FRANKLIN TEMPLETON

Franklin International Aggregate Bond ETF

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

Key Takeaways

- **Markets:** Geopolitical events continued to dominate the second quarter of 2026. However, towards the end of the period, the easing of Middle East tensions and a decline in oil prices helped improve investor sentiment. Global aggregate bond indexes registered small positive total returns in US-dollar terms over the quarter. The US Federal Reserve (Fed) kept rates unchanged during the period, although rising inflationary pressures have raised the possibility of a rate hike by the central bank before year-end. As widely expected, the European Central Bank (ECB) raised interest rates by 25 basis points in June, as rising energy-driven inflation outweighed concerns about slowing economic growth. Across credit markets, investment-grade, high-yield and hard-currency emerging-market debt outperformed broader fixed income benchmarks.
- **Contributors:** Duration and yield-curve positioning.
- **Detractors:** Local market allocation, sector allocation.
- **Outlook:** In the United States, we expect the Fed to remain on hold for the time being. However, we believe the ECB is likely to increase rates in September.

Performance Review

- In the second quarter of 2026, the fund's duration and yield-curve positioning lifted relative returns, notably in Japanese and South Korean bonds. However, duration positioning in eurozone, Australian and Swedish bonds subtracted relative value.
- Its local market allocation weighed on relative fund performance, particularly owing to an overweight exposure to the underperforming US market. Nonetheless, an underweight exposure to the underperforming Japanese market added relative value.
- Sector allocation detracted slightly from the fund's relative results, while overall security selection had a broadly neutral bearing. An underweight exposure to German Bunds helped, as did selection in hard-currency emerging market debt, while selection in Belgian government bonds hindered relative performance.
- The fund's currency positioning had a largely neutral impact on relative results overall, although a long position in the euro, which depreciated against the US dollar, hampered relative performance slightly.

Outlook

- The market has applied an optimistic lens on the reopening of the Strait of Hormuz since the United States and Iran signed the memorandum of understanding, with hopes that the energy shock will be temporary rather than the beginning of a broader cycle.
- In the United States, we continue to expect the Fed to remain on hold in the near term. However, should inflation pressures continue to build, while growth and the labor market stay firm, a Fed hike by year-end or early 2027 cannot be ruled out.
- In Europe, the normalization of energy prices is positive news for the euro area and, if the trend proves to be sustainable, it could help to lower projected inflation and raise expected growth in the second half of the year. Nonetheless, we believe the ECB is likely to raise rates in September as inflation will still be above target.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	2.81%
30-Day SEC Yield (Fund)—Without Waiver	2.80%

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	FLIA	Cboe	1.33	1.73	1.73	2.48	3.61	0.99	—	1.24	0.25	0.25	5/30/2018
NAV Returns	—	—	1.83	1.73	1.73	2.63	3.69	1.02	—	1.25	0.25	0.25	5/30/2018
Benchmark 1	—	—	1.77	1.57	1.57	2.60	4.64	1.42	—	1.40	—	—	—
Benchmark 2	—	—	1.77	1.57	1.57	2.60	4.64	1.42	—	2.37	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=Linked Bloomberg Global Aggregate ex-USD Index Hedged USD

Benchmark 2=Bloomberg Global Aggregate ex-USD Index Hedged USD

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. **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. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the performance and result in greater fluctuation in value. 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%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Important Information

Effective 3/1/2020, the fund's benchmark changed to Bloomberg Global Aggregate ex-USD Index Hedged USD from Bloomberg Global Aggregate ex-USD Index due to a strategy change whereby the fund will seek to hedge substantially all of its non-U.S. dollar exposure.

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 **Bloomberg Global Aggregate Index** is a global investment-grade debt index including treasury, government-related, corporate and securitized fixed-rate bonds. The **Linked Bloomberg Global Aggregate ex-USD Index Hedged USD** reflects performance of the Bloomberg Global Aggregate ex-USD Index from the fund's inception through 2/29/2020 and the Bloomberg Global Aggregate ex-USD Index Hedged USD thereafter.The Bloomberg Global Aggregate Bond ex-USD Index is a global investment-grade debt index including Treasury, government-related, corporate and securitized fixed-rate bonds. This multicurrency benchmark is 100% hedged to the U.S. dollar.

Source: Bloomberg Indices.

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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