



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin Income Fund—Advisor Class

Income  
Multi-Asset  
December 31, 2018

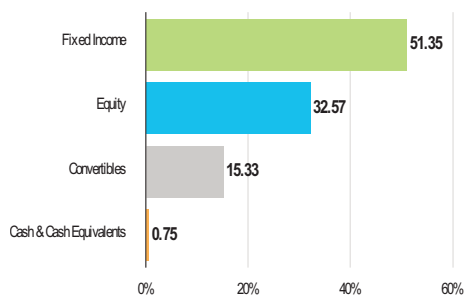
### Product Profile

#### Product Details<sup>1</sup>

Fund Assets	\$69,221,840,966.03
Fund Inception Date	08/31/1948
Number of Issuers	183
NASDAQ Symbol	FRIAX
Maximum Sales Charge	0.00
Investment Style	Income
Benchmark	S&P 500 Index Bloomberg Barclays US Aggregate Index
Lipper Classification	Mixed-Asset Target Allocation Moderate Funds
Morningstar Category™	Allocation—30% to 50% Equity
Dividend Frequency	Monthly, on the 3rd business day

#### Asset Allocation<sup>2</sup>

Percent of Total



#### Third-Party Fund Data

#### Overall Morningstar Rating™<sup>3</sup>



As of 12/31/2018 the fund's Advisor Class shares received a 4 star overall Morningstar Rating™, measuring risk-adjusted returns against 463, 367 and 261 U.S.-domiciled Allocation—30% to 50% Equity mutual funds and exchange traded 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.

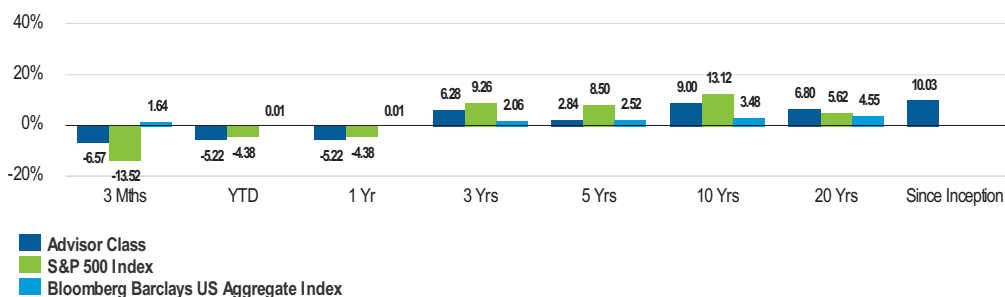
#### Fund Description

The fund seeks to maximize income, while maintaining prospects for capital appreciation, by investing in a diversified portfolio of stocks and bonds.

#### Performance Data<sup>4,5,6</sup>

##### Average Annual Total Returns<sup>7</sup> (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (08/31/1948)
Advisor Class	-6.57	-5.22	-5.22	6.28	2.84	9.00	6.80	10.03
S&P 500 Index	-13.52	-4.38	-4.38	9.26	8.50	13.12	5.62	-
Bloomberg Barclays US Aggregate Index	1.64	0.01	0.01	2.06	2.52	3.48	4.55	-



**Total Annual Operating Expenses**—With Waiver: 0.47% Without Waiver: 0.48%

**30-Day Standardized Yield<sup>8</sup>**—With Waiver: 4.84% Without Waiver: 4.84%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

The fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 01/31/2019. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

1. All holdings are subject to change. Holdings of the same issuers have been combined.

2. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

6. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

7. Periods shorter than one year are shown as cumulative total returns.

8. The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.

## Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Advisor Class	-5.22	8.62	16.61	-7.75	3.86	14.50	14.48	2.51	13.15	35.43
S&P 500 Index	-4.38	21.83	11.96	1.38	13.69	32.39	16.00	2.11	15.06	26.46
Bloomberg Barclays US Aggregate Index	0.01	3.54	2.65	0.55	5.95	-2.02	4.21	7.84	6.54	5.93

Portfolio Manager Insight<sup>9</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Equity Holdings	Equity Sectors	Fixed Income Holdings	Fixed Income Sectors/Industries
HELPED	Merck	Utilities	US Treasury Notes	Treasury
	Duke Energy	Communication Services	Calpine	—
	Verizon Communications	—	—	—
HURT	General Electric	Energy	Weatherford International	Energy
	Wells Fargo	Financials	Community Health Systems	Health Care
	BASF	Materials	Chesapeake Energy	Financials

