



Franklin North Carolina Tax-Free Income Fund—Class A, C

Municipals
Fixed Income
December 31, 2019

Product Profile

Product Details¹

Fund Assets	\$850,677,459.68
Fund Inception Date	09/01/1987
Number of Holdings	137
Investment Style	Municipals
Benchmark	Bloomberg Barclays Municipal Bond Index
Lipper Classification	Other States Municipal Debt Funds
Morningstar Category™	Muni Single State Long
Dividend Frequency	Monthly, on or near the last business day

Inception Date

Class A	09/01/1987
Class C	05/01/1995

CUSIP NASDAQ Symbol

Class A	354 726 788	FQNCX
Class C	354 723 538	FNCIX

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

Class A	0.83%
Class C	1.23%

30-Day Standardized Yield²

Class A	0.98%
Class C	0.63%

Taxable Equivalent Yield³

Class A	1.82%
Class C	1.17%

Fund Description

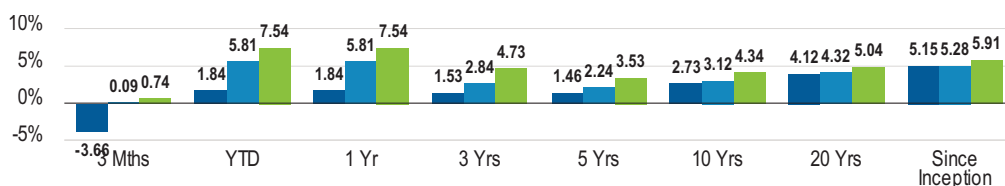
The fund seeks to provide investors with as high a level of income exempt from federal income taxes and North Carolina personal income taxes as is consistent with prudent investment management and the preservation of shareholders' capital.⁴

Performance Data^{5,6,7}

Average Annual Total Returns^{8,9} (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception
Class A - With Sales Charges	-3.66	1.84	1.84	1.53	1.46	2.73	4.12	5.15
Class A - Without Sales Charges	0.09	5.81	5.81	2.84	2.24	3.12	4.32	5.28
Class C - With Sales Charges	-0.99	4.32	4.32	2.33	1.72	2.57	3.76	3.87
Class C - Without Sales Charges	0.00	5.32	5.32	2.33	1.72	2.57	3.76	3.87
Bloomberg Barclays Municipal Bond Index	0.74	7.54	7.54	4.73	3.53	4.34	5.04	5.91

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.



- Class A - With Sales Charges
- Class A - Without Sales Charges
- Bloomberg Barclays Municipal Bond Index

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 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%. On 05/01/1994, these shares 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.

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	5.81	1.21	1.55	1.14	1.55	8.67	-6.76	6.97	11.40	0.83
Class C	5.32	0.69	1.05	0.57	1.06	8.06	-7.26	6.37	10.63	0.36
Bloomberg Barclays Municipal Bond Index	7.54	1.28	5.45	0.25	3.30	9.05	-2.55	6.78	10.70	2.38

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

Portfolio Manager Insight¹⁰

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Duration	Quality	Sector
HELPED	—	Underweight AAA Rated Bonds	Overweight Local General Obligation
	—	—	Underweight Special Tax
	—	—	—
HURT	Overweight Long End of Yield Curve (20 Years and Longer)	Underweight BBB Rated Bonds	Overweight Education
	—	Security Selection in A Rated Bonds	Security Selection in Health Care
	—	—	—

- Our overweight exposure to the long end of the yield curve, particularly bonds with 20 years or more to maturity, detracted from performance over the quarter. As the US Treasury yield curve steepened, the value of bonds with longer maturities fell.
- Our underweight to AAA rated securities contributed to performance as lower-rated municipal bonds outperformed their higher-rated counterparts. We continue to favor issuers that have passed our rigorous credit screening and ongoing reviews.

Outlook & Strategy

- We continue to manage our strategies with a focus on maximizing tax-free income for investors. This approach relies heavily upon our research capabilities and credit analysis.
- In general, the performance and volatility of the municipal bond market are typically driven by supply and demand dynamics, as well as interest rates. From a credit perspective, there has been little change in underlying market fundamentals, in our view, as general creditworthiness and low default rates remain stable. Meanwhile, the municipal bond market has continued to see large inflows of funds. This has caused measures of municipal bond yields versus those of Treasuries to fall.
- As interest rates decline and volatility decreases, our strategies capitalize on market liquidity to optimize credit quality, diversification and overall portfolio structure, which can potentially help protect long-term investment income and preserve shareholder capital. When rates do rise and volatility returns, our strategies typically sell lower-yielding positions and replace them with higher-yielding securities, resulting in an increase in portfolio turnover and higher distributions of tax-free income for clients. Although we have been more conservatively positioned, we will use periods of volatility to buy opportunistically across available credits should relative values improve.
- Regardless of the market environment, our long history of navigating the various cycles of the municipal market has provided a steady source of tax-free income for our clients. As we continue to monitor the market, we seek to improve our income production and take advantage of market volatility, while maintaining our long-standing philosophy of investing conservatively in high-quality, diversified municipal bond portfolios.

