

# Franklin U.S. Mid Cap Multifactor Index ETF

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

## Key Takeaways

- **Markets:** US equities collectively delivered solid gains in the fourth quarter of 2025, maintaining their upward trajectory against a backdrop of generally robust corporate earnings. Despite mixed economic signals and investor concerns about stretched valuations in technology-related stocks, investor sentiment was supported by continued monetary easing from the US Federal Reserve and improved US-China relations.
- **Contributors:** The value factor benefited the fund during the period, as mid-capitalization cyclical stocks broadly outperformed their defensive counterparts.
- **Detractors:** Positioning in the quality, low volatility and momentum factors weighed on performance.

## Performance Review

- A high overweight position in the quality factor and exposures to the low volatility and momentum factors detracted from relative returns in the fourth quarter. In US mid-cap equity markets, quality characteristics were less consistently rewarded, as investor preference shifted toward more cyclical and growth-sensitive companies. While earnings stability remained supportive at the broader market level, quality-oriented stocks generally participated less in the market upside during the period.
- The low volatility factor also detracted during the period as improving risk sentiment and a more supportive macroeconomic backdrop contributed to reduced demand for defensive positioning. Furthermore, the momentum factor detracted during the period as leadership rotated within the US mid-cap market, interrupting trends and resulting in more uneven performance across stocks.
- Conversely, moderate exposure to the value factor meaningfully contributed to relative performance as many investors' renewed focus on relative valuations led to broader equity market participation among companies with resilient fundamentals, reflecting renewed attention to valuation discipline across global equity markets.
- 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, contributed to returns in aggregate.
- In terms of relative performance, a slight overweight exposure to the retailing industry weighed on performance and a slight overweight exposure to the biotechnology industry aided performance. From a country perspective, a slight underweight allocation to the US equity market modestly contributed, while no countries detracted meaningfully. In currency terms, exposures had little overall effect on results.

## Top Equity Issuers (% of Total)

Holding	Fund
TAPESTRY INC	1.18
ULTA BEAUTY INC	1.13
EXPEDIA GROUP INC	1.12
UNITED AIRLINES HOLDINGS INC	1.10
DELTA AIR LINES INC	1.09
DOLLAR GENERAL CORP	1.09
SYNCHRONY FINANCIAL	1.09
WW GRAINGER INC	1.08
OLD DOMINION FREIGHT LINE INC	1.07
EBAY INC	1.06

## 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	FLQM	Cboe	0.21	4.51	5.17	5.17	12.20	9.62	—	11.05	0.30	0.30	4/26/2017
NAV Returns	—	—	0.13	4.47	5.36	5.36	12.21	9.63	—	11.05	0.30	0.30	4/26/2017
Investment Universe	—	—	0.16	5.49	10.60	10.60	14.35	8.68	—	10.29	—	—	—
Underlying Index	—	—	0.20	4.65	5.68	5.68	12.56	9.95	—	11.37	—	—	—

\*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. 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.

## 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 **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe. 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.

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](http://www.franklintempleton.com). Please read it carefully.**