



FRANKLIN TEMPLETON
INVESTMENTS

Franklin High Income Fund—Class A

Product Profile

Fourth Quarter 2014

FUND CHARACTERISTICS (AS OF 12/31/14)

NASDAQ Symbol	FHAIX
Fund Inception Date	12/31/69
Dividends	Monthly on or near the 3rd business day
Benchmarks	Credit Suisse High Yield Index
Lipper Classification	High Yield Funds
Morningstar Category™	High Yield Bond
Total Net Assets—All Share Classes	6,292 million
Number of Holdings	342
Maximum Initial Sales Charge	4.25%

THIRD-PARTY FUND DATA

Overall Morningstar Rating™

Traditional



Load Waived



As of December 31, 2014 the fund's Class A shares received a traditional 3 star overall Morningstar Rating™ and a load waived 3 star Morningstar Rating™, measuring risk-adjusted returns against 585, 504 and 353 U.S.-domiciled High Yield Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. Load waived Class A share Morningstar Ratings do not include front-end sales charges and are intended for investors who have access to such purchase terms (e.g., fee-based programs and participants of a defined contribution plan). Investors should contact their financial advisor to determine their eligibility to purchase Class A shares without paying the sales charge.

FUND DESCRIPTION

The fund seeks a high level of current income, with a secondary focus on capital appreciation, by investing substantially in higher-yielding, lower-rated corporate bonds.

PERFORMANCE DATA

Average Annual Total Returns for Periods Ended December 31, 2014 (%)

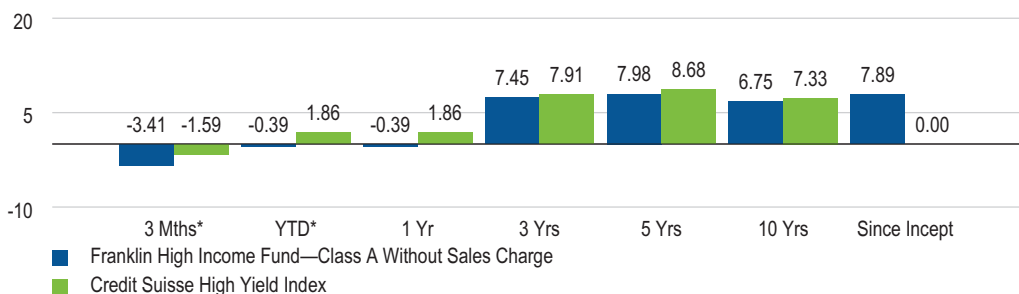
	3 Mths*	YTD*	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Incept (12/31/69)
With Sales Charge	-7.41	-4.47	-4.47	5.84	7.09	6.27	7.78
Without Sales Charge	-3.41	-0.39	-0.39	7.45	7.98	6.75	7.89
Credit Suisse High Yield Index	-1.59	1.86	1.86	7.91	8.68	7.33	N/A

Total Annual Operating Expenses—0.76%

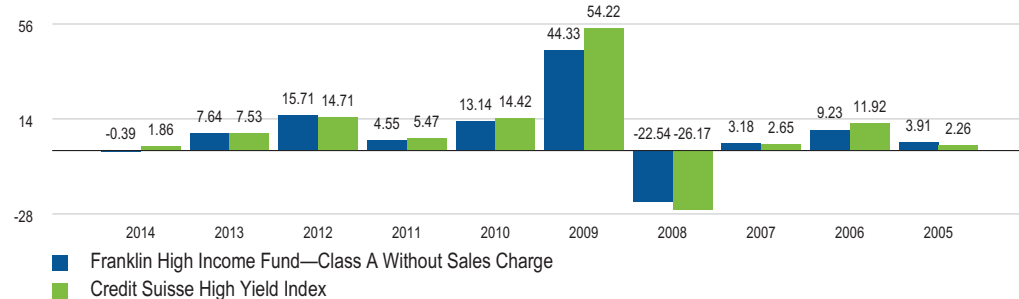
30-Day Standardized Yield (As of 12/31/14)—5.63%

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 Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com for the most recent month-end performance.

Average Annual Total Returns for Periods Ended December 31, 2014 (%)



Calendar Year Returns As of December 31, 2014 (%)



If the Fund's sales charge had been included, the returns would have been lower.