- Equity and bond holdings suffered widespread declines across sectors over the fourth quarter, and equities had the most negative impact on fund returns. In particular, investors shunned energy-sector securities as US crude-oil spot prices declined roughly 38%, overshadowing major oil producers' recent efforts to pare global oversupply amid signs of slowing demand growth. These developments dragged heavily on our energy equities and high-yield corporate bonds.
- We reduced the fund's positions in General Electric throughout the year. Our remaining equity investments in GE shed nearly a third of their value in the fourth quarter amid investor worries about a downtrend in the industrials sector and the company's ongoing challenges during a complex and lengthy restructuring effort. In December, GE addressed liquidity risks/challenges as it continued to shed non-core assets, and said it will focus more on the internet-of-things (IoT) market going forward.
- On a positive note, the fund's utilities equity holdings held up against increasing market headwinds given a pickup in earnings growth within the sector, and as benchmark Treasury yields dropped and investors sought perceived defensive equity plays amid market turbulence in the final months of the year.
- There were no meaningful contributors among the fund's corporate bond holdings. As Treasury yields spiked to a seven-year high early in the fourth quarter, the spread between the average speculative-grade bond yield and Treasury yields dipped to around 3.3 percentage points, the smallest gap in roughly a decade. High-yield credits became less attractive as the premium ebbed for holding speculative-grade bonds compared to "risk-free" Treasuries, which led to meaningful spread widening and a subsequent selloff.

## Outlook &amp; Strategy

- We continue our long-held practice of rigorous focus on individual company fundamentals, both as a means to identify attractive individual investments and manage overall portfolio risk. Recent market shifts have been driven by a wide range of factors, including decelerating and desynchronizing global economic growth, higher US interest rates, a gradual rise in inflation that is now hovering around the US Federal Reserve's target, geopolitical uncertainty in several regions of the world, select emerging-market challenges, and policy risks with a view toward difficult US-China trade relations. In response, we have adjusted portfolio positioning to navigate these uncertainties and incrementally reduce portfolio risk, while also taking advantage of isolated cases in which markets appear to have overreacted to the downside.
- While US corporate earnings growth likely will be less robust than in 2018, we expect earnings to continue to be supported by US and global growth, solid consumer finances and household income growth, business spending and expanding manufacturing activity in most parts of the world. Moreover, our corporate balance sheet work remains as important as our assessment of forward earnings. While we acknowledge that fears of trade protectionism are not new and have often surfaced in various parts of the world, we continue to navigate through the short- and long-term implications of recent tariffs, especially in relation to China.
- While the market is still offering attractive equity opportunities, in our view, they are less abundant than in recent years. We believe selectivity in risk exposures has taken on greater importance, as broad market beta appears to be more expensive to us than previously. We continued to incrementally reduce equities as a percentage of the overall portfolio through year-end 2018, and much of the proceeds from the sale of equities have been redeployed into US Treasuries.
- The fund's current bond holdings reflect our continued preference for the shorter end of the yield curve, and a generally positive bias toward corporate credit because we continue to think the fundamental backdrop remains supportive. We have also taken advantage of improved relative value in the investment-grade corporate bond tier with selective buying of higher-quality credits, where a combination of rising long-term rates and credit spread widening created attractive opportunities to upgrade the portfolio's overall credit quality without sacrificing much in yield.
- As certain high-yield corporate bonds and equities appeared to reach our estimates of full valuation and were thus sold, we have reallocated some of the proceeds into short-duration US Treasuries in the one- to five-year range, given the recent increase in yields in those categories. Importantly, we believe this enhances the fund's flexibility to take advantage of potential periods of volatility in 2019.

- Distress in the high-yield corporate bond market remains idiosyncratic, not widespread, across sectors. Speculative-grade debt defaults remain subdued relative to historical norms and the near-term credit outlook among high-yield companies is generally benign, in our view. The fund has also begun to see what we expect to be a positive development of credit upgrades for several key holdings in the below-investment-grade tier. Together with recent selective purchases in the investment-grade category, the overall credit quality on the fixed income side of the portfolio has drifted higher lately as several speculative-grade credits received rating upgrades. We expect this trend to continue in 2019.

9. 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.

### Portfolio Characteristics<sup>10,11,12</sup>

	Portfolio	S&P 500 Index
Price to Earnings (12 Month Trailing)	13.50x	19.13x
Price to Book	1.90x	2.99x
Price to Cash Flow	7.67x	11.01x
Market Capitalization (Millions in USD)	171,062	200,757
	Portfolio	Bloomberg Barclays US Aggregate Index
Average Duration	3.38 Yrs	5.87 Yrs
Average Weighted Maturity	5.67 Yrs	8.18 Yrs

