FRANKLIN TEMPLETON

Franklin Equity Income Fund

Advisor Class: FEIFX Class A: FISEX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** US equities 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 AI infrastructure, with continued increases in capital expenditure reinforcing confidence that the AI investment cycle remained intact. At its two meetings during the quarter, the US Federal Reserve left interest rates on hold. The easing of Middle East tensions and a decline in oil prices helped alleviate inflation concerns, encouraging a broad recovery in risk assets. The Nasdaq Composite Index outperformed the S&P 500 Index and Dow Jones Industrial Average. By investment style, growth investing surpassed value in each cap segment, while across the market as a whole, small-cap stocks performed better than their large- and mid-cap counterparts.
- **Contributors:** On an absolute basis, the information technology (IT) sector was the strongest contributor to positive Fund performance, as the AI boom lifted companies across the sector. The financials sector was also a contributor, driven by strong earnings from banks and investment managers. The industrials sector was also strong during the quarter, as the surge in spending around AI benefitted several companies in the sector while others saw stronger demand for industrial equipment.
- **Detractors:** The energy sector fell over the period, driven by lower oil prices, as geopolitical risks eased during the quarter. Our holdings in the consumer discretionary sector also held back returns.
- **Outlook:** We continue to believe that overall macroeconomic conditions, favorable tax policy and attempts to lower regulations to spur activity are supportive broad market participation across industries in 2026, similar to last year. While technology companies have driven most of the market gains in the past few years, we have seen strong performances across several sectors. Outside of the technology sector, we believe there are compelling opportunities within industrials, health care, financials and utilities.

Performance Review

- The Fund (Advisor Class without sales charge) delivered a positive return that trailed the Russell 1000 Value Index. Dell Technologies helped lift returns. Dell's AI-optimized server business is up over 300% year-over-year, and new AI-related products unveiled at Dell Technologies World 2026 kept investor sentiment high.
- Also in IT, Cisco Systems was a leading contributor. The company posted record revenues with strength in its networking and AI infrastructure-related businesses and raised guidance as a result.
- While the Fund's holdings in IT performed well overall, on a relative basis, the Fund was negatively impacted by not owning a small group of semiconductor and hardware stocks that performed exceptionally well.
- In the energy sector, Chevron was the largest detractor over the period. Shares in the company peaked in the runup to the quarter as oil prices rose, and then fell amid the broader decline in the energy sector during the quarter as oil prices retreated.
- In the consumer discretionary sector, farm equipment and supply retailer Tractor Supply Company was a detractor. The company missed projections on sales and earnings during the period, as same-store sales were nearly flat, and transactions declined amid softer customer spending trends.

Outlook

- We have a positive view of the outlook for corporate earnings and believe that ongoing productivity gains from technology will continue to aid results across industries. Inflation is within reasonable levels, in our view. The war in Iran has complicated the path for interest rates but we believe an end is likely sooner rather than later and the economy can begin to get back on a stronger path.
- While valuations have risen for many companies as broader market indices approach peak levels, our focus is evaluating the impact of macro events on financial results in the coming quarters as well as on understanding the durability and attractiveness of end markets and company positioning. Overall, we are confident that our companies can navigate uncertainty, but there will likely be a few negative surprises given business disruption and changes in costs.
- Equity Linked Notes (ELNs) continue to be a helpful tool for performance, risk reduction and income. Given our focus on investing in quality companies and the use of lower beta ELNs and convertible securities, we expect the Fund to hold up relatively well during periods of higher volatility.
- We continue to look for opportunities where we expect realized earnings to be either more resilient or grow faster than consensus and where long-term market leadership is underappreciated. Today's environment presents some uncertainty, however, we believe themes around IT productivity, infrastructure (broadly) and asset management could prove to be particularly attractive and durable.

Morningstar Rating™

Overall Rating as of June 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 06/30/2026 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 1054, 991 and 830 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Top Holdings (% of Total)

Issuer	Fund
AMAZON.COM INC	4.34
JPMORGAN CHASE & CO	3.72
MICROSOFT CORP	3.66
BANK OF AMERICA CORP	3.17
MORGAN STANLEY	3.15
JOHNSON & JOHNSON	2.99
CISCO SYSTEMS INC	2.52
DELL TECHNOLOGIES INC	2.26
PROCTER & GAMBLE CO/THE	2.21
APPLE INC	2.11

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	353612633	FEIFX	8.11	9.39	20.74	16.73	11.33	11.94	9.46	8.11	9.39	20.74	16.73	11.33	11.94	9.46	0.56	0.55	—	—	3/15/1988
Class A	353612401	FISEX	8.03	9.27	20.45	16.44	11.05	11.66	9.33	2.08	3.27	13.83	14.27	9.80	11.03	9.17	0.81	0.80	5.50	—	3/15/1988
Benchmark 1	—	—	13.87	16.26	27.12	17.78	11.18	11.53	—	13.87	16.26	27.12	17.78	11.18	11.53	—	—	—	—	—	—
Benchmark 2	—	—	15.20	10.21	22.32	20.61	13.41	15.51	—	15.20	10.21	22.32	20.61	13.41	15.51	—	—	—	—	—	—

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 02/28/2027 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. **Real estate investment trusts** (REITs) are closely linked to the performance of the real estate markets. REITs are subject to illiquidity, credit and interest rate risks, and risks associated with small- and mid-cap investments. **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

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

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.

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.

Source: © 2026 S&P Dow Jones Indices LLC. All rights reserved. Source: FTSE.

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

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 Class A shares received a Morningstar Rating of 3, 3 and 4 and fund's Advisor Class shares received a Morningstar Rating of 3, 4 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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