



Franklin High Income Fund—Class A, C

High Yield
Fixed Income
June 30, 2019

Product Profile

Product Details¹

| | |
|-----------------------|---|
| Fund Assets | \$3,095,383,641.54 |
| Fund Inception Date | 12/31/1969 |
| Number of Holdings | 256 |
| NASDAQ Symbol | FHQRX |
| Investment Style | High Yield |
| Benchmark | Credit Suisse High Yield Index |
| Lipper Classification | High Yield Funds |
| Morningstar Category™ | High Yield Bond |
| Dividend Frequency | Monthly, on or near the last business day |

Inception Date

| | |
|---------|------------|
| Class A | 12/31/1969 |
| Class C | 05/16/1995 |

CUSIP NASDAQ Symbol

| | | |
|---------|-------------|-------|
| Class A | 353 538 887 | FHQRX |
| Class C | 353 538 200 | FCHIX |

Maximum Sales Charges

| | |
|---------|--|
| Class A | 3.75% initial sales charge |
| Class C | 1.00% contingent deferred sales charge (CDSC) in the first year only |

Total Annual Operating Expenses With Waiver Without Waiver

| | | |
|---------|-------|-------|
| Class A | 0.85% | 0.86% |
| Class C | 1.25% | 1.26% |

30-Day Standardized Yield² With Waiver Without Waiver

| | | |
|---------|-------|-------|
| Class A | 5.38% | 5.38% |
| Class C | 5.20% | 5.20% |

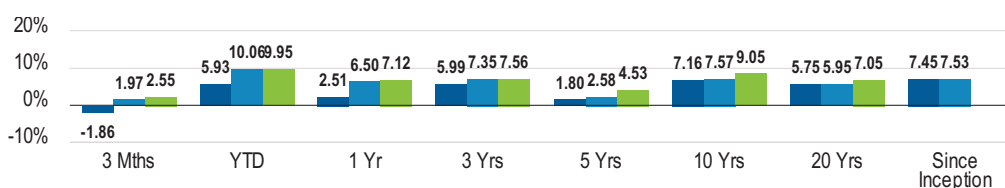
Fund Description

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

Performance Data^{3,4,5}

Average Annual Total Returns^{6,7} (%)

| | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | 10 Yrs | 20 Yrs | Since Inception |
|---------------------------------|--------|-------|------|-------|-------|--------|--------|-----------------|
| Class A - With Sales Charges | -1.86 | 5.93 | 2.51 | 5.99 | 1.80 | 7.16 | 5.75 | 7.45 |
| Class A - Without Sales Charges | 1.97 | 10.06 | 6.50 | 7.35 | 2.58 | 7.57 | 5.95 | 7.53 |
| Class C - With Sales Charges | 1.38 | 9.24 | 5.45 | 7.10 | 2.25 | 7.14 | 5.47 | 5.94 |
| Class C - Without Sales Charges | 2.38 | 10.24 | 6.45 | 7.10 | 2.25 | 7.14 | 5.47 | 5.94 |
| Credit Suisse High Yield Index | 2.55 | 9.95 | 7.12 | 7.56 | 4.53 | 9.05 | 7.05 | - |



- Class A - With Sales Charges
- Class A - Without Sales Charges
- Credit Suisse High Yield 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/342-5236 or visit franklintempleton.com for the most recent month-end performance.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 09/30/2019. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

- All holdings are subject to change.
- The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.
- Class A: Prior to 3/1/19, these shares were offered at a higher initial sales charge of 4.25%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 3.75%. Effective 05/01/1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance. Class C: Prior to 01/01/2004, these shares were offered with an initial sales charge; thus actual returns may differ. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.
- 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.
- Effective 09/10/2018 Class A shares closed to new investors, were renamed Class A1 shares, and a new Class A share with a different expense structure became available. Class A performance shown has been calculated as follows: (a) for periods prior to 09/10/2018, a restated figure is used based on the fund's Class A1 performance and including any Rule 12b-1 rate differential as exists between Class A1 and Class A; and (b) for periods after 09/10/2018, actual Class A performance is used, reflecting all charges and fees applicable to that class.
- Periods shorter than one year are shown as cumulative total returns.
- Since inception return for the benchmark is calculated to the fund inception date.