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^{11,12,13}

	Portfolio	Bloomberg Barclays Municipal Bond Index
Average Duration	4.55 Yrs	5.42 Yrs
Average Weighted Maturity	16.70 Yrs	14.32 Yrs
AMT Exposure	0.38%	-
Annual Turnover Ratio (02/28/2019)	11.61%	-

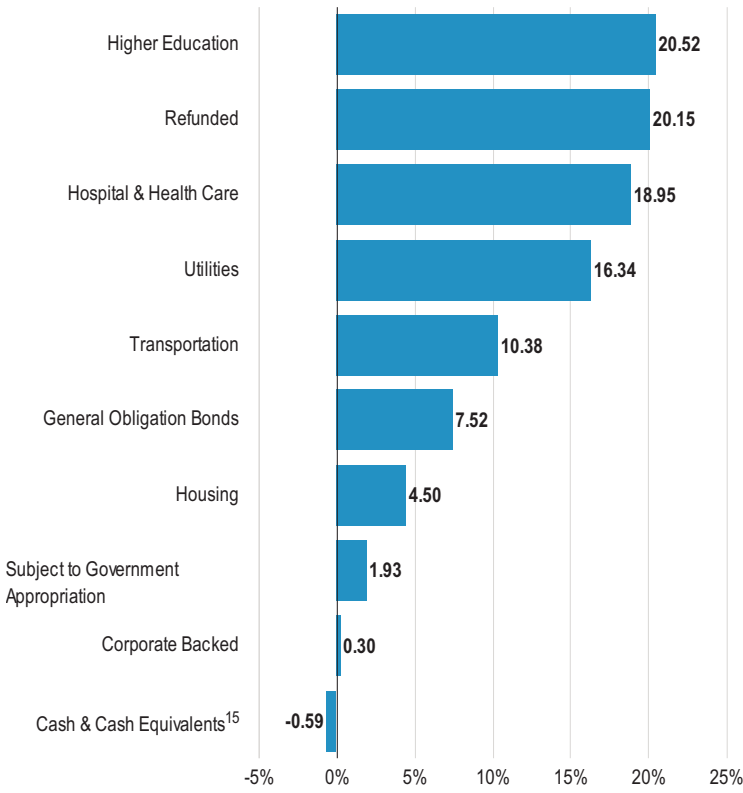
11. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

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

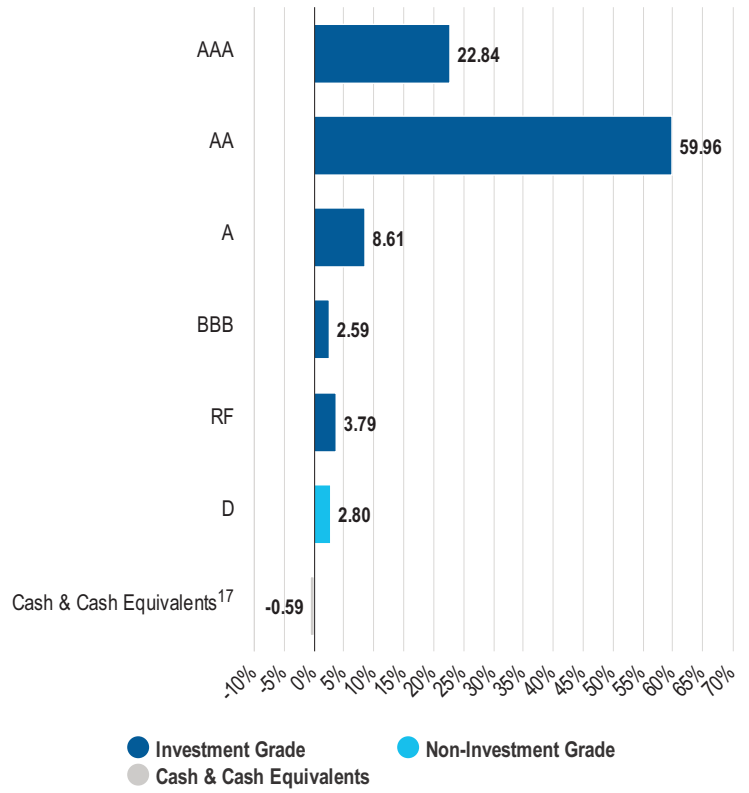
13. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Portfolio Diversification

