

Franklin Short-Term Municipal Income ETF

FTMS

Commentary | as of December 31, 2025

Key Takeaways

- Markets:** As per Barclays, in the fourth quarter of 2025 (Q4), new issuance of municipal (muni) bonds increased 14% year-over-year compared to 2024, culminating in a new annual record with tax-exempt issuance surpassing \$500 billion, per Barclays. By quarter end, the yield on the benchmark 10-year UST note moved two basis points (bps) higher to 4.17%, and the yield on the 30-year UST bond increased by 11 bps to 4.84%. US market sentiment dipped in throughout the quarter due to consumers concerns over personal finances problems, driven by weak labor and persistent inflation expectations, according to the latest University of Michigan's consumer surveys. The mid-November resolution of the US federal government shutdown supported sentiment through year-end. The Federal Reserve (Fed) policy also drove overall returns, with three consecutive 25-bp rate cuts which were well received by the market. However, the future path of cuts grew ambiguous as Fed members were split on the need for further adjustments.
- Contributors:** Underweight allocation to bonds with two years to maturity and an overweight to 10-year maturing bonds.
- Detractors:** Security selection in BBB rated bonds and an underweight allocation to muni bonds with 6-months to maturity.
- Outlook:** Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Performance Review

- Over the quarter, Franklin Short-Term Municipal Income ETF outperformed its benchmark, the Bloomberg 3-year Municipal Bond Index.
- The fund's yield curve positioning contributed to relative performance during the fourth quarter, driven by an underweight allocation to munis with two years to maturity and overweight allocations to munis with 10- and 20-years to maturity. This performance was partially offset by the weaker relative performance of overweight allocations to munis 5-years to maturity.
- Rating allocations benefited relative returns for the period, led by an off-benchmark position in munis with no external credit rating and an overweight position in BBB rated securities. Conversely, an overweight allocation to A rated issues and underweight allocation to AA rated securities detracted from results. Security selection held back relative performance, primarily due to selection in AA, A and BBB rated securities.

Outlook

- While Q4 muni bond issuance exceeded historical averages, the pace of issuance slowed going into year-end, nonetheless full-year issuance exceeded last year's already elevated levels. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach exceptional highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. This provides a stronger technical backdrop as demand has also increased over the past several months. The muni-bond yield curve remained relatively stable during the quarter.
- Fundamentals remain stable; however, slower economic growth will limit expansion in revenues across many sectors, in particular tax revenues. Rainy day funds remain healthy at the state and local government levels, which bolster fiscal resilience despite ongoing expense growth.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Fund Characteristics

Fund	
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	3.32%
30-Day SEC Yield (Fund)—Without Waiver	3.31%
Taxable Equivalent Yield (Fund)—With Waiver	5.61%
Taxable Equivalent Yield (Fund)—Without Waiver	5.59%

Average annual total returns and fund expenses (%) - as of December 31, 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	FTMS	—	0.71	2.39	4.26	4.26	3.90	2.07	1.92	1.65	0.20	0.20	3/18/2013
NAV Returns	—	—	0.71	2.39	4.26	4.26	3.90	2.07	1.92	1.65	0.20	0.20	3/18/2013
Benchmark	—	—	0.46	1.99	4.11	4.11	3.20	1.29	1.64	1.54	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark =Bloomberg 3-year Municipal Bond 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 franklintonappleton.com. 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. 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. **Active management** does not ensure gains or protect against market declines. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. 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%).

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

Effective October 24, 2025, Putnam Short-Term Municipal Income Fund reorganized into this ETF. This fund has an identical investment goal and substantially similar investment strategies as its predecessor fund.

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 **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.franklintonappleton.com. Please read it carefully.