

# Franklin High Income Fund

Advisor Class: FVHIX Class A: FHQRX

Commentary | as of September 30, 2025

## Key Takeaways

- **Markets:** Market sentiment improved across the third quarter of 2025 (Q3) due to a partial resolution of some of the outstanding market uncertainties. On the trade front, a deal was reached between the Trump administration and some of the largest US trading partners, such as the United Kingdom, the European Union and Japan. Although no agreement was made with China, there was a 90-day pause in many of the across-the-board increases. At its September meeting, the Fed cut the fed funds rate by 25 bps and signaled that more cuts were likely to come by the end of this year. Over the period, US Treasury (UST) yields moved lower, with the yield curve steepening.
- **Contributors:** Security selection in the energy and automotive sectors.
- **Detractors:** Security selection in media non-cable and chemicals.
- **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 energy, automotive and metal and mining sectors. In contrast, selection within the media cable and no cable and chemical sectors curbed results.
- **Our industry exposures also helped performance.** There were positive contributions from our overweight to media non-cable and building securities as well as an underweight to technology-related issues. Underweight exposure to retailers and consumer cyclical names and overweight to the chemical sector curbed quarterly results.

## Outlook

- HY spreads have ground steadily tighter from the beginning of June into September, as demand for the asset class remains robust and net supply has been moderate. The decline in yields and spreads has been in a benign credit environment combined with robust technical conditions. Credit fundamentals have been generally supportive for some time, and despite recent concerns over the employment picture, at this point, we do not see a meaningful deterioration in the outlook for corporate America.
- Not only are spreads near historic lows, but the average dollar price on the index is back up near par, thus limiting the convexity of the asset class. In the expected environment of low defaults and limited distress, coupon carry should generate attractive returns and support demand for the asset class. However, while spreads could continue to grind tighter from here, over time, the potential for spread widening seems more probable than for tightening.

## Morningstar Rating™

Overall Rating as of September 30, 2025

★★★★★ (5-Star) Advisor Class

★★★★ (4-Star) Class A

As of 09/30/2025 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 586, 547 and 439 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 Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	5.99%
30-Day SEC Yield (Advisor Class)—Without Waiver	5.98%

Average annual total returns and fund expenses (%) - as of September 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	2.72	7.28	7.21	11.50	5.96	6.31	7.40	2.72	7.28	7.21	11.50	5.96	6.31	7.40	0.60	0.59	—	—	12/31/1969
Class A	353538887	FHQRX	2.68	7.17	7.03	11.35	5.77	6.01	7.27	-1.17	3.15	3.01	9.94	4.96	5.60	7.20	0.85	0.84	3.75	—	12/31/1969
Benchmark	—	—	2.40	7.06	7.23	10.97	5.54	6.06	—	2.40	7.06	7.23	10.97	5.54	6.06	—	—	—	—	—	—

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](http://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

**Convexity** is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields. 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](http://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®, 09/30/2025. 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 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.

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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](http://www.franklintempleton.com). Please read it carefully.