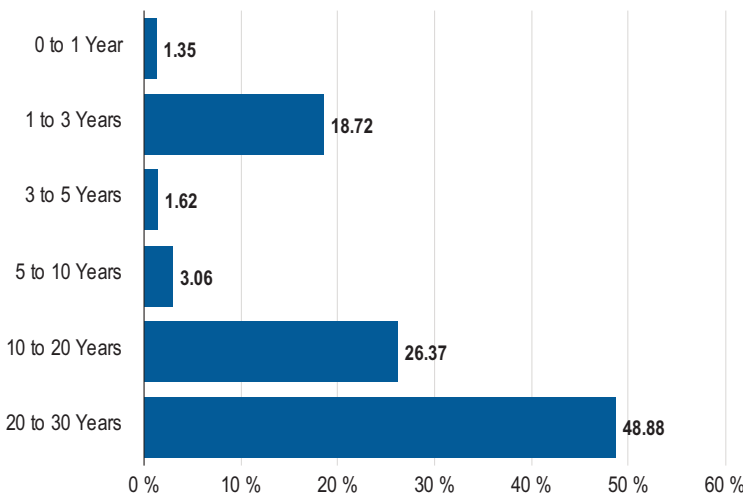
Sector Allocation¹⁴
Percent of Total



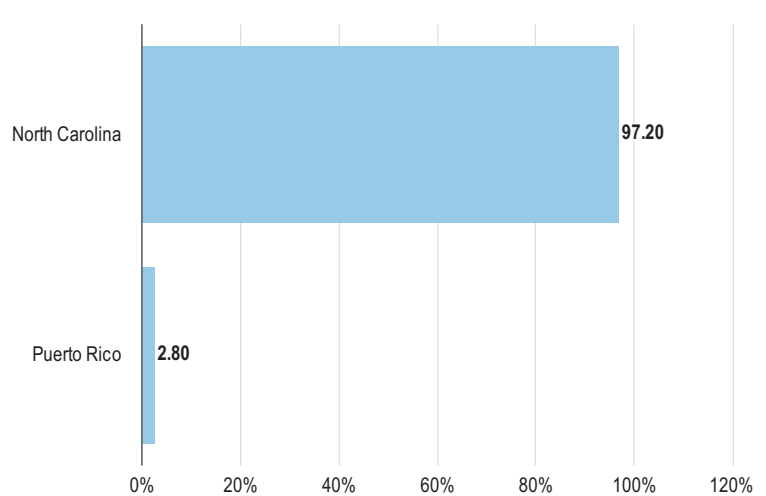
Credit Quality Ratings¹⁶
Percent of Total



Maturity Allocation¹⁸
Percent of Total



State / U.S. Territory Allocation^{19,20}
Percent of Total



14,18,20. 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.

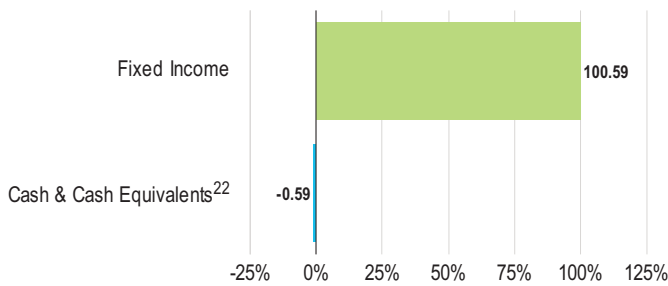
15,17. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

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 securities 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 ("RF") category consists of refunded bonds secured by U.S. government or other high-quality securities and not rated by an NRSRO. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. 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.

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

Asset Allocation²¹

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics^{23,24}**

Class A

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	1.91	2.23	3.50
Tracking Error (%)	1.05	1.25	1.27
Information Ratio	-1.80	-1.03	-0.96
Sharpe Ratio	0.63	0.54	0.73

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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.

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.

21. 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.

22. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

23. Information Ratio and Tracking Error information are displayed for the product versus the Bloomberg Barclays Municipal Bond Index.

24. 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
Stella S. Wong, VP/ Portfolio Manager	38	36
Carrie Higgins, VP/ Portfolio Manager	29	29

Glossary

AMT Exposure: Percentage of a fund's assets invested in bonds with income subject to the alternative minimum tax (AMT). For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable

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. Because the fund invests principally in a single state, it is subject to greater risk of adverse economic and regulatory changes in that state than a geographically diversified fund. Puerto Rico municipal bonds have been impacted by recent adverse economic and market changes, which may cause the fund's share price to 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.

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.

Important data provider notices and terms available at: www.franklintempletondatasources.com

1. All holdings are subject to change.
2. 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.
3. The Taxable-Equivalent Yield assumes the maximum regular federal income tax rate, maximum state personal income tax and the Medicare tax in effect on December 2019.
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.

**Franklin Templeton Distributors, Inc.**

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