The 30-Day Standardized Yield reflects an estimated yield to maturity. It should be regarded as an estimate of the fund's rate of investment income, and it may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

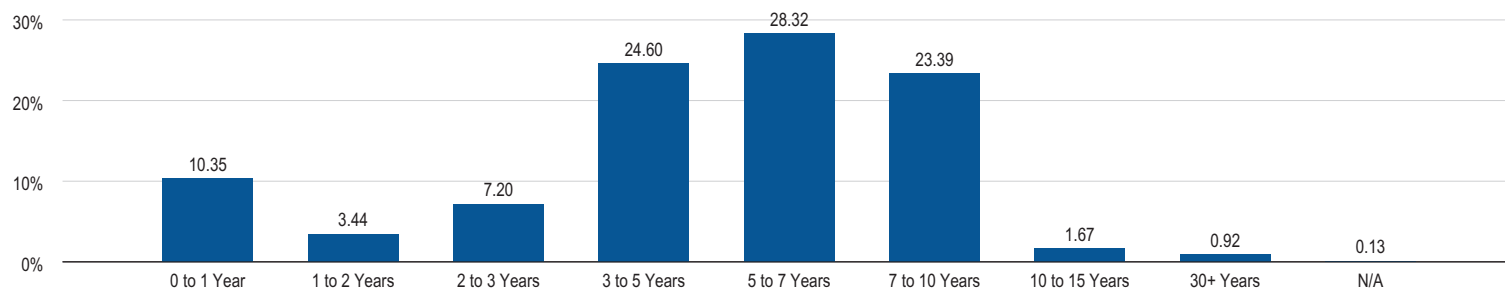
*Cumulative Total Returns.

For information related to the "Fund Characteristics," "Third-Party Fund Data," and "Performance Data" sections, please see Explanatory Notes.

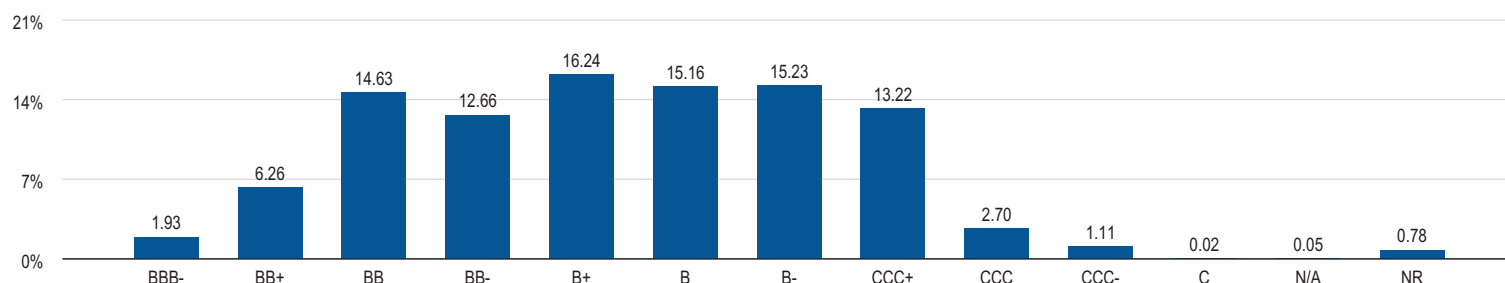
Not FDIC Insured | May Lose Value | No Bank Guarantee

PORTFOLIO DIVERSIFICATION (AS OF 12/31/14)—Fund

Maturity Weightings



Quality Weightings



Top Ten Holdings

	Portfolio %
SPRINT COMMUNICATIONS INC	2.15
HCA INC	1.94
NAVIENT CORP	1.50
INTELSAT JACKSON HOLDINGS SA	1.27
VALEANT PHARMACEUTICALS INTERN	1.23
WIND ACQUISITION FINANCE SA	1.22
REYNOLDS GROUP ISSUER INC / RE	1.15
ENERGY TRANSFER EQUITY LP	1.14
FIRST DATA CORP	1.13
JBS USA LLC / JBS USA FINANCE	1.09

