how did the glide path, tactical allocation, and security selection impact performance relative to peers?

In near-retirement vintages, we increase allocations to more defensive assets and integrate flexibility to retreat from equity during turbulent markets, especially during the retirement savings home stretch.

What is your near-term outlook for the markets?

The election of Donald Trump as US president in late 2024 promises to change the global political and economic landscape, likely ushering in a period of US protectionism that is set to impact most investable assets. The new government's prospective policies broadly supported our current cross-asset positioning as of period-end and our views on the evolution of markets heading into 2025, but they also increase uncertainty.

At the same time, global growth remains constructive, in our view, supported by positive leading economic indicators. We believe macroeconomic-driven risks are navigable, while improving corporate fundamentals provide greater justification for elevated valuations in equities, in our opinion.

US exceptionalism remains our dominant global investment theme moving into 2025, driven by the promise of pro-growth policies from the new Trump administration. A divergence in economic strength was already evident prior to the election results, but it will become more apparent, in our view, as the new US government adopts protectionist rhetoric and implements policies designed to bolster the US economy at the expense of trading partners.

Our preferred leading indicators of global growth support this dynamic. Indices from the Organisation for Economic Cooperation and Development (OECD) and Economic Cycle Research Institute (ECRI) are positive for equities and fixed income but show signs of weakness in several major global economies including Japan, the United Kingdom and China. The trend is also evident in other leading indicators, notably Purchasing Managers' Index (PMI) data, which appears to us to be increasingly skewed toward the services sector, as the specter of US trade tariffs contributes to a decline in manufacturing activity.

The outlook for equity markets outside North America is more fragile. Euro-area inflation has loosely mirrored the United States in recent months, firming to 2.2% year-on-year in November as it hovers stubbornly above target, but the European Central Bank is likely to be more concerned about euro-area growth that remains below 1% year-on-year.

A decisive plan for European investment remains elusive due to political uncertainty in Germany and France, creating a structural impediment to growth acceleration in the region and impacting investor sentiment, in our opinion. December PMI data showed that the pace of job cuts in the eurozone accelerated to its fastest in four years, as companies responded to a deepening downturn in manufacturing activity, while corporate fundamentals were weak, as measured by both trailing data and forward estimates.

Turning to fixed income, the prospect of an expansionary US fiscal policy has put greater upward pressure on longer-term UST yields. This is evidenced by an increasing term premium, as price-sensitive investors demand compensation for the unquantifiable risks linked to higher trade deficits and a greater volume of bond issuance, in our opinion. In broad terms, we believe USTs offer better value than they did just in November, given a rise in 10-year UST yields. Outside of the United States, we have a preference for international government bonds.

