FRANKLIN TEMPLETON

Franklin Rising Dividends SMA

Franklin Separately Managed Accounts

Blend
March 31, 2025

Product Commentary

Performance Review

- US equities experienced heightened volatility and declined 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 (Fed's) interest-rate path. Some investors feared a potential recession or stagflation (i.e., economic stagnation and high inflation). Underwhelming earnings reports and guidance from some companies and significantly lower consumer confidence also hindered sentiment. The Fed kept the federal funds target rate unchanged at its January and March meetings after cutting it three times in 2024 for a total of 100 basis points. Despite reaching new closing highs earlier in the quarter, the S&P 500 Index ended the quarter with negative returns. The technology-heavy NASDAQ Composite Index suffered a significantly larger decline as investors remained concerned about the potential effects of a Chinese company's new artificial intelligence (AI) model on US companies' AI spending. The consumer discretionary and information technology (IT) sectors were the S&P 500's worst performers as mega-capitalization technology stocks led the index lower. Seven of the 11 S&P 500 sectors advanced, led by energy's double-digit gain, as investors turned more defensive. Health care, utilities and consumer staples were also leading outperformers. By market capitalization and investment style, as measured by Russell indexes, small-cap stocks struggled over the quarter, followed by large- and mid-cap equities. Value stocks outperformed growth across the board, with the large-cap tier ending modestly positive.

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Roper Technologies Inc.	Information Technology (Stock Selection)
	Apple Inc.	Consumer Discretionary (Stock Selection)
	Abbott Laboratories	Materials (Overweight)
HURT	Broadcom Inc.	Utilities (Underweight, Stock Selection)
	nVent Electric plc	Real Estate (Lack of Exposure)
	West Pharmaceutical Services Inc.	Industrials (Stock Selection)

- The IT and consumer discretionary sectors accounted for most of the relative contribution to the strategy's performance, driven largely by a lack of exposure to chipmaker NVIDIA and electric vehicle maker Tesla, respectively. Not owning Google parent company Alphabet also bolstered relative returns. These and other mega-capitalization technology stocks declined on concerns about slowing economic growth, policy uncertainty amid new tariffs and AI competition from China after the January reveal of a Chinese start-up's cheaply developed (but relatively effective) new AI model. None of these stocks meet the strategy's dividend screen for investment.
- Within the strategy's holdings, diversified software company Roper Technologies was the largest relative contributor. Its shares advanced sharply, aided by a solid earnings report in late January. A balanced contribution of organic and inorganic revenue growth fueled better-than-expected earnings. Strong demand for Roper's specialized software products and opportunities from recent acquisitions prompted Roper to raise revenue growth guidance for 2025.
- In contrast, semiconductor and software giant Broadcom was a key detractor amid broader macroeconomic concerns, tariff uncertainty and a pullback in the AI sector. After Broadcom's share price doubled in 2024, a positive mid-March earnings report failed to offset investor worries about global trade tensions, long-term AI demand and increased competition. While its stock detracted, Broadcom's forecast of stronger-than-expected second-quarter revenues, bolstered by what Chief Executive Officer Hock Tan said was strong demand for costly, custom chips for AI infrastructure and data centers, demonstrates the company's strong competitive positioning.

Outlook & Strategy

- We remain optimistic about the opportunities we see across sectors in the US equity market. We began the year with sentiment and business confidence showing improvement, given the overall strength of the US economy and consumers' ongoing resilience. More recently, we have seen some of that enthusiasm decline as fears of slower growth from policy changes, particularly related to tariffs, have emerged. The path forward, and thus the impact of new tariffs is unknown. We remain focused on corporate health and messaging from management teams about orders and capital spending plans, insofar as they may reflect adjustments to new trade policy. With the higher level of uncertainty, we are monitoring events and looking for indications of how our portfolio companies might be impacted. While the situation remains fluid and volatility has increased, we continue to focus on the fundamental performance for companies we hold—or could hold—in the portfolio.
- One positive development is that inflation has moderated and is trending toward the Fed's goal. We remain watchful regarding important data points for inflation and any impact they might have on the path for interest rates for 2025 and beyond, but we are encouraged by this development. Business-friendly tax policy and deregulation should generally be supportive of equity valuations.
- Until recently, we saw tremendous excitement around the technology sector, and AI in particular. Companies across many other sectors also reported solid results throughout the year. Ideally, improving corporate fundamentals should contribute to greater market breadth beyond the group of companies known as the Magnificent Seven, which were market leaders in recent years.

- Dividend growth for the broad stock market roughly mirrors earnings growth and continues to be positive. We remain encouraged by dividend trends for our portfolio companies, which continue to grow their dividends faster than the overall market. Even with elevated uncertainty and some recent reduction in earnings estimates for the broader market, earnings are still expected to grow for S&P 500 Index companies this year. If that holds, dividend growth for 2025 should follow. It is possible that our view regarding dividend growth could become more cautious if economic conditions deteriorate, but we think recent trends and company announcements regarding dividend increases are encouraging. If trends were to soften, we would expect dividend growth for companies held in the portfolio to outpace dividend growth for the broader market, as has historically been the case.
- We continue to believe that a diversified portfolio consisting of high-quality, market-leading companies is well-placed to take advantage of market opportunities over the long term. Secular themes that occur over an extended period can help drive capital appreciation opportunities in stronger markets, as well as provide support for businesses in tougher times. While we focus on companies that we believe have strong long-term prospects and generally have low turnover within the strategy, we also believe that being nimble and looking to take advantage of volatility as opportunities arise can aid performance.
- We aim to pursue attractive performance across full market cycles, and we continue to believe that in 2025 market volatility is likely to provide additional opportunities to invest in companies with strong business models that have resilient, growing earnings streams and sustainable cash flows, at what we believe are attractive prices. As market volatility has increased in early 2025, we have seen some opportunities to add to holdings. We believe the portfolio is well-positioned for a range of economic outcomes.

Product Details[1]

Inception Date	06/30/2015
Benchmark	S&P 500 Index

Performance Data[2]

Average Annual Total Returns (USD %)

	3 Mths	YTD	1 Year	3 Year	5 Year	Since Inception (06/30/2015)
Franklin Rising Dividends SMA - Pure GROSS	-1.28	-1.28	2.43	5.86	16.00	11.29
Franklin Rising Dividends SMA - NET	-2.02	-2.02	-0.55	2.78	12.65	8.07
S&P 500 Index	-4.27	-4.27	8.25	9.06	18.59	12.81

Calendar Year Returns (USD %)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Franklin Rising Dividends SMA - Pure GROSS	11.70	12.87	-10.06	27.75	17.19	31.43	-4.62	21.32	15.04
Franklin Rising Dividends SMA - NET	8.46	9.60	-12.71	24.10	13.80	27.68	-7.42	17.84	11.72
S&P 500 Index	25.02	26.29	-18.11	28.71	18.40	31.49	-4.38	21.83	11.96

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.

Performance data represents past performance, which does not guarantee future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate with market conditions, and you may have a gain or loss when you sell your shares. 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.

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 periods prior to the inception of Franklin Templeton, reflects the performance of such other portfolios. **Past performance is not an indicator or a guarantee of future performance.**
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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The primary benchmark for this composite is the S&P 500 Index. The S&P 500 Index is a free float-adjusted market capitalization weighted equity index comprised of securities of large cap U.S. companies.

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