Sector Weightings

	Portfolio %
Energy	21.09
Finance	9.47
Healthcare	8.71
Media Cable	7.54
Metals & Mining	7.30
Wireless	6.21
Technology	4.62
Cash & Cash Equivalents	4.21
Building	3.69
Food & Beverage	3.67
Media Non Cable	3.55
Utility	2.84
Gaming	2.47
Industrial	2.36
Packaging	2.23
Transportation	2.14
Wired	1.48
Chemicals	1.41
Automotive	1.19
Consumer Products	1.04
Restaurants	0.67
Entertainment	0.65
Aero & Defense	0.65
Others	0.31
Retailers	0.26
Consumer Cyclical Services	0.17
Paper	0.09

Maturity and Sector Weightings: Portfolio weights reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

Quality Weightings: Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The NR category consists of rateable securities that have not been rated by an NRSRO. The N/A category consists of nonrateable securities (e.g., equities). Cash and equivalents (defined as bonds with stated maturities, or that can be redeemed at intervals, of seven days or less) as well as derivatives are excluded from this breakdown. As a result, the chart does not reflect the fund's total net assets.

For information related to the "Portfolio Diversification" section, please see Explanatory Notes.

PORTFOLIO CHARACTERISTICS (AS OF 12/31/14)—Fund vs. Credit Suisse High Yield Index

	Fund	Benchmark
Average Duration	4.09 Yrs	4.21 Yrs
Average Weighted Maturity	5.34 Yrs	5.01 Yrs
Annual Turnover Ratio (As of 5/31/14)	29.33%	N/A

PERFORMANCE RISK STATISTICS - Class A

Modern Portfolio Theory (MPT) Statistics
(As of 12/31/14)

Performance Risk Statistics	3 Years	5 Years	10 Years
Standard Deviation	5.24	6.79	9.80
Alpha	-1.74	-1.97	-0.52
Beta	1.18	1.16	1.00
Sharpe Ratio	1.41	1.16	0.54
Information Ratio	-0.39	-0.51	-0.31
Tracking Error	1.17	1.38	1.88
R-Squared	97.28	97.85	96.28

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GLOSSARY

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Annual Turnover Ratio: Percentage of a fund's holdings replaced with other holdings during a fund's most recent full fiscal year. A fund's fiscal year end can be found in a fund's current summary prospectus and/or prospectus.

Average Duration: Also known as 'effective' or 'Macaulay' duration it is 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. It's an indication of an issue's coupon relative to its maturity. Rising interest rates mean falling bond prices; declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk; (or reward for bond prices). The weighted average duration of a fund reflects the effective duration of the underlying issues, based on the size of each holding. This value differs with 'Modified Duration' which is modified for the market (dirty) price of an issue.

Average Weighted Maturity: An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. The calculation uses the weighted average time to the receipt of all future cash flows for all holdings. Also known as 'average life' for fixed-term products. The weighted average maturity of a fund reflects the maturity of the underlying issues, based on the size of each holding.

Benchmark: An unmanaged group of securities whose overall performance is used as a standard to measure investment performance.

Beta: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

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.

R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

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 a fund's return varies from its previous returns or from the average of all similar funds. The larger the standard deviation, the greater the likelihood (and risk) that a security's performance will fluctuate from the average return.

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

MARKET REVIEW

During the quarter, the high-yield market was directly impacted by the decision from the Organization of Petroleum Exporting Countries not to curtail production quotas to accommodate increased US oil production and diminished global demand. Given the high-yield market's exposure to the energy sector which is the largest industry sector in the benchmark index, high-yield spreads experienced significant volatility over the period. US equity market performance was positive, with the S&P 500® Index registering a 4.93% total return during the quarter. The US Federal Reserve's (Fed's) dovish comments following December's meeting conveyed the Fed's general intention to start raising interest rates sometime around the mid-point of 2015 while maintaining that it remains patient and any decision to raise rates will continue to be data dependent. Interest rates on five-year US Treasury notes declined by 13 basis points while the yield on its 10-year counterpart declined by 35 basis points versus the prior quarter-end. High-yield new-issue supply declined from the prior quarter-end, while overall 2014 US high-yield issuance was comparable to 2013 levels. During the fourth quarter of 2014, high-yield retail vehicles saw net investor outflows as market volatility rose. In this environment, higher-rated high-yield bonds fared better than lower ratings tiers.

