



Franklin High Income Fund—Advisor Class

High Yield
Fixed Income
September 30, 2019

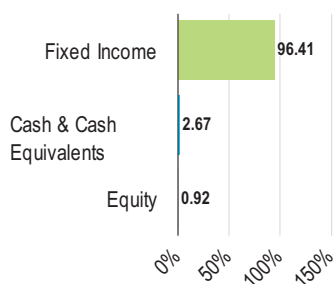
Product Profile

Product Details¹

Fund Assets	\$3,060,812,487.36
Fund Inception Date	12/31/1969
Number of Holdings	253
NASDAQ Symbol	FVHIX
Maximum Sales Charge	0.00
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

Asset Allocation²

Percent of Total



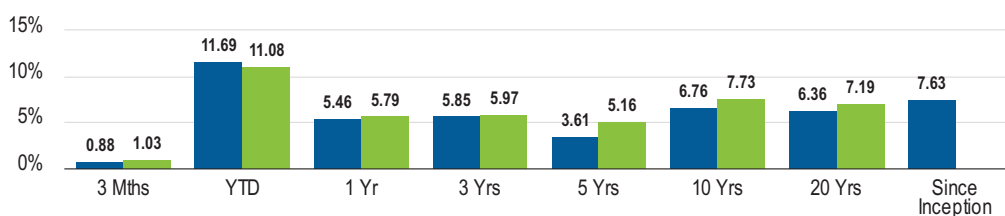
Fund Description

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}

Average Annual Total Returns⁵ (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (12/31/1969)
Advisor Class	0.88	11.69	5.46	5.85	3.61	6.76	6.36	7.63
Credit Suisse High Yield Index	1.03	11.08	5.79	5.97	5.16	7.73	7.19	-



● Advisor Class
● Credit Suisse High Yield Index

Total Annual Operating Expenses—With Waiver: 0.61% Without Waiver: 0.62%

30-Day Standardized Yield⁶—With Waiver: 5.20% Without Waiver: 5.19%

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.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

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 09/30/2020. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Advisor Class	-3.57	6.85	19.41	-10.06	-0.25	7.79	15.26	4.71	13.85	44.51
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

1. All holdings are subject to change.

2. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

4. 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.

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

6. 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.

Portfolio Manager Insight⁷

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Energy	Underweight in Wireline Provider	—	—
	Health Care	Overweight in Media Cable	—	—
	Technology	Overweight in Wireless	—	—
HURT	Entertainment	Overweight in Energy	Ratings-Quality Tilt	Yield-Curve Positioning
	Finance	Underweight in Consumer Cyclical Services	—	—
	Consumer Cyclical Services	Underweight in Technology	—	—

- Our security selection was a major contributor to relative performance, led by positions in the energy, health care and technology segments. However, our overweight allocation to energy and underweight exposure to technology detracted from results. Security selection in entertainment, finance and consumer cyclical services industries hindered performance, as did our underweight allocation to cyclical services.
- Our underweight allocation to wireline provider and overweight exposure to media cable and wireless segments benefitted results.
- Our ratings-quality tilt hindered relative performance, driven primarily by positioning in B and lower-rated credits. Our yield-curve positioning also detracted from results.

Outlook & Strategy

- During Q3, technical conditions remained supportive as net issuance remained subdued and investor demand persisted. Refinancing transactions continued to dominate in the current low interest rate environment. Amidst a lack of supply from higher-quality issuers, we noted a bifurcation in the US HY market; higher-quality deals were oversubscribed while those with perceived high credit risks were challenged or pulled from the market. This illustrates a degree of investor discipline, in our opinion.
- Mergers and acquisition (M&A) and leveraged buyout (LBO) activities remained muted. As equity prices have reached record highs, issuers and investors alike have exhibited cautiousness. We have noted an unwillingness to take on additional debt and leverage without clear cost saving or synergy benefits, especially as we enter the later phase of the current expansionary cycle.
- Turning to demand, investors appeared to have favored higher-rated BB paper during Q3, which has pushed up valuations in this credit tier. Despite the demand for income in a still historically-low interest rate environment, BB rated issues generally outperformed their CCC counterparts. As we enter the latter phases of the current business cycle, HY investors appear reluctant to take on undue credit risk. Outside of BB rated credits, we anticipate possibly higher defaults for CCC rated issuers going forward, especially for companies that have been unable to obtain ratings upgrades amid a strong economic cycle—we believe these entities might have challenged business models.
- While we maintain our view that HY fundamentals remain generally supportive for the asset class, we are also mindful of valuations—especially in the BB rated space—which appear full, in our view. Limited supply has encouraged steady demand and contributed to the valuation picture, particularly for higher quality paper. We are cognizant, however, that the demand picture could change rapidly in the current environment; adverse geopolitical developments related to US politics, trade-related tensions or conflicts in the Middle East could all negatively influence risk appetite.
- Nonetheless, short of such unfortunate developments or other unforeseen events, we think the current environment—low yields that spur HY demand and stable technical conditions—could continue to persist. At this point in the credit cycle, our rigorous credit selection discipline takes on even greater importance. While we are open to opportunities outside of BB credits, our extensive proprietary due diligence process remains integral to our objective of securing favorable risk-adjusted returns for the portfolio.

