

Franklin Income Fund

Advisor Class: FRIAX Class A: FKIQX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US equities collectively delivered solid gains during the fourth quarter of 2025, maintaining their upward trajectory against a backdrop of generally robust corporate earnings, despite some mixed economic signals and investor concerns about stretched technology valuations. Continued monetary easing by the US Federal Reserve (Fed), along with a constructive shift in US-China relations, supported investor sentiment.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns, while selection assisted relative results.
- **Detractors:** Underweight equity positioning and an overweight fixed income allocation slightly detracted from relative returns.
- **Outlook:** We believe fixed income yields remain historically attractive, and we are constructive on equity markets despite volatility within certain sectors. Broad diversification and a high degree of flexibility underpin our approach to navigating the year ahead. Our diversified portfolio is designed to pursue income stability while selectively participating in secular growth themes using tools like equity-linked notes.

Performance Review

- Franklin Income Fund (Advisor Class shares without sales charges) **outperformed its benchmark**, the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index, for the quarter ended December 31, 2025.
- Over the course of the quarter, the fund **increased its fixed income allocation** while keeping **equity exposure relatively unchanged**.
- Fixed income allocations to **the health care and consumer discretionary sectors, as well as securitized products, had a positive effect** on absolute fund performance. Meanwhile, **energy hindered fixed income returns** during the period.
- On an individual issuer basis, **Community Health Systems, Tronox Holdings and Freddie Mac were the top performers** within the fund's fixed income positioning. In contrast, **Ardagh, Venture Global Partners II and Mauser Packaging Solutions detracted** from returns.
- In terms of equities, the fund **benefited from positions within the health care, information technology and materials sectors**. This **performance was partially offset by consumer discretionary and utilities stocks**, which detracted from absolute returns.
- **Albemarle, Merck & Co. and Exxon Mobil added value** within the fund's equity holdings. However, **Home Depot, Procter & Gamble and Southern Co. detracted from returns** during the period.

Outlook

- **Economy:** The economic growth outlook continues to be a major area of focus for the fund. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, could weigh on investor sentiment and the broader economy. Moreover, while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and Fed policy. We expect stimulative benefits from 2025 fiscal policy to support growth in early 2026.
- **Equities:** Market breadth in equity markets has narrowed in recent months. While index level valuations are elevated, opportunities continue to evolve below the index levels, which we feel favors active management. Ultimately, given current valuations, we remain selective in engaging with equities and continue to focus on broad diversification across sectors while maintaining flexibility to capitalize on potential dislocations.
- **Treasuries/Government-Backed Bonds:** Interest-rate volatility has declined, despite continued uncertainty regarding tariffs and concerns about their ultimate impact on growth, inflation and corporate fundamentals. Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds:** Absolute yield levels remain attractive for an income-generating strategy, but credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment. With credit spreads at historically tight levels, we believe future returns may be driven by interest-rate moves and carry rather than further spread compression.
- **High-Yield Corporate Bonds:** Although we think the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals. We continue to have a vigilant approach to security selection within our high-yield portfolio, with our preference for companies that have a greater degree of flexibility to deal with upcoming maturities.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.54%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.54%

Asset Allocation (% of Total)

Asset Class	Fund
Fixed Income	49.40
Equity	27.48
Convertibles/Equity-Linked Notes	20.79
Cash & Cash Equivalents	2.34

Top Holdings (% of Total)

Issuer	Fund
UNITED STATES TREASURY BOND	8.44
CHS/COMMUNITY HEALTH SYSTEMS INC	3.13
FREDDIE MAC POOL	2.76
EXXON MOBIL CORP	2.37
GOVT NATL MORTG ASSN	2.14
HOME DEPOT INC/THE	1.76
SOUTHERN CO/THE	1.56
BOEING CO/THE	1.54
PROCTER & GAMBLE CO/THE	1.48
TENET HEALTHCARE CORP	1.48

Sector Allocation (Equity as a % of Total)

Sector	Fund
Information Technology	9.91
Energy	6.72
Health Care	6.35
Industrials	4.65
Utilities	4.38
Consumer Discretionary	4.32
Consumer Staples	4.18
Financials	3.17
Materials	3.06
Communication Services	1.52

Sector Allocation (Fixed Income as a % of Total)

Sector	Fund
High Yield Corporates	21.22
Investment Grade Corporates	11.93
U.S. Treasuries	9.43
Mortgage-Backed Securities	5.91
Floating-Rate Loans	0.90

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 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	353496847	FRIAX	2.52	12.02	12.02	9.36	7.88	7.76	9.88	2.52	12.02	12.02	9.36	7.88	7.76	9.88	0.47	0.46	—	—	8/31/1948
Class A	353496490	FKIQX	2.45	12.17	12.17	9.22	7.66	7.47	9.77	-1.39	7.96	7.96	7.84	6.84	7.06	9.72	0.72	0.71	3.75	—	8/31/1948
Benchmark	—	—	1.29	10.07	10.07	8.81	5.72	7.28	—	1.29	10.07	10.07	8.81	5.72	7.28	—	—	—	—	—	—

Benchmark(s)

Benchmark = Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate 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. **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. **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. **Equity securities** are subject to price fluctuation and possible loss of principal. **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.

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 **Benchmark**: 50% USA High Div Yield + 25% High Yield Very Liquid + 25% US Agg Index is composed of the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg High Yield Very Liquid Index + 25% Bloomberg US Aggregate Index. The MSCI USA High Dividend Yield Index is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index. The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index designed to track a more liquid component of the U.S. dollar-denominated, high-yield, fixed-rate corporate bond market. The Bloomberg US Aggregate Bond Index is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity.

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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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

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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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