



Franklin Equity Income Fund—Class A, C

Value
Equity
March 31, 2019

Product Profile

Product Details¹

Fund Assets	\$2,298,842,134.95
Fund Inception Date	03/15/1988
Number of Issuers	76
Investment Style	Value
Benchmark	S&P 500 Index
Lipper Classification	Equity Income Funds
Morningstar Category™	Large Value
Dividend Frequency	Quarterly

	Inception Date
Class A	03/15/1988
Class C	10/02/1995

	CUSIP	NASDAQ Symbol
Class A	353 612 401	FISEX
Class C	353 612 807	FRETX

	Maximum Sales Charges
Class A	5.50% initial sales charge
Class C	1.00% contingent deferred sales charge (CDSC) in the first year only

	Total Annual Operating Expenses
Class A	0.85%
Class C	1.6%

	30-Day Standardized Yield ²
Class A	1.71%
Class C	1.04%

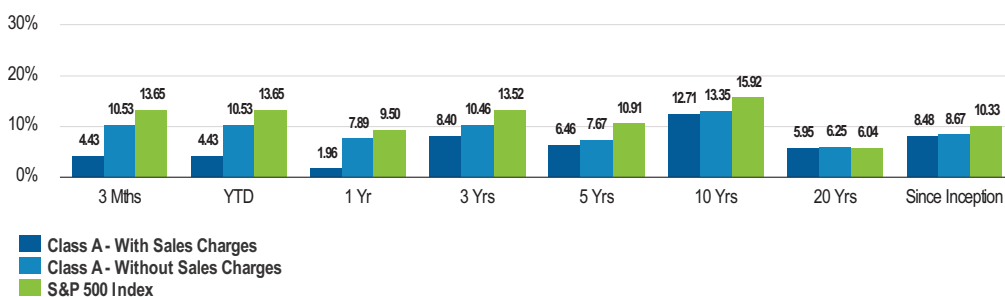
Fund Description

The fund's investment goal is to maximize total return. The Fund emphasizes investing in securities with the potential to provide high current income and long-term capital appreciation, consistent with reasonable risk. The Fund normally invests at least 80% of its net assets in equity securities, with a focus on financially strong "blue chip" companies, as well as securities convertible into common stocks, and may also invest up to 20% of its net assets in debt securities.

Performance Data^{3,4}

Average Annual Total Returns^{5,6} (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception
Class A - With Sales Charges	4.43	4.43	1.96	8.40	6.46	12.71	5.95	8.48
Class A - Without Sales Charges	10.53	10.53	7.89	10.46	7.67	13.35	6.25	8.67
Class C - With Sales Charges	9.29	9.29	6.07	9.64	6.87	12.50	5.46	6.61
Class C - Without Sales Charges	10.29	10.29	7.07	9.64	6.87	12.50	5.46	6.61
S&P 500 Index	13.65	13.65	9.50	13.52	10.91	15.92	6.04	10.33



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/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Calendar Year Returns (% Without Sales Charges)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Class A	-4.67	15.96	11.75	-0.90	9.12	29.28	11.85	1.47	15.86	26.42
Class C	-5.36	15.07	10.92	-1.61	8.26	28.40	10.97	0.70	14.99	25.49
S&P 500 Index	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46

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

- All holdings are subject to change. Holdings of the same issuers have been combined.
- 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.
- Effective 05/01/1994, the fund implemented a Rule 12b-1 plan, which affects subsequent performance. Class A: Prior to 9/10/18, these shares were offered at a higher initial sales charge of 5.75%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 5.50%. 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.
- 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

Portfolio Manager Insight⁷

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors
HELPED	Microsoft	Information Technology (IT)
	Cisco Systems	Industrials
	Bank of America	Financials
HURT	Pfizer	—
	Bristol-Myers Squibb	—
	—	—

