

# Franklin Senior Loan ETF

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. A subsequent 90-day pause for most of the increased levies and the passage of the "One Big Beautiful Bill" spending package after quarter-end helped reduce fixed income market uncertainties. Against this backdrop, bank loan sector returns were generally positive with tighter spreads.
- **Contributors:** Overweight in the broadcasting industry and underweight in the food/tobacco segment. Loan selection in aerospace, retail and service issuers. Underweight in Upper-Tier loans and overweight in Middle-Tier loans relative to the benchmark.
- **Detractors:** Overweight in the consumer non-durable industry and underweight in the cable/wireless and diversified media segments. Allocation to equity received from prior restructurings. Cash exposure. Loan selection in health care, information technology and manufacturing issuers. Underweight in Lower-Tier loans relative to the benchmark.
- **Outlook:** Although bank loan fundamentals in general have remained relatively healthy, we expect loan market bifurcation to persist. Against this backdrop, we remain focused on diligent security selection.

## Performance Review

- During the quarter, our overweight in the consumer non-durable industry and underweight in the cable/wireless and diversified media segments hindered results. Our allocation to equity received from prior restructurings also detracted from performance, as did our cash exposure. Conversely, our overweight in the broadcasting industry and underweight in the food/tobacco segment contributed to results.
- Our loan selection in health care, information technology and manufacturing issuers weighed on relative performance. Conversely, our loan selection in aerospace, retail and service issuers contributed to results.
- The fund's underweight in Upper-Tier loans and overweight in Middle-Tier loans relative to the benchmark was positive for returns. Conversely, the fund's underweight in Lower-Tier loans relative to the benchmark hindered results.

## Outlook

- During the period, technical conditions remained strong, with spreads trending tighter. While there has been an increase in new issuance activity, new money opportunities remain limited, and supply is tight, while demand from new collateralized loan obligation (CLO) issuance and retail flows remains steady. Technical tailwinds have led to opportunistic refinancing and repricing deals. A return of merger and acquisition transactions could contribute toward relieving the supply-and-demand imbalance and be supportive of bank loan spreads. We continue to believe that overall loans will continue to be supported by healthy demand in the current interest-rate environment, both from retail investors and CLOs.
- Bank loan fundamentals in general have remained relatively healthy. Recent geopolitical tensions stemming from the Iran conflict have led to a muted response from markets. Investors and issuers alike remain in a wait-and-see mode regarding implementation of the latest round of US tariffs on most trading partners (which was subsequently extended to August 1).
- We expect loan market bifurcation to persist. While there are solid oversubscribed credits currently trading at par-plus with tight spreads, we are encouraged to see investor discipline on issuances that have historically been stressed. Amid relatively stable (though bifurcated) fundamentals, higher-for-longer rates, policy uncertainty and the potential for trade war re-escalation, we could continue to see pressure on ratings in the near term. We believe pockets of volatility should be viewed as opportunities to add to positions among issuers that are fundamentally sound, with solid competitive advantages and strong balance sheets. Against this backdrop, we remain focused on diligent security selection.

## Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	0.13 Years
30-Day SEC Yield (Fund)—With Waiver	6.71%
30-Day SEC Yield (Fund)—Without Waiver	6.70%

## Sector Allocation (% of Total)

Sector	Fund
Technology/Information Systems	22.59
Finance	12.72
Services	8.56
Health Care	7.51
Retail	5.14
Transportation	4.74
Industrial	4.23
Gaming/Leisure	3.89
Other	24.05
Cash & Cash Equivalents	6.58

## Credit Quality Exposure (% of Total)

Rating	Fund
AA	0.09
A	0.09
BBB	1.66
BB	16.20
B	67.74
CCC	1.94
NR	3.83
Not Applicable	1.87
Cash & Cash Equivalents	6.58

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	FLBL	Cboe	2.40	2.62	2.62	6.75	9.67	6.54	—	5.00	0.45	0.45	5/30/2018
NAV Returns	—	—	2.45	2.63	2.63	6.72	9.55	6.57	—	4.96	0.45	0.45	5/30/2018
Benchmark	—	—	2.75	3.21	3.21	7.78	10.09	6.93	—	5.39	—	—	—

\*Cumulative total returns

Benchmark(s)

Benchmark =Morningstar LSTA US Leveraged Loan 100 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](http://franklintempleton.com). Net Asset Value (NAV) returns are based on the NAV of the ETF; Market Price returns are based upon the official closing price of the ETF's shares. Returns are average annualized total returns, except for those periods of less than one year, which are cumulative. Market Price returns are calculated using the closing price as of 4 p.m. Eastern time on each trading day (when NAV is normally determined for most funds), and do not represent the returns you would receive if you traded shares at other times. Performance for the ETF and its benchmark index are as of the ETF's last trading day before the end of the period. Since shares of the Fund did not trade in the secondary market until after the Fund's inception, for the period from inception to the first day of secondary trading June 1, 2018, the NAV of the Fund is used as a proxy for the Market Price to calculate market 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.** 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. **Floating-rate loans and debt securities** are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal. **Changes in the credit rating** of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. 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.

Glossary

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

Important Information

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 **Morningstar LSTA US Leveraged Loan 100 Index** is designed to measure the performance of the 100 largest facilities in the U.S. leveraged loan market. Franklin Senior Loan ETF is not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates.

**Effective Duration** is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **30-day SEC yield** is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

**Credit Quality** is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, the manager assigns each security the middle rating from these three agencies. When only two agencies provide ratings, the lower of the two ratings will be assigned. When only one agency assigns a rating, that rating will be used. Foreign government bonds without a specific rating are assigned a country rating, if available. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time. **Please note, the Fund itself has not been rated by an independent rating agency.**

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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](http://www.franklintempleton.com). Please read it carefully.