Not FDIC Insured | May Lose Value | No Bank Guarantee

Calendar Year Returns (% Without Sales Charges)

| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------------------|-------|------|-------|--------|-------|------|-------|------|-------|-------|
| Class A | -3.75 | 6.72 | 19.31 | -10.74 | -0.40 | 7.63 | 15.70 | 4.54 | 13.13 | 44.32 |
| Class C | -4.17 | 6.66 | 18.47 | -11.07 | -0.89 | 7.04 | 14.99 | 3.99 | 12.46 | 44.08 |
| Credit Suisse High Yield Index | -2.37 | 7.03 | 18.39 | -4.90 | 1.86 | 7.53 | 14.71 | 5.47 | 14.42 | 54.22 |

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

Portfolio Manager Insight⁸

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

| | Security Selection | Allocation | Quality | Duration |
|--------|--------------------|-------------------------------------|----------------------|-------------------------|
| HELPED | Energy | Overweight in Wireless | — | — |
| | Technology | Overweight in Media Cable | — | — |
| | Media Cable | Overweight in Building/Construction | — | — |
| HURT | Wireless | Overweight in Energy | Ratings-Quality Tilt | Yield-Curve Positioning |
| | Finance | Underweight in Retailers | — | — |
| | Industrial | Underweight in Transportation | — | — |

- Our ratings-quality tilt was a detractor from relative performance, driven by positioning in lower-rated credits. Our yield-curve positioning also hindered results.
- Security selection was a major contributor to relative performance, led by positions in the energy, technology and media cable segments. Conversely, security selection in the wireless, finance and industrial segments detracted from results.
- Similarly, our industry allocation benefited performance, led by overweights in the wireless, media cable and building/construction industries. Conversely, our overweight in energy detracted from results, as did our underweight in the retail and transportation segments.

Outlook & Strategy

- During the second quarter of 2019, the HY bond market returned 2.55% (2.42% for June), as measured by the Credit Suisse High Yield Index. BB rated credits generally outperformed lower-quality CCC rated bonds during the quarter and on a year-to-date basis. Higher demand for BB rated credits could be attributed in part to investors less willing to take on additional default risk at the latter stage of the current business cycle.
- In terms of industry performance, most primary market sectors posted positive results during June, led by the banking, automotive and pharmaceutical industries. Default activity remained benign and below historical averages. Positive market technical conditions persisted as supply remained stable—new issue supply remains limited and refinancing activity continued to dominate as issuers took advantage of a decline in yields.
- Turning to macroeconomic conditions, after the above-trend growth experienced since mid-2018, a measured slowdown is to be expected, though we see the fundamental underpinnings of the expansion as intact. We remain cognizant however, that shifts in US trade policy will probably continue to overshadow market sentiment for some time yet, with the accompanying volatility a constant feature with which investors will need to contend.
- Despite the potential challenges, we maintain a positive outlook on HY market fundamentals, due in part to the continued strength of the US economy as well as an increasingly dovish stance from the Fed. Looking ahead, we will continue to balance the ever-evolving set of potential risks and rewards in our portfolio positioning and value creation proposition.

8. 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^{9,10,11}

| | Portfolio | Credit Suisse High Yield Index |
|------------------------------------|-----------|--------------------------------|
| Average Duration | 3.08 Yrs | 2.99 Yrs |
| Average Weighted Maturity | 4.05 Yrs | 4.01 Yrs |
| Annual Turnover Ratio (05/31/2018) | 23.33% | - |

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

11. 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.

