

Franklin Systematic Style Premia ETF

FLSP

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Global equities declined during the first quarter of 2026, as the escalating conflict in the Middle East weighed heavily on investor sentiment. Foreign exchange (FX) volatility was also notable in the period, driven largely by the current geopolitical environment. Oil prices surged in March, exacerbating concerns about inflation and reducing confidence that central banks would be able to ease policy quickly. During the quarter, investors rotated away from some mega-cap technology names toward more cyclical and defensive areas of the market. US stocks broadly underperformed global, developed and emerging markets (EM) gauges, as EM equities declined only modestly. Fixed income returns were generally negative as global government bond markets sold off in March amid rising stagflationary concerns. Global commodities markets rose sharply, largely in March, boosted by supply shocks concentrated in energy and agriculture, with oil futures trading above US\$100 per barrel.
- **Contributors:** The top-down risk premia and the bottom-up long/short equity strategies aided performance led by equity index futures and commodities.
- **Detractors:** Currency and interest rate positioning weighed on absolute returns, with positioning within the Quality factor detracting modestly.

Performance Review

- Franklin Systematic Style Premia ETF (FLSP) delivered a positive return (NAV) during the first quarter of 2026, continuing to outperform broad equity indexes despite a challenging end to the period. The quarter unfolded in two distinct phases. In January and February, commodity shorts, equity factor gains and solid macro positioning drove positive absolute returns. However, as the conflict in the Middle East escalated, performance weakened, leading to negative returns in a risk-off March marked by precious metals reversals, EM currency weakness and factor headwinds.
- The equity index futures sleeve was the top contributor, as all three factors added active returns. The carry factor was a key driver of absolute performance, with a meaningful contribution from Momentum and Value. Short positioning in France and Spain combined with long positioning in the United Kingdom fueled positive performance. Gains were partially offset by US longs.
- The commodities sleeve benefited from the Momentum and Value factors, led by long positioning in sulfur, gasoil and gold, as well as cocoa shorts. Conversely, wheat shorts weighed on returns.
- The currency sleeve detracted, weighed down by the Momentum and Value factors, despite a strong contribution from the Carry factor. US dollar shorts, especially against the Polish zloty, the Japanese yen and the UK pound, were notable contributors.
- Interest rate positioning also detracted overall, as the Carry and Momentum factors weighed on returns, partially offset by the Value factor. UK bond longs were a key detractor.
- Our custom style factors drove positive quarterly performance. The Sentiment factor was a key driver of the strategy's gains, with contribution from both the long and short sides. The Value factor was also a substantial contributor, also fueled by both sides. The ESG factor was a modest contributor, while the Alternative factor added a few basis points. In contrast, the Quality factor was a slight detractor.
- The short book drove gains, especially in March, as our custom factors added value, along with market and industry factors. In contrast, the long book detracted largely due to stock-specific and market factors.
- On a regional basis, Japan was a key contributor, followed by the United States and Hong Kong. All three markets' gains were fueled by the long side. The biggest detractor was Australia, where short positioning weighed on returns.

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	FLSP	NYSE Arca	1.08	5.29	1.08	13.74	10.38	8.51	—	4.00	0.65	0.65	12/18/2019
NAV Returns	—	—	1.99	5.75	1.99	13.73	10.04	8.63	—	4.00	0.65	0.65	12/18/2019
Benchmark	—	—	0.85	1.83	0.85	4.00	4.74	3.34	—	2.77	—	—	—

*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

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Risk premia refers to the amount by which the return of a risky asset is expected to outperform the known return on a risk-free asset.

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 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.

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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