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PERFORMANCE REVIEW AND CONTRIBUTORS TO PERFORMANCE**Performance Review**

During the quarter, industry positioning (overweight exposure to the energy industry relative to the index) was the main detractor from relative returns, while security selection and ratings-quality tilt also weighed on results. In contrast, yield-curve positioning was a contributor to relative performance.

For the fourth quarter, the fund ranked in the fourth quartile of its Lipper peer group. One-year returns were in the fourth quartile of the peer group and longer-term peer performance rankings for the three-, five-, 10-, and 20-year periods ranked in the third, second, second and first quartiles, respectively.³

Portfolio Positioning

At quarter-end, the fund held a higher beta positioning, driven by the fund's overweighting of the energy sector.

Outlook & Strategy

Within the energy sector, a high degree of uncertainty has remained about the direction of energy prices over the short term, although the outlook for weaker 2015 operating results and tighter liquidity by year-end 2015 has the potential to further depress market sentiment. However, in our view, the severity and speed of the oil price decline increases the likelihood of a reduction in supply growth from US exploration and production companies and ultimately from the Organization of Petroleum Exporting Countries in 2015, which we believe could serve to stabilize and strengthen oil prices over the intermediate-to-longer term. While volatility will likely continue in the energy markets as commodity prices gyrate, we believe year-end pricing levels for many energy issues already discounted much of the negative headline news, providing potentially attractive risk/return opportunities should oil pricing levels normalize over time.

Outside of energy, we see little changed in terms of fundamental trends. While leverage has ticked up over the past year, interest coverages has remained near peak levels and, as a result, we continue to be comfortable with the asset class from a credit standpoint. While markets have been quiet over the holiday period, we would expect the new-issue calendar to become more active as the first quarter of 2015 progresses, which could lead to periods of technical pressure on the asset class. Overall, given our view on the energy sector combined with the broader outlook for credit fundamentals, we are constructive on the high-yield market as we look toward 2015, which is reflected in our strategy's higher beta positioning stance.

The above commentary does not provide a complete analysis of every material fact regarding any market, region, industry, security, portfolio or pooled investment vehicle. Portfolio holdings information, opinions and other market or economic information and data provided are as of the date of the commentary, unless another date is expressly indicated, and may change without notice. Statements of fact cited by the manager have been obtained from sources considered reliable but no representation is made as to their completeness or accuracy. The manager's assessment of a particular industry, region, security, sector or investment is intended solely to provide insight into the manager's investment process and is not a recommendation to buy or sell any security, nor investment advice. References to particular securities or sectors are only for the limited purpose of illustrating general market or economic conditions and are not recommendations to buy or sell a security. Although historical data is no guarantee of future results, these insights may help you understand our investment management philosophy.

INVESTMENT PHILOSOPHY AND PROCESS

Investment Philosophy

We believe that strong high-yield returns can be best sought through the disciplined application of a research-based approach that seeks to capitalize on inefficiencies across the high-yield market. Through rigorous bottom-up research, we seek to identify attractive income and total return opportunities with the potential to add value over a three- to five-year horizon.

Investment Process

Fundamental Analysis

- Conduct independent, bottom-up analysis focusing on critical factors that affect a company's long-term performance, such as financial structure, cash flow and earnings prospects, products, market share and strategic positioning

