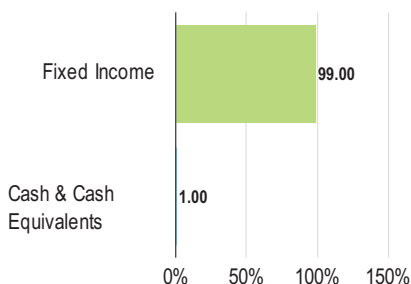


**Product Profile**
**Product Details<sup>1</sup>**

Fund Assets	\$6,143,838,940.29
Fund Inception Date	03/18/1986
Number of Holdings	732
NASDAQ Symbol	FHYVX
Maximum Sales Charge	0.00
Investment Style	Municipals
Benchmark	Bloomberg Barclays Municipal Bond Index
Lipper Classification	High Yield Municipal Debt Funds
Morningstar Category™	High Yield Muni
Dividend Frequency	Monthly, on or near the last business day

**Asset Allocation<sup>2,3</sup>**

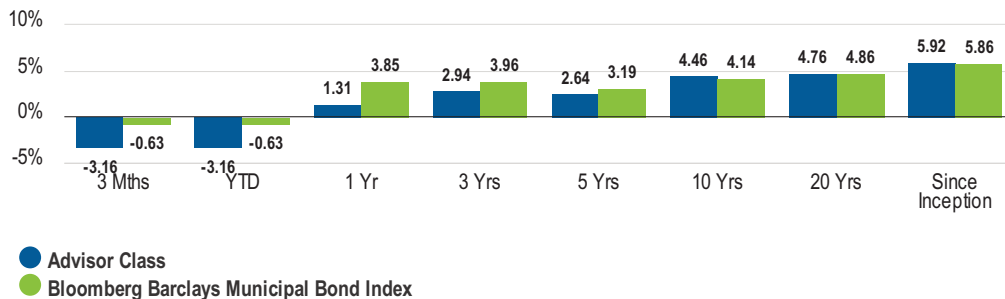
Percent of Total


**Fund Description**

The fund seeks to provide investors with a high current yield exempt from federal income taxes. Its secondary goal is capital appreciation to the extent possible and consistent with the fund's principal investment goal.<sup>4</sup>

**Performance Data<sup>5,6</sup>**
**Average Annual Total Returns<sup>7</sup> (%)**

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (03/18/1986)
Advisor Class	-3.16	-3.16	1.31	2.94	2.64	4.46	4.76	5.92
Bloomberg Barclays Municipal Bond Index	-0.63	-0.63	3.85	3.96	3.19	4.14	4.86	5.86


**Total Annual Operating Expenses:** 0.56%

**30-Day Standardized Yield<sup>8</sup>:** 1.91%

**Taxable Equivalent Yield<sup>9</sup>:** 3.23%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Advisor Class shares are offered only to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

- All holdings are subject to change.
- Percentage may not equal 100% due to rounding.
- The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.
- Dividends are generally subject to state and local taxes, if any. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
- Periods shorter than one year are shown as cumulative total returns.
- The fund's 30-Day Standardized Yield is calculated using the net income (interest and dividends) per share earned over a trailing 30-day period (annualized), divided by the fund's share price at the end of that period. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders. **Past performance is not an indicator or a guarantee of future performance.**
- The Taxable Equivalent Yield assumes the maximum regular federal income tax rate and the Medicare tax in effect on December 2019.

## Calendar Year Returns (%)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Advisor Class	7.83	2.03	3.86	1.14	3.37	14.04	-6.71	11.28	12.58	2.91
Bloomberg Barclays Municipal Bond Index	7.54	1.28	5.45	0.25	3.30	9.05	-2.55	6.78	10.70	2.38

Lipper Income Returns<sup>10,11</sup> (%)

	1 Mth	3 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs
Advisor Class	0.36	0.99	4.37	4.52	4.50	4.67	-
High Yield Municipal Debt Funds Classification Average	0.30	0.83	3.50	3.68	3.83	4.34	4.93
High Yield Municipal Debt Funds Classification Percentile Ranking - Advisor Class	17	18	8	11	12	23	-

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Portfolio Manager Insight<sup>12</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Duration	Quality	Sector
HELPED	—	Security Selection in BBB Rated Bonds	Overweight Refunded Bonds
	—	—	Underweight Leasing
	—	—	—
HURT	—	Overweight BBB Rated Bonds	Overweight Industrial Revenue
	—	Underweight AA Rated Bonds	Underweight Local General Obligation
	—	Security Selection in AAA Rated Bonds	Security Selection in Health Care

