Aim beyond the horizon

The case for active municipal bond ETFs

Not FDIC Insured | No Bank Guarantee | May Lose Value

FRANKLIN TEMPLETON

Navigate the muni universe with the precision of a space mission

The vast and mysterious universe requires the expertise of seasoned astronauts and cutting–edge technology. Similarly, the complex and often opaque world of municipal bonds–the muniverse–demands skill and innovation.

Just as space exploration reaches beyond the horizon to unlock new possibilities, municipal bonds fuel the infrastructure that keeps our communities thriving—schools, hospitals, roads and more. Chart your course toward discovery and value with our active municipal bond ETFs.

Table of contents

Your go-to partner to help chart the course 1

Active management is mission critical 2

Go-for-launch: Active muni bond ETFs 5

Your go-to partner to help chart the course

Franklin Templeton Fixed Income Municipal Bond experts[1]

$70 billion
in municipal bond assets under management

24
investment professionals

21 years
of financial industry experience, on average

10
research analysts

Experience and resources matter

FTFI is one of the largest municipal bond fund managers in the nation. Our experienced team of 24 investment professionals has an average of 21 years of tenure with the firm. Leveraging the collective experience of our entire team, we apply an active approach that seeks to provide tax-efficient portfolios.

Comprehensive research capabilities

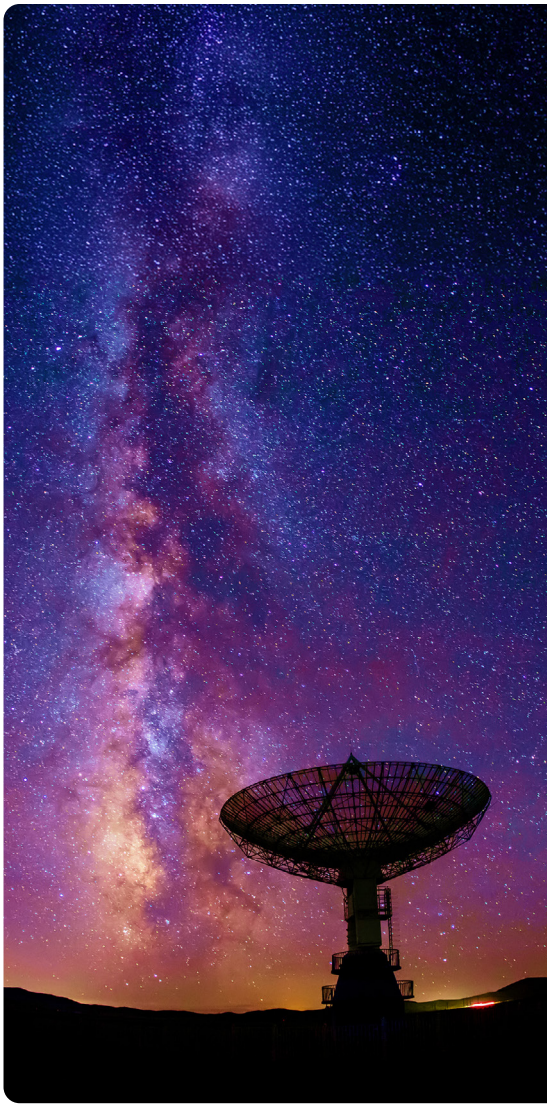
Our team of investment professionals conducts in-depth research up and down the yield curve, across the entire term structure, around the country and across the full credit spectrum in order to uncover opportunities others may miss.

Focus on risk management

Our team places a premium on risk management, which is fully incorporated into our process. We are generally patient when times are good and active when volatility increases. Unlike aggressive strategies which run a greater risk of becoming forced sellers, periods of stress have often been when we are able to capitalize on opportunities that can enhance a portfolio's income earning potential.

Ben Barber
SVP
Director of Municipal Bonds
32 years of industry experience

Jennifer Johnston
SVP
Director of Municipal Research
31 years of industry experience



1. As of June 30, 2026.

Active management is mission critical

When it ***is*** rocket science, don't leave your team of experts behind. Consider these **five reasons** why active management may lead to superior outcomes compared to a passive approach.