Long-Term Outlook

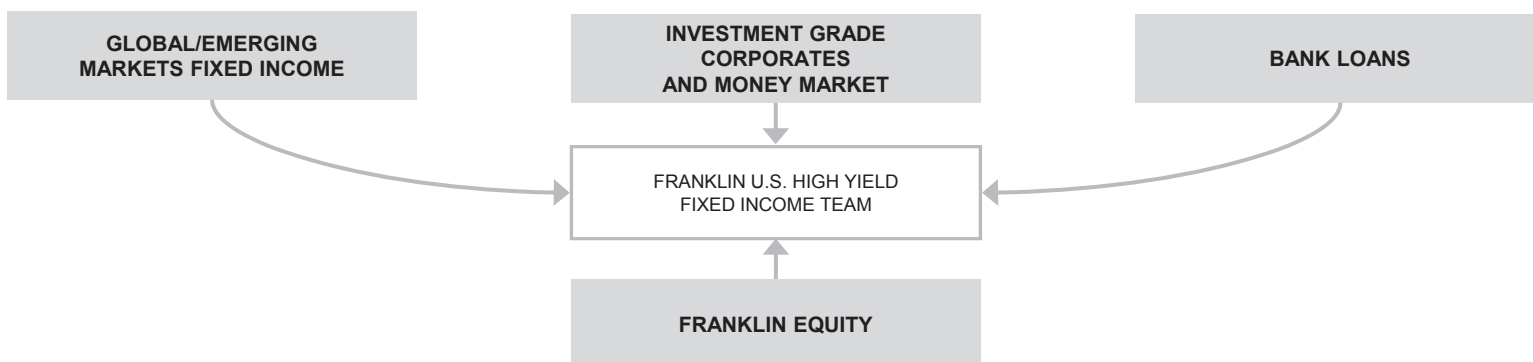
- Analyze securities whose projected return potential over three to five years surpasses the potential risk of adverse price movements or default

Seek Valuation Inefficiencies

- Invest opportunistically in companies and sectors that are infrequently followed or are out of favor with the marketplace

Disciplined Approach

- Seeks to adhere to a long-term strategy through changing market environments, supported by separate in-house risk management and quantitative research groups



INVESTMENT AND MANAGEMENT TEAM (AS OF 12/31/14)

Franklin High Income Fund Management Team	Years with Firm	Years Experience
Christopher Molumphy, CFA	26	28
Eric Takaha, CFA	23	23
Franklin Templeton Fixed Income Management Team	Years with Firm	Years Experience
Christopher Molumphy, CFA - Chief Investment Officer	26	28
Franklin Templeton Fixed Income Group	Number of Members	Average Years Experience
Portfolio Managers/Analysts	24	17
Research Analysts	70	12
Traders	15	15
Corporate Credit/High Yield Research Team	Number of Members	Average Years Experience
Portfolio Managers	3	28
Portfolio Managers/Analysts	6	21
Additional Resources		
Bank Loans	Global Sovereign/EMD Team	Mortgages/ABS
Quantitative	Municipals	Franklin Equity

WHAT ARE THE RISKS

All investments involve risks, including possible loss of principal. The risks associated with higher-yielding, lower-rated securities include higher risk of default and loss of principal. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. In addition, interest rate movements will affect the fund's share price and yield. 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. Investment in foreign securities also involves special risks, including currency fluctuations, and political and economic uncertainty. These and other risk considerations are discussed in the fund's prospectus.

EXPLANATORY NOTES**FUND CHARACTERISTICS**

Number of Holdings: All portfolio holdings are subject to change.

THIRD-PARTY FUND DATA

Morningstar Rating™: Source: Morningstar® 12/31/14. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance after adjusting for sales loads (except for load-waived A shares), redemption fees, and the risk free rate, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. Class A shares of Franklin High Income Fund received a traditional Morningstar Rating of 2, 2 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Load-waived Class A shares of Franklin High Income Fund received Morningstar Ratings of 3, 3 and 3 star(s) for the 3-, 5- and 10- year periods, respectively. The Morningstar Rating™ may differ among share classes of a mutual fund as a result of different sales loads and/or expense structure. **Past performance does not guarantee future results.** ©2015 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

PERFORMANCE DATA

The fund offers other share classes subject to different fees and expenses, which will affect their performance.

Source for Index: FactSet. Indexes are unmanaged and one cannot invest directly in an index.

BofA Merrill Lynch, used with permission.

PORTFOLIO DIVERSIFICATION

Top Ten Holdings: Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included. For updated information, call Franklin Templeton Investments at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com.

Maturity/Quality/Sector Weightings: Information is historical and may not reflect current or future portfolio characteristics. All portfolio holdings are subject to change.

PORTFOLIO CHARACTERISTICS

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 portfolio holdings are subject to change.

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 advisor, call us at (800) DIAL BEN/(800) 342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.



**FRANKLIN TEMPLETON
INVESTMENTS**

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