

Franklin High Income Fund

Advisor Class: FVHIX Class A: FHQRX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. A subsequent 90-day pause for most of the increased levies and the passage of the "One Big Beautiful Bill" spending package after quarter-end helped reduce fixed income market uncertainties.
- **Contributors:** Security selection and ratings-quality tilt.
- **Detractors:** Industry allocation and yield-curve positioning.
- **Outlook:** We remain broadly constructive on high-yield (HY) issues and believe policy-related volatility presents only moderate incremental risk to the range of market outcomes over the longer term.

Performance Review

- Security selection contributed to relative performance, led by our selection in the health care, automotive and media cable industries. Conversely, our selection in the metals and mining, wired and packaging segments hindered results.
- Our industry allocation detracted from performance, led by our overweight in the energy segment and underweights in the technology and wired industries. Conversely, our underweight in the retail segment and overweight in the media non-cable industry benefited results.
- Our ratings-quality tilt contributed to performance, while our yield-curve positioning hindered results.

Outlook

- Broadly supportive fundamentals persisted for the HY sector during the period. We believe market conditions should remain favorable, given relatively high yields, a low expected default rate, a historically high-quality skew of credits and an increasing amount of secured debt in the index (which should be supportive of recoveries in downside scenarios). Strong technical conditions also persisted, marked by accelerating inflows and moderate net issuance. Against this backdrop, spreads tightened slightly, with HY yields trending lower. Looking forward, we believe "fallen-angel" supply could increase after four years of net migration toward investment grade, but overall technical tailwinds seem unlikely to abate absent an unforeseen or systematic shock, in our view.
- We remain broadly constructive on HY and believe policy-related volatility presents only moderate incremental risk to the range of market outcomes over the longer term. Moreover, companies are not seeing material changes in demand to date, which, when combined with current spread levels, should support near-term performance. While economic risk has increased amid ongoing policy developments, default probabilities are only modestly higher, given the overall strength of HY balance sheets. Accordingly, defaults are expected to remain low, given a still-resilient economy. As we expect idiosyncratic opportunities to continue to be a major performance driver, we remain disciplined on diligent security selection and wary of moving materially out on the risk spectrum to potentially pick up just a modest amount of incremental yield and spread.

Morningstar Rating™

Overall Rating as of June 30, 2025



(4-Star) Advisor Class

(4-Star) Class A

As of 06/30/2025 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 589, 547 and 429 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	2.67 Years
30-Day SEC Yield (Advisor Class)—With Waiver	6.72%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.71%

Sector Allocation (% of Total)

Sector	Fund
Finance	16.06
Energy	12.09
Industrial	7.86
Health Care	7.80
Building	5.43
Gaming	4.70
Media Non Cable	4.69
Technology	4.26
Other	35.54
Cash & Cash Equivalents	1.56

Credit Quality Exposure (% of Total)

Rating	Fund
BBB	4.30
BB	47.84
B	35.50
CCC	9.74
C	0.13
D	0.49
NR	0.15
Not Applicable	0.29
Cash & Cash Equivalents	1.56

Average annual total returns and fund expenses (%) - as of June 30, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Advisor Class	353538309	FVHIX	3.42	4.45	9.12	10.35	6.42	5.00	7.38	3.42	4.45	9.12	10.35	6.42	5.00	7.38	0.60	0.59	—	—	12/31/1969
Class A	353538887	FHQRX	3.41	4.38	8.97	10.19	6.11	4.75	7.26	-0.47	0.46	4.89	8.79	5.30	4.35	7.18	0.85	0.84	3.75	—	12/31/1969
Benchmark	—	—	3.57	4.55	10.24	9.85	6.00	5.28	—	3.57	4.55	10.24	9.85	6.00	5.28	—	—	—	—	—	—

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

Investment grade is a rating that indicates that a municipal or corporate bond has a relatively low risk of default. BBB is medium credit quality rating.

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®, 06/30/2025. 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 Class A shares received a Morningstar Rating of 4, 4 and 3 and fund's Advisor Class shares received a Morningstar Rating of 5, 4 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class shares only. Other share classes may have different Morningstar ratings.

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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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