FRANKLIN TEMPLETON

Franklin Focused Growth ETF

FFOG | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** Global equities made further gains in the fourth quarter of 2025 (4Q25), rounding off a year of strong returns for the asset class. Despite some mixed economic signals and investor concerns about the stretched valuations of many technology-related stocks, investors remained broadly optimistic about artificial intelligence (AI) advancements and the potential for a continued easing of US monetary policy. A backdrop of generally robust corporate earnings and a constructive shift in US-China relations underpinned sentiment, as did two reductions in policy interest rates by the US Federal Reserve. International developed market and emerging market stocks outperformed, while US equities lagged. Globally, value stocks narrowly outpaced their growth counterparts.
- **Detractors:** Unfavorable stock selection versus the benchmark Russell 1000 Growth Index in the communication services, information technology (IT), consumer discretionary, financials and industrials sectors.
- **Contributors:** Underweighting in consumer staples and a strategic lack of portfolio exposure to the underperforming utilities, real estate, materials and energy sectors, all of which declined on the index. IT holdings garnered mild support from a combination of underweighting and stock selection in the software industry, while consumer discretionary holdings were aided by strong stock selection and underweighting in the specialty retail industry.
- **Outlook:** We expect continued technological transformation driven by core development themes around the byte, the atom and the gene. Gains across the economy from generative and agentic AI, robotics and genomics may even accelerate this rate of change. Our fundamental research gives us an edge in predicting when new technologies are likely to be adopted and monetized as the economic paradigm shifts.

Top Equity Issuers (% of Total)

Holding	Fund
NVIDIA CORP	14.67
MICROSOFT CORP	9.46
AMAZON.COM INC	8.69
ALPHABET INC	7.37
BROADCOM INC	5.93
META PLATFORMS INC	4.91
APPLE INC	4.85
TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD	3.87
TESLA INC	3.62
SHOPIFY INC	3.01

Performance Review

- Franklin Focused Growth ETF (Market Price return) had mixed 4Q25 results and underperformed its benchmark based on security selection, offset slightly by effective allocation choices across several sectors and industries.
- We kept strategic overweight positions across key growth sectors such as IT, consumer discretionary and communication services at period-end; when combined, these allocations averaged more than 84% of the portfolio, and they all declined. Keeping roughly a quarter of the benchmark's average exposure to IT bellwether Apple (purchased during the period) was a hindrance as Apple shares bucked the IT sector's downtrend and rose modestly. All six of the portfolio's software holdings also sold off, including heavily-overweighted AppLovin and Cadence Design Systems, though underweight Microsoft provided some relative-return support as its share price dropped. The fund also lagged the index's gains among semiconductor industry stocks as we lacked exposure to several companies that rallied solidly on the index.
- For IT and many tech-related firms, 4Q25 marked a "strategic inflection" with a move away from speculative AI-driven growth narratives toward greater scrutiny of profitability, balance sheets and sustainable growth models. That shift means companies that cannot convincingly show near-term earnings or realistic growth trajectories risk being rerated or punished disproportionately—and many in the IT sector fall into that "at risk" category. We continue to invest selectively, favoring tech and tech-adjacent companies offering what we believe are clear paths to profitability rather than pure growth/AI hype.
- In communication services, overweighting and stock selection worked against us in the entertainment industry, where Roblox, a popular online platform for user-created games and virtual experiences, sustained double-digit percentage losses in 4Q25. In the interactive media and services industry, maintaining roughly twice the benchmark's average weight in Meta Platforms proved detrimental as its share price fell about 10%.
- Consumer discretionary detractors were concentrated among off-index, non-US e-commerce companies such as Sea (Asia) and MercadoLibre (Latin America), partially offset by the gain in US-based Amazon.com (overweight). In the hotels, restaurants and leisure industry, the overweighting in DoorDash was about five times the benchmark average, which proved detrimental as its share price fell substantially.
- In terms of key contributors, biotechnology holdings benefited from stock selection and collectively rose more than 28%, led by key overweight contributors Natera and Argenx. In health care equipment and supplies, our solitary investment in Intuitive Surgical was an outlier to the upside while most of its industry peers sold off on the index.
- In consumer staples, the fund incurred a much smaller 4Q25 loss than the index in Costco Wholesale because we liquidated the position and subsequently avoided the brunt of the selloff. Within IT, a few off-index or overweighted semiconductor-related holdings advanced solidly, including Taiwan Semiconductor Manufacturing. Results in IT were further supported by the rally in off-index Shopify (IT services).

Outlook

- **We are hopeful and enthusiastic about current and potential productivity gains from AI, as its use cases continue to develop.** Large language models and Generative AI continue to advance rapidly, with returns on investment increasingly visible as deployments scale beyond experimentation. Early monetization has been most evident in digital advertising, while adoption is accelerating across e-commerce, financial services, health care and manufacturing, where AI is improving decision-making, automating knowledge work, and enabling predictive maintenance through "digital twins." A key evolution is the shift from assistive tools toward agentic AI, which refers to systems capable of planning, reasoning and acting autonomously. This is already taking shape in software development, enterprise workflows and deep research. In medicine, multimodal AI models are enabling earlier and more accurate diagnoses. In 2026, we expect business attention to shift further toward application-layer software and vertically integrated solutions, as maturing agentic systems begin to drive durable productivity gains across the broader economy. At the same time, we are tracking other bright spots for innovation in the economy beyond AI, including space, defense, cryptocurrency, robotics, genomics and green energy.

Average annual total returns and fund expenses (%) - as of December 31, 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	-1.62	6.39	17.09	17.09	34.13	11.08	—	18.20	0.55	0.55	4/13/2016
NAV Returns	—	—	-1.62	6.42	16.99	16.99	34.09	11.06	—	18.19	0.55	0.55	4/13/2016
Benchmark	—	—	1.12	11.75	18.56	18.56	31.14	15.32	—	18.47	—	—	—

*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.*
The NAV returns include returns of the Advisor Class shares of the predecessor mutual fund prior to the ETF's commencement of operations on 11/3/2023. Prior to the ETF's listing on 11/6/2023, the NAV performance for the Advisor Class shares of the predecessor mutual fund is 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 3, 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.

ETFs and ETPs trade like stocks, fluctuate in market value and may trade at prices above or below the ETFs/ETPs net asset value. Brokerage commissions and ETF expenses will reduce returns. ETF/ETP shares may be bought or sold throughout the day at their market price, not their Net Asset Value (NAV), on the exchange on which they are listed. Shares of ETFs/ETPs are tradable on secondary markets and may trade either at a premium or a discount to their NAV on the secondary market. **Canada:** This content is intended only for Canadian institutional investors that qualify as "permitted clients" as defined in National Instrument 31-103 - Registration Requirements, Exemptions and Ongoing Registrant Obligations. U.S. securities laws generally limit a non-U.S. fund's purchase of a U.S. registered mutual fund or ETF/ETP (a "U.S. Fund") to no more than 3% of the U.S. Fund's voting stock. You should consult your legal counsel prior to investing in a U.S. Fund.

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

Source: FTSE.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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.