- Our portfolio is positioned to provide stable, high levels of tax-free income, and we entered this volatile period with a more conservative positioning in the portfolio. This conservative positioning helped the portfolio's performance when the volatility came. The fund maintained an above-average income return ranking over the 1-, 3-, 5-, and 10-year trailing time periods.
- Lower-quality issues underperformed their higher-rated counterparts, as investors sought better-quality assets. As a high-yield municipal bond fund, the portfolio is positioned with a higher allocation to lower-quality bonds than the index. Our overweight to BBB rated bonds and underweight to AA rated securities detracted from performance over the quarter relative to the index. Security selection within the ratings allocations also weighed on results, led by our selection in AAA rated bonds. Security selection in securities with a BBB rating boosted performance. Drawing on the expertise of our dedicated municipal research team, we remain focused on issuers that we believe possess the ability to withstand prolonged declines in economic activity.
- Performance between municipal bond sectors varied widely as those sectors which were identified as having immediate exposure to the slowing economy underperformed the overall market. Overall sector allocation detracted from returns, led by our overweight to industrial revenue and underweight to local general obligation bonds. An underweight to leasing and an overweight to refunded bonds boosted returns. The portfolio's refunded bonds helped relative performance as they are highly rated and may also provide a source of liquidity as we opportunistically allocate to other areas of the market during periods of volatility. Security selection within sectors detracted from results, led by selection in the health care sector.

## Outlook &amp; Strategy

- We entered this volatile period with a more conservative positioning in our municipal portfolios, as we felt valuations were stretched in many areas of the market. We continue to manage our strategies with a focus on maximizing tax-free income for investors while maintaining stability within the portfolios. This approach relies heavily upon our research capabilities and credit analysis.
- Prior to the recent market events, we had been positioning our portfolios by creating "dry powder" in both liquidity and risk budgets. The increased volatility provided us with ample opportunities to take advantage of the market disruptions, and we were very active traders over the period, particularly during March. We have been active in secondary market trading by utilizing our cash positions and selling more liquid instruments, such as refunded securities and large school district bonds, to add to positions that we feel had significant value. Our focus has been on higher-rated credits, as they remain attractive to us versus lower-quality positions. Within sector allocations, we have taken the opportunity to swap between issuers and maturities, further strengthening our portfolios.
- Strong ongoing credit research will be critical for those looking to continue capitalizing on opportunities caused by market disruptions. Existing portfolio composition will also determine one's ability to be nimble amid a rapidly changing environment. We believe our approach to municipal investing is particularly well-suited for the volatile market environment. While we believe it is still too early to predict the full impact of the coronavirus outbreak, we have been intensely reviewing municipal market sectors based on our assessments of impact and resiliency.

10. Source: Lipper, Inc., 03/31/2020. Lipper figures do not include sales charges and may have been different if such charges had been considered. Lipper income return rankings are different than Lipper total return rankings. Income return rankings reflect performance from income only; they do not reflect performance from price gain or loss. Total return reflects performance from both income and price gain or loss. Rankings do not include sales charges. Other share classes may differ. Past performance is not an indicator or a guarantee of future performance.

11. Periods shorter than one year are shown as cumulative total returns.

- We still maintain favorable liquidity dynamics across our municipal platform, allowing our portfolio managers to continue moving quickly as further indiscriminate selling in the market often creates price dislocations for select credits and issuers. With respect to portfolio positioning, we will look to enhance book yields (and thus income distribution levels) in these market conditions, which often allow us to increase income potential without materially changing a portfolio's credit quality or duration profile. Capitalizing on these opportunities is much easier in portfolios with strong liquidity, especially as others with greater liquidity risks become forced sellers in order to meet redemptions.
- Our seasoned team of analysts and portfolio managers has weathered very difficult times before, and we are using that knowledge to navigate through this panic. In our view, municipal market volatility is likely here to stay for some time, and we will seek to provide relative downside protection and attractive tax-exempt income levels for our investors.

12. 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.