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	Credit Suisse High Yield Index
Average Duration	2.86 Yrs	2.83 Yrs
Average Weighted Maturity	3.52 Yrs	3.78 Yrs
Annual Turnover Ratio (05/31/2019)	25.48%	-

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

10. 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 Diversification⁸

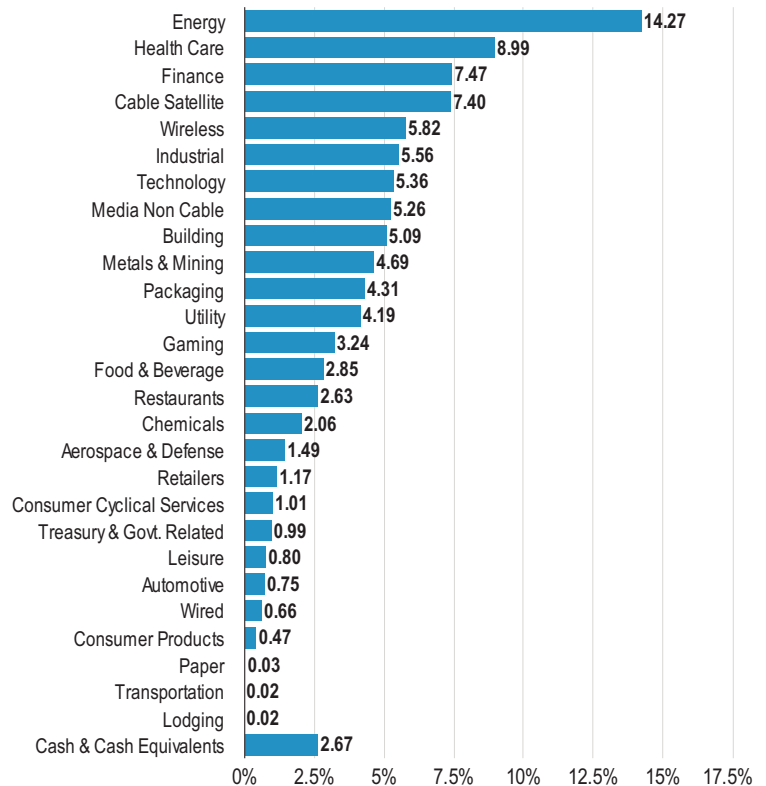
Top Ten Holdings¹¹

Percent of Total

Top Holdings	%
CSC HOLDINGS LLC	2.11
CCO HLDGS LLC/CAP CORP	2.02
SPRINT CORP	1.81
iShares iBoxx High Yield Corpo	1.72
CHENIERE ENERGY PARTNERS	1.69
HCA INC	1.63
TENET HEALTHCARE CORP	1.59
T-MOBILE USA INC	1.37
CLEARWAY ENERGY OP LLC	1.34
UNITED RENTALS NORTH AM	1.29

