FRANKLIN TEMPLETON

Franklin Dynamic Municipal Bond ETF

FLMI | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets**: In the fourth quarter of 2025 (Q4), as per Barclays, a new issuance of municipal (muni) bonds increased 14% year-over-year compared to 2024, culminating in a new annual record with tax-exempt issuance surpassing $500 billion. By quarter end, the yield on the benchmark 10-year UST note moved two basis points (bps) higher to 4.17%, and the yield on the 30-year UST bond increased by 11 bps to 4.84%. US market sentiment dipped in throughout the quarter due to consumers concerns over personal finances problems, driven by weak labor and persistent inflation expectations, according to the latest University of Michigan's consumer surveys. The mid-November resolution of the US federal government shutdown supported sentiment through year-end. Federal Reserve (Fed) policy also drove overall returns, with three consecutive 25-bp rate cuts which were well received by the market. However, the future path of cuts grew ambiguous as Fed members were split on the need for further adjustments.
- **Contributors**: Overweight allocation to muni bonds with 10 or more years to maturity, overweight allocation to muni bonds with no external credit rating and overweight allocation to BBB rated bonds.
- **Detractors**: Security selection in AA, A and BBB rated bonds, as well as an underweight allocation in AA rated bonds and an overweight allocation in A rated bonds.
- **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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.06%
30-Day SEC Yield (Fund)—Without Waiver	4.06%

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 fourth quarter, primarily driven by our overweight to muni bonds with 10 or more years to maturity. However, an **underweight to muni bonds with five years or less to maturity partially offset some of the gains**.
- **Rating allocations detracted from relative returns** for the period, owing to our overweight to bonds below investment grade and A rated bonds, and an underweight allocation to AA rated bonds. Conversely, our overweight positions in bonds with no external credit rating and BBB rated bonds partially lifted results.
- **Security selection benefitted relative results** during the period. Though this was offset by selection in AA, A and BBB rated securities, which detracted from performance.

Outlook

- While Q4 muni bond issuance exceeded historical averages, the pace of issuance slowed going into year-end, nonetheless full-year issuance exceeded last year's already elevated levels. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach exceptional highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. This provides a stronger technical backdrop as demand has also increased over the past several months. The muni-bond yield curve remained relatively stable during the quarter.
- Fundamentals remain stable; however, slower economic growth will limit expansion in revenues across many sectors, in particular tax revenues. Rainy day funds remain healthy at the state and local government levels, which bolster fiscal resilience despite ongoing expense growth.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, 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.

Average annual total returns and fund expenses (%) - as of December 31, 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	1.66	4.88	5.86	5.86	6.22	2.28	—	2.94	0.30	0.30	8/31/2017
NAV Returns	—	—	1.87	4.96	5.87	5.87	6.22	2.28	—	2.95	0.30	0.30	8/31/2017
Benchmark	—	—	1.41	4.04	5.18	5.18	3.75	1.16	—	2.17	—	—	—

*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%).

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.

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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