

# Franklin Senior Loan ETF

**FLBL**
**Commentary | as of March 31, 2026**

## Key Takeaways

- **Markets:** The loan market was a tale of two-halves in the first quarter of 2026. Performance in January remained resilient, with continued strong technicals and benign macro news. However, sentiment shifted in February, with artificial intelligence (AI) headlines disrupting the software sector, leading to the worst monthly performance since September 2022. Markets remained volatile during the quarter—the conflict in the Middle East emerged in late February, leading to decompression as buyers looked to shift up in quality. Overall, fundamentals remained constructive in the first quarter despite significant volatility as investors awaited clarity on the broad impacts of heightened geopolitical risks.
- **Contributors:** Underweighted industry allocations in the restaurant sector contributed to absolute performance during the first quarter, as did overweighted positioning in the textiles sector.
- **Detractors:** Ratings-quality exposure detracted from absolute results, as did yield curve positioning, security selection and overall industry allocations.
- **Outlook:** Overall, we expect slower growth, but believe the drag should be partially offset by fiscal stimulus.

## Performance Review

- **Quality:** Underweighted allocations to lower-quality loans detracted from absolute performance during the quarter, with Caa, Baa and B-rated loans primarily hurting returns.
- **Security Selection:** Positions in the restaurant sector hurt performance. Security selection in the textiles and municipals sectors also slightly detracted from results during the quarter. However, security selection in the internet and MBS/CMBS/ABS sectors helped bolster returns.
- **Industry Allocations:** The fund's overweighted allocation to the paper sector hurt performance during the period, as did its underweighted allocation to the metals and mining sector. However, underweighted exposure to the restaurant sector and overweighted positioning in the textiles and energy sectors benefited results.

## 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 topline/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.

## Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	7.61%
30-Day SEC Yield (Fund)—Without Waiver	7.59%

## Average annual total returns and fund expenses (%) - as of March 31, 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	-0.76	-0.68	-0.76	2.56	6.82	5.15	—	4.53	0.45	0.45	5/30/2018
NAV Returns	—	—	-1.06	-0.65	-1.06	2.95	6.86	5.15	—	4.54	0.45	0.45	5/30/2018
Benchmark	—	—	-0.78	1.05	-0.78	5.94	8.35	5.91	—	5.27	—	—	—

\*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

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