FRANKLIN TEMPLETON

Franklin U.S. Government Securities Fund

Advisor Class: FUSAX Class A: FKFSX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets**: Geopolitical developments remained a focus during the quarter, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year US Treasury (UST) yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007.
- **Contributors**: Security selection within GNMA II [4.0%, 4.5%], [4.5%, 5.0%]. [5.0%, 5.5%], [5.5%, 6.0%] and [6.0%, 6.5%] coupons. Relative allocation to GNMA I [4.0%, 4.5%], [4.5%, 5.0%], [5.0%, 5.5%], [5.5%, 6.0%], [6.0%, 6.5%] and [6.5%, 7.0%] coupons, along with exposure to GNMA II [2.0%, 2.5%] and [4.5%, 5.0%] coupons.
- **Detractors:** Security selection within GNMA I [4.0%, 4.5%], [4.5%, 5.0%] and [5.0%, 5.5%] coupons, and GNMA II [2.5%, 3.0%] coupon. Relative allocation to GNMA II [2.5%, 3.0%], [5.5%, 6.0%] and [7.0%, 7.5%] coupons.
- **Outlook**: The September Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is committed to a higher-for-longer path. Following the September hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes.

Performance Review

- Security selection within GNMA II [4.0%, 4.5%], [4.5%, 5.0%]. [5.0%, 5.5%], [5.5%, 6.0%] and [6.0%, 6.5%] coupons contributed to returns. In contrast, security selection within GNMA I [4.0%, 4.5%], [4.5%, 5.0%] and [5.0%, 5.5%] coupons, and GNMA II [2.5%, 3.0%] coupon detracted from results.
- Relative allocation to GNMA I [4.0%, 4.5%], [4.5%, 5.0%], [5.0%, 5.5%], [5.5%, 6.0%], [6.0%, 6.5%] and [6.5%, 7.0%] coupons, along with exposure to GNMA II [2.0%, 2.5%] and [4.5%, 5.0%] coupons lifted returns. In contrast, relative allocation to GNMA II [2.5%, 3.0%], [5.5%, 6.0%] and [7.0%, 7.5%] coupons curbed results.

Outlook

- Over the third quarter, agency mortgage-backed securities (MBS) posted a negative total return, underperforming similar-duration USTs (Source: Bloomberg). Conventional MBS, as represented by Fannie Mae, was the best relative performer in terms of excess returns, faring better than GNMA.
- Across the GNMA coupon stack, the GNMA I 5.0% and GNMA II 2.5% coupons were the best performers in terms of excess returns, while the GNMA II 4.5% and 5.0% coupons were the worst performers.
- At period-end, we remained heavily weighted to GNMA II securities (comprised of multiple-issuer pools), with over 80% 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.
- We maintain a neutral outlook on Agency MBS, with a modestly constructive near-term bias following recent spread widening. Valuations have improved and remain attractive relative to investment-grade corporate credit, in our view, while the sector continues to offer compelling carry and high-quality liquidity.
- The technical backdrop remains generally supportive. Elevated mortgage rates continue to constrain net issuance, bank demand for Agency CMOs remains healthy and incremental GSE purchases could provide an additional source of demand. Money manager and foreign demand have been somewhat less consistent, while gradual Federal Reserve runoff remains a modest headwind.
- Mortgage fundamentals remain broadly stable, although the primary risk has shifted from prepayments toward extension risk. With primary mortgage rates above 7%, refinancing activity remains very limited and prepayment speeds are likely to remain subdued. A sustained move higher in rates could further extend cash flows, while a meaningful rally would increase refinancing risk in higher-coupon collateral.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.42%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.42%

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 30, 2026

			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	CDSC	Date
Advisor Class	353496821	FUSAX	-4.17	-3.20	-1.96	3.60	-0.57	0.47	5.32	-4.17	-3.20	-1.96	3.60	-0.57	0.47	5.32	0.62	0.61	—	—	5/31/1970
Class A	353496482	FKFSX	-4.25	-3.40	-2.21	3.36	-0.78	0.25	5.21	-7.84	-7.02	-5.88	2.05	-1.54	-0.14	5.13	0.87	0.86	3.75	—	5/31/1970
Benchmark	—	—	-1.68	-1.45	-0.32	3.78	0.57	1.28	—	-1.68	-1.45	-0.32	3.78	0.57	1.28	—	—	—	—	—	—

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 01/31/2027 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%).

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

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

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.

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