

# Franklin Equity Income Fund

**Advisor Class: FEIFX Class A: FISEX** 

Commentary | as of September 30, 2025

## **Key Takeaways**

- Markets: US equities delivered strong performance over the third quarter of 2025, buoyed, in part, by easing trade
  tensions and optimism surrounding artificial intelligence (AI). The US Federal Reserve's (Fed's) interest-rate cut in
  September also supported market sentiment, as did generally robust corporate earnings. Both the S&P 500 Index and
  the Nasdaq Composite Index ended the quarter at new record highs, while returns for the Dow Jones Industrial Average
  were more muted. In this environment, growth investing surpassed value in the large-capitalization tier, while it was the
  reverse in the mid- and small-capitalization segments, with small-cap stocks overall performing better than their largeand mid-cap counterparts.
- Contributors: The fund outperformed (Advisor Class without sales charges) the Russell 1000 Value Index as stock selection decisions worked in our favor. In absolute terms, the financials, industrials, health care and information technology (IT) sectors had the largest positive impact on returns.
- Detractors: Allocation decisions detracted from results relative to the benchmark. In absolute terms, materials was the
  only sector that turned negative due to our chemicals industry exposure.
- Outlook: As markets have fully recovered from April lows and many indexes have reached new highs, we are mindful of
  valuation risks and higher expectations that are present. Our focus remains on the opportunities for individual
  companies held in the fund as well as on understanding the durability of end markets and the earnings impact of tariffs.

#### **Performance Review**

- Morgan Stanley delivered strong performance in the financials sector. The global financial services company reported solid second-quarter 2025 financial results driven by growth in its institutional and wealth management businesses, while an increase in capital markets improved its forward outlook.
- United Rentals was the strongest performer within the industrials sector. The company is seeing improved sequential trends, including growth in fleet productivity, better-than-expected general rent revenue and sequential progress on gross profit margins. In contrast, heating, ventilation and air conditioning company Carrier Global detracted from sector returns despite issuing solid second-guarter financial results.
- The health care sector benefited from a position in Johnson & Johnson (JNJ). The pharmaceutical giant reported strong
  second-quarter financial results and raised its full-year guidance, bolstered by the addition of Intra-Cellular Therapies (an
  acquisition completed in April 2025) to its neuroscience portfolio. We continue to see JNJ as a company with a highly
  resilient business and a leader in the medical technology industry
- Conversely, in the consumer staples sector, Philip Morris International's shares declined over the period due to a mix of
  profit-taking by some investors, weakening cigarette volumes and a slight second-quarter 2025 revenue miss despite the
  company exceeding consensus earnings estimates and raising its full-year guidance. The company's tobacco-free products,
  however, continue to grow strongly.
- Elsewhere, a position in Texas Instruments hindered returns in the IT sector. The chipmaker's stock fell because of disappointing third-quarter guidance, signaling a slow recovery in key markets.

## Outlook

- 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, broad infrastructure, and asset management could prove to be
  particularly attractive and durable.
- We have had a positive view of the outlook for corporate earnings and financial markets overall, given the likelihood of lower regulations aiding several industries, favorable tax policy and ongoing productivity gains from technology. We believe this could support broader market participation across industries.
- Despite the positive backdrop that we see, some companies may report mixed results in the third quarter due to uneven
  order patterns and tariff headwinds. However, we believe the transitory impacts of tariffs may be more muted, particularly
  among strong companies benefiting from secular themes. If correct, we believe our efforts to find these high-quality
  companies can have beneficial outcomes over time.
- Equity-linked notes and convertible securities continue to be helpful tools for performance, risk mitigation and income
  generation. Given our focus on quality and the use of these securities, we believe the portfolio is positioned to navigate
  periods of higher volatility.

# **Morningstar Rating™**

Overall Rating as of September 30, 2025



(4-Star) Advisor Class



(4-Star) Class A

As of 09/30/2025 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating<sup>™</sup>, measuring risk-adjusted returns against 1086, 1025 and 842 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	4.54
MORGAN STANLEY	3.61
BANK OF AMERICA CORP	3.20
CHEVRON CORP	3.09
CHARLES SCHWAB CORP/THE	2.69
JOHNSON & JOHNSON	2.63
DUKE ENERGY CORP	2.33
WALMART INC	2.30
PROCTER & GAMBLE CO/THE	2.28
EATON CORP PLC	2.19

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

	Without Sales Charge							With Maximum Sales Charge								ses	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	7.38	14.07	13.27	18.74	14.15	11.71	9.32	7.38	14.07	13.27	18.74	14.15	11.71	9.32	0.59	0.58	_	_	3/15/1988
Class A	353612401	FISEX	7.30	13.86	12.95	18.43	13.86	11.43	9.19	1.40	7.60	6.73	16.22	12.57	10.80	9.02	0.84	0.83	5.50	_	3/15/1988
Benchmark 1	_	_	5.33	11.65	9.44	16.96	13.88	10.72	_	5.33	11.65	9.44	16.96	13.88	10.72	_	_	_	_	_	_
Benchmark 2	_	_	8.12	14.83	17.60	24.93	16.47	15.30	_	8.12	14.83	17.60	24.93	16.47	15.30	_	_	_	_	_	_

#### 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 analized. 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.

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

Morningstar Rating™: Source: Morningstar®, 09/30/2025. 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 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.

