FRANKLIN TEMPLETON

Franklin Systematic Style Premia ETF

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** Global equity markets advanced during the third quarter of 2025 as tariff anxieties gradually eased, central banks tilted more accommodative, and technology leadership persisted, led by optimism surrounding artificial intelligence (AI). July's tone improved on clearer trade signals and resilient US earnings; August added gains despite episodic volatility around new tariff measures; and September capped the quarter with a US Federal Reserve (Fed) rate cut that steadied rate-sensitive assets and lifted risk appetite. Together, these dynamics, calmer rate volatility and robust corporate results underpinned risk assets. Credit markets witnessed positive absolute returns over the period as spreads tightened. Commodity indexes generally appreciated mildly and unevenly during the quarter. Precious metals and base metals outperformed, while energy and crop products weakened.
- **Contributors:** The long-short single-stock equities equity strategy drove gains, along with the commodities substrategy. Within the long short single stock equities value, momentum and quality factors contributed to returns. Within the macro strategy, the equity momentum and carry factors boosted returns, as did the commodity value factor.
- **Detractors:** Within long short equities, our tilt toward long lower volatility and short higher volatility stocks detracted from returns.
- **Outlook:** As we weigh extended equity valuations against a generally positive macro environment, strong corporate fundamentals and monetary policy easing, we have adopted a more positive view of risk assets. The strength of the recent equity rally has brought warnings about irrational exuberance, especially where retail investors are concerned. However, we prefer to take a more measured approach, examining the underlying macro and corporate environment for signs of weakness. Our analysis finds a broadly positive setup for risk assets, where improving business activity and solid economic growth have provided the platform for strengthening global earnings-per-share growth forecasts.

Performance Review

- The long-short single-stock equities strategy was a key driver of gains during the quarter, aided by positive contributions from value, momentum and quality factors. Our net capital investment positioning being more long than short, aided returns as well.
- The commodities substrategy was also a substantial contributor, driven in part by the Value factor, with additional support from the Carry factor.
- Foreign exchange was a notable contributor, aided by long positioning in the US dollar. Mexican peso (MXN) longs and New Zealand dollar (NZD) shorts helped fuel gains, as the MXN appreciated against the dollar, while the NZD slid.
- The equity futures strategy contributed during the period. Long positioning, on average, in indexes from South Africa and Spain drove gains, with additional contribution from Canada. Short positioning in French and Australian indexes also bolstered performance.
- At the stock level, in the long US equity strategy, several notable contributors were heavily weighted long positions in technology- and artificial intelligence-related names, including mobile technology specialist AppLovin, data analytics company Palantir Technologies and semiconductor firm Micron Technology.
- Our positioning in long short single-stock equities, where we are long lower volatility stocks and short higher volatility stocks, detracted from returns.
- Among individual stocks, long positions in several Software-as-a-Service (SaaS)-focused software stocks—including Salesforce, Adobe and Intuit—weighed on returns amid concerns around the impact of AI and rising competition

Outlook

- As we weigh extended equity valuations against a generally positive macro environment, strong corporate fundamentals and monetary policy easing, we have adopted a more positive view of risk assets. The strength of the recent equity rally has brought warnings about irrational exuberance, especially where retail investors are concerned. However, we prefer to take a more measured approach, examining the underlying macro and corporate environment for signs of weakness.
- Our analysis finds a broadly positive setup for risk assets, where improving business activity and solid economic growth have provided the platform for strengthening global earnings-per-share growth forecasts. From a policy standpoint, US labor market weakness provided the Fed with a reason to cut interest rates in September, which should further bolster equity market momentum.
- Fair value analysis does suggest to us that equities are expensive, with most good news priced in, but we place greater emphasis on fundamentals. In addition, measures of sentiment remain surprisingly neutral, while positioning also looks restrained—notably among discretionary investors—suggesting the rally has room to run. This strengthens our conviction in a responsibly bullish approach to risk as we move into the final quarter of 2025.
- Within equities, we hold a preference for US large-cap stocks, which are better set than their small-cap counterparts to negotiate negative economic outcomes, including stagflation. Second-quarter earnings results came in substantially better than expected, while corporate guidance for the third quarter has improved. Trade policy remains a key risk, as rising input prices are increasingly likely to be passed onto consumers amid tight corporate margins and rising earnings expectations.

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	FLSP	NYSE Arca	10.04	8.02	10.92	11.39	9.00	6.11	—	3.43	0.65	0.65	12/18/2019
NAV Returns	—	—	8.65	7.54	11.17	10.91	8.71	6.20	—	3.35	0.65	0.65	12/18/2019
Benchmark	—	—	1.08	2.13	3.17	4.38	4.77	2.98	—	2.69	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =ICE BofA US 3-Month Treasury Bill 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 December 20, 2019, 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. The fund is actively managed and could experience losses if the manager's judgment about particular investments, or its evaluation of the risks, potential returns and correlation properties of the various **risk premia** in which the fund invests, prove to be incorrect. The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results. There is no assurance that the **quantitative methodology** used will achieve its intended results. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Currency management** strategies could result in losses to the fund if currencies do not perform as expected. **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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets.** To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. These and other risks are discussed in the fund's prospectus.

Glossary

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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 **ICE BofA 3-Month U.S. Treasury Bill Index** is an unmanaged index that comprises a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

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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.