

Franklin Federal Tax-Free Income Fund

Advisor Class: FAFTX Class A: FFQAX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. In early April, US President Donald Trump announced significant increases in US tariff rates as part of his "Liberation Day." Subsequently, a temporary pause (in many cases 90 days) in increased levies helped calm some of the market nerves. The passage of the "One Big Beautiful Bill" spending package after quarter-end further reduced the uncertainties that had been a strong headwind to municipal (muni) bond markets as it affirmed the tax-exempt status of muni securities.
- **Detractors:** Overweight allocation to muni bonds with 20 or more years to maturity, security selection in A rated bonds and underweight allocation to AAA rated bonds.
- **Contributors:** Overweight allocation to muni bonds with no external credit rating.
- **Outlook:** Municipal bond valuations continue to appear attractive to us, particularly on a tax-adjusted basis, with yields near multi-year highs. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and potentially preserving portfolio quality.

Performance Review

- Over the quarter, Franklin Federal Tax-Free Income Fund **fared worse than its benchmark**, the Bloomberg Municipal Bond Index.
- **The fund's yield curve positioning detracted from relative performance** during the second quarter, primarily driven by our overweight to muni bonds with 20 or more years to maturity and underweight to muni bonds with two to 10 years to maturity.
- **Rating allocations benefited relative returns** for the period, led by our overweight to bonds with no external credit rating. Conversely, our underweight to AAA rated bonds partially mitigated some of those gains. **Security selection detracted from relative results**, particularly due to selection in A and AAA rated securities.

Outlook

- We still feel that technical conditions in the market favor investors. Fund flows have moved to be positive, and the additional supply of munis has been well absorbed. The summer months typically see an increase in coupon payments and maturing bonds, which will require reinvestment that should provide a strong base to support valuations.
- Fundamentals remain broadly stable, with Moody's reporting that credit upgrades continued to outpace downgrades. However, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive to us, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and potentially preserving portfolio quality.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	8.49 Years
30-Day SEC Yield (Advisor Class)—With Waiver	4.01%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.01%
Taxable Equivalent Yield (Advisor Class)—With Waiver	6.77%
Taxable Equivalent Yield (Advisor Class)—Without Waiver	6.77%

State / U.S. Territory Allocation (% of Total)

State	Fund
Texas	11.14
Florida	8.74
California	8.68
New York	8.20
Wisconsin	6.22
Illinois	5.75
Tennessee	3.76
Georgia	3.65
Other	44.81
Cash & Cash Equivalents	-0.94

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	353519408	FAFTX	-0.62	-1.38	0.40	2.76	0.55	1.92	5.62	-0.62	-1.38	0.40	2.76	0.55	1.92	5.62	0.54	0.54	—	—	10/7/1983
Class A	353519804	FFQAX	-0.69	-1.41	0.24	2.54	0.32	1.71	5.51	-4.41	-5.11	-3.52	1.24	-0.45	1.33	5.42	0.79	0.79	3.75	—	10/7/1983
Benchmark	—	—	-0.12	-0.35	1.11	2.50	0.51	2.20	—	-0.12	-0.35	1.11	2.50	0.51	2.20	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg Municipal Bond 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 3/20/2002. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 3/20/2002, 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. The total annual operating expenses are as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns.

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. **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. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. 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 **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year. Source: Bloomberg Indices.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. 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.