FRANKLIN TEMPLETON

Franklin Small Cap Enhanced ETF

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

Key Takeaways

- **Markets:** Small- and mid-capitalization (cap) US stocks, represented by the Russell 2000® Index, posted a healthy gain in the second quarter and outperformed their large-cap peers, represented by the S&P 500 Index and the Nasdaq Composite Index. Performance was led decisively by growth, as investors rotated back toward technology and the artificial intelligence (AI) complex.
- **Contributors:** Stock selection drove relative outperformance in the second quarter. Sector allocations also supported relative returns.
- **Detractors:** Of the 11 equity sectors, consumer staples and real estate were the only detractors.
- **Outlook:** The growth environment remains positive for US equities. The US economy is growing at a healthy rate, driven by personal consumption and business fixed investment.

Performance Review

- Over the quarter, the Franklin Small Cap Enhanced ETF delivered a robust gain and outperformed its benchmark, the Russell 2000 Index.
- On a sector basis, leading contributors to relative returns included information technology (selection and overweight), financials (selection) and industrials (selection).
- In contrast, stock selection in the consumer staples and real estate sectors curbed relative results.
- On a stock level, top contributors included Bloom Energy, Vishay Intertechnology and Kulicke & Soffa Industries. Conversely, detractors included Gulfport Energy, Core Natural Resources and Primoris Services.

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.
- The growth environment remains positive for US equities. The US economy is growing at a healthy rate, driven by personal consumption and business fixed investment. June Purchasing Managers' Index (PMI) readings also point to solid activity across US manufacturing and services, although elevated prices and weak consumer confidence have been limiting growth.
- Persistent core inflation is a concern for the United States, given its relative insulation from energy-price volatility. This makes the Federal Reserve less likely than other central banks to respond to falling energy prices. Instead, supply-chain pressures, labor-market resilience and wage growth remain important drivers of US monetary policy.
- At the time of writing, corporate fundamentals remain strong amid double-digit earnings growth expectations for the next 12 months.

Top Equity Issuers (% of Total)

Holding	Fund
BLOOM ENERGY CORP	2.77
GUARDANT HEALTH INC	1.91
10X GENOMICS INC	1.67
GENEDX HOLDINGS CORP	1.54
CREDO TECHNOLOGY GROUP HOLDING LTD	1.53
VICOR CORP	1.48
FORMFACTOR INC	1.46
VISHAY INTERTECHNOLOGY INC	1.41
KULICKE & SOFFA INDUSTRIES INC	1.34
BRIDGEBIO PHARMA INC	1.32

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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	25.57	25.97	25.97	—	—	—	—	24.29	0.45	0.45	12/9/2025
NAV Returns	—	—	25.37	25.98	25.98	—	—	—	—	24.25	0.45	0.45	12/9/2025
Benchmark	—	—	21.49	22.57	22.57	—	—	—	—	20.56	—	—	—

*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.

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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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