1 A complex market

Investing in municipal bonds is difficult because the market is vast in size and complex, with a fragmented trading system making it difficult to navigate.

50,000+
Issuers for municipal securities, compared to 6,000 for corporate securities[2]

70+%
Of municipal bonds are held by individual investors, some of whom represent direct holders of bonds[3]

10,000+
New issues are priced each year; a large number of those issuers are infrequent participants[3]

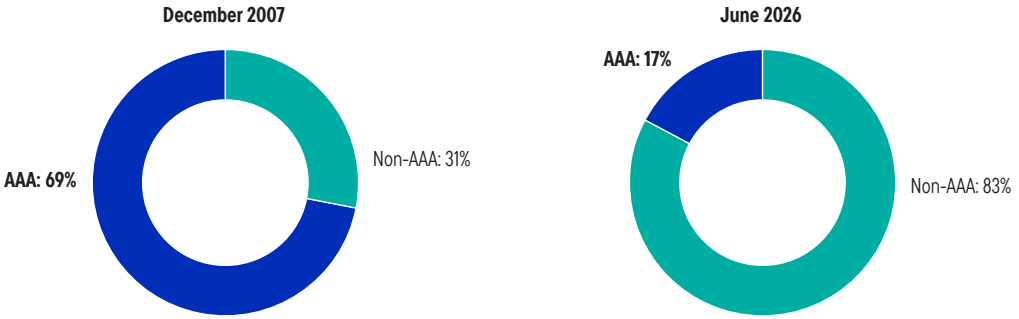
1,000,000
Distinct municipal bonds, compared to 40,000 distinct corporate bonds[4]

2 Shifting dynamics

The proportion of municipal bonds rated AAA has fallen sharply since 2007—from 69% to just 17%. That dramatic shift underscores the need for the in-depth research from professional managers covering every level of the market.

Municipal Bond Market: Ratings Breakdown[5]

The Supply of High Quality Municipal Bonds is Down



2. Source: Municipal Securities Rulemaking Board (MSRB) as of January 31, 2025. Most recent data available.
3. Source: The Federal Reserve System, December 2024. Represents all municipals bonds held by individuals in a brokerage account or through a commingled vehicle.
4. Bloomberg.
5. Source: Bloomberg Municipal Research. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. When ratings from multiple agencies are available, the highest is used, consistent with the portfolio investment process. Ratings reflect an NRSRO's opinion of an issuer's creditworthiness and typically range from AAA (highest) to D (lowest). The Refunded category consists of refunded bonds secured by US government or other high-quality securities. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of third-party ETFs and securities that only have a short-term rating and are not cash equivalents. Cash includes equivalents, which may be rated.

3 Research coverage for non-rated bonds

For many issuers, obtaining a credit rating is not cost-effective, especially when new debt is infrequently issued or when the potential rating may not secure lower financing costs. In 2025, approximately 62% of new debt offerings were $25 million or less in size, and nearly 77% were $50 million or less. These distinctive characteristics of municipal market debt lead to inherent inefficiencies, which can be addressed through diligent active management, comprehensive credit research, and a thorough understanding of market participants.

Municipal Securities Are Issued At All Levels of Funding[6]

2025 Municipal Issues by Size

	Tax Exempt		Taxable	
Bond Issue Size	**Number of Issues**	**Percentage**	**Number of Issues**	**Percentage**
$5 million or Less	2,099	24%	389	45%
>$5 Million to $25 Million	3,348	38%	206	24%
>$25 Million to $50 Million	1,326	15%	95	11%
>$50 Million to $100 Million	931	11%	79	9%
>$100 Million to $500 Million	985	11%	86	10%
>$500 Million to $ Billion	124	1%	1	<1%
>$1 Billion	41	<1%	2	<1%
Grand Total	**8,854**		**858**	

