

Franklin High Income Fund

Advisor Class: FVHIX Class A: FHQRX
Commentary | as of December 31, 2025

Key Takeaways

- Markets:** The fourth quarter (Q4) of 2025 saw monthly shifts in market sentiment as uncertainties increased in the first part of the quarter. The US federal government went into a shutdown on October 1 as the US Senate was unable to pass a spending bill. This, among other things, delayed or canceled the publication of key economic data leading to a lack of clarity on the economic condition of the United States. The shutdown was lifted in mid-November, and subsequent data showed that economic growth in the United States remained resilient. The US Federal Reserve delivered three consecutive 25-basis-point (bp) cuts in Q4, helping market sentiment to improve in December. Fixed income volatility measures fell toward the end of the quarter, reaching their lowest level since 2021. The US Treasury (UST) yield curve steepened during the quarter as the benchmark 10-year UST yield rose two bps to end the year at 4.17%.
- Contributors:** Security selection in healthcare and packaging.
- Detractors:** Security selection in chemicals and media cable.
- Outlook:** Overall, we remain constructive on high-yield (HY) corporate credit and believe it offers a reasonable loss-adjusted carry but acknowledge that valuations do not offer much upside potential from here.

Performance Review

- The fund's security selection contributed to returns** led by selection in the healthcare, packaging and finance sectors. In contrast, selection within the chemicals, media cable and wired communication segments of the HY market curbed results.
- Our industry exposures also helped performance.** There were positive contributions from our underweight to technology and retailer sectors as well as an overweight to finance-related issues. Overweight exposure to building and underweight food and beverage names and overweight to the chemical sector curbed quarterly results.

Outlook

- The high-yield market performed well in 2025. As we head into 2026, corporate fundamentals have been resilient and technicals in the market have been supportive. We expect these trends to persist, with bouts of volatility surrounding the implementation of President Trump's policies.
- From a valuation standpoint, spreads remain rich historically, but are appropriate given the low default environment supported by wide open capital markets. The Fed implemented 75 bps of cuts in the second half of the year as the labor market softened and growth slowed but remained positive.
- We remain focused on industry and company fundamentals, the health of balance sheets, generation and use of free cash flow, the resiliency of credits to slower economic growth, and are cautious on deeply distressed names. The U.S. high-yield default rate (including distressed exchanges) increased in December, but remains well below long-term averages, ending the month at 1.88%.
- Technicals remain solid with strong demand, inflows and consistent new issues. Yields and sub-par dollar prices remain somewhat attractive, while spreads remain at levels that are fair but not compelling.
- Risks to our outlook include higher than expected inflation, policy missteps, a more severe slowdown or recession, and/or heightened geopolitical tension.

Morningstar Rating™

Overall Rating as of December 31, 2025


(5-Star) Advisor Class

(4-Star) Class A

As of 12/31/2025 the fund's Advisor Class shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 584, 548 and 445 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
30-Day SEC Yield (Advisor Class)—With Waiver	6.00%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.00%

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge						With Maximum Sales Charge						Expenses		Sales Charges		Inception		
			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	1.69	9.10	9.10	10.33	5.11	6.80	7.40	1.69	9.10	9.10	10.33	5.11	6.80	7.40	0.60	0.59	—	—	12/31/1996
Class A	353538887	FHQRX	1.66	8.95	8.95	10.18	4.90	6.56	7.27	-2.16	4.86	4.86	8.78	4.11	6.16	7.20	0.85	0.84	3.75	—	12/31/1996
Benchmark	—	—	1.35	8.50	8.50	10.03	4.50	6.44	—	1.35	8.50	8.50	10.03	4.50	6.44	—	—	—	—	—	—

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 franklintonlepton.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

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

Free cash flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

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.

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

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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.

Morningstar Rating™. Source: Morningstar®, 12/31/2025. 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 5, 4 and 5 and fund's Class A shares received a Morningstar Rating of 4, 4 and 5 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. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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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.franklintonlepton.com. Please read it carefully.