FRANKLIN TEMPLETON

# Franklin Income Focus ETF

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

## Key Takeaways

- **Markets:** US equities, as measured by the S&P 500 Index, rebounded strongly during the second quarter of 2026, recovering from a weak start to the year as investor confidence improved despite ongoing geopolitical uncertainty. Sentiment was supported by robust corporate earnings, particularly from companies exposed to artificial intelligence (AI) infrastructure, with continued increases in capital expenditure reinforcing confidence that the AI investment cycle remained intact.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns. On a relative basis, underweight allocation to fixed income and overweight equity positioning assisted results.
- **Detractors:** Security selection detracted from relative returns.
- **Outlook:** We remain committed to our dynamic global income approach as the current environment has been rewarding flexibility and selectivity. We continue to be vigilant amid ongoing uncertainties, selectively deploying capital during periods of market dislocation to enhance income and long-term total return potential.

## Performance Review

- Franklin Income Focus ETF (Market Price return) **underperformed its benchmark**, the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index, for the quarter ended June 30, 2026.
- Over the course of the quarter, the fund **increased its fixed income allocation** and **decreased its equity exposure**.
- Fixed income allocations to **the health care, consumer discretionary and financials sectors had a positive effect** on absolute fund performance. Meanwhile, securities within **industrials hindered returns** during the period.
- On an individual issuer basis, **Community Health Systems, US Treasuries and Organon & Co. were top performers** within the fund's fixed income positioning. In contrast, **American Airlines detracted** from returns.
- In terms of equities, the fund **benefited from positions within the information technology, financials and industrials sectors**. However, the **energy, materials and communication services sectors weakened absolute returns**.
- **Texas Instruments, Dell Technologies and Cisco Systems added value** within the fund's equity holdings. Conversely, **Exxon Mobil, LyondellBasell Industries and Chevron detracted from returns** during the period.

## Outlook

- **Economy**: The outlook for economic growth and inflation continues to be a major area of focus for the fund. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, remain sources of volatility. Moreover, while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and Fed policy.
- **Equities**: The start of 2026 saw elevated equity market dispersion after an extended period of very narrow market breadth. Amid the recent return to more narrow market leadership, we have found select opportunities within the communication services and financials sectors. Ultimately, given current valuations, we remain selective in engaging with equities and continue to focus on broad diversification across sectors while maintaining flexibility to capitalize on potential dislocations.
- **Treasuries/Government-Backed Bonds**: Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds**: Absolute yield levels remain attractive for an income-generating strategy, but credit spreads remain near cycle lows, despite some recent widening. With credit spreads at current levels, we believe future returns may be driven by interest-rate moves and carry rather than from meaningful spread compression.
- **High-Yield Corporate Bonds**: Although we think the high-yield market offers attractive yields, we remain balanced and selective with a focus on strong company fundamentals. We maintain a vigilant approach to security selection within our high-yield portfolio, with our preference for companies that have a greater degree of flexibility to address upcoming maturities.

## Fund Characteristics

| Fund Characteristics | Fund |
|---|---|
| Distribution Frequency | Monthly |
| 30-Day SEC Yield (Fund)—With Waiver | 5.32% |
| 30-Day SEC Yield (Fund)—Without Waiver | 5.31% |

## Top Holdings (% of Total)

| Issuer | Fund |
|---|---|
| UNITED STATES TREASURY BOND | 7.38 |
| CHS/COMMUNITY HEALTH SYSTEMS INC | 2.60 |
| GOVT NATL MORTG ASSN | 2.18 |
| EXXON MOBIL CORP | 1.95 |
| PROCTER & GAMBLE CO/THE | 1.90 |
| ORACLE CORP | 1.89 |
| HOME DEPOT INC/THE | 1.64 |
| VERIZON COMMUNICATIONS INC | 1.61 |
| TEXAS INSTRUMENTS INC | 1.54 |
| SOUTHERN CO/THE | 1.54 |



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 | INCM | NYSE Arca | 1.73 | 5.71 | 5.71 | 12.47 | 10.29 | — | — | 10.39 | 0.38 | 0.38 | 6/6/2023 |
| NAV Returns | — | — | 1.94 | 5.91 | 5.91 | 12.77 | 10.28 | — | — | 10.41 | 0.38 | 0.38 | 6/6/2023 |
| Benchmark | — | — | 3.49 | 6.38 | 6.38 | 11.86 | 10.23 | — | — | 10.67 | — | — | — |

*Cumulative total returns

## Benchmark(s)

Benchmark =Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate 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 June 8, 2023, 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. Bond prices** generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. **Changes in the financial strength of a bond** issuer or in a bond's credit rating may affect its value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Stock prices** fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Investments in **equity index-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated.

These and other risk considerations 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.

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 **Benchmark:** 50% USA High Div Yield + 25% High Yield Very Liquid + 25% US Agg Index is composed of the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index. The MSCI USA High Dividend Yield Index is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index. The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index designed to track a more liquid component of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. The Bloomberg US Aggregate Bond Index is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity.

Source: Bloomberg Indices. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

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.

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.***



FRANKLIN TEMPLETON