

Franklin U.S. Government Securities Fund

Advisor Class: FUSAX Class A: FKFSX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The fourth quarter of 2025 (Q4) saw monthly shifts in market sentiment as uncertainties increased in the first part of the quarter. The US federal government went into a shutdown on October 1 as the US Senate was unable to pass a spending bill. This, among other things, delayed or canceled the publication of key economic data leading to a lack of clarity on the economic condition of the United States. The shutdown was lifted mid-November, and subsequent data showed that economic growth in the United States remained resilient. The US Federal Reserve (Fed) delivered three consecutive 25-basis-point cuts in Q4, helping market sentiment to improve in December. The US yield curve steepened as shorter-maturity yields fell while longer-dated bond yields rose.
- **Detractors:** Security selection in GNMA II 2.0% and 3.5% coupons.
- **Contributors:** Allocation to GNMA II 2.5% and 5.5%.
- **Outlook:** Continued uncertainty remains about future Fed policy, even between members, as reflected in a large distribution seen in the December Fed's scattered projections. In our view, the Fed has little room to cut rates substantially from here.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.14%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.14%

Performance Review

- Overweight exposure to GNMA II 6.5% coupons detracted from performance, as did security selection in GNMA II 2.5%, 3.5% and 4.5% coupons.
- The fund's underweight allocation to GNMA II 5.5% and overweight GNMA II 2.0% coupons contributed to relative performance. Security selection in GNMA II 6.0% coupons helped returns.

Outlook

- Over the fourth quarter, agency mortgage-backed securities (MBS) posted a positive total return and outperformed similar-duration USTs. Conventional MBS, as represented by Fannie Mae, was the best relative performer, followed by GNMA MBS.
- Across the GNMA coupon stack, GNMA II 6.5% and 3.0% coupons were the best performers, while GNMA I 4.5% and 5.0% coupons had the lowest excess spread compared to duration-matched US Treasury bonds.
- At period-end, we remained heavily weighted to GNMA II securities (comprised of multiple-issuer pools), with over 86.8% of assets in the sector, versus GNMA I securities (comprised of single-issuer pools). The fund's largest absolute allocation remains in GNMA II 2.5% through 3.5% coupons and 5.5% and greater coupons.
- With primary mortgage interest rates remaining above 6%, we still feel that prepayment speeds will remain low for seasoned collateral since borrowers are unlikely to walk away from properties with extremely low interest rates. In contrast, those borrowers that have more recently issued mortgages do face some risks of refinancing as rates remain high.
- With strong built-in equity levels and a supportive economic backdrop, involuntary prepayments should remain subdued over the medium term.
- We have a neutral outlook on MBS over the medium-term with a neutral fundamental and favorable technical outlook for the sector.
- Although historically high money manager overweight is a potential hurdle for spread tightening, we anticipate increased demand from banks if the yield curve normalizes or regulatory uncertainty dissipates. Although China, Canada and Japan's agency bond holdings continued to decline, potential dollar weakness could attract buyers as currency hedge-adjusted yields become more attractive.

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	353496821	FUSAX	1.28	7.15	7.15	4.04	-0.16	1.04	5.45	1.28	7.15	7.15	4.04	-0.16	1.04	5.45	0.61	0.60	—	—	5/31/1970
Class A	353496482	FKFSX	1.22	6.92	6.92	3.79	-0.40	0.82	5.34	-2.57	2.91	2.91	2.48	-1.16	0.44	5.27	0.86	0.85	3.75	—	5/31/1970
Benchmark	—	—	1.15	6.50	6.50	4.40	0.64	1.76	—	1.15	6.50	6.50	4.40	0.64	1.76	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US Government - Intermediate 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. 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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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. These and other risks are discussed in the fund's prospectus.

Glossary

Duration is a measure of the sensitivity of a bond's price to changes in interest rates. 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 **Bloomberg U.S. Government Intermediate Index** is the intermediate component of the Bloomberg U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government. Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change. Source: Bloomberg Indices. 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. Franklin Distributors, LLC. Member FINRA/SIPC. © Franklin Templeton. All rights reserved.

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.