FRANKLIN TEMPLETON

Franklin High Income Fund

Advisor Class: FVHIX Class A: FHQRX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** High-yield (HY) bond yields rose during the third quarter of 2026, alongside historically tight spreads. Investors continued to express concerns over the escalating conflict in the Middle East, rising oil prices and persistent inflation over the quarter. After US Federal Reserve (Fed) Chairman Kevin Warsh's speech in Jackson Hole in August (which was viewed as hawkish), the US Fed raised rates by 25 basis points (bps) at its meeting in September. The 10-year Treasury yield surged by 82 basis points over the period to end the quarter at 5.28%, its highest level since mid-2007. Against this backdrop, HY posted a negative quarterly return (the worst since September 2022), with the B rated cohort underperforming higher-quality (BB) bonds and investment-grade (BBB) corporate credit to end September.
- The US HY default rate (including distressed exchanges) increased marginally during the month, but is still below long-term averages, ending September at 2.68% (up five bps month-over-month and up 129 bps year-over-year). Regarding the primary market, monthly new issuance totaled $51.7 billion (bn), continuing the trend of active capital markets. Meanwhile, HY funds reported a monthly outflow worth -$4.7bn, turning year-to-date flows negative.
- **Contributors:** Ratings-quality tilt contributed to fund performance during the quarter, as did yield curve positioning, security selection and industry allocations.
- **Detractors:** Select positions and industry allocations detracted from the fund's results.
- **Outlook:** We believe that yields and sub-par dollar prices remain attractive, while spreads remain at levels that are fair (but not compelling), in our view.

Performance Review

- **Ratings-Quality Tilt:** The portfolio's ratings-quality tilt contributed to performance during the quarter, primarily favoring C rated bonds. Ca-rated bonds curbed results.
- **Security Selection:** Positions in the automotive sector were the primary contributor to performance, followed by selections in the chemicals, healthcare, energy, media cable and media non cable sectors. However, security selection in the finance, wired and metals and mining segments of the HY market weighed on returns.
- **Industry Allocations:** Underweighted exposure to wired and wireless boosted performance, as did overweighted allocations to energy. However, the fund's overweighted allocation to entertainment dampened results, as did underweighted exposure to consumer cyclical services and retailers.

Outlook

- As we progress through 2026, corporate fundamentals remain resilient as technicals in the market have started to soften driven by supply. We expect these trends to persist with bouts of volatility surrounding the implementation of President Trump's policies and increased geopolitical tensions. Additionally, there remains a heightened level of uncertainty surrounding the re-establishment of regular trade flow for oil, gas, and other raw materials through the Strait of Hormuz and the potential implications for broader economic impact.
- From a valuation standpoint, spreads remain rich historically but are appropriate given the low default environment. While the Fed hiked rates by 25 bps in September, leading to a sharp rise in treasury yields, we expect them to remain data dependent in their approach moving forward. 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 US HY default rate (including distressed exchanges) increased marginally in September, but remains below long-term averages, ending the month at 2.68%. Technicals have weakened modestly despite strong demand for yield as supply, particularly from data centers, has begun to outpace demand. Yields and sub-par dollar prices remain attractive, while spreads remain at levels that are fair (but not compelling), in our view. Risks to our outlook include higher than expected inflation, policy missteps, a more severe slowdown or recession and/or heightened geopolitical tensions.

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 09/30/2026 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 574, 540 and 444 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	6.79%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.78%

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			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	-1.82	-0.35	1.34	8.00	4.02	5.21	7.29	-1.82	-0.35	1.34	8.00	4.02	5.21	7.29	0.60	0.59	—	—	12/31/1969
Class A	353538887	FHQRX	-1.91	-0.54	1.11	7.60	3.81	4.90	7.16	-5.59	-4.27	-2.68	6.24	3.02	4.50	7.09	0.85	0.84	3.75	—	12/31/1969
Benchmark	—	—	-1.82	0.03	1.38	7.93	3.55	4.94	—	-1.82	0.03	1.38	7.93	3.55	4.94	—	—	—	—	—	—

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 01/31/2027 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

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

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.

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.

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®, 09/30/2026. 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 3, 3 and 4 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.franklintempleton.com. Please read it carefully.

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