FRANKLIN TEMPLETON

Franklin Managed Income Fund

Advisor Class: FBFZX Class A: FBLAX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** US equities, as measured by the S&P 500 Index, rebounded strongly during the second quarter of 2026, recovering from a weak start to the year as investor confidence improved despite ongoing geopolitical uncertainty. Sentiment was supported by robust corporate earnings, particularly from companies exposed to artificial intelligence (AI) infrastructure, with continued increases in capital expenditure reinforcing confidence that the AI investment cycle remained intact.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio assisted absolute returns. On a relative basis, security selection and underweight positioning added value within fixed income, as did overweight exposure to equities.
- **Detractors:** Stock selection detracted from relative equity results.
- **Outlook:** We remain committed to our dynamic multi-asset income approach as the current environment has been rewarding flexibility and selectivity. We continue to be vigilant amid ongoing uncertainties, selectively deploying capital during periods of market dislocation to enhance income and long-term total return potential.

Performance Review

- Franklin Managed Income Fund (Advisor Class Shares without sales charges) **underperformed its benchmark**, the Blended 60% Bloomberg US Aggregate Index + 40% MSCI USA High Dividend Yield Index, for the quarter ended June 30, 2026. However, the fund **outperformed the Bloomberg US Aggregate Index**.
- Over the course of the quarter, the fund **increased its fixed income allocation** and **decreased its exposure to equities**.
- Fixed income allocations to **securitized products, as well as financials and industrials, had a positive effect** on absolute fund performance. **No sectors detracted** from absolute results during the period.
- By individual issuer, **US Treasuries, Freddie Mac and Fannie Mae were top performers** within the fund's fixed income holdings. Meanwhile, **no issuer meaningfully hindered returns**.
- In terms of equities, the fund **benefited from positions within information technology, financials and health care**. However, **the energy, communication services and utilities sectors detracted** from absolute returns.
- **Texas Instruments, Cisco Systems and Analog Devices added value** within the fund's equity holdings. Conversely, **Exxon Mobil, Chevron and PepsiCo weakened returns** during the period.

Outlook

- **Economy**: The outlook for economic growth and inflation continues to be a major area of focus for the fund. The US economy remains resilient, but ongoing uncertainty in monetary and fiscal policy, as well as trade and geopolitical risks, remain sources of volatility. Moreover, while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions as a leading indicator of future economic performance and Fed policy.
- **Equities**: The start of 2026 saw elevated equity market dispersion after an extended period of very narrow market breadth. Amid the recent return to more narrow market leadership, we have found select opportunities within the communication services and financials sectors. Ultimately, given current valuations, we remain selective in engaging with equities and continue to focus on broad diversification across sectors while maintaining flexibility to capitalize on potential dislocations.
- **Treasuries/Government-Backed Bonds**: Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds**: Absolute yield levels remain attractive for an income-generating strategy, but credit spreads remain near cycle lows, despite some recent widening. With credit spreads at current levels, we believe future returns may be driven by interest-rate moves and carry rather than from meaningful spread compression.

Morningstar Rating™

Overall Rating as of June 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 06/30/2026 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 209, 202 and 166 Moderately Conservative Allocation funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.37%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.35%

Top Holdings (% of Total)

Issuer	Fund
GOVT NATL MORTG ASSN	6.16
UNITED STATES TREASURY BOND	3.62
FREDDIE MAC POOL	3.15
FANNIE MAE POOL	2.88
SOUTHERN CO/THE	2.40
TEXAS INSTRUMENTS INC	2.23
PROCTER & GAMBLE CO/THE	1.92
MORGAN STANLEY	1.84
CISCO SYSTEMS INC	1.80
ABBVIE INC	1.64

Not FDIC Insured | No Bank Guarantee | May Lose Value

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	353612658	FBFZX	2.29	6.27	12.75	9.00	5.47	7.26	6.72	2.29	6.27	12.75	9.00	5.47	7.26	6.72	0.66	0.66	—	—	7/3/2006
Class A	353612682	FBLAX	2.31	6.16	12.59	8.74	5.21	7.00	6.43	-3.35	0.28	6.39	6.70	4.03	6.40	6.13	0.91	0.91	5.50	—	7/3/2006
Benchmark 1	—	—	2.55	4.91	9.74	8.97	4.67	6.30	—	2.55	4.91	9.74	8.97	4.67	6.30	—	—	—	—	—	—
Benchmark 2	—	—	0.67	0.62	3.79	4.16	0.08	1.54	—	0.67	0.62	3.79	4.16	0.08	1.54	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index

Benchmark 2=Bloomberg U.S. Aggregate 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.*
Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 02/28/2027 without Board consent. 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. **Equity securities** are subject to price fluctuation and possible loss of principal. 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.**Managed Distribution Policy Risks** - The fund is not guaranteed to achieve its investment goal nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. In addition, some of its distributions may be treated in part as a return of capital, which will decrease shareholders' cost basis in the fund and affect the amount of any capital gain or loss that they realize when selling or exchanging fund shares. The annual payout rate may be adjusted higher or lower from year to year and could vary substantially over time. It is possible for the fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its distributions to shareholders under the managed distribution policy. Investors who hold the fund within a tax-advantaged retirement account should consult their tax professional to discuss tax consequences of receiving cash distributions. In addition, use of the fund or election of the option to receive distribution payments in cash may be restricted in certain retirement plans by the terms of the governing plan documents and/or the discretion of the plan administrator. Investors are strongly advised to consult with their financial professional for assistance before selecting the appropriate fund, based on their goals and personal situations, including time horizon, retirement income needs, risk tolerance, and tax bracket.

Glossary

Capital Expenditure (capex) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Important Information

Effective 3/1/2019, Franklin Balanced Fund repositioned to become an income strategy. The fund changed its name to Franklin Managed Income Fund, as well as its dividend policy, investment management fee and primary benchmark.

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 **MSCI USA High Dividend Yield Index** is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index, its parent index. The **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. The **Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index** reflects the performance of the Blended 50% MSCI USA High Dividend Yield Index + 25% ICE BofA US Corporate & High Yield Index + 25% Bloomberg US Aggregate Index from fund inception through 2/28/2025 and 40% MSCI USA High Dividend Index & 60% Bloomberg US Aggregate thereafter.

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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.

Holdings are provided for informational purposes only and should not be construed as a recommendation to purchase or sell any security.

Morningstar Rating™: Source: Morningstar®, 06/30/2026. For each mutual fund and ETF with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 2, 4 and 4 and fund's Class A shares received a Morningstar Rating of 2, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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Not FDIC Insured | No Bank Guarantee | May Lose Value

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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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