

Product Profile

Product Details¹

Fund Assets	\$1,306,206,235.59
Fund Inception Date	09/02/2003
Number of Holdings	235
Investment Style	Municipals
Benchmark	Bloomberg Barclays Municipal Short 1-5 Years Index
Lipper Classification	Short Municipal Debt Funds
Morningstar Category™	Muni National Short
Dividend Frequency	Monthly, on or near the last business day

	CUSIP	NASDAQ Symbol
Advisor Class	354 723 132	FTFZX

	Maximum Sales Charges
Advisor Class	None

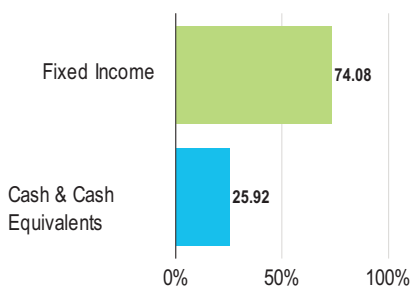
	Total Annual Operating Expenses With Waiver	Without Waiver
Advisor Class	0.40%	0.56%

	30-Day Standardized Yield ² With Waiver	Without Waiver
Advisor Class	0.68%	0.53%

	Taxable Equivalent Yield ³ With Waiver	Without Waiver
Advisor Class	1.15%	2.35%

Asset Allocation⁴

Percent of Total



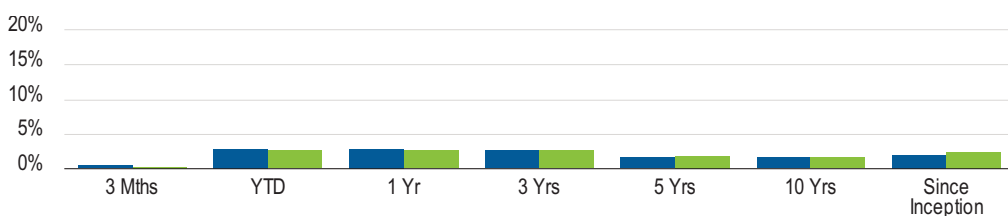
Fund Description

The fund seeks to provide investors with as high a level of income exempt from federal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.⁵ The fund maintains a dollar-weighted average portfolio maturity of five years or less.

Performance Data^{a,6}

Average Annual Total Returns⁷ (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (09/02/2003)
Advisor Class	0.68	2.91	2.91	2.74	1.77	1.74	2.19
Bloomberg Barclays Municipal Short 1-5 Years Index	0.33	2.83	2.83	2.75	1.98	1.87	2.52



- Advisor Class
- Bloomberg Barclays Municipal Short 1-5 Years Index

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

The fund has an expense reduction contractually guaranteed through 06/30/2021. Fund investment results reflect the expense reduction; without this reduction, the results would have been lower.

- All holdings are subject to change.
- The fund's 30-Day Standardized 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. **Past performance is not an indicator or a guarantee of future performance.**
- The Taxable Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect on December 2019.
- Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.
- Dividends are generally subject to state and local taxes, if any. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
- Periods shorter than one year are shown as cumulative total returns.

Calendar Year Returns (%)

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Advisor Class	2.91	3.70	1.63	0.44	0.20	0.67	1.24	0.52	2.03	4.03
Bloomberg Barclays Municipal Short 1-5 Years Index	2.83	3.66	1.77	1.61	0.07	1.21	1.31	1.15	1.73	3.45

Lipper Income Returns^{8,9} (%)

	1 Mth	3 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs
Advisor Class	0.10	0.30	1.35	1.54	1.30	-
Short Municipal Debt Funds Classification Average	0.07	0.21	1.10	1.34	1.19	1.10
Short Municipal Debt Funds Classification Percentile Ranking - Advisor Class	29	26	30	32	40	-

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Portfolio Manager Insight[†]

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Duration	Quality	Sector
HELPED	—	Underweight AAA Rated Bonds	Underweight Refunded Bonds
	—	Security Selection in AA Rated Bonds	Underweight Utilities
	—	Security Selection in AAA Rated Bonds	Security Selection in State General Obligation
HURT	—	Underweight BBB Rated Bonds	Underweight Transportation
	—	—	—
	—	—	—

- Over the quarter, lower-rated bonds generally outperformed their higher-rated counterparts. Rating allocations contributed to relative fund performance, led by an underweight to AAA rated bonds. This was partially offset by an underweight to BBB rated bonds, which weighed on returns. Security selection within rating allocations contributed to performance, led by selection in AA and AAA rated bonds. Drawing on the expertise of our dedicated municipal research team, we remain focused on issuers that we believe possess the ability to withstand prolonged declines in economic activity.
- Sector allocations contributed to results, led by our underweights to refunded bonds and the utilities sector. This was partially offset by an underweight to the transportation segment, which hindered performance. Security selection in sector allocations contributed to relative results, with selection in state GO bonds boosting returns.

