

Franklin Small Cap Enhanced ETF

FSML
Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** Small- and mid-capitalization US stocks, represented by the Russell 2000® Index, defied a broad market downturn and posted a modest gain and outperformed their large-cap peers, represented by the S&P 500 Index and the Nasdaq Composite Index. US equities as a whole endured a difficult first quarter of 2026 as investors reassessed the durability of the artificial intelligence trade and geopolitical risk intensified.
- **Contributors:** On a sector basis, the top contributors to relative returns were information technology (supported by stock selection and a small overweight) and energy (stock selection).
- **Detractors:** The health care (stock selection) and real estate (stock selection) sectors weakened relative results.
- **Outlook:** With geopolitical events, outcomes are much more difficult to predict than events tied to traditional factors such as growth, inflation and policy.

Performance Review

- In aggregate, security selection and sector exposures weighed on relative results.
- On a sector basis, health care (stock selection) and real estate (stock selection) weakened relative returns.
- In contrast, the top sector contributors to relative performance were information technology (supported by stock selection and a small overweight) and energy (stock selection).
- On a stock level, detractors included GeneDx Holdings, Kratos Defense & Security Solutions and Kohl's. Conversely, top contributors included Valaris, Kulicke & Soffa Industries, and nLight.

Outlook

- Our approach to risk remains cautious moving into April, as conflict in the Middle East continues to drive markets. Headlines and developments continue to change often.
- Disruption of energy supplies is a main reason for tensions in financial markets. A complete resolution of hostilities is unlikely, in our view, meaning some challenges will likely remain, albeit reduced from current levels.
- An energy-cost shock is generally bad for small caps, given their relatively low pricing power and higher operating leverage.
- With geopolitical events, outcomes are much more difficult to predict than events tied to traditional factors such as growth, inflation and policy. Although macro indicators remain resilient, we have seen some weakening recently. Softer leading economic indicators and purchasing managers' index (PMI) data point to slowing growth, and sticky core inflation remains a concern.
- The weakening US macro backdrop is negative for small-cap stocks, as are market expectations for more hawkish monetary policy to combat inflation.

Top Equity Issuers (% of Total)

Holding	Fund
BLOOM ENERGY CORP	2.19
GUARDANT HEALTH INC	1.57
GULFPORT ENERGY CORP	1.54
BOX INC	1.52
AXSOME THERAPEUTICS INC	1.47
NLIGHT INC	1.46
BRIDGEBIO PHARMA INC	1.45
IES HOLDINGS INC	1.42
FORMFACTOR INC	1.40
KULICKE & SOFFA INDUSTRIES INC	1.40

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	FSML	NYSE Arca	0.32	—	0.32	—	—	—	—	-1.02	0.45	0.45	12/9/2025
NAV Returns	—	—	0.48	—	0.48	—	—	—	—	-0.90	0.45	0.45	12/9/2025
Benchmark	—	—	0.89	—	0.89	—	—	—	—	-0.77	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark = Russell 2000 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 11, 2025 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. Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks. To the extent the portfolio invests in a **concentration of certain securities, regions or industries**, it is subject to increased volatility. 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. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **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 fund is newly organized**, with a limited history of operations. These and other risks are discussed in the fund's prospectus.

Glossary

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of Nasdaq securities and includes over 3,000 stocks. Source: Nasdaq OMX.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

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 **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe.

Source: FTSE.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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.