



Franklin Core Plus Bond Fund

United States - Retail

Advisor Class
Class A
December 31, 2024

Product Commentary

Performance Review

- A stronger-than-expected US economy and sticky US inflation prints led to a hawkish pivot from the US Federal Reserve (Fed), which lowered rates twice during the quarter but signalled only two rate cuts were likely during 2025. Meanwhile, Donald Trump's presidential election victory in the United States was seen as positive for domestic economic growth but created significant uncertainty elsewhere, as investors worried about the implications of increased US protectionism on global trade. Over the period, US Treasury (UST) yields moved higher across much of the curve. Fixed income sectors posted generally negative total returns during the quarter but outperformed comparable duration USTs (with a few exceptions); spreads trended generally tighter.

QUARTERLY KEY PERFORMANCE DRIVERS

	Allocation	Security Selection
HELPED	Corporate Credit: Overweight Allocation in High-Yield (HY) and Investment-Grade (IG) Corporate Bonds, Senior Secured Floating-Rate Bank Loans and Collateralized Loan Obligations (CLOs)	Sovereign Developed Market and EM Debt
	Underweight Allocation in Agency Mortgage-Backed Securities (MBS) and Overweight Allocations in Non-Agency Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS)	CMBS
	Overweight Allocation in Treasury Inflation Protected Securities (TIPS) and Non-US Dollar Denominated Emerging Market (EM) Debt	—
HURT	—	HY and IG Corporate Bonds
	—	MBS
	—	—

- The fund's overweight allocation to HY and IG corporate bonds was a major contributor to relative returns. Our allocation to senior secured floating-rate bank loans and CLOs also benefited results. During the quarter, we decreased our exposure to IG and HY corporate bonds and secured floating-rate bank loans.
- Our allocation to MBS and RMBS benefitted results, while our security selection in MBS hindered performance. We increased our MBS and CMBS exposures.
- Our US duration positioning contributed to results, while our non-US duration positioning marginally detracted from performance.

ONE-MONTH KEY PERFORMANCE DRIVERS

	Allocation	Security Selection
HELPED	Overweight Allocation in RMBS	HY Corporate Bonds
	Underweight Allocation in MBS	IG Corporate Bonds
	—	—
HURT	Overweight Allocation in HY Corporate Bonds	MBS
	—	—
	—	—

- Our overweight allocation to HY corporate bonds hindered relative performance during the month, while selection in HY and IG corporates contributed to results. We maintained our IG corporate exposure, while slightly decreased our HY corporate allocation.
- Our allocation to agency MBS and non-agency RMBS benefitted results, while security selection in MBS hindered performance. We increased our MBS allocation over the month.
- Marginal performance contribution from our US duration positioning was offset by performance detraction from our non-US duration positioning.

Outlook & Strategy

- The US economy strides into 2025 with robust momentum, in contrast to the weaker outlook in other major economies such as Europe and China. At the same time, there is uncertainty surrounding the new US administration's economic policies. While the tariffs threatened by the new administration would be questionable policy—as they could ignite a broader global trade war—they are unlikely to cause major damage to US growth or inflation, in our view. Mass deportations of workers that could adversely affect labour supply seem logistically impractical and therefore perhaps unlikely. Although deregulation and low taxes would promote stronger economic growth, slower disinflation progress could result. The Fed has acknowledged as much, as it seems willing to live with above-target inflation for a longer period rather than jeopardise a robust growth outlook. Both the Fed and market

expectations have largely migrated towards our long-held view that the neutral policy rate is around 4%. With the current policy rate at 4.25%-4.5%, the Fed has pencilled in only two more cuts for the next 12 months, with Fed Chair Jerome Powell acknowledging that the policy rate is closer to neutral. Against the backdrop of uncertain policy outcomes, we believe markets should brace for potential bouts of volatility.

