FRANKLIN TEMPLETON

Franklin Senior Loan ETF

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

Key Takeaways

- **Markets**:. The loan market saw a continuation of several themes over the last quarter – investors remain cautious, leading to bifurcation in the market. The themes include low investor appetite to put money to work, lackluster new issue supply, steady collateralized loan obligation (CLO) demand, and mild retail outflows. Idiosyncratic headlines seem to be a focus in the market – the sudden bankruptcy of First Brands was the talk of the town for a majority of the quarter, and even though it was highly specific to that one issuer, did cause ripple effects on loan issuers in the automotive sector and a general risk off sentiment in the loan market for several weeks. Additionally, discount margins on loans moved wider across the quarter.
- **Contributors**: Underweight exposure to wired communications and media cable sectors.
- **Detractors**: Security selection in health care and automotive loans.
- **Outlook**: On balance, we maintain our view that loan spreads will be generally range-bound with a bias toward widening in the near term, with choppiness over the coming months as the tariff and rate situation evolves. We view pockets of market volatility as opportunities to invest in fundamentally strong issuers with solid balance sheets, capital market access and lasting competitive advantages. Over the one-year period, we think loan spreads should remain stable, assuming a favorable or neutral macroeconomic environment.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	7.72%
30-Day SEC Yield (Fund)—Without Waiver	7.70%

Performance Review

- **Security selection detracted from results** for the quarter led by selection in the health care, automotive and chemicals sectors. This was partially offset by positive return contributions from selection in media non-cable, technology and retailers securities.
- **Industry allocations within the loan market helped returns** with underweight positioning to the wired communications, media cable and building sectors contributing to performance. In contrast, overweight exposure to the media non-cable and underweight exposure to technology and retailer-related issues curbed results for the quarter.
- **Credit quality exposure detracted from returns** led by holdings in First Brand, an automotive finance company that declared bankruptcy.
- **Yield curve positioning also hurt performance** for the quarter.

Outlook

- Investors are looking at loans with increasing visibility on rate cuts, a healthier M&A outlook, technical headwinds but fundamental tailwinds particularly among the more stressed portion of the market.
- We think in the near-term technical conditions could be heavy as investors weigh this floating rate asset class in the context of falling rates, which could accelerate if a dovish Fed chair is appointed next year. However, we believe that the terminal rate should settle higher than it has in the past, given the fiscal deficit. Further, we think rapid rate cuts have the potential to create inflationary conditions, which may actually merit rate hikes in the medium term. Lastly, we think the tariff situation still is evolving and we will see changes over the coming months.
- On the positive side, in the near term, we think a falling rate environment will provide fundamental tailwinds to the lower quality loan issuers by way of easing interest burdens and will help them address near-term maturities. Overall, though, the loan market is in decent shape, with lower spreads post repricings, a lower maturity wall, improving interest coverage, and stabilizing or improving toplines/margins in a constructive macro environment.
- We also believe that the CLO demand will provide key support to loan spreads, and act as a stabilizer in the market, as it has for the last decade, and could help mute the impact of continued retail outflows.
- All in all, in a year where volatility is likely to persist, we believe loan spreads will remain rangebound with a bias towards slight widening, given a steady macroeconomic background. In pockets of volatility, we would look for opportunities to add to issuers that we deem fundamentally sound and investable through market cycles. We think future performance will again be driven by selection, and we continue to stay focused on being selective in our portfolio construction.

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	FLBL	Cboe	0.08	0.92	3.57	3.57	8.80	5.51	—	4.79	0.45	0.45	5/30/2018
NAV Returns	—	—	0.42	1.56	4.23	4.23	8.60	5.60	—	4.83	0.45	0.45	5/30/2018
Benchmark	—	—	1.84	3.90	7.24	7.24	9.68	6.30	—	5.56	—	—	—

*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.*
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.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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.

Source: Morningstar®

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.

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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.