

Franklin Short-Term Municipal Income ETF

FTMS
Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** In the first quarter of 2026, new issuance of municipal (muni) bonds exceeded the average seen in the past few years (Source: Barclays). The war in the Middle East which began at the end of February, continued throughout March, dominating market sentiment during the month. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note moved 15 basis points (bps) higher to 4.32%, and the yield on the 30-year UST bond increased by seven bps to 4.91%. The March US Federal Reserve (Fed) Federal Open Market Committee meeting left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.
- **Contributors:** Asset allocation across rating categories. Security selection in AA and AAA rated bonds.
- **Detractors:** Yield curve positioning, including an overweight to the 10-year part of the curve.
- **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 underperformed its benchmark, the Bloomberg 3-year Municipal Bond Index.
- Yield curve positioning was the leading detractor from returns. The portfolio overweight to the longer end of the curve during a period when yields on the shorter end outperformed. An overweight to bonds with 10 years or more to maturity detracted, while an overweight to bonds with six months to maturity was beneficial for performance.
- Asset allocation contributed to relative returns across the rating spectrum. The portfolio was overweight lower-rated bonds during a period when they fared better than higher-rated issues. Overweight allocations to bonds rated A and bonds with no external credit rating were leading contributors. There were no detractors by asset allocation. Security selection also contributed to relative results. The positive relative contributions of bonds rated AA and AAA were partially offset by the weaker performance contribution of A rated bonds.

Outlook

- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace (Source: Barclays). Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages (Source: Barclays), allowing investors the opportunity 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 Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Fund)—With Waiver	3.19%
30-Day SEC Yield (Fund)—Without Waiver	3.16%
Taxable Equivalent Yield (Fund)—With Waiver	5.39%
Taxable Equivalent Yield (Fund)—Without Waiver	5.34%

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	FTMS	NYSE Arca	0.32	1.03	0.32	3.60	3.50	2.08	1.91	1.64	0.22	0.21	3/18/2013
NAV Returns	—	—	0.37	1.08	0.37	3.66	3.52	2.09	1.92	1.65	0.22	0.21	3/18/2013
Benchmark	—	—	0.47	0.94	0.47	3.55	2.90	1.35	1.61	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 franklintempleton.com. The NAV performance for the Class R6 shares of the predecessor mutual fund is used as a proxy for market price returns, which are typically calculated using the official closing price of the ETF. If the predecessor mutual fund had been structured as an exchange-traded fund, its performance may have differed. Returns for periods prior to inception of Class R6 shares are based on previous share classes. Returns for those shares were not adjusted for the lower operating expenses; had they been adjusted, performance would be higher. 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.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 03/31/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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 **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year. The **Bloomberg 3-Year Municipal Bond Index** is a subset of the Bloomberg Municipal Bond Index that measures the performance of investment-grade issues with remaining maturities of two to four years. Source: Bloomberg Indices.

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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.

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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.