Franklin High Yield Corporate ETF

Commentary | as of September 30, 2025

Key Takeaways

- **Markets**: Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding market uncertainties. On the trade front, a deal was reached between the Trump administration and some of the largest US trading partners, such as the United Kingdom, the European Union and Japan. Although no agreement was made with China, there was a 90-day pause in many of the across-the-board increases. At its September meeting, the Fed cut the fed funds rate by 25 bps and signaled that more cuts were likely to come by the end of this year. Over the period, US Treasury (UST) yields moved lower, with the yield curve steepening.
- **Contributors**: Security selection in the energy sector. Overweight exposure to the media non-cable sector.
- **Detractors**: Security selection in media non-cable sector.
- **Outlook**: Overall, we remain constructive on high-yield (HY) corporate credit and believe it offers a reasonable loss-adjusted carry but acknowledge that valuations do not offer much upside potential from here.

Performance Review

- Industry allocations contributed to returns with overweight exposure to the media non-cable and building sectors and underweight positioning in the technology segment of the HY bond market. This was partially offset by performance from underweight exposure to retailers and consumer non-cyclical related issues.
- Security selection detracted from quarterly results with selection in the energy, metals and mining, and automotive sectors helping returns. In contrast, selection in media non-cable, transportation, and wired communication bonds curbed performance.
- Yield curve exposure and our rating quality tilt detracted from results.

Outlook

- HY spreads have ground steadily tighter from the beginning of June into September, as demand for the asset class remains robust and net supply has been moderate. The decline in yields and spreads has been in a benign credit environment combined with robust technical conditions. Credit fundamentals have been generally supportive for some time, and despite recent concerns over the employment picture, at this point, we do not see a meaningful deterioration in the outlook for corporate America.
- Not only are spreads near historic lows, but the average dollar price on the index is back up near par, thus limiting the convexity of the asset class. In the expected environment of low defaults and limited distress, coupon carry should generate attractive returns and support demand for the asset class. However, while spreads could continue to grind tighter from here, over time, the potential for spread widening seems more probable than for tightening.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	6.16%
30-Day SEC Yield (Fund)—Without Waiver	6.16%

Average annual total returns and fund expenses (%) - as of September 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	FLHY	Cboe	2.40	6.48	7.41	7.16	11.68	5.55	—	6.02	0.40	0.40	5/30/2018
NAV Returns	—	—	2.61	6.44	7.28	7.20	11.53	5.60	—	6.02	0.40	0.40	5/30/2018
Benchmark	—	—	2.40	6.06	7.06	7.23	10.97	5.54	—	5.33	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =ICE BofA US High Yield Constrained 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. **Distributions** are not guaranteed and are subject to change. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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

Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

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 **ICE BofA US High Yield Constrained Index** measures the performance of USD-denominated, noninvestment grade, fixed rate and taxable corporate bonds. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

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.

Franklin Distributors, LLC. Member FINRA/SIPC.

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.