Outlook & Strategy

- Since the record outflows from the municipal bond market in March 2020, flows have returned as many investors have sought strong tax-adjusted returns. Scant tax-free supply paired with a healthy demand for tax-exempt bonds has driven strong performance. We expect demand to remain high, which should support overall muni bond valuations.
- Despite the ongoing COVID-19 pandemic and the resulting economic downturn, we believe a second COVID-19-driven market disruption is unlikely to unfold in the muni bond market. It is important to note that the muni market is highly fragmented and littered with idiosyncratic risk. Fracture points originate from many sources, including differing state laws, sector traits, ratings and quality, structure, covenants, and security features.
- Our view continues to call for solid tax-exempt municipal bond performance potential. Due to the different dynamics at play, we have a neutral outlook toward the muni bond market over the next 12 months, with valuations calling for selective positioning. We continue to favor a high quality, structurally liquid portfolio. While we are biased toward the upper end of the investment-grade municipal bond universe, there are a few spread opportunities in the lower end of the investment-grade market that remain attractive to us.
- We retain a cautionary stance toward municipal bond credit, where strong ongoing credit research will be critical for those looking to continue capitalizing on opportunities caused by market disruptions, including in sectors that have lagged during the recovery. Existing portfolio composition will also determine one's ability to be nimble amid a rapidly changing environment. We believe our approach to municipal investing is particularly well-suited for the volatile market environment. While we would reiterate the view that it is still too early to predict the full impact of the pandemic, it is abundantly clear to us that certain sectors and states are much more likely to be negatively impacted than others. Our research analysts have been intensely reviewing municipal market sectors and subsectors based on assessments of impact and resiliency as they relate to the coronavirus, as well as relative value between sectors and issuers.

8. Source: Lipper, Inc., 12/31/2020. Lipper figures do not include sales charges and may have been different if such charges had been considered. Lipper income return rankings are different than Lipper total return rankings. Income return rankings reflect performance from income only; they do not reflect performance from price gain or loss. Total return reflects performance from both income and price gain or loss. Rankings do not include sales charges. Other share classes may differ. Past performance is not an indicator or a guarantee of future performance.

9. Periods shorter than one year are shown as cumulative total returns.

- Our seasoned team of analysts and portfolio managers has weathered difficult times before, and we are using that knowledge to navigate through this environment.

*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.

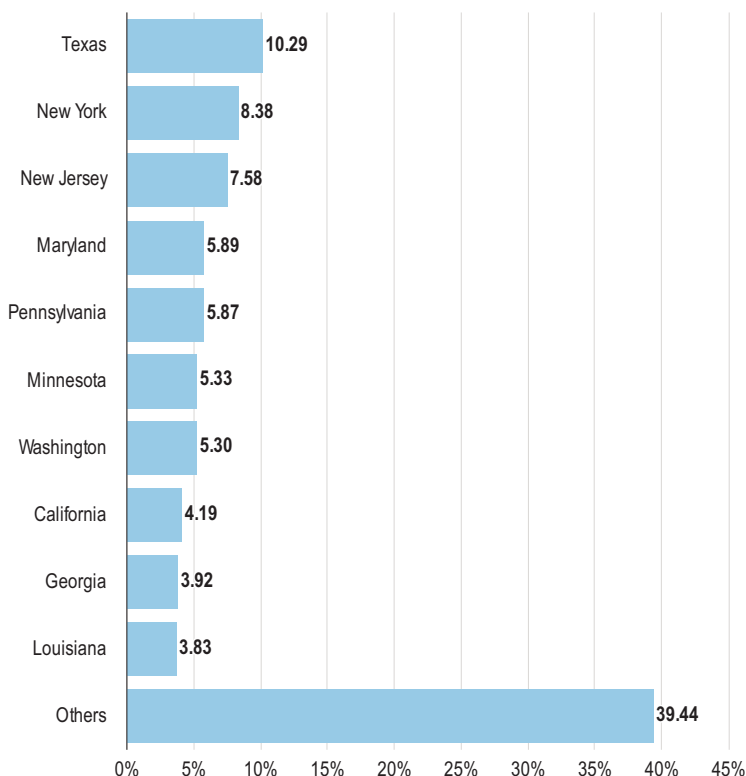
Portfolio Characteristics^{10,11}

	Portfolio	Bloomberg Barclays Municipal Short 1-5 Years Index
AMT Exposure	0.06%	-
Annual Turnover Ratio (02/29/2020)	10.10%	-
Average Duration	2.96 Yrs	2.49 Yrs
Average Weighted Maturity	3.10 Yrs	2.89 Yrs

