

**Product Profile**
**Product Details<sup>1</sup>**

Fund Assets	\$1,150,887,325.91
Fund Inception Date	09/02/2003
Number of Holdings	180
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
Class A	354 726 606	FFLQX

**Maximum Sales Charges**

Class A	2.25% initial sales charge
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**Total Annual Operating Expenses With Waiver Without Waiver**

Class A	0.65%	0.81%
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**30-Day Standardized Yield<sup>2</sup> With Waiver Without Waiver**

Class A	0.46%	0.29%
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**Taxable Equivalent Yield<sup>3</sup> With Waiver Without Waiver**

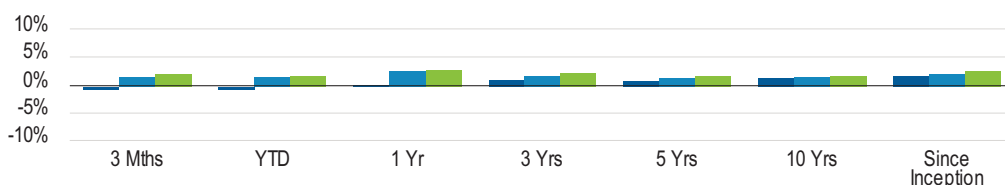
Class A	0.78%	2.04%
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**Fund Description**

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.<sup>4</sup> The fund maintains a dollar-weighted average portfolio maturity of five years or less.

**Performance Data<sup>5,6,7</sup>**
**Average Annual Total Returns<sup>8,9</sup> (%)**

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (09/02/2003)
Class A - With Sales Charges	-0.58	-0.70	0.21	1.18	0.95	1.32	1.93
Class A - Without Sales Charges	1.71	1.58	2.52	1.95	1.41	1.55	2.07
Bloomberg Barclays Municipal Short 1-5 Years Index	2.19	1.77	2.96	2.34	1.93	1.81	2.53



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

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.

1. All holdings are subject to change.
2. 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.**
3. The Taxable Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect on December 2019.
4. 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.
5. Class A: Prior to 02/01/2006, these shares were offered without 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.
6. 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.
7. 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.
8. Periods shorter than one year are shown as cumulative total returns.
9. Since inception return for the benchmark is calculated to the fund inception date.

## Calendar Year Returns (% Without Sales Charges)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Class A	3.45	1.26	0.38	0.05	0.42	1.09	0.37	1.96	4.08	2.67
Bloomberg Barclays Municipal Short 1-5 Years Index	3.66	1.77	1.61	0.07	1.21	1.31	1.15	1.73	3.45	1.87

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

Portfolio Manager Insight<sup>10</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Duration	Quality	Sector
HELPED	—	Underweight AAA Rated Bonds	Underweight Refunded Bonds
	—	Underweight AA Rated Bonds	Overweight Industrial Revenue
	—	Security Selection in AAA Rated Bonds	Security Selection in Special Tax
HURT	Underweight Municipal Bonds with Two to Five Years to Maturity	Underweight BBB Rated Bonds	Overweight Housing
	—	Underweight A Rated Bonds	Security Selection in Local General Obligation
	—	—	Security Selection in Industrial Revenue

- As municipal bond ratios versus US Treasuries richened over the quarter, an underweight to the overall municipal bond sector detracted from performance, especially in bonds with two to five years until maturity.
- Rating allocations detracted from relative performance over the period, with underweights to BBB and A rated bonds hindering returns. This was partially offset by underweights to AAA and AA rated bonds. Security selection in AAA rated securities lifted results. Dislocations within the municipal bond market caused disparate returns between issues even with the same rating. 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 overweight to industrial revenue and underweight to refunded bonds. Refunded bonds are highly rated and provide a source of liquidity as we opportunistically allocate to other areas of the market during periods of volatility. Security selection in the local general obligation and industrial revenue sectors weighed on performance. However, security selection in special tax bonds boosted returns.

## Outlook &amp; Strategy

- In our view, the indiscriminate nature of the municipal market selloff in March certainly created more attractive opportunities than at the start of the year. We also view actions by the US Federal Reserve and Congress as favorable for the market. However, we also believe that the municipal market is still likely to show signs of distress and elevated volatility for some time. In addition, the longer the coronavirus weighs on economic activity, the more credit and default risk will come into play, albeit to varying degrees across different sectors and states. Typically, the third quarter of the year sees reduced municipal bond supply as redemptions and maturities occur, causing reinvestment needs for managers. We expect strong technical support to continue as funds flow into the market with negative net issuance.
- 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. 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.
- Our seasoned team of analysts and portfolio managers has weathered very difficult times before, and we are using that knowledge to navigate through this environment. In our view, municipal market volatility is likely here to stay for some time, and we will seek to provide relative downside protection and attractive tax-exempt income levels for our investors.

