

Franklin Managed Income Fund

Advisor Class: FBFZX Class A: FBLAX
Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** US equities collectively delivered solid gains during the fourth quarter of 2025, maintaining their upward trajectory against a backdrop of generally robust corporate earnings, despite some mixed economic signals and investor concerns about stretched technology valuations. Continued monetary easing by the US Federal Reserve (Fed), along with a constructive shift in US-China relations, supported investor sentiment.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio benefited the fund's absolute returns. On a relative basis, security selection, as well as underweight positioning within fixed income and an overweight allocation to equities, assisted performance.
- **Detractors:** An overweight allocation to utilities stocks weakened relative equity returns, while selection among US Treasuries (USTs) detracted from relative fixed income results.
- **Outlook:** We believe fixed income yields remain attractive, and we are constructive on equity markets despite volatility within certain sectors. Broad diversification and a high degree of flexibility underpin our approach to navigating the year ahead. Our diversified portfolio is designed to pursue income stability while selectively participating in secular growth themes using tools like equity-linked notes.

Performance Review

- Franklin Managed Income Fund (Advisor Class shares without sales charges) **outperformed its benchmark**, the Linked 60% Bloomberg US Aggregate Index + 40% MSCI USA High Dividend Yield Index, for the quarter ended December 31, 2025. It also **outperformed the Bloomberg US Aggregate Index**.
- Over the course of the quarter, the fund **decreased its fixed income exposure** and **increased its allocation to equities**.
- Fixed income allocations to **securitized products, as well as the financials and utilities sectors, had a positive effect** on absolute fund performance. In contrast, **USTs detracted** from returns during the period.
- By individual issuer, **Freddie Mac, Fannie Mae and General Motors were the top performers** within the fund's fixed income holdings. Meanwhile, **Oracle hindered returns**.
- In terms of equities, the fund **benefited from positions within the health care, materials and information technology sectors**. However, **the consumer discretionary sector detracted** from absolute returns.
- **Albemarle, Merck & Co. and Johnson & Johnson added value** within the fund's equity holdings. Conversely, **Home Depot, Southern Co. and Texas Instruments weakened returns** during the period.

Outlook

- **Economy:** The economic growth outlook 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, could weigh on investor sentiment and the broader economy. 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. We expect stimulative benefits from 2025 fiscal policy to support growth in early 2026.
- **Equities:** Market breadth in equity markets has narrowed in recent months. While index level valuations are elevated, opportunities continue to evolve below the index levels, which we feel favors active management. 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:** Interest-rate volatility has declined, despite continued uncertainty regarding tariffs and concerns about their ultimate impact on growth, inflation and corporate fundamentals. 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 have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment. With credit spreads at historically tight levels, we believe future returns may be driven by interest-rate moves and carry rather than further spread compression.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.23%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.20%

Top Holdings (% of Total)

	Fund
ISSUER	Fund
GOVT NATL MORTG ASSN	7.09
UNITED STATES TREASURY BOND	3.71
FREDDIE MAC POOL	3.60
FANNIE MAE POOL	3.37
EXXON MOBIL CORP	2.63
CHEVRON CORP	2.05
SOUTHERN CO/THE	2.04
TEXAS INSTRUMENTS INC	1.79
MORGAN STANLEY	1.77
ABBVIE INC	1.57

Average annual total returns and fund expenses (%) - as of December 31, 2025

Class	CUSIP	Ticker	Without Sales Charge						With Maximum Sales Charge						Expenses		Sales Charges		Inception		
			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	2.96	10.55	10.55	7.84	6.15	7.25	6.57	2.96	10.55	10.55	7.84	6.15	7.25	6.57	0.66	0.65	—	—	7/3/2006
Class A	353612682	FBLAX	2.90	10.29	10.29	7.58	5.89	6.99	6.28	-2.74	4.21	4.21	5.58	4.69	6.39	5.97	0.91	0.90	5.50	—	7/3/2006
Benchmark1	—	—	1.19	9.54	9.54	7.89	4.79	6.67	—	1.19	9.54	9.54	7.89	4.79	6.67	—	—	—	—	—	—
Benchmark2	—	—	1.10	7.30	7.30	4.66	-0.36	2.01	—	1.10	7.30	7.30	4.66	-0.36	2.01	—	—	—	—	—	—

Benchmark(s)

Benchmark1=Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index

Benchmark 2=Bloomberg US 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. 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 02/28/2026 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. **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.

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. Effective March 1, 2025, the fund changed its benchmark to the Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index.

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.

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

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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.

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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.