### Portfolio Diversification

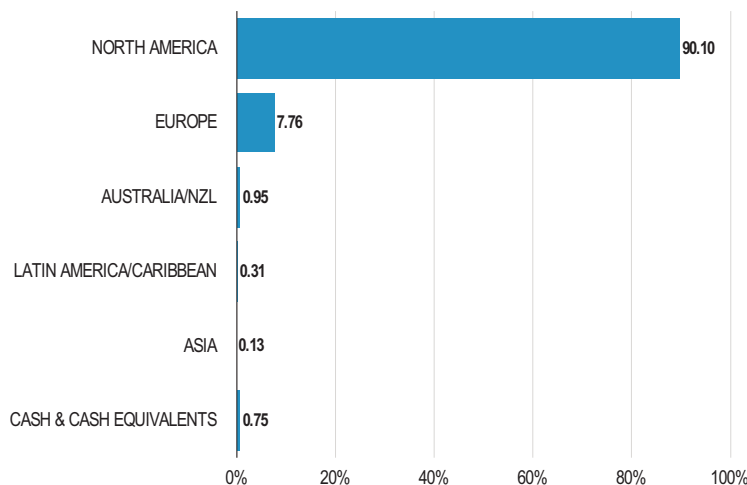
#### Top Ten Holdings<sup>13</sup>

Percent of Total

Top Holdings	%
GOVERNMENT OF THE UNITED STATES OF AMERICA	8.31
COMMUNITY HEALTH SYSTEMS INC	3.81
TENET HEALTHCARE CORP	2.92
CHESAPEAKE ENERGY CORP	2.76
JPMORGAN CHASE & CO	2.71
WELLS FARGO & CO	2.66
SOFTBANK GROUP CORP	2.31
BANK OF AMERICA CORP	2.06
WEATHERFORD INTERNATIONAL PLC	2.00
BAUSCH HEALTH COS INC	1.70

#### Geographic Allocation<sup>14</sup>

Percent of Total



10. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: Factset. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. Average Weighted Maturity and Average Duration data points pertain to the fixed income component of the fund. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

11. Source: FactSet. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted.

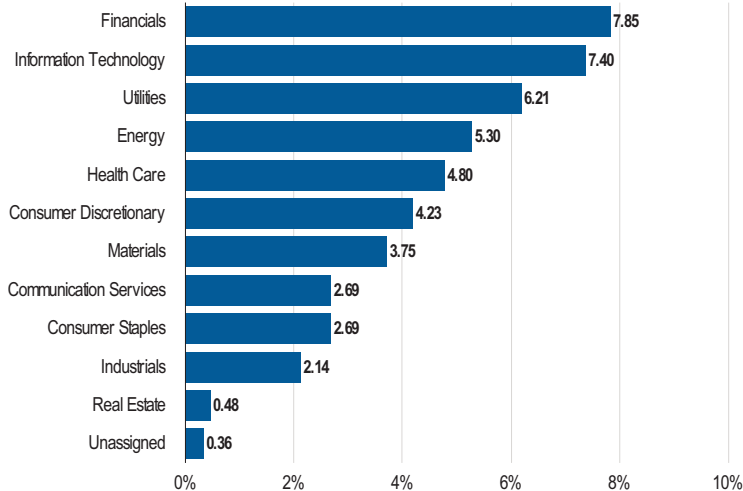
12. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

13. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

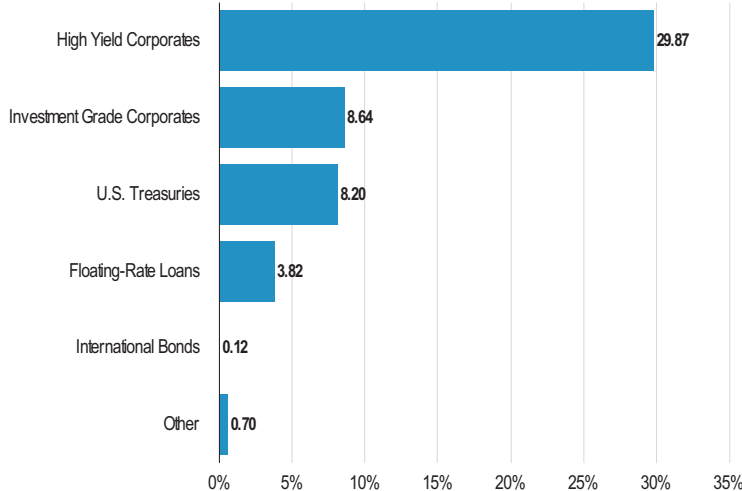
14. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