Franklin LifeSmart Retirement Target Funds

Performance returns (%) as of 12/31/2024

							Expense ratio (%)	
Advisor Class	**Q4**	**1 Year**	**5 Year**	**10 Years**	**Since Inception**	**Inception Date**	**Gross**	**Net**
Franklin LifeSmart 2060 Retirement Target Fund	3.75	18.65	—	—	8.58	1/29/2021	4.72	0.45
2060 Blended Benchmark	4.39	19.65	—	—	—			
Franklin LifeSmart 2055 Retirement Target Fund	3.78	18.77	10.25	—	8.18	5/1/2015	1.43	0.45
2055 Blended Benchmark	4.39	19.65	10.40	—	—			
Franklin LifeSmart 2050 Retirement Target Fund	3.78	18.59	10.30	8.53	8.95	7/1/2013	1.12	0.45
2050 Blended Benchmark	4.30	19.40	10.33	8.86	—			
Franklin LifeSmart 2045 Retirement Target Fund	3.54	17.54	9.76	8.21	7.45	8/1/2006	0.86	0.45
2045 Blended Benchmark	3.95	18.21	9.79	8.57	—			
Franklin LifeSmart 2040 Retirement Target Fund	3.17	16.15	9.03	7.80	8.29	7/1/2013	0.96	0.45
2040 Blended Benchmark	3.44	16.45	8.81	8.03	—			
Franklin LifeSmart 2035 Retirement Target Fund	2.86	14.76	7.95	7.17	6.82	8/1/2006	0.76	0.45
2035 Blended Benchmark	2.97	14.74	7.62	7.36	—			
Franklin LifeSmart 2030 Retirement Target Fund	2.48	13.19	6.80	6.43	7.00	7/1/2013	0.83	0.45
2030 Blended Benchmark	2.46	12.96	6.38	6.60	—			
Franklin LifeSmart 2025 Retirement Target Fund	2.10	11.57	5.74	5.65	5.96	8/1/2006	0.73	0.45
2025 Blended Benchmark	1.94	11.16	5.19	5.76	—			
Franklin LifeSmart 2020 Retirement Target Fund	1.72	9.92	4.71	4.70	5.36	7/1/2013	0.97	0.45
2020 Blended Benchmark	1.43	9.39	4.04	4.74	—			
Franklin LifeSmart Retirement Income Fund	2.18	10.13	4.51	4.11	4.99	8/1/2006	1.12	0.50
Income Blended Benchmark	1.17	8.32	3.09	3.85	—			
MSCI All Country World Index	4.68	20.72	11.03	9.77	—			
Bloomberg Multiverse Index	-1.14	0.62	-1.87	0.43	—			

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 04/30/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Principal invested is not guaranteed at any time, including at or after the fund's retirement target date; nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. The investment risk of the retirement target fund changes over time as its asset allocation changes. Investments in underlying funds are subject to the same risks as, and indirectly bear the fees and expenses of, the **underlying funds**. **Equity securities** are subject to price fluctuation and possible loss of principal. **Fixed income securities** involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **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**. **Investments in equity-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. These and other risks are discussed in the fund's prospectus.. **Managed Distribution Policy Risks** - The fund is not guaranteed to achieve its investment goal nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. In addition, some of its distributions may be treated in part as a return of capital, which will decrease shareholders' cost basis in the fund and affect the amount of any capital gain or loss that they realize when selling or exchanging fund shares. The annual payout rate may be adjusted higher or lower from year to year and could vary substantially over time. It is possible for the fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its distributions to shareholders under the managed distribution policy. Investors who hold the fund within a tax-advantaged retirement account should consult their tax professionals to discuss tax consequences of receiving cash distributions. In addition, use of the fund or election of the option to receive distribution payments in cash may be restricted in certain retirement plans by the terms of the governing plan documents and/or the discretion of the plan administrator. Investors are strongly advised to consult with their financial professionals for assistance before selecting the appropriate fund, based on their goals and personal situations, including time horizon, retirement income needs, risk tolerance, and tax bracket. These and other risks are discussed in the funds' prospectuses.

The Blended Benchmark for LifeSmart Retirement Income is an allocation of 40% MSCI AC World Index-NR and 60% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2020 is an allocation of 51% MSCI AC World Index-NR and 49% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2025 is an allocation of 60% MSCI AC World Index-NR and 40% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2030 is an allocation of 69% MSCI AC World Index-NR and 31% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2035 is an allocation of 77% MSCI AC World Index-NR and 23% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2040 is an allocation of 86% MSCI AC World Index-NR and 14% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2045 is an allocation of 93% MSCI AC World Index-NR and 7% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2050 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2055 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. The Blended Benchmark for LifeSmart 2060 is an allocation of 95% MSCI AC World Index-NR and 5% Bloomberg Multiverse Index. Allocations for the funds' Blended Benchmark reflect or map the fund's current target asset class allocations and may not be representative of the funds' historical asset class allocations. Prior to May 1, 2019, the Blended Benchmarks had an allocation to FTSE 3 Month U.S. T-Bill Index.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. The **Bloomberg Multiverse Index** provides a broad-based measure of the global fixed-income bond market. Source: Bloomberg Indices. Important data provider notices and terms available at www.franklintempletondatasources.com.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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