

Franklin Focused Growth ETF

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** Global equities collectively rose during 2025's second quarter (2Q25) after bouncing back from their April lows. Nine out of the 11 global equity sectors advanced; information technology (IT), communication services and industrials produced the highest returns, while energy and health care retreated. In terms of investment style, global growth stocks significantly outperformed their value counterparts, regardless of company size. US President Donald Trump's sweeping "reciprocal" tariffs sparked market volatility, but easing trade tensions and delayed tariff hikes reduced recession fears and supported consumer sentiment despite elevated inflation in some parts of the world, amid minimal market impacts from the Israel-Iran conflict and oil price fluctuations.
- **Contributors:** Favorable stock selectivity versus the benchmark index, especially in the IT and industrials sectors. To a lesser extent, a strategic lack of exposure to the underperforming energy, materials and real estate sectors also boosted relative returns.
- **Detractors:** Detrimental overweightings in consumer staples distribution and retail as well as life sciences tools and services; and a lack of exposure to utilities companies.
- **Outlook:** We remain optimistic about the resilience of the US economy even in this environment of policy uncertainty. Technology, in general—and artificial intelligence (AI), robotics and hyperscale cloud computing, in particular—is inherently disinflationary and a large enough force to affect the entire economy through increased productivity.

Performance Review

- Despite elevated portfolio volatility throughout 2Q25, strong stock selection—particularly in the IT, industrials, consumer discretionary and communication services sectors—helped the fund outperform the benchmark Russell 1000 Growth Index by a wide margin in an up market.
- Our biggest sector exposure over the past several years has been IT, and 2Q25 was no different as IT covered 47.26% of the portfolio. This has served us well, as nothing has come close to the performance of IT companies since the fund's inception in 2016. However, over the April–June span, we maintained a 2.3 percentage-point underweighting in IT and trimmed some positions because innovation is spreading beyond IT into the entire economy. While this level of exposure slightly pressured relative returns, it had little impact on the much larger positive influence of stock selection.
- Within IT, having no exposure to Apple gave the fund a major upside boost in relative terms, as the company shed just over 7% of its equity value. We also saw exceptional rallies in overweighted or off-index IT holdings in various industries, led by Taiwan Semiconductor Manufacturing, Broadcom and NVIDIA in semiconductors and semiconductor equipment; Cloudflare in IT services; and ServiceNow and AppLovin in software.
- Outside the IT sector, notable contributors included heavily overweighted stakes in Axon Enterprise in the aerospace and defense industry, commission-free trading platform Robinhood Markets (purchased during the period) in capital markets and Meta Platforms in interactive media and services; along with rallying consumer discretionary sector positions in Latin American e-commerce and fintech giant MercadoLibre (off-benchmark) in broadband retail, and food delivery and logistics platform provider DoorDash (overweight). In particular, Robinhood's share price more than doubled due to strong financial performance (including record net deposits and revenue growth), expansion into cryptocurrencies with tokenized trading and a new Layer 2 blockchain, and bullish analyst upgrades driven by increased trading volumes.
- Given the magnitude of the fund's 2Q25 results, the detractors were comparatively mild. In the financials sector, an overweight position in Mastercard increased mildly and captured only a fraction of the benchmark index's overall gain, while a comparatively smaller investment in Tradeweb Markets depreciated slightly. In a similar vein, the gain for our solitary position in the consumer staples sector—Costco Wholesale—was far behind the index.
- Elsewhere in the portfolio, relative outperformance in the IT sector was trimmed by a slightly below-benchmark exposure to Microsoft as its share price rose more than 30% in 2Q25. Software industry results were further compromised by keeping about seven times the index's weighting in HubSpot as its shares declined modestly, and by our lack of investments in several high-flying index component companies like Oracle, Palantir Technologies and CrowdStrike Holdings. In health care, off-benchmark Argenx sold off in the biotechnology industry, as did off-index Thermo Fisher Scientific (sold by June-end) in life sciences tools and services, while medical robotics specialist Intuitive Surgical posted lagging gains versus the index.

Outlook

- We are hopeful and enthusiastic about the potential and current productivity gains from AI, as its use cases continue to develop. Large language models (LLMs) are advancing at a fast pace, with the first returns on investment starting to coalesce, notably in the digital advertising space. Use cases are also being proven elsewhere, including in e-commerce, finance and health care. Additionally, AI developers are increasingly focused on achieving agentic AI. Areas where agentic AI is quickly taking shape include software development and deep research.
- We are tracking other bright spots for innovation in the economy beyond AI, including aerospace and defense, cryptocurrency, robotics, genomics and green energy. Regarding aerospace and defense, a new class of companies are challenging the primacy of large, established defense contractors. These nimble companies are developing new technologies, including autonomous drones and sophisticated military software. The crypto space is also maturing, with relevant applications in smart contracts and payment systems coming to the fore. The use cases for robotics are also accelerating as AI improves the software behind the hardware. Genomics is still early in its development, with scientists and managers addressing the complexities of the medicine to achieve US Food & Drug Administration approval. Finally, green energy initiatives continue to advance worldwide, with the cost curve—particularly for solar energy—coming down and with new ideas around nuclear and geothermal energy grabbing attention.

Top Equity Issuers (% of Total)

Holding	Fund
NVIDIA CORP	12.22
MICROSOFT CORP	10.35
META PLATFORMS INC	8.79
AMAZON.COM INC	8.79
BROADCOM INC	5.02
MASTERCARD INC	4.11
SERVICENOW INC	3.84
COSTCO WHOLESALE CORP	3.77
TESLA INC	3.55
ALPHABET INC	3.24

Sector Allocation (% of Total)

Sector	Fund
Information Technology	47.26
Communication Services	16.44
Consumer Discretionary	16.29
Health Care	6.76
Financials	6.36
Consumer Staples	3.77
Industrials	2.92
Cash & Cash Equivalents	0.18

Average annual total returns and fund expenses (%) - as of June 30, 2025

Product	Ticker	Listed Exchange	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross Expenses	Net Expenses	Inception Date
Market Price Return	FFOG	Cboe	25.91	10.06	10.06	19.54	28.95	15.23	—	18.49	0.55	0.55	4/13/2016
NAV Returns	—	—	25.84	9.93	9.93	19.57	28.90	15.20	—	18.48	0.55	0.55	4/13/2016
Benchmark	—	—	17.84	6.09	6.09	17.22	25.75	18.15	—	18.14	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =Russell 1000 Growth Index

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. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expense or sales charges. Returns for periods of less than one year are not annualized. For current month-end performance, please visit franklintempleton.com. Prior to the Fund's listing on 11/6/2023, the NAV performance for the Advisor shares of the predecessor mutual fund are used as a proxy for market price returns. The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

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. The **investment style** may become out of favor, which may have a negative impact on performance. **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. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks could be magnified in **Emerging Markets**. Because the Fund is **non-diversified**, it may be more sensitive to economic, business, political or other changes affecting individual issuers or investments than a diversified fund. 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. These and other risks are discussed in the fund's prospectus.

Important Information

Effective November 6, 2023, Franklin Focused Growth Fund reorganized into this ETF. This fund has an identical investment goal and substantially similar investment strategies as its predecessor fund.

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. 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 fund's portfolio selection process. Holdings are subject to change.

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The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. Source: FTSE.

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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.