**Sector Allocation<sup>15</sup>**

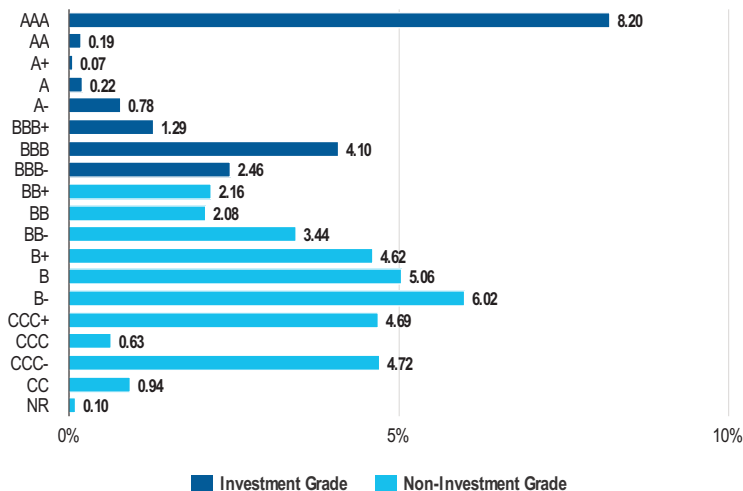
Equity as a Percent of Total

**Sector Allocation<sup>16</sup>**

Fixed Income as a Percent of Total

**Credit Quality Ratings<sup>17</sup>**

Fixed Income as a Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>18,19</sup>**

	3 Yrs	5 Yrs	10 Yrs
<b>Standard Deviation (%)</b>	6.74	7.81	9.53
<b>Tracking Error (%)</b>	6.13	6.04	6.92
<b>Information Ratio</b>	-0.49	-0.94	-0.59
<b>Beta</b>	0.54	0.60	0.62
<b>Sharpe Ratio</b>	0.78	0.28	0.91

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15,16. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

17. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ("NRSRO"), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash and equivalents are excluded from this breakdown.

18. Beta, Information Ratio and Tracking Error information are measured against the S&P 500 Index.

19. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

## Investment Philosophy and Process

### Investment Philosophy

To maximize income while maintaining prospects for capital appreciation.

### Investment Approach

#### Opportunistic Across Capital Structure

Seek to take advantage of investment opportunities where our fundamental views may differ from the market consensus.

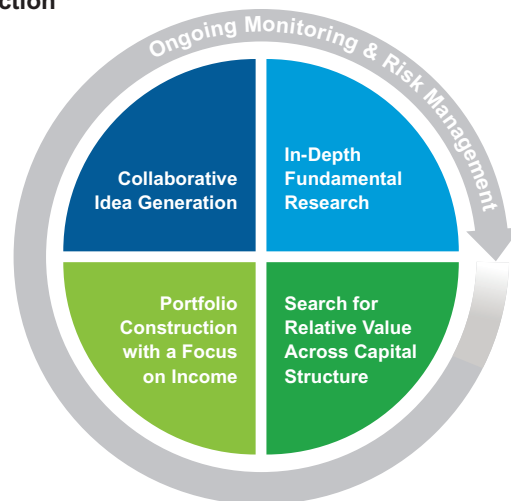
#### Focus on Income & Relative Value

Search for undervalued or out-of-favor securities that offer attractive income and strong long-term capital appreciation potential.

#### Broad Opportunity Set

Seek relative value opportunities across the capital structure including equities, fixed income and convertible securities.

### Investment Process: Fundamental Research Drives Portfolio Construction



## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Edward D. Perks, CFA, CIO Multi-Asset Solutions	26	26
Matt Quinlan, Portfolio Manager/Research Analyst	13	24
Todd Brighton, CFA, Vice President / Portfolio Manager/Research Analyst	18	14
Richard Hsu, CFA, Vice President / Portfolio Manager	22	23

**Average Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Average Weighted Maturity:** An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

**Beta:** A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

**Information Ratio:** In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

**Market Capitalization:** A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share. Market capitalization is expressed in millions of USD.

**Price to Book Value:** The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the value represents a weighted average of the stocks it holds.

**Price to Cash Flow:** Supplements price/earnings ratio as a measure of relative value for a stock. For a portfolio, the value represents a weighted average of the stocks it holds.

**Price to Earnings (12-mo Trailing):** The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the value represents a weighted average of the stocks it holds.

**Sharpe Ratio:** To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Tracking Error:** Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

**What Are The Risks?**

All investments involve risks, including possible loss of principal. The fund's share price and yield will be affected by interest rate movements. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. The fund's portfolio includes a substantial portion of higher-yielding, lower-rated corporate bonds because of the relatively higher yields they offer. Floating-rate loans are lower-rated, higher-yielding instruments, which are subject to increased risk of default and can potentially result in loss of principal. These securities carry a greater degree of credit risk relative to investment-grade securities. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. These and other risk considerations are discussed in the fund's prospectus.

**Important Legal Information**

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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*Important data provider notices and terms available at: [www.franklintempletondatasources.com](http://www.franklintempletondatasources.com)*

3. Source: Morningstar®, 12/31/2018. For each mutual fund and exchange traded fund 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, 3 and 5 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.**

4. Effective 12/31/1996, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A performance, excluding the effect of Class A's maximum initial sales charge but reflecting the effect of the Class A Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.

5. Effective 12/31/1996, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A1 performance, excluding the effect of Class A1's maximum initial sales charge but reflecting the effect of the Class A1 Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.



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INVESTMENTS**

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