FRANKLIN TEMPLETON

Franklin Senior Loan ETF

FLBL | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** Global growth data released during the second quarter of 2026 painted a generally resilient picture despite the ongoing war in the Middle East, although the euro area remained a pocket of weakness. Inflation rates were mostly higher, partly as the effects of higher energy prices related to the war fed into the data. The US Federal Reserve (Fed) kept the fed funds rate unchanged over the quarter, although its tone turned more hawkish at its June meeting.
- The bank loan market performed strongly in the second quarter, benefiting from resilient economic fundamentals, rising Treasury yields and a more hawkish Fed. Bank loans saw positive returns during period, delivering their highest return since the second quarter of 2025. Loan performance in June was led by lower-tier credits, as CCC rated credits outperformed BB and B rated loans. However, year-to-date loan performance has been led by the BB rated cohort.
- Loan spreads widened to a 2.5-month high in June (and are up year-to-date [YTD]), accompanied by elevated sector dispersion amid rapidly evolving Fed expectations, less supportive technicals and renewed weakness in the software space. As well, the percentage of loans trading above par slid in June to a 2.5-month low of 24%. Loans reported their third consecutive monthly inflow in June, following outflows totaling -$5.8B in February and March. Loan primary market activity decreased -27% month-over-month in June, down from a four-month high in May. Second quarter new US CLO volume saw 282 deals totaling $126.8B, up from the first quarter's volume of 227 deals totaling $101B.
- **Overall Contributors:** Industry allocations was the primary contributor to fund performance during the quarter.
- **Overall Detractors:** Yield curve positioning was the primary detractor from results.
- **Outlook:** Overall, we think the backdrop for leveraged loans remains constructive, particularly for higher-quality issuers.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	7.20%
30-Day SEC Yield (Fund)—Without Waiver	7.17%

Performance Review

- **Industry Allocations:** Overweighted allocations to the Media Non Cable and Chemical sectors boosted the fund's performance during the quarter, as did underweighted exposure to the Technology sector.
- **Security Selection:** Positions in the Chemicals, Technology and Finance sectors contributed to results. However, security selection in the Healthcare and Media Non Cable sectors curbed returns.
- **Ratings-Quality Tilt:** Allocations to lower quality Ba and Caa rated loans hindered performance during the quarter, while allocations to Baa and B rated loans helped.

Outlook

- Following heavier outflows earlier this year, flows to the asset class turned positive in May, as projections of higher rates contributed to stronger demand. However, YTD flows have remained negative, totaling -$6.8B. We expect mixed flows going forward as we believe that inflationary pressures may keep rates higher for longer, while higher US Treasury yields should contribute to demand for floating rate asset classes. However, macro uncertainty and higher software exposure may continue to limit demand from retail investors.
- With regard to fundamentals, we believe that the near-term loan maturity wall is healthy as issuers have successfully pushed out maturities, with only 3.1% set to mature in 2026 and 2027. Maturity rates increase meaningfully in 2028 (to 16.5%) and 2029 (to 13.1%), with software issuers comprising a disproportionate share of maturities due in both years. The leveraged loan market remains fundamentally stable, in our view, but credit conditions continue to diverge meaningfully across issuers. Looking ahead, the market's focus seems to be gradually shifting from near-term fundamentals towards medium-term refinancing risk. Encouragingly, many companies have already begun addressing these obligations through refinancings and liability management activity, but we believe that lower-rated borrowers and issuers facing sector-specific challenges remain vulnerable if capital market conditions deteriorate.
- New issuance to finance leveraged buyouts (LBOs) has reaccelerated YTD, outpacing last year due to a handful of new deals. However, despite the increase in issuance, demand has continued to outstrip supply. We expect issuance related to LBOs to improve, which would help CLO vehicles source collateral and be supportive of new CLO issuance, although primary activity will likely remain uneven, skewed toward higher-quality issuers and non-software issuers. CLO issuance remains strong, but has lagged last year's record pace. AAA demand has also been strong, as CLO exchange traded funds have seen inflows. An increase in net new loan supply should be supportive of CLO issuance moving forward. We expect that CLO demand will help to support prices for higher-quality loan issuers, but will continue to contribute to bifurcation as vehicles avoid deeply discounted names and unfavored sectors, such as software. We also expect inflationary pressures to persist, which should be supportive of demand for floating rate asset classes, as rates remain higher for longer.
- Overall, we think the backdrop for leveraged loans remains constructive, particularly for higher-quality issuers. However, the combination of slowing earnings growth, elevated leverage among weaker credits, a growing (2028-2030) maturity wall and continued reliance on liability management exercises suggests that credit selection will remain paramount. As the market continues to bifurcate between issuers with ample financial flexibility and those facing mounting refinancing and operational challenges, we expect company-specific fundamentals to remain the primary driver of performance.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 30, 2026

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	1.68	0.90	0.90	1.83	6.20	5.22	—	4.60	0.45	0.45	5/30/2018
NAV Returns	—	—	1.54	0.47	0.47	2.04	6.34	5.20	—	4.59	0.45	0.45	5/30/2018
Benchmark	—	—	1.20	0.42	0.42	4.34	7.60	5.93	—	5.26	—	—	—

*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

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.

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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.

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