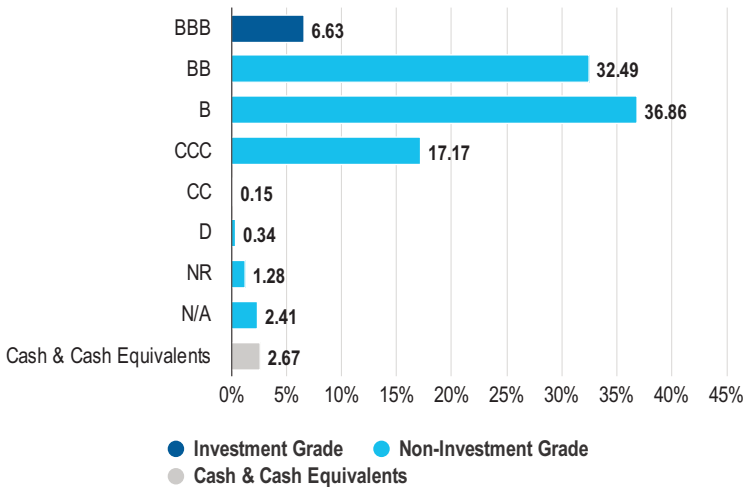
Sector Allocation

Percent of Total



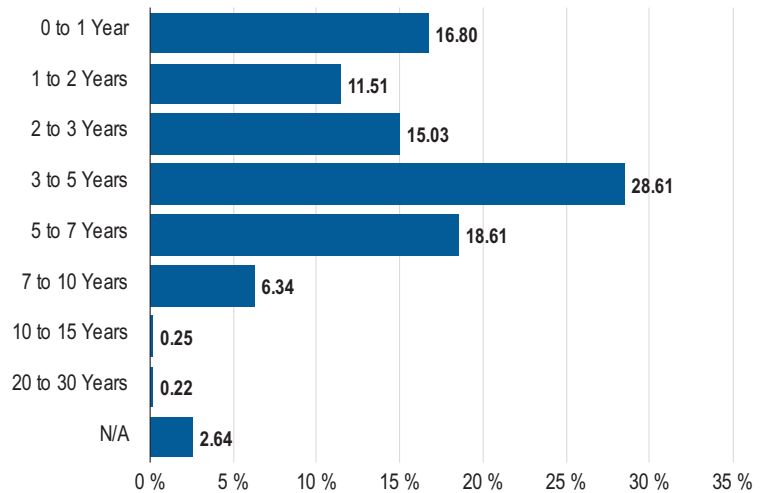
Credit Ratings Allocation¹²

Percent of Total



Maturity Allocation

Percent of Total



11. 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. 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.

Supplemental Performance Statistics

Supplemental Risk Statistics^{13,14}

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	4.79	6.82	6.57
Tracking Error (%)	1.22	1.98	1.58
Information Ratio	-0.10	-0.78	-0.61
Beta	1.14	1.22	1.14
Sharpe Ratio	0.90	0.39	0.95

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Investment Philosophy

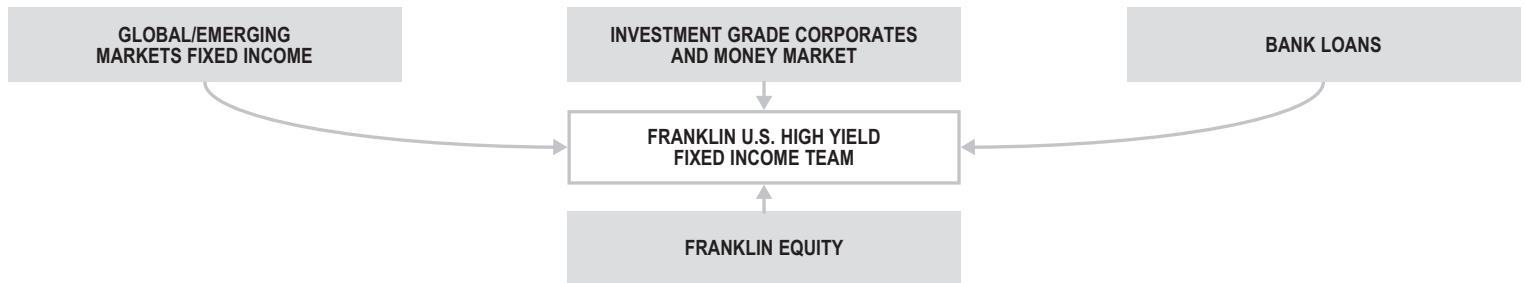
We believe that superior high-yield returns are best sought through the disciplined application of a research-based approach that capitalizes on inefficiencies across the high-yield market. Through diligent bottom-up research, we seek to identify compelling total return opportunities with the potential 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.



Investment Team

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

Average Duration: The market-weighted average of the duration of bonds. Duration of each bond is the estimated percentage change in the bond's price for a 1% change in the bond's yield.

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.

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

14. 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).

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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3. Effective 12/31/1996, the fund began offering Advisor Class Shares. 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 A1 performance, excluding the effect of Class A1's maximum initial sales charge but reflecting the effect of the Class A1 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.

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



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