FRANKLIN TEMPLETON

Franklin Dynamic Municipal Bond ETF

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

Key Takeaways

- **Markets**: In the third quarter of 2026, new issuance of municipal (muni) bonds continued at a record pace, with issuance 8% higher than the third quarter of 2025 and year-to-date volume running 6% ahead of last year (Source: Bloomberg). By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note had risen by 82 basis points (bps) to 5.28% - its highest level since mid-2007 - while the yield on the 30-year UST bond was 68 bps higher at 5.63%. The September Federal Open Market Committee (FOMC) meeting raised the US Federal Reserve (Fed) funds target range by 25 bps to 3.75%–4.00%. Given that the hike was almost fully priced into the bond market, the genuinely new information was that the FOMC leans toward another increase, thus shifting the rates debate from a one-hike risk to how high a new tightening cycle might ultimately go.
- **Contributors**: Security selection in A rated bonds, overweight allocation to muni bonds with no external credit rating and underweight allocation to muni bonds with two to five years to maturity.
- **Detractors:** Overweight allocation to muni bonds with 10 or more years to maturity.
- **Outlook**: Municipal bond valuations are compelling relative to other fixed income sectors, in our view, giving investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.48%
30-Day SEC Yield (Fund)—Without Waiver	4.48%

Performance Review

- Over the quarter, Franklin Dynamic Municipal Bond ETF fared worse than its benchmark, the Bloomberg Municipal 1-15 Year Index.
- The fund's yield curve positioning detracted from relative performance during the third quarter, primarily driven by our overweight to muni bonds with 10 or more years to maturity. However, this was partially offset by our underweight to muni bonds with two to five years to maturity, which limited some of the losses.
- Rating allocations benefited relative returns for the period, led by our overweight to bonds with no external credit rating. Security selection benefited relative results, particularly due to selection in A and BBB rated securities.

Outlook

- September's record supply and accelerating tax-loss selling tested market technicals, and the market struggled to absorb them. Munis trailed both Treasuries and corporates as yields rose across the curve and fund flows softened. Shorter-duration bonds held up better, as duration risk drove most of the losses. With supply likely to remain heavy, technicals will continue to be an important test of investor appetite, though recent repricing may help attract buyers.
- Economic and credit fundamentals remain broadly supportive. Census estimates released in September showed second-quarter 2026 state and local tax collections at record levels, reflecting resilient labor markets and healthy tax bases, and stronger revenues should help issuers absorb rising costs. However, conditions vary materially across regions and credits, and credit outcomes are becoming more divergent. Tension between monetary and fiscal policy is also emerging as a key issue to watch, and we see scope for further yield curve steepening.
- In our view, the selloff has made absolute yields and relative valuations more compelling. Municipal yields now offer a substantial premium over comparable Treasuries at intermediate and longer maturities on a taxable-equivalent basis, with the long end offering the best relative value. Higher starting yields give investors an opportunity to harvest tax losses, rebalance duration and improve portfolio income without materially extending duration or relaxing credit standards. We favor capturing income and prioritizing quality over depending on a view of lower rates or tighter spreads. In this environment, active management and disciplined security selection remain essential to identifying relative value and preserving portfolio quality.

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	FLMI	NYSE Arca	-6.37	-3.94	-3.67	-2.07	4.66	0.91	—	2.27	0.30	0.30	8/31/2017
NAV Returns	—	—	-6.45	-3.90	-3.75	-1.95	4.64	0.91	—	2.27	0.30	0.30	8/31/2017
Benchmark	—	—	-5.09	-3.51	-3.77	-2.41	2.79	0.29	—	1.56	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg Municipal 1-15 Year 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 September 5, 2017, 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. **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. **Unrated debt securities** have less public information and independent credit analysis and they may be subject to a greater risk of illiquidity, price changes or default. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. 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.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

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 **Bloomberg Municipal 1-15 Year Bond Index** is a market value weighted index of investment-grade fixed-rate municipal bonds with maturities of 1-15 years.

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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