- The rapid growth of the Azure cloud services platform over the last five years has helped Microsoft deliver impressive earnings growth and notch one of the best performances of a Dow Jones Industrial Average tech stock in recent years. The company's transition to a focus on cloud- and subscription-based software delivery, as well as artificial intelligence, has powered that strong performance, and to us it looks poised to keep reaping the rewards of that successful transformation. The company maintains a strong balance sheet, has been on a big stock repurchasing push (reducing its shares outstanding by 7% over the last five years and nearly 14% over the last decade), and appears to be on track to keep growing its free cash flow at a healthy clip.
- Aided in part by robust 2018 revenues propelled by higher-interest-rate loans, large banking conglomerates such as Bank of America and JPMorgan Chase underwent significant stock-market turnarounds after being among the worst performers during the fourth-quarter selloff. In general, investors grew optimistic that the Fed's flexibility on raising US interest rates might help prolong the current credit cycle. Bank of America—which we think continues to be a superior dividend stock within the industry—topped consensus expectations for the 16th quarter in a row amid impressive late-2018 earnings results backed by a growing loan portfolio, reduced loan losses, efficiency gains that have lowered expenses, and an uptick in valuable corporate deposits.
- Health care sector positions in pharmaceutical giants Pfizer and Bristol-Myers Squibb were the only detractors in the portfolio, and their negative impact on the fund's absolute return was minimal. In February, Pfizer shared some unfortunate news related to adverse findings during advanced safety studies on its existing blockbuster anti-inflammation drug Xeljanz as the company sought to expand its patient cohort. As a result, Pfizer may need to put a high-dosage warning about potentially lethal blood clots on Xeljanz's label.

Outlook & Strategy

- We currently do not see any systemic deterioration in corporate fundamentals, nor do we foresee a near-term transition into a recessionary environment. We continue our long-held practice of rigorous focus on individual company fundamentals, both as a means to identify attractive individual investments and manage overall portfolio risk.
- We have adjusted portfolio positioning to navigate various uncertainties and incrementally reduce portfolio risks associated with-late economic cycle expansion—including those tied to the potential for trade policy mistakes, deteriorating fiscal conditions and overall political uncertainty—while also taking advantage of isolated cases in which markets appear to have overreacted to the downside.
- While US corporate earnings growth likely will be less robust in 2019 than in 2018—and was projected to have shrunk in first-quarter 2019 (on a year-over-year basis)—we expect earnings to continue to be supported by US and global growth, solid consumer finances and household income growth, business spending and expanding manufacturing activity in most parts of the world. Moreover, our corporate balance sheet and cash flow analysis remains as important as our assessment of forward earnings. While we acknowledge that fears of trade protectionism are not new and have often surfaced in various parts of the world, we continue to navigate through the short- and long-term implications of recent tariffs, especially in relation to China and despite the fact that the United States and China appeared to narrow their differences in early 2019.
- We continue to find attractive investment opportunities across multiple equity sectors, and our approach has emphasized identifying companies that offer compelling current dividend yields along with the potential for long-term total return. We believe companies with a demonstrated ability to generate free cash flow (calculated as the operating cash flow minus capital expenditures) and return that cash to shareholders over time should be in a better position to deliver superior total return potential even in weaker equity market environments.

7. 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^{8,9,10}

	Portfolio	S&P 500 Index
Market Capitalization (Millions in USD)	202,493	230,702
Return on Equity	18.04%	20.71%
Historical 3-Year EPS Growth	14.66%	18.28%
Estimated 3-5 Yr EPS Growth	8.44%	11.63%
Price to Earnings (12 Month Forward)	15.69x	17.21x

