

Franklin Equity Income Fund

Advisor Class: FEIFX Class A: FISEX

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** US stocks advanced during the second quarter of 2025. After rebounding from April's lows, equity markets continued to rally through June despite bouts of volatility. The S&P 500 Index and Nasdaq Composite Index closed the period with solid gains after hitting new record highs at the end of June, while the Dow Jones Industrial Average hovered near its all-time high. Temporary delays in tariff hikes, reduced fears of a recession, growing expectations of interest-rate cuts later in the year and easing geopolitical tensions helped drive US stocks higher. Large-capitalization equities gained the most, followed by mid- and small-cap stocks, and growth stocks outperformed value by a wide margin in all three market-cap tiers.
- **Contributors:** The fund outperformed the Russell 1000 Value Index as stock selection decisions worked in our favor. In absolute terms, the financials, information technology (IT) and industrials sectors were meaningful contributors. In the financials sector, the capital markets and banks industries offered solid returns. The semiconductors and semiconductor equipment industry helped the IT sector most. The industrials sector saw much of its positive performance in the electrical equipment industry.
- **Detractors:** Allocation selection decisions worked against us relative to the benchmark. In absolute terms, the health care and energy sectors hurt performance most. The health care sector declined due largely to weakness in the health care providers and services industry. In the energy sector, oversupply pressures, along with investor concerns about the potential for trade wars and inflation, weighed on energy markets.
- **Outlook:** As equity markets have recovered from April lows, we are now more mindful of valuation risks that may lie ahead. Our focus today is on understanding the earnings impact from tariffs and how companies are likely to react with regards to pricing, product sourcing/manufacturing and profit-margin pressures that have occurred.

Performance Review

- JPMorgan Chase was a leading contributor to financials sector performance. The recovery in equity markets led to better-than-expected revenues in the first quarter of 2025, for the financial services giant. Its revenues were helped by higher asset management and investment banking fees and strong trading results.
- In the IT sector, shares of software developer and chipmaker Broadcom moved higher following its release of strong fiscal second-quarter 2025 financial results. Demand for artificial intelligence-related semiconductors remains quite strong, and we believe the company's outlook through its fiscal year 2025 and into its fiscal year 2026 continues to look promising.
- In the health care sector, shares of UnitedHealth Group declined in the face of several negative headlines about the health insurer. Among them were the resignation of the company's chief executive officer, the company's decision to withdraw its 2025 outlook and the ongoing investigation by the US Department of Justice into its billing practices. We reduced our exposure significantly over the period.

Outlook

- We have a positive outlook for corporate earnings and the financial markets overall. The recent passing of significant legislation in Congress should support economic growth, and the prospects for infrastructure spending, lower regulation and ongoing productivity gains from technology should also be supportive. While the news about US tariffs on key trade partners in April was more impactful than we anticipated, we believe trade agreements are likely to be reached with key partners, which can allow for a more positive macroeconomic environment to reemerge. We believe this can support broader market participation across industries while allowing key IT companies to continue to do well.
- We expect the strategy to hold up relatively well during this period of higher volatility given its lower predicted beta and risk profile. We believe that the powerful secular themes seen throughout the strategy, like infrastructure improvement, energy transition and grid hardening, should continue to be positive areas of investment as they can provide support for companies during times of economic uncertainty as those themes play out over time.

Morningstar Rating™

Overall Rating as of June 30, 2025



(4-Star) Advisor Class



(4-Star) Class A

As of 06/30/2025 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 1088, 1023 and 821 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	4.74
MORGAN STANLEY	3.55
BANK OF AMERICA CORP	3.15
CHEVRON CORP	3.09
CHARLES SCHWAB CORP/THE	2.81
EATON CORP PLC	2.64
PROCTER & GAMBLE CO/THE	2.50
JOHNSON & JOHNSON	2.35
DUKE ENERGY CORP	2.34
WALMART INC	2.31

Sector Allocation (% of Total)

Sector	Fund
Financials	23.27
Industrials	16.13
Health Care	10.71
Information Technology	10.48
Consumer Staples	9.98
Energy	7.85
Utilities	6.08
Real Estate	4.33
Other	8.37
Cash & Cash Equivalents	2.80

Average annual total returns and fund expenses (%) - as of June 30, 2025

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Advisor Class	353612633	FEIFX	5.75	6.23	14.35	14.14	14.06	10.32	9.17	5.75	6.23	14.35	14.14	14.06	10.32	9.17	0.59	0.58	—	—	3/15/1988
Class A	353612401	FISEX	5.66	6.11	14.06	13.85	13.77	10.03	9.04	-0.15	0.28	7.79	11.72	12.50	9.41	8.88	0.84	0.83	5.50	—	3/15/1988
Benchmark 1	—	—	3.79	6.00	13.70	12.76	13.93	9.19	—	3.79	6.00	13.70	12.76	13.93	9.19	—	—	—	—	—	—
Benchmark 2	—	—	10.94	6.20	15.16	19.70	16.64	13.64	—	10.94	6.20	15.16	19.70	16.64	13.64	—	—	—	—	—	—

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

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 **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. The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. Source: FTSE.

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

Morningstar Rating™: Source: Morningstar®, 06/30/2025. 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 4, 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.

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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.