Portfolio Diversification

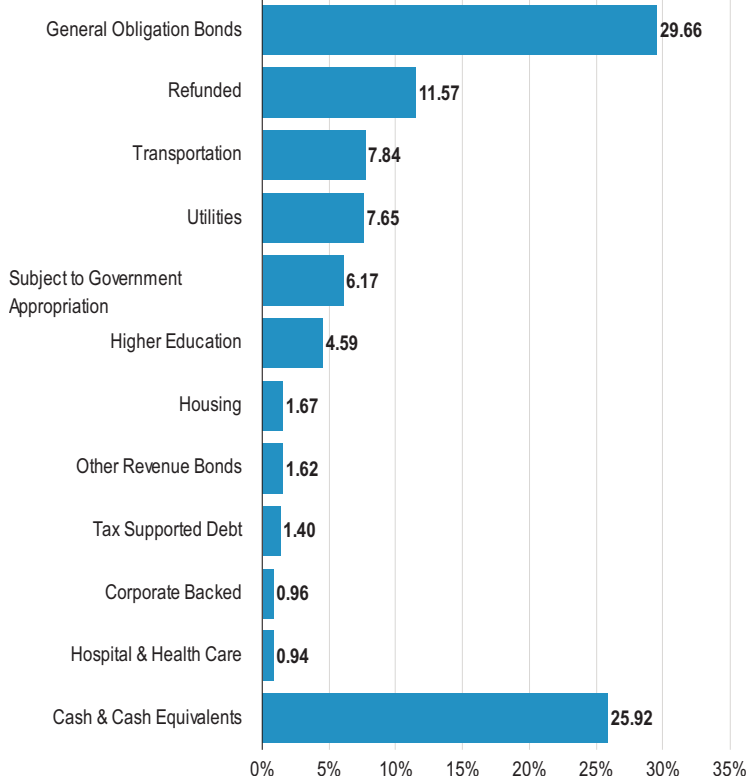
State / U.S. Territory Allocation^{12,13}

Percent of Total



Sector Allocation¹⁴

Percent of Total



10. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

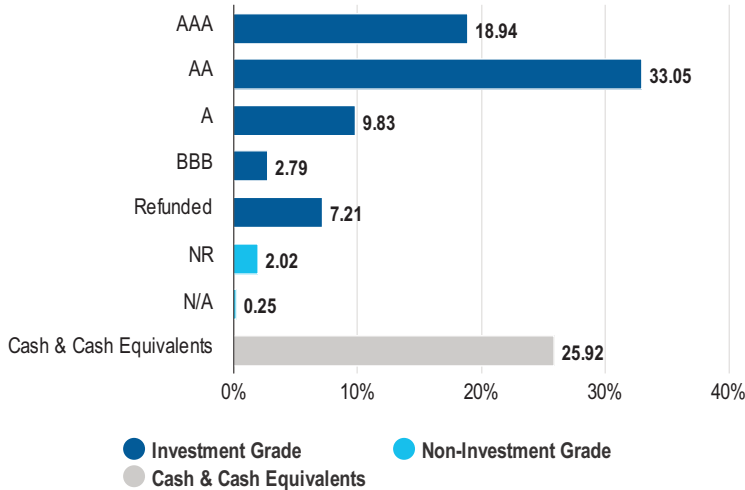
11. Turnover Ratio is as of the fund's fiscal year-end.