10. 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.

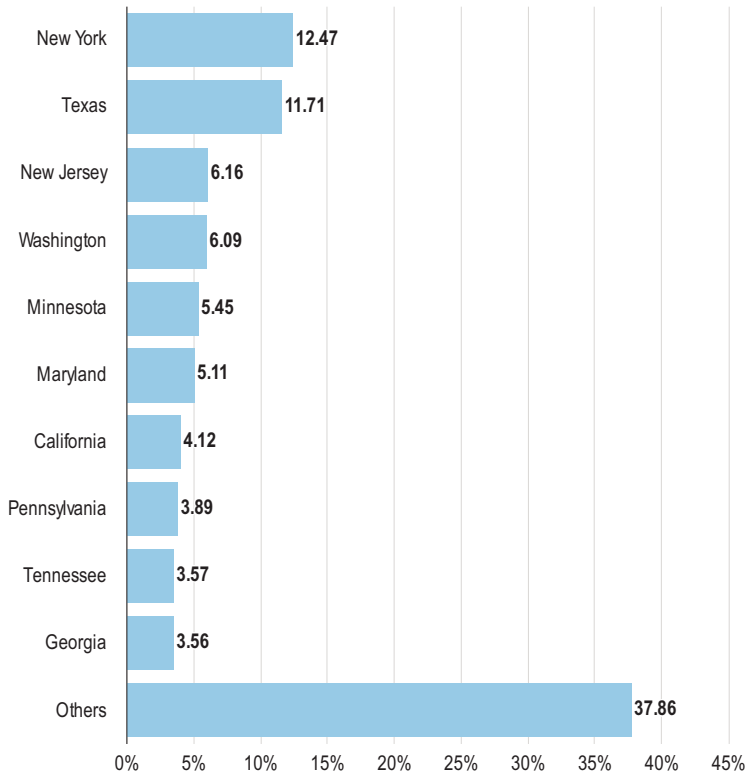
Portfolio Characteristics<sup>11,12</sup>

	Portfolio	Bloomberg Barclays Municipal Short 1-5 Years Index
AMT Exposure	0.00%	-
Annual Turnover Ratio (02/28/2020)	10.10%	-
Average Duration	2.26 Yrs	2.33 Yrs
Average Weighted Maturity	2.70 Yrs	7.26 Yrs

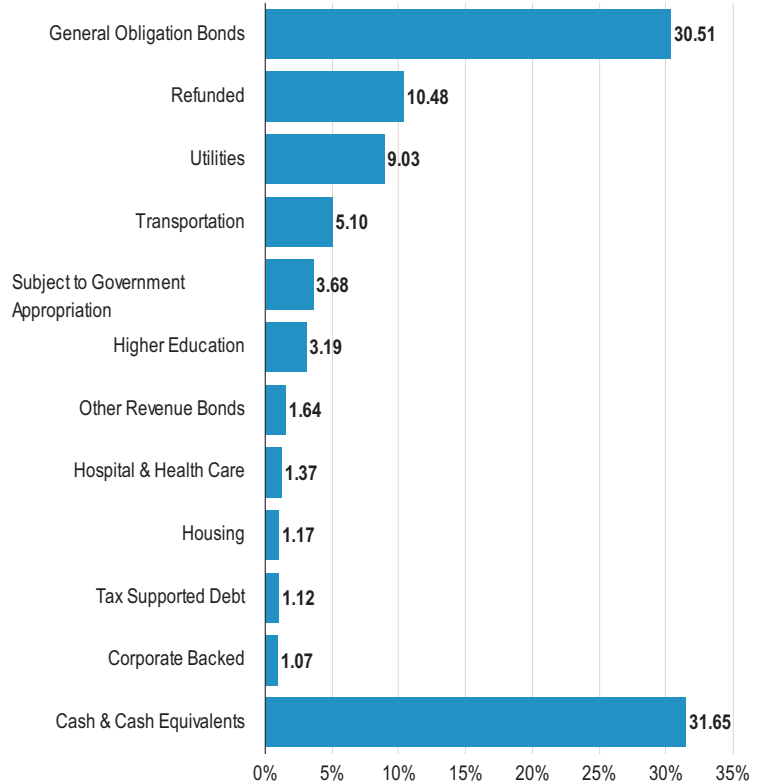
## Portfolio Diversification

State / U.S. Territory Allocation<sup>13,14</sup>

Percent of Total

Sector Allocation<sup>15</sup>

Percent of Total



11. 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.

