Franklin High Income Fund

Advisor Class: FVHIX Class A: FHQRX — **Commentary | as of March 31, 2025**

Key Takeaways

- **Markets**: There was a significant swing in financial market sentiment across the first quarter of 2025 as participants digested the first few months of US President Donald Trump's new administration's policies. Although there was no change in the fed funds rate, US Federal Reserve policymakers now expect materially slower growth, higher unemployment and higher inflation this year.
- **Contributors:** Security selection, industry allocation and ratings-quality tilt.
- **Detractors:** Yield-curve positioning.
- **Outlook:** In light of Trump's "Liberation Day" announcements after quarter-end, which provided greater clarity on tariffs, we maintain our broadly constructive outlook on high-yield (HY) assets.

Performance Review

- Security selection contributed to the fund's relative performance, led by our selection in the finance, chemical and health care industries. Conversely, our selection in the media non-cable, automotive, and aerospace and defense segments hindered results.
- Our industry allocation benefited performance, led by our underweights in the retail and technology industries and our overweight in the finance segment. Conversely, our overweights in the media cable, wireless, and food and beverage industries detracted from results.
- Our yield-curve positioning hindered performance, while our ratings-quality tilt benefited results.

Outlook

- Amid the uncertainties leading up to announcements of tariff policies, the HY sector has remained resilient, with low defaults, yields we viewed as attractive and generally solid balance sheets. While near-term flows are difficult to predict during this period of heightened policy uncertainty, over time we expect market technicals to remain broadly supportive, with ongoing coupon reinvestment providing a steady source of demand and supply down meaningfully from last year. Refinancings continue to dominate supply, although merger and acquisition transactions have become a higher percentage year-to-date. We remain cautious in moving materially out on the risk spectrum to potentially pick up just a modest amount of incremental yield and spread.
- In light of Trump's "Liberation Day" announcements after quarter-end, which provided greater clarity on tariffs, we maintain our broadly constructive outlook on HY assets. While we expect lower US growth this year with upside risks to inflation, we uphold our view that a significant growth slowdown should not be taken for granted just yet. Hard data show the US economy is still in good shape, with a solid pace of economic activity. We believe the macroeconomic outlook will be heavily influenced by progress on deregulation and tax cuts. We remain optimistic both pro-growth measures are still in the cards. Amid a still-evolving landscape in terms of potential consequences from policy outcomes, we expect idiosyncratic opportunities will continue to be a major performance driver. We therefore remain focused on diligent security selection.

Morningstar Rating™

Overall Rating as of March 31, 2025

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 03/31/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 586, 537 and 423 High Yield Bond funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

Fund Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	2.97 Years
30-Day SEC Yield (Advisor Class)—With Waiver	6.76%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.75%

Sector Allocation (% of Total)

Sector	Fund
Energy	15.28
Finance	14.99
Industrial	7.84
Health Care	7.14
Gaming	5.00
Building	4.94
Chemicals	4.35
Media Non Cable	4.10
Other	35.47
Cash & Cash Equivalents	0.88

Credit Quality Exposure (% of Total)

Rating	Fund
BBB	4.58
BB	48.06
B	35.02
CCC	9.56
CC	0.37
C	0.25
NR	0.56
Not Applicable	0.73
Cash & Cash Equivalents	0.88

Average annual total returns and fund expenses (%)

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Advisor Class	353538309	FVHIX	0.99	0.99	7.30	5.61	7.51	4.65	7.35	0.99	0.99	7.30	5.61	7.51	4.65	7.35	0.60	0.59	—	—	12/31/1969
Class A	353538887	FHQRX	0.94	0.94	7.11	5.40	7.20	4.35	7.22	-2.84	-2.84	3.10	4.07	6.38	3.95	7.15	0.85	0.84	3.75	—	12/31/1969
Benchmark	—	—	0.94	0.94	7.60	4.84	7.20	4.91	—	0.94	0.94	7.60	4.84	7.20	4.91	—	—	—	—	—	—

Benchmark(s)

Benchmark =ICE BofA US High Yield Constrained Index

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. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. 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 visit franklintempleton.com.*
The fund began offering Advisor Class shares on 12/31/1996 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 12/31/1996, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, a restated figure is used based on the fund's Class A1 performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class.
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 01/31/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

What are the Risks?

All investments involve risks, including possible loss of principal. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default. **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. **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. **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.** 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.

Glossary

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

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.

The **ICE BofA US High Yield Constrained Index** measures the performance of USD-denominated, noninvestment grade, fixed rate and taxable corporate bonds. Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. The **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.

Credit Quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, the manager assigns each security the middle rating from these three agencies. When only two agencies provide ratings, the lower of the two ratings will be assigned. When only one agency assigns a rating, that rating will be used. Foreign government bonds without a specific rating are assigned a country rating, if available. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time. **Please note, the Fund itself has not been rated by an independent rating agency.**

Morningstar Rating™: Source: Morningstar®, 03/31/2025. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 4, 4 and 4 and fund's Class A shares received a Morningstar Rating of 4, 3 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings.

Franklin Distributors, LLC. Member FINRA/SIPC.

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.