

Franklin U.S. Government Securities Fund

Advisor Class: FUSAX Class A: FKFSX

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 trade policy concerns and a 25-basis point (bps) rate cut by the US Federal Reserve (Fed) which were both
 well received by the market. The Fed signaled that more cuts were likely to come by the end of this year. This bolstered
 markets which viewed that the cut was needed to address some of the weakening economic measures, such as the
 status of the US labor market.
- **Detractors**: Allocation to GNMA II 2.0% and 5.0% coupons and GNMA I 5.0% coupon.
- Contributors: Security selection in Ginnie Mae (GNMA) I 4.5% and 5.0% coupons and GNMA II 3.5% and 4.0%.
- Outlook: There is high uncertainty about future Fed policy, even between members, as reflected in a large distribution seen in the Fed's scattered projections for the path of fed funds for the remainder or the year. In our view, this level of uncertainty has the potential to spur volatility in the US Treasury (UST) market.

Performance Review

- The fund's underweight allocation to GNMA II 5.5% and overweight GNMA II 2.5% coupons contributed to relative
 performance. Security selection in GNMA I 4.5% and 5.0% coupons and GNMA II 2.5%, 3.5% and 4.0% coupons benefited
 results
- Underweight exposure to GNMA II 2.0% and 5.0% coupons and GNMA I 5.0% coupon detracted from performance.

Outlook

- Over the third quarter, agency mortgage-backed securities (MBS) posted a positive total return and outperformed similarduration USTs. Conventional MBS, as represented by Fannie Mae, was the best relative performer, followed by GNMA MBS.
- Across the GNMA coupon stack, 5.0% and 2.0% coupons were the best performers, while 3.5% coupons produced negative
 excess returns
- 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.
- Prepayment risk is near historically low levels on the index, mortgage credit quality is near its highest levels, and negative
 convexity risk remains low at an index level. However, higher coupon securities could exhibit negative convexity risk at
 current rates. Banks have been on the sidelines, but demand is expected to increase as the Basel III Endgame nears. Spreads
 still look fair to attractive relative to investment-grade corporate credit, although they have tightened more recently. Risks to
 these views include lower bank demand, weaker overseas demand and money manager outflows.
- The Fed has been struggling to balance its dual mandate—maximum employment and price stability—as stagflation (rising inflation with slowing growth) becomes a real possibility. The Fed has chosen to prioritize employment over inflation, consistent with its historical tendency to intervene when growth slows. US trade policy remains a wild card, adding to uncertainty in the market, even if tariffs do not cause a permanent lift in inflation. Strong consumer spending and supportive fiscal policy mean the current economic environment is not likely to return to disinflation. In our view, tariffs are expected to cause a moderate, one-off uptick of inflation, of roughly 1–1.5 percentage points. The overall impact should be limited due to the small share of imports in the US economy. In our view, this level of uncertainty has the potential to spur volatility in the UST market. We continued to be biased toward higher UST yields, especially in intermediate and longer-maturities, given the Fed's inability to cut rates deeply due to inflation and increased issuance of USTs needed to fund increasing deficits.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.18%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.17%

Average annual total returns and fund expenses (%) - as of September 30, 2025

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	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 CDS	С	Date
Advisor Class	353496821	FUSAX	2.09	5.80	2.66	4.21	-0.32	0.92	5.45	2.09	5.80	2.66	4.21	-0.32	0.92	5.45	0.61	0.60	_	_	5/31/1970
Class A	353496482	FKFSX	2.03	5.63	2.42	3.96	-0.57	0.70	5.34	-1.80	1.66	-1.42	2.65	-1.33	0.32	5.27	0.86	0.85	3.75	_	5/31/1970
Benchmark	_	_	1.26	5.28	3.51	4.35	0.36	1.55	_	1.26	5.28	3.51	4.35	0.36	1.55	_	_	_	_	_	_

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, a restated figure is used based on the fund began offering A Class periods prior to 12/31/1996, 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

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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. Source: Bloomberg Indices.

Important data provider notices and terms available at 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.

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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.