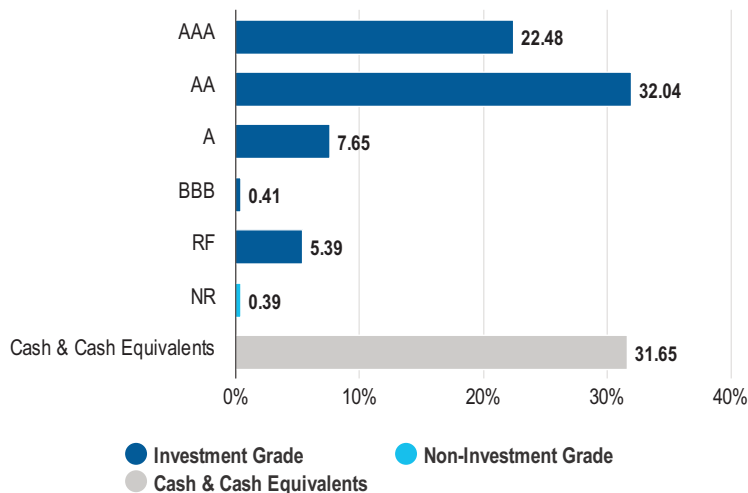
12. Turnover Ratio is as of the fund's fiscal year-end.

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

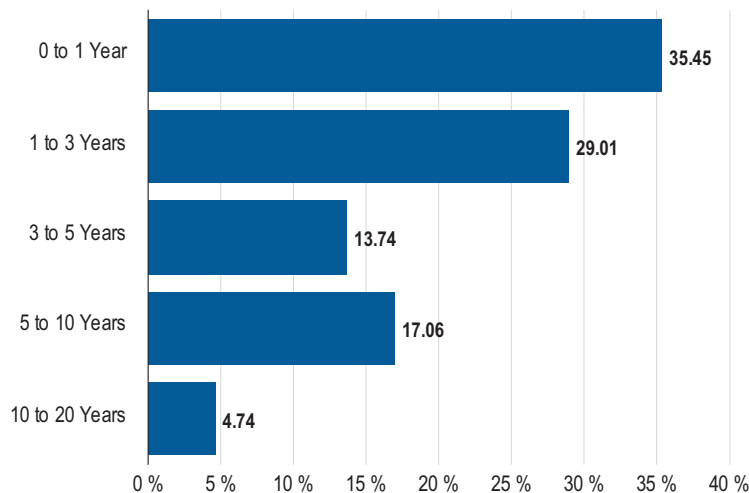
14,15. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

**Credit Quality Ratings<sup>16</sup>**

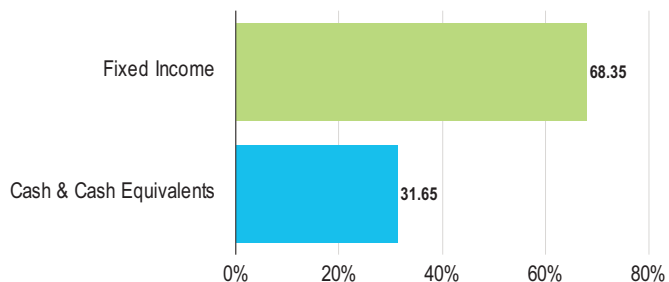
Percent of Total

**Maturity Allocation<sup>17</sup>**

Percent of Total

**Asset Allocation<sup>18</sup>**

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>19,20</sup>**

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	1.62	1.34	1.27
Tracking Error (%)	0.46	0.61	0.53
Information Ratio	-0.83	-0.87	-0.48
Sharpe Ratio	0.19	0.22	0.76

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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.

16. 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.

17,18. 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.

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

20. 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).

**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.

**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
James Conn, CFA	27	33
John Pomeroy	33	34
Nicholas K. Bucklin, CFA	12	12

**Glossary**

**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](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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One Franklin Parkway  
San Mateo, CA 94403-1906  
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