

Franklin U.S. Mid Cap Multifactor Index ETF

FLQM
Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** US equities endured a difficult first quarter of 2026 as investors reassessed the durability of the artificial intelligence (AI) trade and geopolitical risk intensified. Technology-focused shares came under pressure as rising AI-related capital expenditure (capex) spurred a rotation away from mega-capitalization growth toward value stocks. At its two meetings during the quarter, the US Federal Reserve left its benchmark interest rate on hold. March brought further strain as the Middle East conflict disrupted energy markets, lifting oil prices and adding to inflation risk. The Nasdaq Composite Index underperformed the S&P 500 Index, while the Dow Jones Industrial Average proved more resilient. By investment style, value investing surpassed growth across market-cap tiers, with small- and mid-cap stocks performing better than their large-cap counterparts.
- **Contributors:** The low volatility and value factors benefited the fund's relative returns during the period.
- **Detractors:** Aggregate style factor exposure weighed on relative performance, as did the quality factor.

Performance Review

- Positioning in the low volatility and value factors contributed to relative performance during the first quarter of 2026. The low volatility factor performed relatively well over the quarter, as increased geopolitical risk and rising energy prices prompted investors to rotate away from riskier growth stocks and into lower-beta equities with more stable earnings profiles. The value factor delivered positive results as market leadership broadened beyond a narrow group of mega-cap growth stocks. Greater emphasis on relative valuation supported wider participation across companies with resilient fundamentals, reflecting renewed attention to valuation discipline across global equity markets.
- Conversely, exposures to the momentum and quality factors detracted from relative returns. Momentum reinforced the continuation of the equity market advance during parts of the period, amid signs of easing financial conditions and stabilizing policy expectations. Quality factor performance diverged geographically over the period. In US equity markets, quality-oriented exposures delivered positive results as resilient growth supported a preference for earnings stability. Outside the United States, performance was generally weaker, as market leadership favored cyclical and value-oriented segments over defensive characteristics and balance sheet profiles.
- Exposure to currencies, sectors, industries and countries reflects the indirect influence of our factor-based investment approach rather than any explicit preferences. These outcomes of the investment process, not derived through the lens of factor analysis, detracted from returns in aggregate.
- In terms of relative performance, a slight underweight exposure to the oil and gas and consumable fuels industry meaningfully detracted, but a slight overweight exposure to the oil and gas exploration and production industry significantly contributed. Country and currency exposures had little effect on results.

Top Equity Issuers (% of Total)

Holding	Fund
CHENIERE ENERGY INC	1.41
OLD DOMINION FREIGHT LINE INC	1.37
TAPESTRY INC	1.34
GARMIN LTD	1.23
MONOLITHIC POWER SYSTEMS INC	1.22
WW GRAINGER INC	1.19
FASTENAL CO	1.19
DEVON ENERGY CORP	1.16
HERSHEY CO/THE	1.14
EBAY INC	1.14

Average annual total returns and fund expenses (%) - as of March 31, 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	FLQM	Cboe	-2.14	-1.93	-2.14	5.23	9.81	7.51	—	10.46	0.30	0.30	4/26/2017
NAV Returns	—	—	-2.17	-2.05	-2.17	5.33	9.76	7.54	—	10.46	0.30	0.30	4/26/2017
Investment Universe	—	—	1.29	1.45	1.29	15.98	13.33	7.26	—	10.15	—	—	—
Underlying Index	—	—	-2.11	-1.91	-2.11	5.64	10.09	7.84	—	10.77	—	—	—

*Cumulative total returns

Benchmark(s)

Investment Universe = Russell Midcap Index

Underlying Index = LibertyQ U.S. Mid Cap Equity 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 April 28, 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. Equity securities are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. In seeking to track its underlying index, the fund may become **non-diversified** as a result of a change in relative market capitalization or index weighting of one or more constituents of the underlying index. There can be no assurance that the fund's **multi-factor stock selection** process will enhance performance. Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. Performance of the fund may vary significantly from the performance of an **index**, as a result of transaction costs, expenses and other factors. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. These and other risks are discussed in the fund's prospectus.

Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding \$7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of Nasdaq securities and includes over 3,000 stocks. Source: Nasdaq OMX.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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.

The LibertyQ U.S. Mid Cap Index methodology utilizes a custom factor weighting (50% Quality, 30% Value, 10% Momentum, 10% Low Volatility) and custom factor definitions. The methodology targets the top 25% of securities from the parent index with the highest combined factor score. **Quality** is measured by return on equity, gross profit over asset, 5 year gross margin sustainability (ex. Financials and REITs), Cash ROA and 5 year ROA sustainability (Financials and REITs). **Value** is measured by EBITDA to Enterprise Value Ratio (ex. REITs and Financials), 12-month forward price-to-earnings (ex. REITs and Financials), dividend yield (ex. REITs and Financials), 1/3 relative z-score of dividend yield and 2/3 relative z-scores of the price-to-book (REITs and Financials only). **Momentum** is measured by 6-month risk-adjusted price momentum and 12-month risk-adjusted price momentum. **Low Volatility** is measured by the historical beta of at least 104 weeks.

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 **LibertyQ U.S. Mid Cap Equity Index** is based on the Russell Midcap Index, its parent index, which measures the performance of the mid-cap segment of the U.S. equity universe. The LibertyQ U.S. Mid Cap Equity Index is designed to reflect the performance of a Franklin Templeton strategy that seeks exposure to four factors: Quality, Value, Momentum and Low Volatility. The LibertyQ U.S. Mid Cap Equity Index is calculated and maintained by FTSE Russell, which aims to reflect the performance of a Franklin Templeton strategy. The Franklin U.S. Mid Cap Multifactor Index ETF not in any way sponsored, endorsed, sold or promoted by FTSE Russell. The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe. Source: FTSE.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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.