FRANKLIN TEMPLETON

Franklin Equity Income Fund

Advisor Class: FEIFX Class A: FISEX — **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** US equities delivered solid gains over 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 valuations in technology-related stocks. Continued monetary easing by the US Federal Reserve, along with a constructive shift in US–China relations, also underpinned investor sentiment. The outperformance of the Magnificent Seven mega-capitalization technology stocks during the quarter boosted returns for the S&P 500 Index and the Nasdaq Composite Index, while the relatively strong performance of the Dow Jones Industrial Average reflected the enduring strength of blue-chip companies. By investment style, value investing surpassed growth in the large-, mid- and small-capitalization tiers, with large-cap stocks performing better than their mid- and small-cap counterparts.
- **Contributors:** The fund (Advisor Class without sales charges) delivered a positive return that trailed the Russell 1000 Value Index. In absolute terms, the health care and financials sectors were key drivers of positive performance. In the health care sector, the pharmaceuticals industry held two of the fund's top contributors, while the capital markets and banking industries had a positive impact on the financial sector.
- **Detractors:** The consumer discretionary and materials sectors detracted most from absolute returns. The consumer discretionary sector was pressured by performance in the specialty retail and household durables industries. In the materials sector, our focus on the chemicals industry proved adverse.
- **Outlook:** We have had a positive view of the outlook for corporate earnings and the equity market overall given the likelihood of lower regulation aiding several industries, favorable tax policy and ongoing productivity gains from technology. Inflation is within reasonable levels, and we believe interest rates are likely to move at least moderately lower by year-end 2026. We continue to believe that overall macro conditions could support broad market participation across industries. That remains our "base case" for 2026 – similar to last year. While the information technology (IT) sector has driven most of the market gains over the past few years, we believe that opportunities within the industrials, health care, financials and utilities sectors have the potential to do well in 2026.

Performance Review

- Morgan Stanley delivered strong stock performance in the financials sector. The global financial services company posted robust earnings in the third quarter of 2025, driven by growth in its institutional and wealth management businesses.
- The health care sector benefited from a position in Johnson & Johnson (JNJ). The pharmaceutical giant's stock performed well, mainly due to strong third-quarter 2025 earnings results and raised full-year sales guidance, along with positive trial results and US Food & Drug Administration-approved label expansions for several of its products. We continue to see JNJ as a company with a highly resilient business model and leadership in the medical technology industry.
- In contrast, investor concerns about company debt and aggressive artificial intelligence infrastructure expansion weighed on shares of software giant Oracle in the IT sector.

Outlook

- We continue to look for opportunities where we believe realized earnings by many companies can be more resilient or may have the potential to grow faster than consensus, and where long-term market leadership seems underappreciated by some investors. Today's environment presents some uncertainty; however, we believe themes around IT productivity, infrastructure (broadly speaking) and asset management could prove to be particularly attractive and durable.
- We have had a positive view of the outlook for corporate earnings and the equity market overall given the likelihood of lower regulations aiding several industries, favorable tax policy and ongoing productivity gains from technology. We believe this can support broader market participation across industries.
- Despite the positive backdrop that we see, some companies may report mixed earnings results in the fourth quarter due to uneven tariff headwinds. In our view, companies have largely navigated uncertainty well, with robust companies benefiting from secular themes performing strongly. If correct, we believe our efforts to find these high-quality companies can have beneficial outcomes over time.
- We believe the portfolio can hold up relatively well during periods of higher volatility, given our focus on quality and the use of lower-beta equity-linked notes and convertible securities. Powerful secular themes seen throughout the portfolio, like infrastructure improvement, energy transition and "grid hardening," can continue to be positive areas of investment as those themes play out over time, in our view.

Morningstar Rating™

Overall Rating as of December 31, 2025

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 12/31/2025 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 1059, 995 and 832 Large Value 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.

Top Holdings (% of Total)

Issuer	Fund
JPMORGAN CHASE & CO	4.55
MORGAN STANLEY	3.38
BANK OF AMERICA CORP	3.21
ALPHABET INC	3.15
JOHNSON & JOHNSON	2.76
CHEVRON CORP	2.73
PARKER-HANNIFIN CORP	2.59
CHARLES SCHWAB CORP/THE	2.51
AMERICAN EXPRESS CO	2.38
THERMO FISHER SCIENTIFIC INC	2.14

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

			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	353612633	FEIFX	2.78	17.25	17.25	14.88	12.20	11.41	9.33	2.78	17.25	17.25	14.88	12.20	11.41	9.33	0.59	0.58	—	—	3/15/1988
Class A	353612401	FISEX	2.72	16.96	16.96	14.59	11.91	11.13	9.20	-2.92	10.53	10.53	12.46	10.65	10.51	9.04	0.84	0.83	5.50	—	3/15/1988
Benchmark 1	—	—	3.81	15.91	15.91	13.89	11.33	10.53	—	3.81	15.91	15.91	13.89	11.33	10.53	—	—	—	—	—	—
Benchmark 2	—	—	2.66	17.88	17.88	23.00	14.43	14.82	—	2.66	17.88	17.88	23.00	14.43	14.82	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=Russell 1000 Value Index

Benchmark 2=S&P 500 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 02/28/2026 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. Equity securities are subject to price fluctuation and possible loss of principal. **Distributions** are not guaranteed and are subject to change. Investments in **equity-linked notes** often have risks similar to their underlying securities, which could include management risk, market risk and, as applicable, foreign securities and currency risks. **Convertible securities** are subject to the risks of stocks when the underlying stock price is high relative to the conversion price and debt securities when the underlying stock price is low relative to the conversion price. **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.** 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

Convertible securities are bonds or preferred stocks that can be converted into a preset number of shares of common stocks after a predetermined date.

Dow Jones Industrial Average (DJIA) is an unmanaged index composed of 30 blue-chip stocks, each with annual sales exceeding $7 billion. The DJIA is price-weighted, reflects large-cap companies representative of U.S. industry, and historically has moved in tandem with other major market indexes such as the S&P 500. Source: © S&P Dow Jones Indices LLC.

The **Magnificent Seven** stocks are Apple, Amazon, Alphabet, Meta Platforms, Microsoft, Nvidia, and Tesla.

Nasdaq Composite Index is a market-capitalization-weighted index that is designed to represent the performance of Nasdaq securities and includes over 3,000 stocks. Source: Nasdaq OMX.

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 **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization.

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

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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®, 12/31/2025. 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 Class A shares received a Morningstar Rating of 3, 3 and 4 and fund's Advisor Class shares received a Morningstar Rating of 4, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class 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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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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