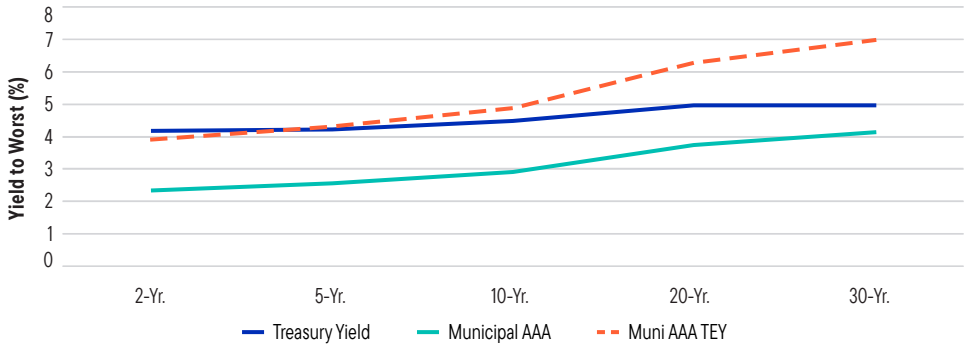
6. Source: LSEG, excluding issues subject to Alternative Minimum Tax.

4 A steep municipal yield curve presents exciting opportunities for active management to add value

When the municipal bond yield curve is steep, it presents opportunities for active managers to generate higher returns by exploiting differences in relative value and yields across various bond maturities. Notably, the AAA-rated municipal curve exhibits a pronounced upward slope between the 10- and 30-year segments. This steepness in the longer maturities creates a beneficial "carry-and-roll" effect, which can cushion total returns even if interest rates rise.

Muni Curve vs. US Treasury Curve vs. AAA Muni Taxable Equivalent Yields[7]

As of June 30, 2026



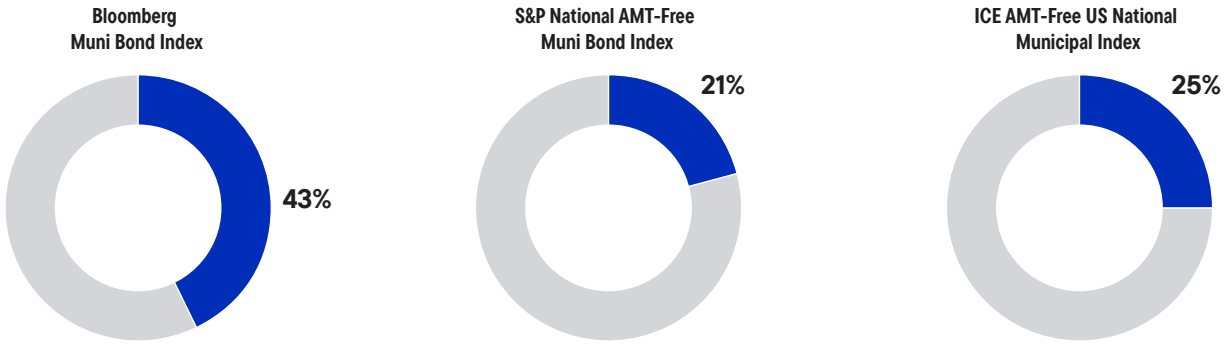
Yield to Worst (%)	2-Yr.	5-Yr.	10-Yr.	20-Yr.	30-Yr.
Treasury Yield (Index)	4.18	4.23	4.47	4.96	4.95
Municipal AAA	2.33	2.55	2.89	3.73	4.13
Muni AAA Taxable Equivalent Yield (TEY)	3.93	4.30	4.88	6.29	6.98

5 Insufficient market coverage in passive muni strategies

While municipal bond indexes (and the index ETFs that track them) provide broad exposure to the muni market, they do not offer full market coverage. Key segments are often intentionally excluded from the underlying indexes, a practice that can impact returns.

