

Franklin ClearBridge Enhanced Income ETF

YLDE

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** With two radical developments unfolding in the last three months — the war in Iran and AI's accelerating displacement of software engineers and the software industry — the first quarter was truly a quarter where it felt like decades happened. Despite the significant turmoil, the Franklin ClearBridge Enhanced Income ETF outperformed, delivering positive returns while the S&P 500 Index declined 4.3%.
- **Contributors:** Outperformance was driven primarily by stock selection in the health care and communication services sectors, overweights to energy, materials, consumer staples and real estate, and underweights to IT and consumer discretionary. The options overlay was also a positive contributor.
- **Detractors:** Stock selection in consumer staples, energy and real estate detracted.
- **Outlook:** Our diverse portfolio emphasizes high-quality companies with low risk of disintermediation supported by strong financial characteristics and reasonable valuations. We anticipate continued dividend growth, driving increased cash returns and providing a meaningful offset to inflation. Volatile times also contain a silver lining, offering us the opportunity to take advantage of dislocations to high-grade the portfolio. We believe we are well-positioned for the current environment.

Performance Review

- Tactically, we benefited from our significant underweight to information technology (IT, which declined 9.2% in the quarter) and our significant overweight to energy (which surged 38.2%). Strategically, we benefited from our commitment to broad diversification amid a market that has become massively concentrated.
- The options overlay was also a positive contributor.
- As users of Claude Code multiplied in the first quarter, the S&P 500 software sector declined 24% — a staggering amount for what appeared to be a fundamentally sound industry. We currently own just one software stock — Microsoft — and one stock — ADP — with a small, and we believe well-defended, software exposure.
- While AI unleashed volatility in the digital world, the war with Iran unleashed volatility in the physical world. Given our large investment in energy, the portfolio benefited from the resulting rise in oil prices.
- While we maintain a large overweight to energy, we have taken advantage of rising stock prices to exit two of our holdings, EQT and Enbridge. We have focused our energy investments in our highest-conviction ideas: Williams and ExxonMobil. EQT always represented more of a tactical investment in an improving U.S. natural gas market, rather than a long-term investment in a franchise energy company. We made substantial profits in EQT over a four-year holding period and have decided to move on.
- After a long and profitable investment in Enbridge, we sold the position to concentrate our pipeline investments in Williams, which possesses a superior balance sheet and, in our opinion, a growth outlook. Further, with the U.S. pursuing confrontational trade policies toward Canada, the risks to Canadian companies dependent upon exports to the U.S. are elevated. Our investment in Williams is predicated on growing North American natural gas production and surging power demand from data centers. Rising oil prices have little direct impact on the company and its business should continue chugging along, regardless of the outcome with Iran.
- ExxonMobil, however, as the largest private oil producer in the world, directly benefits from the events in the Persian Gulf. Higher oil prices will drive bumper earnings and cash flows, but that is not the only thing Exxon has going for it. Exxon's robust production growth from low-cost basins should propel volume increases and margin expansion through the end of the decade. We have modestly trimmed our position as the stock has soared, but we maintain a significant investment in the company.

Outlook

- While the U.S. is protected from the worst impacts of the energy disruption, higher prices are driving higher inflation. The longer these prices remain elevated, the more persistent and challenging the inflation and interest rate outlook will become. A slowing global economy combined with higher inflation and interest rates could present strong headwinds to markets in 2026. We continue to emphasize broad diversification and will exercise caution navigating the twin challenges of AI disruption and the war in Iran.
- Our diverse portfolio emphasizes high-quality companies with low risk of disintermediation supported by strong financial characteristics and reasonable valuations. We anticipate continued dividend growth, driving increased cash returns and providing a meaningful offset to inflation. Volatile times also contain a silver lining, offering us the opportunity to take advantage of dislocations to high-grade the portfolio. We believe we are well-positioned for the current environment.

Top Equity Issuers (% of Total)

Holding	Fund
Williams Cos Inc	4.66
Exxon Mobil Corp	3.78
Microsoft Corp	3.65
Texas Instruments Incorporated	2.98
Alphabet Inc. Class A	2.98
Nestle S.A. Sponsored ADR	2.92
Air Products and Chemicals, Inc.	2.88
Broadcom Inc.	2.88
Apollo Global Management Inc	2.69
Comcast Corp Class A	2.34

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	YLDE	NASDAQ - XNMS	0.63	2.38	0.63	11.48	14.50	10.34	—	11.54	0.47	0.47	5/22/2017
NAV Returns	—	—	0.73	2.49	0.73	11.64	14.52	10.40	—	11.55	0.47	0.47	5/22/2017
Benchmark 1	—	—	-4.33	-1.79	-4.33	17.80	18.32	12.06	—	13.85	—	—	—
Benchmark 2	—	—	-0.92	5.55	-0.92	11.35	11.01	7.92	—	6.60	—	—	—

*Cumulative total returns

Benchmark(s)

Benchmark 1=S&P 500 Index

Benchmark 2=CBOE S&P 500 BuyWrite 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. Prior to July 1, 2020, market price returns generally were based upon the mid-point between the bid and ask on the Fund's principal trading market when the Fund's NAV was determined. Market price performance reported for periods prior to July 1, 2020 will continue to reflect market prices calculated based upon the mid-point between the bid and ask on the Fund's principal trading market close. These returns do not represent investors' returns had they traded shares at other times. 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. **Equity securities** are subject to price fluctuation and possible loss of principal. **Options (call writing)** may limit the opportunity to participate fully from an increase in the market value of stocks and premiums received from option writing may not protect against market declines. **Dividends** may fluctuate and are not guaranteed, and a company may reduce or eliminate its dividend at any time. **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**. 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. These and other risks are discussed in the fund's prospectus.

Important Information

Effective February 28, 2025, ClearBridge Dividend Strategy ESG ETF changed its name to Franklin ClearBridge Enhanced Income ETF and modified its investment objective, principal investment strategy and dividend policy. Refer to the prospectus for more 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.

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The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. The **Cboe S&P 500 BuyWrite IndexSM** measures the total return of a covered call strategy applied to the S&P 500 Index. This strategy consists of a long position indexed to the S&P 500 Index, which is deemed sold with a succession of one month, at-the-money call options on the S&P 500 Index. Source: Cboe Global Indices, LLC.

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