FRANKLIN TEMPLETON

Franklin Small Cap Enhanced ETF

FSML | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Small- and mid-capitalization (cap) US stocks, represented by the Russell 2000® Index, weakened in the third quarter and underperformed their large-cap peers. Rising Treasury yields and higher borrowing costs weighed disproportionately on smaller companies and other rate-sensitive areas of the market.
- **Contributors:** Style factors strengthened performance in the third quarter, with Value the strongest driver. The Sentiment and Alternative factors also lifted results.
- **Detractors:** The Quality factor modestly weighed on results.
- **Outlook:** Businesses in diverse industries are beginning to see AI-related productivity improvements that translate to healthier profit margins and improved earnings.

Performance Review

- Over the quarter, the Franklin Small Cap Enhanced ETF experienced a decline but performed better than its benchmark, the Russell 2000 Index.
- As a reminder, our multi-factor investment strategy, grounded in Quality, Value, Sentiment and Alternative factors, is constructed on robust economic rationale and seeks to provide diversified exposure designed to deliver positive risk-adjusted returns throughout a full market cycle.
- During the quarter, the broader global factor environment was supportive of Value, while Sentiment improved in September following weaker conditions earlier in the period.
- From a sector perspective, stock selection in the industrials, communication services and financials sectors contributed most to relative returns.
- Conversely, stock selection in the information technology sector was the largest sector detractor.
- On a stock level, the largest stock-level contributors to relative results during the quarter were life sciences tools developer 10x Genomics, communications and fintech services provider IDT and quantitative investment manager Acadian Asset Management. Avoiding power and industrial construction services provider Argan, which fell sharply, also added value.
- In contrast, the largest detractors from relative performance during the quarter were semiconductor and passive electronic components manufacturer Vishay Intertechnology, neurology-focused biopharmaceutical company Xenon Pharmaceuticals and semiconductor laser manufacturer nLight.

Outlook

- As a reminder, stocks are selected based on their aggregate scores across five systematic factors: quality, value, sentiment, alternative (other) and conviction. Securities are then weighted in the portfolio according to a strict risk budget.
- From our perspective, consistently strong economic growth and corporate earnings support a positive attitude towards equities, even in the face of uncertainties such as geopolitics, persistent inflation and monetary policy tightening. At the same time, small-cap stocks have weakened recently, as higher interest rates disproportionately impact smaller businesses.
- Corporate earnings have impressed since the start of 2026, driven largely by sustained levels of "hyperscaler" capital expenditures. However, earnings growth revisions have started to slow amid uncertainty about how the artificial intelligence (AI) story will unfold. This deceleration has raised fears of an earnings peak with the potential to undermine the foundations of our "risk-on" stance.
- We prefer to see it as a natural progression in the earnings story, backed by revisions breadth, which has improved significantly during the last three months. Increasing adoption of AI among individuals and businesses has begun to divert the flow of capital away from semiconductors towards infrastructure and energy. In addition, businesses in diverse industries are beginning to see AI-related productivity improvements that translate to healthier profit margins and improved earnings.
- Against this background, we see no significant correlation between peak earnings growth and forward earnings expectations. An analysis of historical earnings growth leads us to conclude that several conditions need to be met before the influence of peak earnings on future earnings becomes material.
- We continue to maintain a positive outlook for US equities. Corporate fundamentals (both trailing and forward) remain supportive, while momentum remains positive.

Top Equity Issuers (% of Total)

Holding	Fund
RUSSELL 2000 INDEX	10.50
10X GENOMICS INC	2.50
JACKSON FINANCIAL INC	1.42
IDT CORP	1.26
ACADIAN ASSET MANAGEMENT INC	1.26
BOX INC	1.23
TG THERAPEUTICS INC	1.22
OCEANEERING INTERNATIONAL INC	1.20
PROTO LABS INC	1.19
POWER SOLUTIONS INTERNATIONAL INC	1.18

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 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	-6.73	17.12	17.50	—	—	—	—	15.93	0.45	0.45	12/9/2025
NAV Returns	—	—	-6.86	16.77	17.34	—	—	—	—	15.73	0.45	0.45	12/9/2025
Benchmark	—	—	-7.23	12.71	13.71	—	—	—	—	11.84	—	—	—

*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.** These and other risks are discussed in the fund's prospectus.

Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

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.

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.

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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.

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