Portfolio Diversification⁹

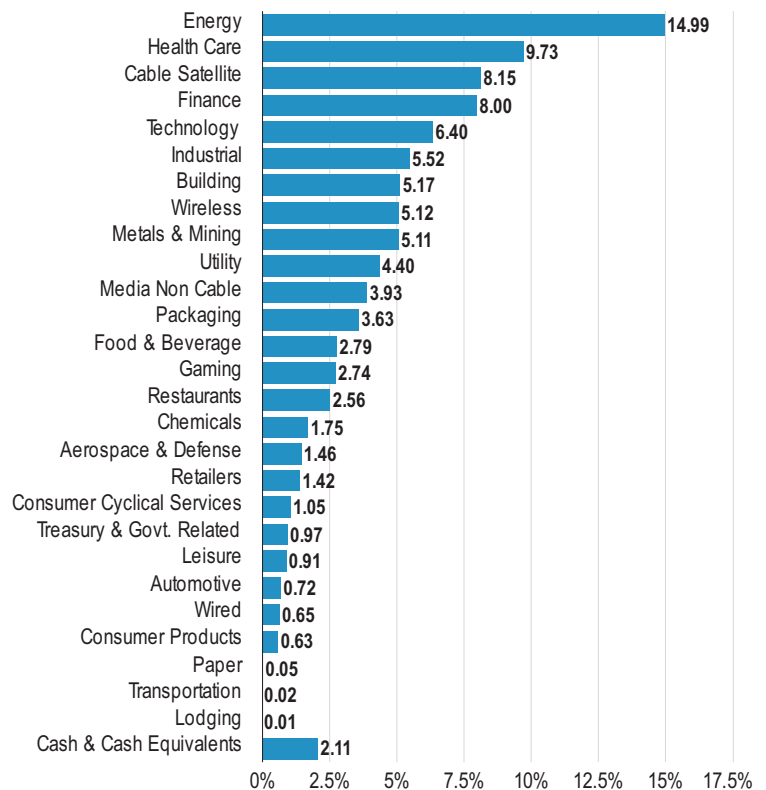
Top Ten Holdings¹²

Percent of Total

| Top Holdings | % |
|--------------------------------|------|
| CCO HLDGS LLC/CAP CORP | 2.03 |
| CSC HOLDINGS LLC | 2.02 |
| iShares iBoxx High Yield Corpo | 1.70 |
| HCA INC | 1.60 |
| TENET HEALTHCARE CORP | 1.59 |
| CLEARWAY ENERGY OP LLC | 1.51 |
| VALEANT PHARMACEUTICALS INT | 1.51 |
| SPRINT CORP | 1.47 |
| T-MOBILE USA INC | 1.36 |
| CHENIERE ENERGY PARTNERS | 1.28 |

