

Franklin Dynamic Municipal Bond ETF

Commentary | as of September 30, 2025

Key Takeaways

- Markets: In the third quarter of 2025 (Q3), as per Barclays, a new issuance of municipal (muni) bonds exceeded the
 average seen in the past few years, driven by a 34% year-over-year surge in July issuance. By quarter end, the yield on
 the benchmark 10-year US Treasury (UST) note fell by eight basis points (bps) to 4.15%, while the 30-year UST yield
 decreased by four bps to 4.73%. US markets rose on clearer tariff policies, economic resilience, and a more dovish Fed,
 which cut rates by 25 bps to 4.00%-4.25% in September.
- Contributors: Overweight allocation to muni bonds with 10 or more years to maturity, security selection in AA rated bonds and overweight allocation to A rated bonds.
- Detractors: Security selection in BBB rated bonds and underweight allocation to muni bonds with two to five years to
 maturity.
- Outlook: Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more
 challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying
 relative value and preserving portfolio quality.

Performance Review

- Over the quarter, Franklin Dynamic Municipal Bond ETF outperformed its benchmark, the Bloomberg Municipal 1-15 Year Index.
- The fund's yield curve positioning contributed to relative performance during the third quarter, primarily driven by our
 overweight to muni bonds with 10 or more years to maturity. However, our underweight to muni bonds with two to five
 years to maturity curbed returns.
- Rating allocations benefited relative returns for the period, led by our overweight to A rated bonds and underweight to
 AAA rated bonds. Security selection detracted from relative results, particularly due to selection in BBB rated securities.
 Meanwhile selection in AA rated securities added to returns.

Outlook

- Muni bond issuance exceeded historical averages in Q3 as issuers, who had been reluctant to issue new bonds under the
 looming threat to their tax-exempt status, came to market. Positive fund flows into the asset class were not able to keep up
 with the supply. The muni bond yield curve continues to steepen, with longer-maturity bond valuations cheapening
 somewhat
- Fundamentals remain broadly stable, however, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields are near multi-year highs, allowing investors to lock in compelling income. 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	4.13%
30-Day SEC Yield (Fund)—Without Waiver	4.13%

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	FLMI	NYSE Arca	3.16	3.52	4.13	3.14	6.98	2.66	_	2.83	0.30	0.30	8/31/2017
NAV Returns	_	_	3.04	3.53	3.92	3.23	6.83	2.61	_	2.80	0.30	0.30	8/31/2017
Benchmark	_	_	2.59	3.31	3.71	2.61	4.49	1.15	_	2.06	_	_	_

^{*}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%).

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.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.