- We maintain our emphasis on diligent security selection and individual company fundamentals for the corporate credit sectors. While we believe IG corporate bonds continue to offer safe yield, current spread levels offer little cushion for downside economic, financial market, or geopolitical surprises. This is particularly relevant as the incoming administration and Congress may bring significant policy changes, some of which may be positive for corporate credit quality and risk sentiment, while others may create market volatility or have a negative impact on some sectors and individual bond issuers. In the lower-credit-quality HY and floating-rate bank loan sectors, although we remain broadly constructive amid generally favorable technical conditions and still supportive fundamentals heading into 2025, we continue to advocate a focus on quality companies amid persistent market bifurcation and idiosyncratic opportunities.
- For securitised sectors, our generally neutral stance remains largely unchanged. For the MBS sector, we do not expect a significant increase in involuntary prepayments (default rates), as mortgage credit statistics remain robust, borrowers have locked in home price appreciation, and macroeconomic conditions (particularly low unemployment) remain relatively healthy. For RMBS, a lack of inventory combined with steady household formation should keep the housing supply and demand mismatch supportive of home prices. Future rate cuts combined with potential sticky inflation (as a result of tariffs, expansive fiscal policy, tax cuts and deregulations under the incoming administration) could lead to a steeper yield curve and more demand in longer duration profiles like fixed-rate bonds. Despite our generally cautious stance, we are finding opportunities in higher-quality fixed income investments.

Fund Details

Inception Date	05/24/1994
Benchmark	Bloomberg US Aggregate Index

Fund Description

The fund seeks to provide a high level of current income. Its secondary goal is capital appreciation over the long term. The fund is a core plus fund that invests across fixed income sectors, primarily in investment grade rated securities.

Performance Data

Average Annual Total Returns¹ (%)

	1 Mth	3 Mths	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date
Advisor Class - With Sales Charges ^{a,b}	-1.65	-2.15	3.53	0.24	1.33	2.19	5.83	05/24/1994
Advisor Class - Without Sales Charges ^{a,b}	-1.65	-2.15	3.53	0.24	1.33	2.19	5.83	05/24/1994
Class A - With Sales Charges ^a	-5.40	-5.77	-0.55	-1.29	0.34	1.55	5.48	05/24/1994
Class A - Without Sales Charges ^a	-1.67	-2.10	3.28	-0.01	1.10	1.93	5.61	05/24/1994
Bloomberg US Aggregate Index	-1.64	-3.06	1.25	-2.41	-0.33	1.35	4.49	-

Performance data quoted represents past performance, which does not guarantee future results. Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please call Franklin Templeton at (800) DIAL BEN/(800) 342-5236 or visit www.franklintempleton.com.

An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Share Class Details

	CUSIP	Ticker	Sales Charges		Expenses		30-Day SEC Yields ²	
			Max	CDSC	Gross	Net	Without	With Waiver
Advisor Class	354713737	FKSAX	—	—	0.71%	0.60%	4.61%	4.64%
Class A	354713505	FRSTX	3.75%	—	0.96%	0.85%	4.19%	4.21%

The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices.

1. Periods shorter than one year are shown as cumulative total returns.

2. The fund's 30-Day SEC 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.

Investment Team

Benjamin Cryer, CFA
Years with Firm 18
Years Experience 24

Patrick A. Klein, Ph.D.
Years with Firm 19
Years Experience 19

Sonal Desai, Ph.D.
Years with Firm 15
Years Experience 31

Thomas Runkel, CFA
Years with Firm 37
Years Experience 41

Patricia O'Connor, CFA
Years with Firm 27
Years Experience 29

Michael V Salm
Years with Firm 27
Years Experience 35

What Are The Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Floating-rate loans and debt securities** are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. The manager may consider **environmental, social and governance (ESG) criteria** in the research or investment process; however, ESG considerations may not be a determinative factor in security selection. In addition, the manager may not assess every investment for ESG criteria, and not every ESG factor may be identified or evaluated. These and other risks are discussed in the fund's prospectus.

Important Information

Effective December 11, 2024, the Franklin Strategic Income Fund changed its name to the Franklin Core Plus Bond Fund and modified its principal investment strategies. Such a change can impact performance.

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. A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%). The **Federal Reserve Board ("Fed")** is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments. The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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- a. Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 12/31/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.
- b. Performance quotations for this class reflect the following methods of calculation: a) For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A performance, excluding the effect of Class A's maximum initial sales charge but reflecting the effect of the Class A Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.

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