FRANKLIN TEMPLETON

Franklin Equity Income Fund

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

Key Takeaways

- **Markets:** US equities rose in the third quarter, with market leadership shifting from large-cap growth and semiconductor stocks towards value shares before reversing in September. Strong corporate earnings supported sentiment, although market breadth narrowed and small-cap stocks weakened late in the period.
- **Contributors:** On an absolute basis, the information technology (IT) sector was the largest contributor to returns. The energy sector also boosted returns during the quarter. Elsewhere, the health care sector was a source of strength.
- **Detractors:** Conversely, the industrials sector was the largest detractor from returns during the quarter. Our holdings in the utilities 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 of 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 rose 1.2% and underperformed its benchmark, the Russell 1000 Value Index, which rose 2.6% for the quarter ended September 30, 2026.
- Our position in Carrier Global, a manufacturer of HVAC systems, hampered returns during the period even as the company reported better-than-expected second-quarter results, record backlog levels and strong demand for its commercial HVAC products. Shares declined as investors focused on declining operating margins and concerns about the near-term impact of higher costs, business mix and ongoing investment spending.
- KLA, a US-based semiconductor capital equipment company, hurt returns as gains consolidated following a strong first half of 2026 performance. Sentiment weakened on gross margin pressure linked to memory cost inflation and customer caution, while capacity constraints in advanced packaging heightened uncertainty around tool delivery cadence and near-term earnings momentum.
- Shares of Microsoft, a relatively new position, advanced during the quarter as strong demand for Azure cloud services and growing confidence in the company's ability to monetize AI fueled investor enthusiasm. Investor sentiment was further supported by the company's July earnings release, which highlighted robust cloud growth, rising Copilot adoption and continued momentum in enterprise AI.
- Shares of Chevron also advanced during the quarter, benefiting from elevated crude oil prices amid geopolitical tensions and concerns over global energy supplies. Investor sentiment was further supported by stronger-than-expected second-quarter earnings, as the company reported robust profitability and record US production.

Outlook

- We continue to 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 remains a concern, but we believe it will fall within reasonable levels and companies will be able to manage rising costs. 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. The expectation for rate hikes has risen and we do not expect rates to fall in the near or medium term unless demand for goods weakens broadly.
- While broader market indexes approach peak levels, earnings have been stronger than expected for many companies and the market overall which has enabled valuations for most well-known market indexes to decline from earlier in the year. Our focus remains on understanding the durability and attractiveness of end markets and company positioning and how trends are evolving. Overall, we are confident that our companies can navigate uncertainty, but there may be some negative surprises given 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 September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 09/30/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 1055, 994 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Top Holdings (% of Total)

Issuer	Fund
MICROSOFT CORP	6.03
AMAZON.COM INC	5.11
JPMORGAN CHASE & CO	3.73
APPLE INC	3.63
JOHNSON & JOHNSON	3.17
BANK OF AMERICA CORP	2.85
CISCO SYSTEMS INC	2.56
MORGAN STANLEY	2.22
CHEVRON CORP	2.17
PHILIP MORRIS INTERNATIONAL INC	2.06

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	353612633	FEIFX	1.01	10.50	13.57	18.27	11.25	11.75	9.42	1.01	10.50	13.57	18.27	11.25	11.75	9.42	0.56	0.55	—	—	3/15/1988
Class A	353612401	FISEX	0.95	10.31	13.32	17.98	10.97	11.47	9.29	-4.61	4.25	7.09	15.77	9.72	10.84	9.13	0.81	0.80	5.50	—	3/15/1988
Benchmark 1	—	—	2.61	19.27	23.81	20.07	11.92	11.43	—	2.61	19.27	23.81	20.07	11.92	11.43	—	—	—	—	—	—
Benchmark 2	—	—	2.30	12.75	15.74	22.88	13.79	15.33	—	2.30	12.75	15.74	22.88	13.79	15.33	—	—	—	—	—	—

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

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

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.

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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®, 09/30/2026. 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, 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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