FRANKLIN TEMPLETON

Franklin Low Duration Total Return Fund

Advisor Class: FLDZX Class A: FLDAX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets**: Some of the risk aversion that had characterized financial markets at the end of the previous quarter eased during the second quarter, although geopolitical developments remained a key focus. The Middle East conflict continued to drive sentiment through the quarter, with markets reacting to shifting news around negotiations, before the United States and Iran signed a 14-point Memorandum of Understanding (MOU) in late June. The MOU formalized a ceasefire, established a 60-day negotiation framework and included provisions to restore shipping through the Strait of Hormuz. The US dollar was modestly stronger over the quarter, appreciating against most other currencies. The Federal Reserve (Fed) kept policy rates unchanged, but its tone became more hawkish overall as internal disagreement over the easing bias increased; minutes suggested rates could remain unchanged for longer and the June meeting removed previous easing guidance despite a more dovish press conference from new Fed Chair Kevin Warsh. Fixed income volatility measures eased during the quarter as risk aversion retreated somewhat. For similar reasons, credit spreads narrowed over the quarter, with the declines more pronounced in the high-yield sectors. Total returns on corporate bonds were positive over the quarter. Securitized sectors generated a positive excess return versus duration-matched Treasuries. The two-year UST yield increased 38 basis points (bps) to end the quarter at 4.17%.
- **Contributors**: Out-of-index exposure to high-yield (HY) corporate bonds. Security selection within investment-grade (IG) and HY corporate bonds and senior-secured floating-rate bank loans. Underweight allocation to the two-year segment of the yield curve.
- **Detractors**: Overweight allocation to the five-year segment of the yield curve. Security selection within commercial mortgage-backed securities (CMBS).
- **Outlook**: The June Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is likely to remain on hold in the near term, although persistent inflation has increased the risk of further tightening. We continue to expect resilient economic growth, supporting attractive income and carry across IG and HY corporate bonds, backed by healthy fundamentals and favorable technicals despite elevated issuance and geopolitical uncertainty. We remain moderately constructive on Agency mortgage-backed securities, residential mortgage-backed securities (RMBS) and CMBS, where attractive carry, resilient fundamentals and supportive technicals continue to underpin our preference for high-quality securities, while disciplined security selection remains key in a range-bound spread environment.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	4.33%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.04%

Performance Review

- **Sector allocation was a strong driver of overall performance** during the quarter, led by out-of-index exposures to HY corporate bonds, RMBS, collateralized mortgage obligations and collateralized loan obligations (CLOs), together with an overweight allocation to IG corporate bonds. There were no material detractors within sector allocation.
- **Security selection further supported results** for the quarter, led by selection within IG and HY corporate bonds, and senior-secured floating-rate bank loans. However, this was partially offset by weaker performance from selection within CMBS, TIPS and CLOs.
- **Yield curve positioning detracted from performance**, mainly due to an overweight allocation to the five-year segment of the yield curve. This was partially offset by an underweight allocation to the two-year area of the curve.

Outlook

- On interest rates, the June FOMC reinforced our view that the Fed is likely to remain on hold in the near term, but the balance of risks has shifted modestly toward further tightening. While Chair Warsh's press conference struck a dovish tone, the Committee's updated projections, the removal of easing guidance and rising market rate expectations suggest increasing support for a restrictive stance should inflation remain persistent. With inflation continuing to firm and real policy rates already drifting lower, a year-end or early-2027 rate hike cannot be ruled out. Our base case remains one of continued economic expansion rather than recession, with inflation proving more persistent than previously expected. While geopolitical developments and supply-side risk continue to warrant close monitoring, the greater near-term focus is on whether inflation pressures remain sufficiently strong to prompt additional Fed tightening.
- US IG corporate bond spreads are now four bps tighter since the start of the year, and finished June at +74 bps. Spreads briefly touched +93 bps in mid-March, which represented the widest level for US IG Corporate spreads since May 2025. The conflict in Iran and related spike in oil and related petrochemicals prices drove the widening, which has since been retraced on hopes of a potential resolution. Despite the scale of disruption the closure of the Strait of Hormuz could have caused; spreads have been remarkably contained. We attribute this to strong technicals that are in large part driven by higher all-in yields. Despite the geopolitical turmoil, year-to-date supply is still trending at a record pace, with over US$1 trillion of new issuance. While deals have been well absorbed thus far, Hyperscaler- and AI-related supply have exceeded 20% of net issuance for the IG market, and these deals are increasingly demanding greater new-issue concessions. While valuations have adjusted modestly, the market is still pricing in a sanguine outlook with minimal room for policy errors, and therefore we continue to favor a balanced risk posture with a bias toward non-cyclical sectors. The US HY default rate (including distressed exchanges) increased in June but remains below long-term averages, ending the month at 2.67%. Technicals remain solid with strong demand and consistent new issues. Yields and sub-par dollar prices remain attractive while spreads remain at levels that are fair but not compelling.
- We maintain a moderately constructive outlook for Agency MBS over the near and intermediate term. Although spreads have remained largely range-bound following earlier tightening, the combination of attractive carry, stable technicals and elevated rate volatility continues to support the asset class relative to other high-quality spread sectors. Our RMBS outlook remains constructive, supported by resilient homeowner credit fundamentals, healthy market technicals and strong demand for high-quality securities. We continue to favor seasoned, high-quality AAA-rated RMBS that offer attractive carry and defensive

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characteristics. Finally, our CMBS outlook is supported by healthy investor demand, favorable market technicals and attractive relative value. We continue to favor extension bonds and select interest-only securities, while expecting spreads to remain broadly range-bound with a modest tightening bias despite ongoing refinancing challenges for weaker assets.

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Average annual total returns and fund expenses (%) - as of June 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	353612617	FLDZX	0.78	1.06	3.48	5.12	2.55	2.54	2.86	0.78	1.06	3.48	5.12	2.55	2.54	2.86	0.70	0.45	—	—	11/17/2004
Class A	353612690	FLDAX	0.72	0.94	3.24	4.89	2.31	2.30	2.64	-1.59	-1.35	0.89	4.10	1.84	2.06	2.54	0.95	0.70	2.25	—	11/17/2004
Benchmark	—	—	0.48	0.77	3.14	4.64	2.12	2.00	—	0.48	0.77	3.14	4.64	2.12	2.00	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US Government & Credit (1-3 Year) 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 5/15/2008. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 5/15/2008, a restated figure is used based on the fund's Class A 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 02/28/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

During periods of rising inflation, fund yields can vary significantly from month-to-month and may not be repeated.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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

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

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

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

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

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/Credit Index**: 1-3 Year Component includes investment-grade, U.S. dollar-denominated, fixed-rate Treasuries, government-related (sovereign, agency, local authority and supranational) and corporate securities with at least one year up to, but not including, three years to final maturity.

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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