

Franklin Income Fund

Advisor Class: FRIAX Class A: FKIQX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** US stocks advanced during the second quarter of 2025 as equity markets rebounded from April's lows and continued to rally through June, despite bouts of volatility. Temporary delays in tariff hikes, reduced fears of a recession, growing expectations of interest-rate cuts later in the year and easing geopolitical tensions helped drive US stocks higher. Major US equity indexes fluctuated, but each posted positive returns by period-end.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio contributed to the fund's absolute returns, while selection assisted relative returns.
- **Detractors:** Overweight fixed income allocation and underweight equity positioning detracted from relative returns.
- **Outlook:** We remained selective among equities and added to high-quality names. Moreover, we reduced exposure to investment-grade corporate bonds and added to agency mortgage-backed securities to enhance yield and diversification.

Performance Review

- Franklin Income Fund **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 June 30, 2025.
- Over the course of the quarter, the fund slightly **decreased its fixed income allocation** and **maintained its equity exposure**.
- Fixed income allocations to **health care, industrials and consumer discretionary** had a **positive effect** on absolute fund performance. However, **US Treasuries hindered returns** during the period.
- On an individual issuer basis, **Community Health Systems, CommScope Holding, and Tenet Healthcare** were the **top performers** within the fund's fixed income positioning. **No fixed income holdings materially detracted** from absolute returns.
- In terms of equities, the fund **benefited from positions within the information technology, financials and industrials sectors**. However, the **health care, energy and consumer staples sectors detracted** from absolute returns.
- **Boeing, Microchip Technology and Taiwan Semiconductor Manufacturing Co.** added value within the fund's equity holdings. However, **Chevron, UnitedHealth Group and Exxon Mobil 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, fiscal and trade policy may continue to weigh on investor sentiment and the broader economy in the second half of the year. 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 US Federal Reserve policy.
- **Equities:** Following two years of narrow market breadth, we started to see a broadening out of market leadership in the second half of 2024's calendar year, which continued through the market volatility in 2025's second quarter. While we remain selective in engaging with equities as index level valuations are elevated, opportunities are available below the index levels, which we feel favors active management.
- **Treasuries/Government-Backed Bonds:** The long end of the yield curve has been particularly volatile as the outlook for deficit spending, as well as longer-term economic growth and inflation expectations, has had a larger impact on the longest-dated bonds. 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:** While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment.
- **High-Yield Corporate Bonds:** Recent market volatility resulted in a combination of wider spreads and substantially higher yields, which has provided attractive investment opportunities, in our view. Unfortunately, this opportunity was short-lived as spreads returned to relatively tight levels by period-end. While 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.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.84%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.83%

Asset Allocation (% of Total)

Asset Class	Fund
Fixed Income	50.41
Equity	26.02
Convertibles/Equity-Linked Notes	21.87
Cash & Cash Equivalents	1.70

Top Holdings (% of Total)

Issuer	Fund
UNITED STATES TREASURY BOND	7.00
FREDDIE MAC POOL	3.36
CHS/COMMUNITY HEALTH SYSTEMS INC	2.86
EXXON MOBIL CORP	2.12
TENET HEALTHCARE CORP	2.04
GOVT NATL MORTG ASSN	1.99
BOEING CO/THE	1.99
HOME DEPOT INC/THE	1.72
JOHNSON & JOHNSON	1.64
CHEVRON CORP	1.54

Sector Allocation (Equity as a % of Total)

Sector	Fund
Information Technology	8.97
Health Care	7.56
Energy	5.96
Industrials	4.82
Financials	4.63
Consumer Staples	4.17
Utilities	3.63
Materials	3.10
Consumer Discretionary	3.07
Communication Services	1.97

Sector Allocation (Fixed as a % of Total)

Sector	Fund
High Yield Corporates	21.84
Investment Grade Corporates	13.02
U.S. Treasuries	8.48
Mortgage-Backed Securities	6.04
Floating-Rate Loans	0.94
U.S. Agency	0.10

Average annual total returns and fund expenses (%) - as of June 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	353496847	FRIAX	2.74	5.11	9.05	7.99	9.55	6.25	9.86	2.74	5.11	9.05	7.99	9.55	6.25	9.86	0.47	0.46	—	—	8/31/1948
Class A	353496490	FKIQX	2.67	5.41	9.23	7.84	9.31	5.99	9.75	-1.18	1.46	5.13	6.47	8.48	5.59	9.70	0.72	0.71	3.75	—	8/31/1948
Benchmark	—	—	1.44	4.67	9.24	8.06	6.75	6.75	—	1.44	4.67	9.24	8.06	6.75	6.75	—	—	—	—	—	—

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.

Glossary

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 **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. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. Bloomberg Indices.

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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.

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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.