

# Franklin Sustainable International Equity ETF

MCSE

Commentary | as of December 31, 2025

## Key Takeaways

- Markets:** Global equities made further solid gains overall in the fourth quarter of 2025, rounding off a year of strong returns for the asset class. Despite some mixed economic signals and concerns about stretched technology valuations during the quarter, investors remained broadly optimistic about artificial intelligence (AI) advancements and the potential for a continued easing of US monetary policy. A backdrop of generally robust corporate earnings and a constructive shift in US-China relations underpinned sentiment, as did two reductions in policy interest rates by the US Federal Reserve. As measured by MSCI indexes in US-dollar terms, international developed markets along with emerging markets collectively outperformed a global index, while US equities lagged. Globally, value stocks narrowly outpaced their growth counterparts over the period.
- Contributors:** The largest contributors to performance included Sartorius Stedim Biotech, Mettler-Toledo International and ASML.
- Detractors:** The portfolio's largest detractors from performance included Ferrari, Linde and Nemetschek.
- Outlook:** Equity markets in 2026 will be shaped by macro forces through two key channels: the price of capital and the breadth of earnings revisions. While the focus remains on underlying company economics, shifts in the macro environment can quickly reprice opportunities.

## Performance Review

- Ferrari fell after its Capital Markets Day revealed unexpectedly conservative long-term financial targets and a scaled-back electrification strategy, prompting investors to reassess growth expectations for the company.
- Linde underperformed after lowering full-year guidance despite beating third-quarter estimates. Weak European volumes and cautious macro commentary further weighed on sentiment, overshadowing solid cash flow and margin performance.
- In contrast, Sartorius Stedim Biotech shares rose as strong late-year momentum emerged, with strong fourth-quarter orders in its bioprocess solutions division helping annual results to beat expectations, signaling a recovery in demand and strengthening investor confidence.

## Outlook

- Equity markets in 2026 will be shaped by macro forces through two key channels: the price of capital and the breadth of earnings revisions. While the focus remains on underlying company economics, shifts in the macro environment can quickly reprice opportunities.
- The first driver is the cost of capital, which will depend on services inflation, fiscal dynamics and institutional credibility. A favourable scenario features a clearer disinflation path that allows easier policy without credibility risks and keeps long-term yields stable. The less favorable scenario combines persistent services inflation with rising term premia, creating valuation headwinds even as growth cools.
- The second driver is corporate behaviour and its impact on the profit cycle. A contained slowdown—supported by reasonable pricing power and productivity—would limit earnings downgrades. Conversely, increased caution could lead to capex delays, broader cost-cutting, weaker hiring and more widespread profit warnings.
- Policy and geopolitics remain fast-acting forces affecting costs and sentiment. Clearer trade policy would reduce friction and help margins, while geopolitical escalation would introduce input volatility, working-capital drag and investment delays. Upside exists in potential progress in Ukraine; risks remain in the Middle East and China–Taiwan.
- AI represents both an opportunity and a potential capital-cycle risk. Productivity improvements and new profit pools are the upside; the downside includes overbuilding, digestion phases, uncertainty about returns and heightened regulation.
- Long-term opportunities center on ageing populations, rising data and power needs and the expanding AI ecosystem. These trends reinforce demand for productivity solutions, resilient and modernized energy infrastructure, and high-value semiconductor and hardware capabilities where complexity drives defensibility.

## Benchmark(s)

Benchmark = MSCI All Country World ex-US Index-NR

## What are the Risks?

All investments involve risks, including possible loss of principal. **Equity securities** are subject to price fluctuation and possible loss of principal. **Small- and mid-cap stocks** involve greater risks and volatility than large-cap stocks. **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**. To the extent the fund invests in companies in a specific **country or region**, the fund may experience greater volatility than a fund that is more broadly diversified geographically. The managers' **environmental, social and governance (ESG) strategies** may limit the types and number of investments available and, as a result, may forgo favorable market opportunities or underperform strategies that are not subject to such criteria. There is no guarantee that the strategy's ESG directives will be successful or will result in better performance. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. **When the fund's size is small**, the fund may experience low trading volume and wide bid/ask spreads. These and other risks are discussed in the fund's prospectus.

## Top Holdings (% of Total)

Holding	Fund
Taiwan Semiconductor Manufacturing Company	7.96
ASML Holding NV	5.85
Ferrari NV	5.44
Linde PLC	4.97
L'oreal SA	4.89
Mettler-Toledo International Inc.	4.81
Tencent Holdings Ltd.	4.59
Adyen NV	4.46
RESMED INC-CDI	4.31
Schneider Electric	4.30

## 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

### Effective June 30, 2025, the Martin Currie Sustainable International Equity ETF was renamed Franklin Sustainable International Equity ETF.

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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

**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](http://www.franklintempleton.com). Please read it carefully.**