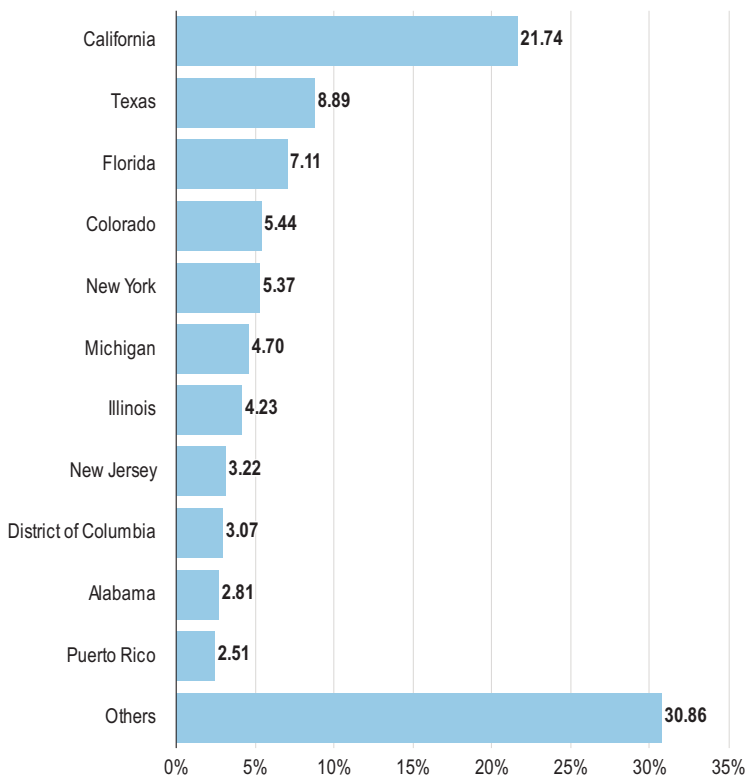
### Portfolio Characteristics<sup>13,14,15</sup>

	Portfolio	Bloomberg Barclays Municipal Bond Index
Average Duration	6.11 Yrs	5.39 Yrs
Average Weighted Maturity	17.00 Yrs	14.23 Yrs
AMT Exposure	10.55%	-
Annual Turnover Ratio (02/28/2019)	6.16%	-

### Portfolio Diversification

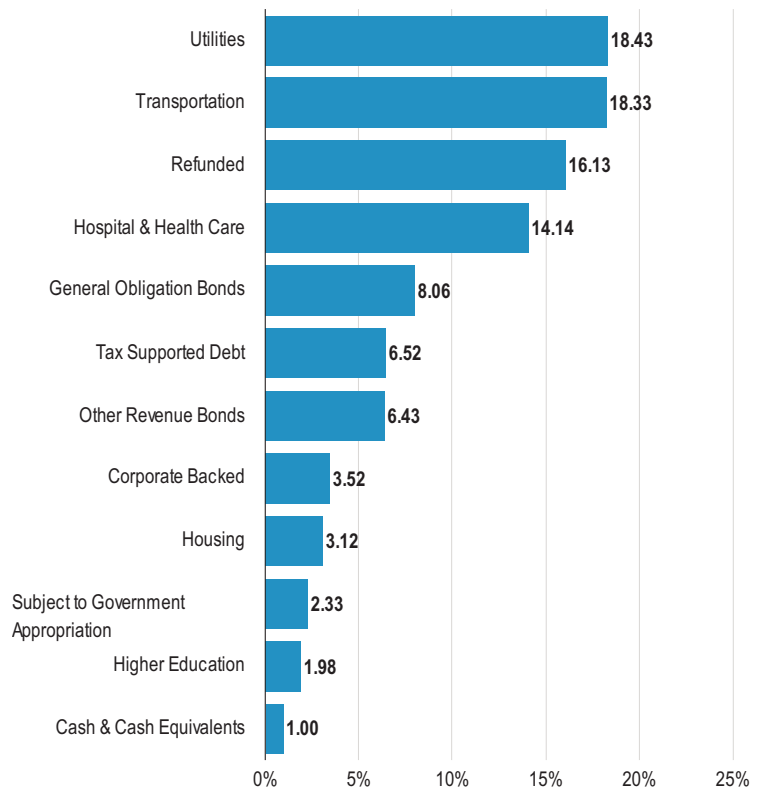
#### State / U.S. Territory Allocation<sup>16,17</sup>

Percent of Total



#### Sector Allocation<sup>18,19</sup>

Percent of Total



13. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics.

