

Franklin Ultra Short Bond ETF

Commentary | as of September 30, 2025

Key Takeaways

- **Markets:** Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding trade policy concerns and a rate cut of 25 basis points (bps) by the US Federal Reserve (Fed), which were both well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This bolstered markets, which viewed that the cut was addressing some of the weakening economic measures, such as the status of the US labor market. Per Bloomberg, the fixed income spread markets performed well as corporate bond spreads reached multidecade lows by the end of the quarter.
- **Contributors:** Exposure to the investment-grade (IG) banking and consumer cyclical corporate bond sectors.
- **Detractors:** No material detractors for the quarter.
- **Outlook:** There still remains a high level of uncertainty within fixed income markets. The path of rate cuts by the Fed, tariff policies and tight spreads on many fixed income sectors continue to cause concern.

Fund Characteristics

Fund

Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	4.35%
30-Day SEC Yield (Fund)—Without Waiver	4.35%

Performance Review

- Sector allocations outside of US Treasury bills contributed to relative performance.
- Over the course of the quarter, our exposure to IG corporate bonds generated returns for the portfolio. Holdings of bonds from the banking sector and companies within consumer non-cyclical industries added returns and income in Q3.

Outlook

- The Fed has been struggling to balance its dual mandate—maximum employment and price stability—as stagflation (rising inflation with slowing growth) becomes a real possibility. The Fed has chosen to prioritize employment over inflation, consistent with its historical tendency to intervene when growth slows.
- US trade policy remains a wild card, adding to uncertainty in the market. Even if tariffs don't cause a permanent lift in inflation, strong consumer spending and supportive fiscal policy mean the current economic environment is not likely to return to a disinflation level. In our view, tariffs are expected to cause a moderate, one-off burst of inflation, about 1.0-1.5 percentage points.
- There is high uncertainty about future policy, even between members of the FOMC, as reflected in the large distribution seen in the Fed's SEP scattered projections for the path of fed funds. The FOMC was nearly evenly split between those seeing two or more additional cuts by the end of this year (necessary to defend economic growth and the US job market) and those projecting just one cut (members that may have concerns over lingering inflation and tariff worries). In our view, this level of uncertainty has the potential to spur volatility in the US Treasury market.
- The team actively monitors portfolio exposures as market events evolve. We continue to structure the portfolio with capital preservation and liquidity as the primary objectives and will dynamically position more conservatively or moderately as we anticipate different risk environments. We believe our disciplined portfolio construction is key to potentially reducing volatility and providing consistent liquidity. The fund continues to have an emphasis on liquidity management with consistent maturities. We believe this focus allows us to take advantage of market opportunities that raise and reduce the risk of being a forced seller in challenged markets.

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	FLUD	NYSE Arca	1.43	2.71	4.24	5.41	5.56	3.23	—	3.18	0.15	0.15	7/14/2020
NAV Returns	—	—	1.35	2.63	3.90	5.16	5.52	3.21	—	3.15	0.15	0.15	7/14/2020
Benchmark	—	—	1.08	2.13	3.17	4.38	4.77	2.98	—	2.86	—	—	—

*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 July 16, 2020, 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. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. 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. The fund should not be considered an alternative to money market funds or certificates of deposit (CDs). To the extent the portfolio invests in a concentration of certain securities, regions or industries, it is subject to increased volatility. 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. The manager may consider environmental, social and governance (ESG) criteria in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. 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%).

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.

The 30-day SEC yield is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.