Portfolio Diversification

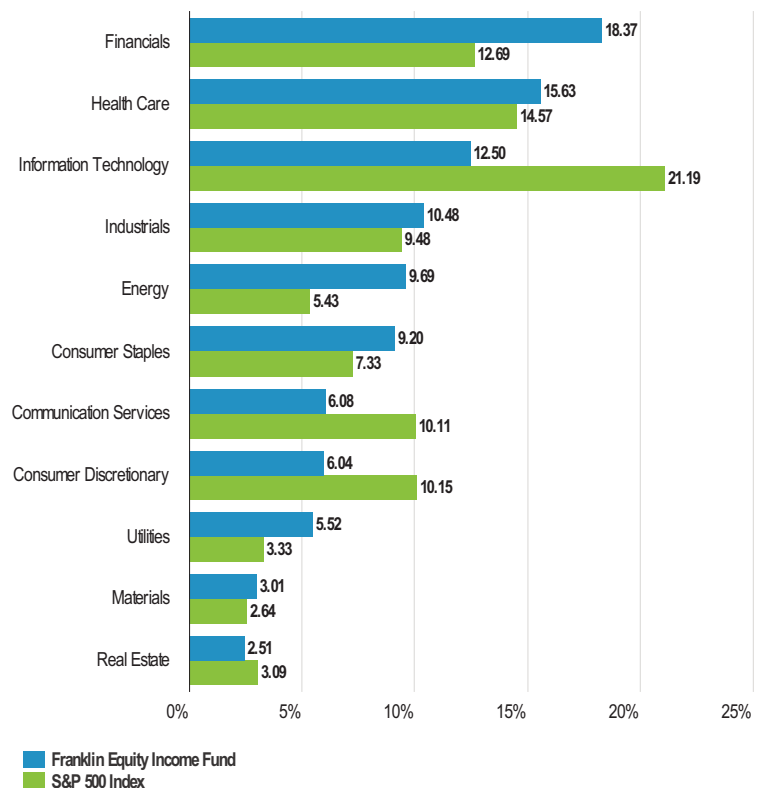
Top Ten Holdings¹¹

Percent of Total

Top Holdings	Sector	%
JPMORGAN CHASE & CO	Banks	3.81
MICROSOFT CORP	Software & Services	3.64
BANK OF AMERICA CORP	Banks	2.89
PROCTER & GAMBLE CO	Household & Personal Products	2.57
CHEVRON CORP	Energy	2.54
MERCK & CO INC	Pharmaceuticals, Biotechnology & Life Sciences	2.42
WELLS FARGO & CO	Banks	2.40
JOHNSON & JOHNSON	Pharmaceuticals, Biotechnology & Life Sciences	2.31
THE COCA-COLA CO	Food, Beverage & Tobacco	2.25
PEPSICO INC	Food, Beverage & Tobacco	2.21

Sector Weightings vs. S&P 500 Index^{12,13}

Percent of Total



8. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: Factset. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

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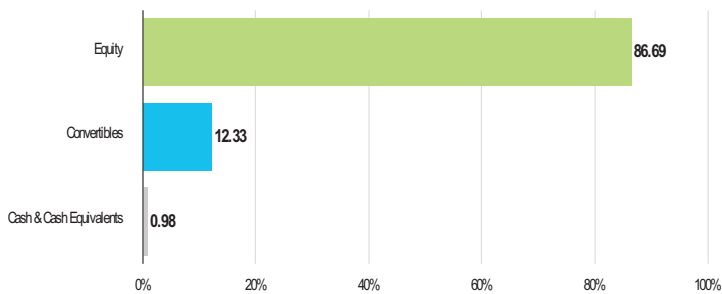
10,13. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

11. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. 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.

12. 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.

Asset Allocation¹⁴

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics^{15,16}**

Class A

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	9.15	9.80	11.57
Tracking Error (%)	2.95	2.66	2.60
Information Ratio	-1.03	-1.22	-0.99
Beta	0.84	0.86	0.90
Sharpe Ratio	1.01	0.71	1.12

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Investment Philosophy**Income-Oriented “Blue Chip” Companies**

We seek to invest in financially-strong companies that have track records of providing a high dividend yield. We believe our bottom-up approach of seeking to invest in securities that can produce income and that are issued by companies with the potential for capital appreciation can provide strong, long-term results.