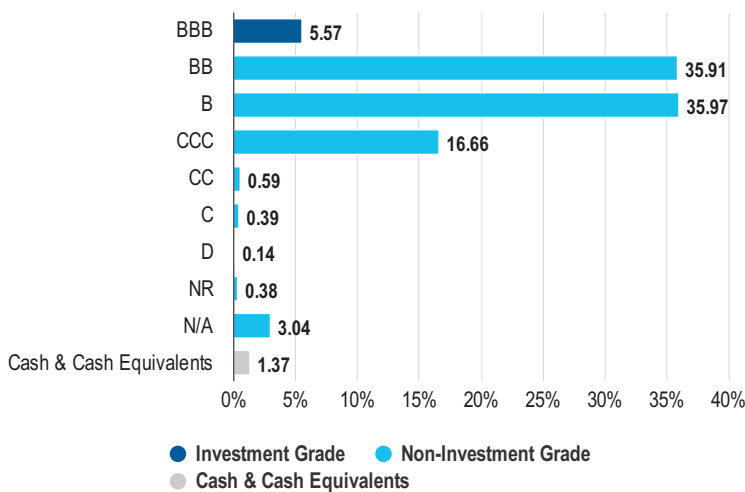
Sector Allocation

Percent of Total



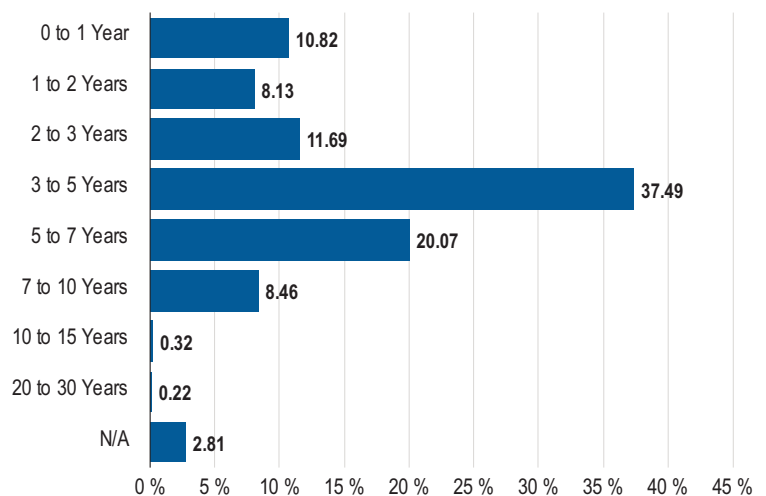
Credit Ratings Allocation¹³

Percent of Total



Maturity Allocation

Percent of Total



12. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

13. 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 ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash and equivalents are excluded from this breakdown.

Asset Allocation

Percent of Total

No data to display

Supplemental Performance Statistics**Supplemental Risk Statistics^{14,15}**

Class A

| | 3 Yrs | 5 Yrs | 10 Yrs |
|-------------------------------|-------|-------|--------|
| Standard Deviation (%) | 5.15 | 7.03 | 7.18 |
| Tracking Error (%) | 1.40 | 1.91 | 1.76 |
| Information Ratio | -0.15 | -1.03 | -0.84 |
| Beta | 1.15 | 1.23 | 1.15 |
| Sharpe Ratio | 1.16 | 0.25 | 0.99 |

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Investment Philosophy

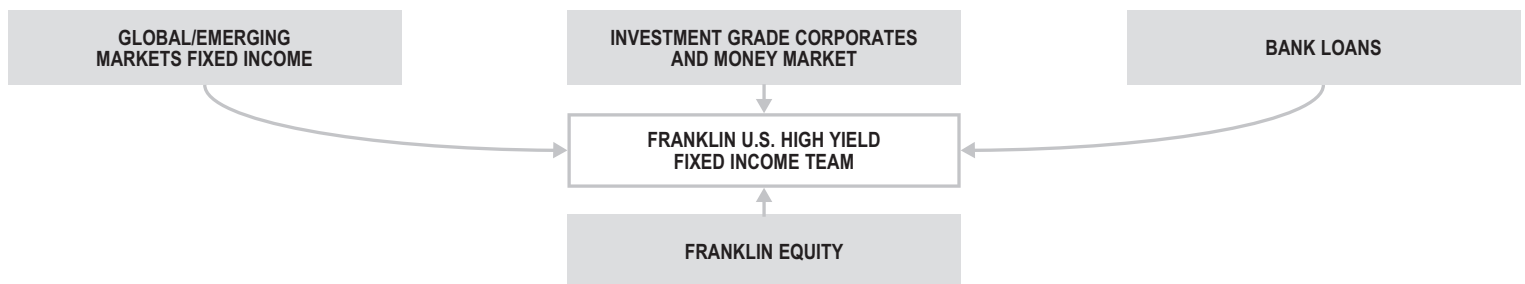
We believe that superior high-yield returns are best sought through the disciplined application of a research-based approach that capitalizes on inefficiencies across the high-yield market. Through diligent bottom-up research, we seek to identify compelling total return opportunities with the potential 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, as well as material ESG factors
- **Long-Term Outlook:** Analyze securities whose projected return over three to five years may surpass the risk of adverse price movements or default
- **Seek Valuation Inefficiencies:** Opportunistically invest in companies in sectors that are infrequently followed or are out of favor with the marketplace
- **Disciplined Approach:** Adhere to long-term strategy through changing market environments, supported by separate in-house risk management and quantitative research groups

Integrated Research Approach

- High Yield Team leverages the insights of other fixed income and equity investment professionals throughout the firm.



14. Beta, Information Ratio and Tracking Error information are measured against the Credit Suisse High Yield Index.

15. 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 Team

| Portfolio Manager | Years with Firm | Years Experience |
|---|-----------------|------------------|
| Glenn Voyles, CFA, SVP/Director of Portfolio Management, Corporate Credit | 25 | 26 |

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. The weighted average duration of a fund reflects the effective duration of the underlying issues, based on the size of each holding.

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.

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.

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. 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.

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 advisor, 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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9. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.



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