14. Turnover Ratio is as of the fund's fiscal year-end.

15. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

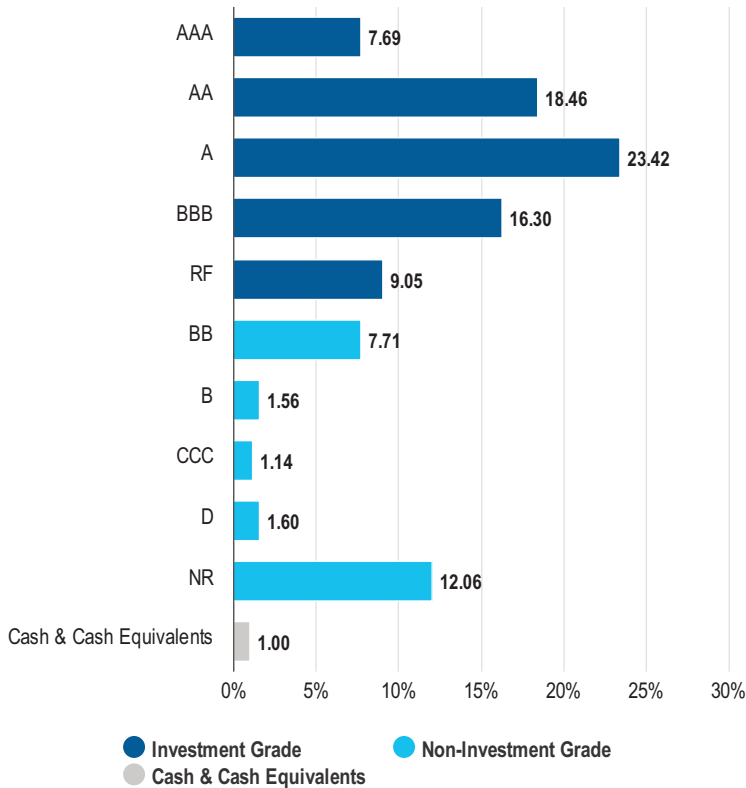
16. Uninvested cash is not included in the State / U.S. Territory Allocation.

17,18. Percentage may not equal 100% due to rounding.

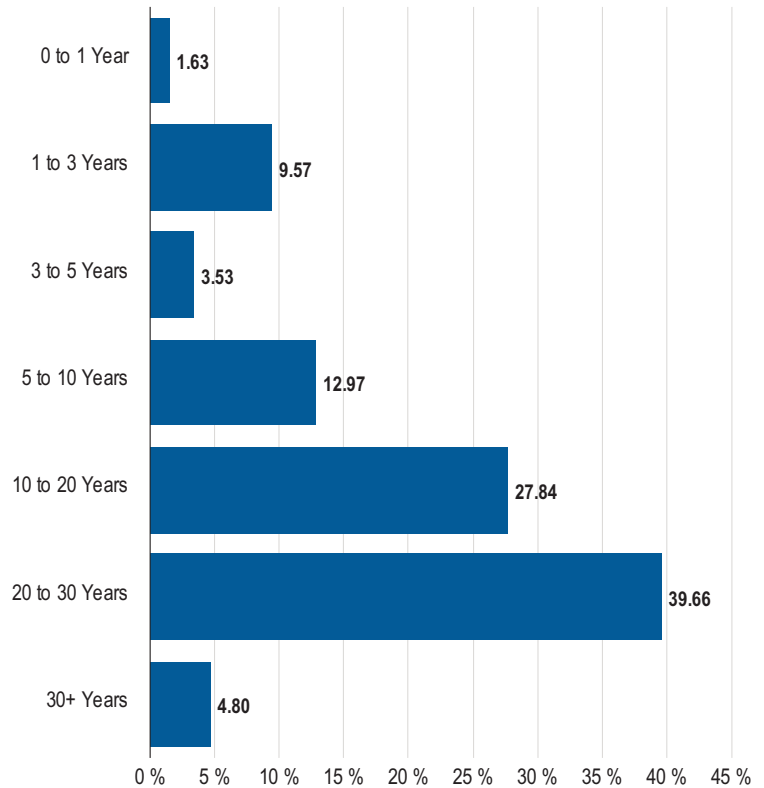
19. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