Fundamental Bottom-Up

We employ a bottom-up process to analyze companies and industries. Generally, we seek to exploit a fundamental view that can differ from the “market consensus” regarding growth potential or valuation.

Diversified Portfolio

We believe in investing in a diverse set of securities across industry sectors.

Long-Term Investors

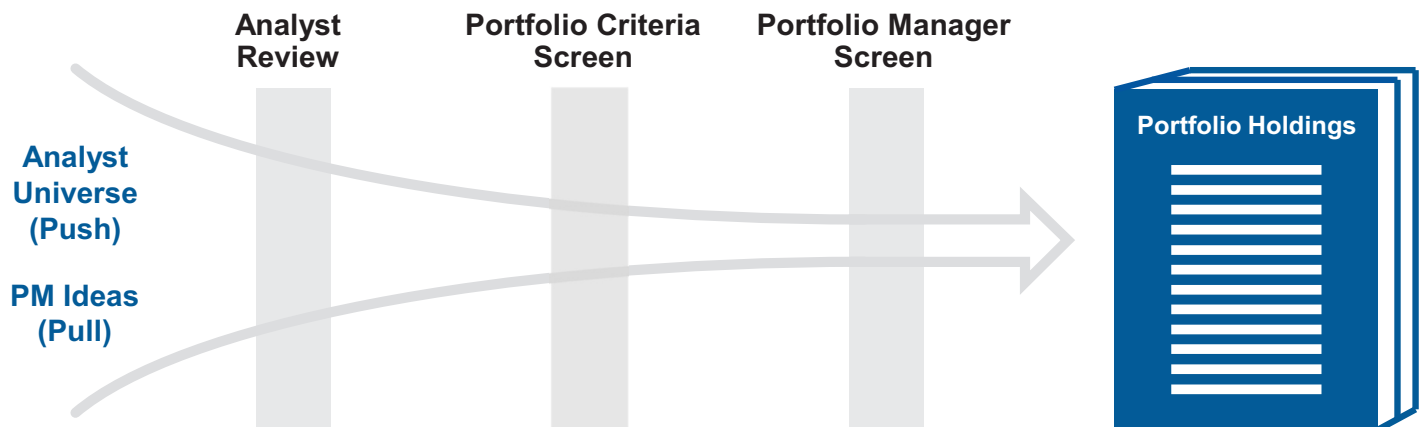
We seek to invest in financially strong “blue chip” companies with favorable secular growth potential, and sustainable competitive advantages. Our analysis includes an assessment of any material Environmental, Social and Governance (ESG) factors on the long-term risk and return profile of a company. We apply a long-term perspective through the spectrum of market cycles.

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.

15. Beta, Information Ratio and Tracking Error information are measured against the S&P 500 Index.

16. 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



Investment Team

Portfolio Manager	Years with Firm	Years Experience
Matt Quinlan, Portfolio Manager/Research Analyst	13	24
Alan Muschott, CFA, Portfolio Manager	20	20
Todd Brighton, CFA, Vice President / Portfolio Manager/Research Analyst	18	18

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.

Market Capitalization: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share. Market capitalization is expressed in millions of USD.

Price to Book Value: The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the value represents a weighted average of the stocks it holds.

Price to Cash Flow: Supplements price/earnings ratio as a measure of relative value for a stock. For a portfolio, the value represents a weighted average of the stocks it holds.

Price to Earnings (12-mo Forward): A measure of the price to earnings ratio (P/E) using the forecasted earnings for the next 12 months.

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. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Convertible securities are subject to the risks of stocks when the underlying stock price is high relative to the conversion price and debt securities when the underlying stock price is low relative to the conversion price. The fund's investment in foreign securities also involves special risks, including currency fluctuations and economic as well as political uncertainty. These and other risks are described more fully 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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