

# Franklin Systematic Style Premia ETF

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

## Key Takeaways

- **Markets:** Global equities rose in the fourth quarter, led higher by emerging markets (EM) and European stocks. Equity markets were characterized by a rotation toward value, as investors worried about the elevated valuations of technology stocks amid fears of an artificial intelligence (AI) bubble. Continued monetary easing by the US Federal Reserve (Fed) supported equities, but investors weighed some softer sentiment across the AI complex, shifting expectations for Fed action and uneven macroeconomic signals. US equity returns were subdued as markets digested slower earnings momentum and growing differentiation within technology. Global fixed income markets strengthened during the period, and credit markets witnessed positive absolute returns despite stable to modestly wider spreads. Sectors viewed as more risky, such as EM and high-yield bonds, broadly outperformed. In commodities, the quarter was a metals-led period defined by record highs, heightened speculative swings and dominant industrial demand narratives, while oil and many agricultural markets lagged.
- **Contributors:** The Long Short Equity Strategy contributed. The Sentiment and Value factors were key drivers. The Alternative factor also contributed.
- **Detractors:** The Fixed Income Macro Strategy was among the largest detractors. The Equity Futures Strategy and commodity substrategy also weighed on returns. The Quality factor detracted
- **Outlook:** We retain measured conviction toward equities into 2026, as influential pillars of support for risk assets—such as inflation, policy and corporate fundamentals—remain healthy. These dynamics are fueling our belief that equities will likely continue to deliver positive returns for investors, despite stretched valuations.

## Performance Review

- The Long Short Equity Strategy contributed positively to fund performance during the quarter, primarily driven by the Value and Sentiment factors. The Alternative factor contributed positively to performance, while the Quality factor detracted from performance.
- From a positioning standpoint, the portfolio remained net long, which aided overall returns. The strategy benefited from positive stock selection with notable contributions from long positions in Salesforce, Micron Technology and Walmart, as well as short positions in Strategy Inc. and Coinbase Global. Gains were partially offset by long positions in Uber Technologies, Netflix and Sony Group, and a short position in Eli Lilly & Co.
- Our preference for lower-volatility stocks on the long side and higher-volatility stocks on the short side provided a tailwind to performance.
- Positive performance was observed across most regions led by Japan and Australia. In contrast, Sweden and the US were detractors. From a sector perspective, financials (short) and materials (long, led by the mining and metals industry) were key contributors, but weakness in the software industry drove significant detraction in information technology.
- Foreign exchange was a notable contributor, aided by short positioning in the US dollar. Mexican peso (MXN) longs and South African rand (ZAR) longs boosted returns, while Japanese yen (JPY) longs weighed on returns.
- The equity futures strategy contributed positively to relative performance during the period. Long (on average) positions in equity indexes in Spain and the United Kingdom supported results, while short positioning in a Japanese index further enhanced performance.
- In contrast, fixed income macro strategies weighed on returns. Long positioning in Canadian bonds, Italian BTP bonds and French OATs detracted, outweighing contribution from short positioning in Australian Treasury bonds.
- The commodities substrategy was a modest detractor but was bolstered by a significant rise in gold and silver prices in the fourth quarter, as both were held in the long commodity strategy.

## Outlook

- We retain measured conviction toward equities into 2026, as influential pillars of support for risk assets—such as inflation, policy and corporate fundamentals—remain healthy. These dynamics are fueling our belief that equities will likely continue to deliver positive returns for investors, despite stretched valuations.
- Current activity indicators show growth above six-month averages in the United States, EMs and Europe. In addition, continued disinflation trends have provided some room for central banks to bolster accommodative fiscal policy by cutting interest rates.
- Equally importantly, corporate fundamentals show little sign of weakening, as trailing earnings growth remains strong. In addition, global forward earnings expectations are being revised higher, alongside earnings guidance breadth.

## 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	FLSP	NYSE Arca	4.17	14.63	15.54	15.54	10.02	8.28	—	3.99	0.65	0.65	12/18/2019
NAV Returns	—	—	3.69	12.66	15.27	15.27	9.97	8.18	—	3.83	0.65	0.65	12/18/2019
Benchmark	—	—	0.97	2.06	4.18	4.18	4.81	3.17	—	2.74	—	—	—

\*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](http://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

**Forward earnings** are an estimate of a next period's earnings of a company.

## 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.

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The **ICE BofA U.S. 3-Month 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.

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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.**