Coverage of Outstanding Municipal Bonds[8]

As of September 30, 2025



7. Source: Bloomberg.
8. Source: Federal Reserve. Most recent data available.

Go-for-launch: Active muni bond ETFs

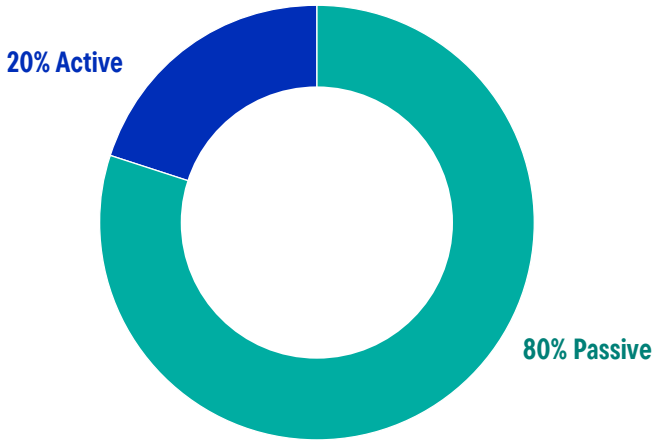
Over the last 36 months, **ETFs account for 60% of the flows** within the municipal bond space (compared to 40% for mutual funds)—mirroring the broader industry trend of increased ETF adoption.

As of June 30, 2026.

While the majority of muni ETFs are passive, **100% of muni ETF launches in the first half of 2026 have been active.** We believe this to be an indicator that the future of muni ETFs is active.

Breakdown of municipal bond ETF AUM by management style

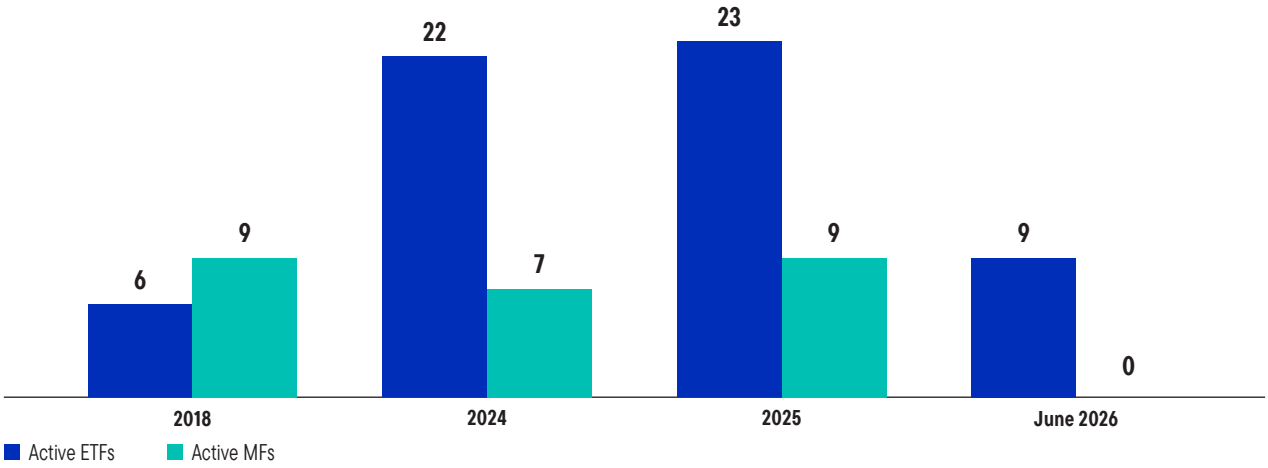
Currently, the majority of ETFs in the municipal bond space are passive.



As of June 30, 2026.

Active muni ETF vs. active muni mutual fund launches

In 2024, we witnessed a shift in product launches within the active muni space–with the majority of new funds being ETFs.



Source: Morningstar. All data for US-domiciled funds only.

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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

ETFs trade like stocks, fluctuate in market value and may trade at prices above or below their net asset value. Brokerage commissions and ETF expenses will reduce returns. ETF 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 are tradable on secondary markets and may trade either at a premium or a discount to their NAV on the secondary market. Retail investors buy and sell shares of ETFs at market price (not NAV) in the secondary market throughout the trading day. These shares are not individually available for purchase or redemption directly from the ETF.

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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US-FTISETF-12823508-12723508
MUNIP-ETFB-0926