12. Uninvested cash is not included in the State / U.S. Territory Allocation.

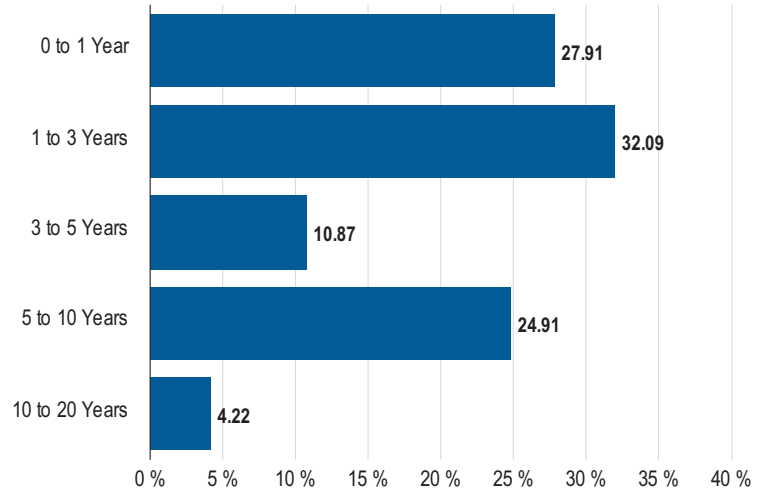
13,14. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

Credit Quality Ratings¹⁵

Percent of Total

**Maturity Allocation¹⁶**

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics^{17,18}**

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	1.57	1.35	-
Tracking Error (%)	0.44	0.65	-
Information Ratio	0.00	-0.32	-
Sharpe Ratio	0.81	0.48	-

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Investment Philosophy**Focus on Income**

Franklin municipal managers aim to maximize monthly tax-free income for shareholders. Historically, the income return from municipal bonds has contributed much more to municipal bond returns than changes in municipal bond prices. Additionally, Franklin managers generally limit fund exposure to bonds with income that is subject to the Alternative Minimum Tax.

No Leverage, No Derivatives, No Options

Franklin managers avoid investment practices that may expose shareholder capital to unnecessary risk. For example, we don't use leverage or invest in derivatives or futures, because they can increase portfolio volatility.

Strict Internal Analysis

Our analysts are responsible for conducting research on credit-driven securities in the municipal market. They are responsible for evaluating an issuer's credit strengths and weaknesses and working with the portfolio managers on select fund purchase and sale decisions.

Buy and Hold for the Long Term

Franklin managers are focused on seeking to maximize income; we don't actively trade bonds to try to capture capital gains. We typically sell holdings only if we see an opportunity to enhance a fund's portfolio structure or its income earning potential.

15. Securities, except for those labeled Not Rated ("NR"), are assigned ratings by one or more Nationally Recognized Statistical Rating Organizations ("NRSRO"), such as Standard & Poor's, Moody's and Fitch, that can be considered by the investment manager as part of its independent security analysis. 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 U.S. government or other high-quality securities and not rerated by an NSRO. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The Not Applicable category consists of securities that only have a short-term rating and are not cash equivalents. Cash includes equivalents, which may be rated. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

16. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

17. Information Ratio and Tracking Error information are displayed for the product versus the Bloomberg Barclays Municipal Short 1-5 Years Index.

18. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

Investment Process

Market Analysis

On a daily basis, we analyze current market conditions, including:

- Trading activity
- Yield spreads
- Call option spreads
- New offerings
- Secondary market offerings
- Credit ratings
- Event risk

Research

We search for high-quality, undervalued bonds that we believe should provide a high level of income until maturity.

We often make site visits to identify potential problems and opportunities that may not be readily visible on paper.

Analysts focus on credit-driven bond issues where we believe they can add the most value to the security selection process.

Portfolio Construction

We build portfolios with diversification in mind, taking into consideration allocations to sectors, regions, coupons, calls, maturities and quality, as appropriate.

We don't make significant allocation shifts based on expected market conditions. Rather, we look for the best value in the marketplace from an income-oriented perspective.

Investment Team

Portfolio Manager

	Years with Firm	Years Experience
Benjamin C. Barber, CFA	8	29
Daniel Workman, CFA	17	17
Francisco Rivera	26	26
James Conn, CFA	28	33

AMT Exposure: Percentage of assets invested in bonds with income subject to the alternative minimum tax (AMT).

Annual Turnover Ratio: Percentage of a fund's holdings replaced with other holdings during a fund's most recent full fiscal year.

Average Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Average Weighted Maturity: An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

Information Ratio: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

Sharpe Ratio: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

Standard Deviation: A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

Tracking Error: Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

What Are The Risks?

All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest rate movements, the fund's yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. The fund may invest a significant part of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project would likely affect all similar projects, thereby increasing market risk. These and other risks are detailed in the fund's prospectus

Important Legal Information

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial professional, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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a. Effective 02/01/2011, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A1 performance, excluding the effect of Class A1's maximum initial sales charge but reflecting the effect of the Class A1 Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.



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