FRANKLIN TEMPLETON

Franklin Senior Loan ETF

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

Key Takeaways

- **Markets:** Geopolitical developments remained a focus during the third quarter (Q3) of 2026, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the US Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year UST yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield sectors.
- The Leveraged Loan market saw its strongest quarterly return since the second quarter of 2025, largely driven by strong collateralized loan obligation (CLO) issuance, steady inflows and a rising interest rate environment. Total US institutional loan activity reached roughly $195 billion (bn) over the quarter. Overall year-to-date (YTD) issuance was down compared to 2025, however, primarily due to a slower pace of repricing/refinancing. US gross CLO issuance volume reached $131.3 bn, bringing the YTD total to $361.1 bn across 822 deals. Non-US gross CLO volume (primarily driven by the European market) reached a total of €36.0 bn (US$40.3 bn) across 84 deals.
- **Contributors:** Ratings-quality tilt contributed to fund performance.
- **Detractors:** Yield curve positioning detracted from the fund's results, as did security selection and industry allocations.
- **Outlook:** The loan market has not had any large allergic reaction to the Iran war or the inflationary pressure that has created. So far fundamentals remain constructive, and we broadly expect that most industries in the loan market will acceptably weather any incremental pressures from here on. We do however expect that the lower rated issuers who either have a maturity coming up and/or have cash flow pressures, could incrementally buckle under higher rates.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	7.29%
30-Day SEC Yield (Fund)—Without Waiver	7.26%

Performance Review

- **Ratings-Quality Tilt:** Allocations to BBB and B rated loans boosted returns during the quarter. CCC rated loans hindered results.
- **Security Selection:** At the sector level, security selection in the healthcare, packaging and restaurants segments of the loan market hurt performance. Conversely, selections in chemicals helped results.
- **Industry Allocations:** Underweighted exposure to technology detracted from returns, as did overweighted allocations to media cable. However, underweighted exposure to finance and retailers lifted performance during the quarter, as did the fund's overweighted allocation to paper.

Outlook

- Overall, we are constructive on the fundamental picture for the broadly syndicated loan market. The asset class continues to be driven by a lot of the same factors over the YTD period but remains relatively steady despite a changing interest rate outlook and ongoing conflict in the Middle East. Demand for the asset class has improved and CLO demand continues to be healthy, supporting the new issue calendar. Flows have also turned modestly positive following the Fed's rate hike in September.
- From a fundamental perspective, most companies remain in a relatively strong place with positive trends across key metrics and overall default rates remaining below long-term averages. Liability Management Exercises (LMEs) have continued to dominate default statistics and the stressed cohort. There is noticeable bifurcation in the market, with lower-rated issuers facing pressures, while most issuers remain in good standing (about 46% of the market is trading above par). This is a strong case for active management. We remain highly selective on CCC and lower-rated B credits.
- The loan market has not had any large allergic reaction to the US-Iran war or the inflationary pressure that it has created. So far, fundamentals remain constructive and we broadly expect that most industries in the loan market will acceptably weather any incremental pressures going forward. We do, however, expect that lower-rated issuers who either have a maturity coming up and/or have cash flow pressures could incrementally buckle under higher rates. We expect spreads to moderately widen, with continued supply from data center issuance and pent-up merger and acquisition (M&A) activity, but overall yields and carry will continue to drive returns, which at 8.6% for three-year yields remain attractive, in our view.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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	2.09	3.80	3.01	3.09	6.24	5.40	—	4.72	0.45	0.45	5/30/2018
NAV Returns	—	—	2.18	3.76	2.67	3.09	6.07	5.44	—	4.72	0.45	0.45	5/30/2018
Benchmark	—	—	2.66	3.89	3.08	4.97	7.45	6.28	—	5.43	—	—	—

*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 **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

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.

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