FRANKLIN TEMPLETON

Franklin Managed Income Fund

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

Key Takeaways

- **Markets:** US equities, as measured by the S&P 500 Index, advanced over the third quarter, though performance diverged sharply during the period as leadership rotated between value- and growth-oriented areas of the market. Corporate earnings were notably robust, but September saw large-cap growth and technology stocks reassert themselves amid narrowing market breadth, while small-cap stocks posted their weakest month since March 2025.
- **Contributors:** The equity side of the portfolio assisted absolute returns. On a relative basis, underweight allocation to fixed income added value, as did overweight exposure to equities.
- **Detractors:** Fixed income positioning detracted from absolute performance, while security selection across both asset classes hindered relative results.
- **Outlook:** While markets may continue to react to evolving headlines, we believe the underlying drivers of US economic growth remain intact, supported by ongoing capital investments and resilient US consumer spending. Against this backdrop, diversification and flexibility remain central to our approach as we navigate the rest of the year.

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 September 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**.
- **No sectors within fixed income had a positive effect** on absolute fund performance. Meanwhile, **US Treasuries (USTs), financials companies and securitized products detracted** from absolute results during the period.
- **No individual issuers meaningfully contributed to returns** within the fund's fixed income holdings. Rather, **losses were driven by USTs, Freddie Mac and Fannie Mae**.
- In terms of equities, the fund **benefited from positions within energy, health care and information technology**. However, **the utilities, consumer discretionary and financials sectors detracted** from absolute returns.
- **Chevron, Microsoft and ExxonMobil added value** within the fund's equity holdings. Conversely, **Home Depot, International Business Machines and Southern Co. 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 US Federal Reserve policy.
- **Equities**: Following an extended period of concentrated market leadership, 2026 has been characterized by periods of elevated equity market dispersion and significant sector and style rotation, creating opportunities for active stock selection. As leadership narrowed in September, it created opportunities to add to positioning within the financials and utilities 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 have increased relative to 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 look increasingly attractive for an income-generating strategy, but credit spreads remain tight, 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.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.80%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.75%

Top Holdings (% of Total)

Issuer	Fund
GOVT NATL MORTG ASSN	5.82
UNITED STATES TREASURY BOND	3.22
FREDDIE MAC POOL	3.03
FANNIE MAE POOL	2.76
ALPHABET INC	2.44
SOUTHERN CO/THE	2.27
AMAZON.COM INC	2.18
CHEVRON CORP	2.02
PROCTER & GAMBLE CO/THE	1.99
EXXONMOBIL HOLDINGS CORP	1.98

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	353612658	FBFZX	-2.13	4.01	7.08	9.42	5.00	6.72	6.52	-2.13	4.01	7.08	9.42	5.00	6.72	6.52	0.66	0.66	—	—	7/3/2006
Class A	353612682	FBLAX	-2.27	3.75	6.75	9.14	4.73	6.45	6.23	-7.62	-1.99	0.91	7.09	3.55	5.84	5.93	0.91	0.91	5.50	—	7/3/2006
Benchmark 1	—	—	-2.00	2.81	4.03	9.12	4.36	5.90	—	-2.00	2.81	4.03	9.12	4.36	5.90	—	—	—	—	—	—
Benchmark 2	—	—	-3.51	-2.91	-1.84	4.06	-0.64	1.14	—	-3.51	-2.91	-1.84	4.06	-0.64	1.14	—	—	—	—	—	—

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

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.

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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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