Franklin High Yield Corporate ETF

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. A subsequent 90-day pause for most of the increased levies and the passage of the "One Big Beautiful Bill" spending package after quarter-end helped reduce fixed income market uncertainties.
- **Contributors:** Security selection and yield-curve positioning.
- **Detractors:** Ratings-quality tilt.
- **Outlook:** We remain broadly constructive on high-yield (HY) issues and believe policy-related volatility presents only moderate incremental risk to the range of market outcomes over the longer term.

Performance Review

- Security selection contributed to relative performance, led by our selection in the technology, chemical and industrial segments. Conversely, our selection in the metals and mining, wired and packaging industries hindered results.
- Our industry allocation had a largely neutral effect on results. Gains from an underweight in the retail segment and overweights in the health care and media non-cable industries were offset by detractions from an overweight in the energy segment and underweights in the wired and technology industries.
- Our ratings-quality tilt detracted from returns, while our yield-curve positioning contributed to results.

Outlook

- Broadly supportive fundamentals persisted for the HY sector during the period. We believe market conditions should remain favorable, given relatively high yields, a low expected default rate, a historically high-quality skew of credits and an increasing amount of secured debt in the index (which should be supportive of recoveries in downside scenarios). Strong technical conditions also persisted, marked by accelerating inflows and moderate net issuance. Against this backdrop, spreads tightened slightly, with HY yields trending lower. Looking forward, we believe "fallen-angel" supply could increase after four years of net migration toward investment grade, but overall technical tailwinds seem unlikely to abate absent an unforeseen or systematic shock, in our view.
- We remain broadly constructive on HY and believe policy-related volatility presents only moderate incremental risk to the range of market outcomes over the longer term. Moreover, companies are not seeing material changes in demand to date, which, when combined with current spread levels, should support near-term performance. While economic risk has increased amid ongoing policy developments, default probabilities are only modestly higher, given the overall strength of HY balance sheets. Accordingly, defaults are expected to remain low, given a still-resilient economy. As we expect idiosyncratic opportunities to continue to be a major performance driver, we remain disciplined on diligent security selection and wary of moving materially out on the risk spectrum to potentially pick up just a modest amount of incremental yield and spread.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	2.80 Years
30-Day SEC Yield (Fund)—With Waiver	6.35%
30-Day SEC Yield (Fund)—Without Waiver	6.35%

Sector Allocation (% of Total)

Sector	Fund
Finance	14.66
Energy	11.08
Health Care	9.02
Industrial	7.96
Technology	5.56
Media Non Cable	5.38
Building	4.67
Gaming	4.51
Other	34.78
Cash & Cash Equivalents	2.38

Average annual total returns and fund expenses (%) - as of June 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	3.98	4.89	4.89	9.64	10.41	5.95	—	5.89	0.40	0.40	5/30/2018
NAV Returns	—	—	3.73	4.55	4.55	9.23	10.40	6.03	—	5.85	0.40	0.40	5/30/2018
Benchmark	—	—	3.57	4.55	4.55	10.24	9.85	6.00	—	5.17	—	—	—

*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

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

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.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. 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.

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