**Credit Quality Ratings<sup>20,21</sup>**

Percent of Total

**Maturity Allocation<sup>22</sup>**

Percent of Total

**Supplemental Performance Statistics****Supplemental Risk Statistics<sup>23,24</sup>**

	3 Yrs	5 Yrs	10 Yrs
Standard Deviation (%)	4.57	4.33	4.94
Tracking Error (%)	1.79	1.57	1.81
Information Ratio	-0.57	-0.35	0.18
Sharpe Ratio	0.27	0.36	0.78

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**Investment Philosophy****Focus on Income**

Franklin municipal managers aim to maximize monthly tax-free income for shareholders. Historically, the income return from municipal bonds has contributed much more to municipal bond returns than changes in municipal bond prices. Additionally, Franklin managers generally limit fund exposure to bonds with income that is subject to the Alternative Minimum Tax.

**No Leverage, No Derivatives, No Options**

Franklin managers avoid investment practices that may expose shareholder capital to unnecessary risk. For example, we don't use leverage or invest in derivatives or futures, because they can increase portfolio volatility.

20. Securities, except for those labeled Not Rated ("NR"), are assigned ratings by one or more Nationally Recognized Statistical Rating Organizations ("NRSRO"), such as Standard & Poor's, Moody's and Fitch, that can be considered by the investment manager as part of its independent security analysis. When ratings from multiple agencies are available, the highest is used, consistent with the portfolio investment process. Ratings reflect an NRSRO's opinion of an issuer's creditworthiness and typically range from AAA (highest) to D (lowest). The Refunded category consists of refunded bonds secured by U.S. government or other high-quality securities and not rerated by an NSRO. The Not Rated category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of securities that only have a short-term rating and are not cash equivalents. Cash includes equivalents, which may be rated.

21. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

22. Percentage may not equal 100% due to rounding.

23. Information Ratio and Tracking Error information are displayed for the product versus the Bloomberg Barclays Municipal Bond Index.

24. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

**Strict Internal Analysis**

Our analysts are responsible for conducting research on credit-driven securities in the municipal market. They are responsible for evaluating an issuer's credit strengths and weaknesses and working with the portfolio managers on select fund purchase and sale decisions.

**Buy and Hold for the Long Term**

Franklin managers are focused on seeking to maximize income; we don't actively trade bonds to try to capture capital gains. We typically sell holdings only if we see an opportunity to enhance a fund's portfolio structure or its income earning potential.

**Investment Process****Market Analysis**

On a daily basis, we analyze current market conditions, including:

- Trading activity
- Yield spreads
- Call option spreads
- New offerings
- Secondary market offerings
- Credit ratings
- Event risk

**Research**

We search for high-quality, undervalued bonds that we believe should provide a high level of income until maturity.

We often make site visits to identify potential problems and opportunities that may not be readily visible on paper.

Analysts focus on credit-driven bond issues where we believe they can add the most value to the security selection process.

**Portfolio Construction**

We build portfolios with diversification in mind, taking into consideration allocations to sectors, regions, coupons, calls, maturities and quality, as appropriate.

We don't make significant allocation shifts based on expected market conditions. Rather, we look for the best value in the marketplace from an income-oriented perspective.

**Investment Team**

<b>Portfolio Manager</b>	<b>Years with Firm</b>	<b>Years Experience</b>
John Wiley, SVP/ Portfolio Manager	30	30
Francisco Rivera, VP Portfolio Manager	25	26
Daniel Workman, CFA, VP/ Portfolio Manager	16	17

**AMT Exposure:** Percentage of a fund's assets invested in bonds with income subject to the alternative minimum tax (AMT). For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.

**Annual Turnover Ratio:** Percentage of a fund's holdings replaced with other holdings during a fund's most recent full fiscal year.

**Average Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

**Average Weighted Maturity:** An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

**Information Ratio:** In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

**Sharpe Ratio:** To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Standard Deviation:** A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Tracking Error:** Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

**What Are The Risks?**

All investments involve risks, including possible loss of principal. Because municipal bonds are sensitive to interest rate movements, the fund's yield and share price will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Investments in lower-rated bonds include higher risk of default and loss of principal. Puerto Rico municipal bonds have been impacted by recent adverse economic and market changes, which may cause the fund's share price to decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. The fund may invest a significant part of its assets in municipal securities that finance similar types of projects, such as utilities, hospitals, higher education and transportation. A change that affects one project would likely affect all similar projects, thereby increasing market risk.

**Important Legal Information**

*Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit [franklintempleton.com](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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5. Effective 01/03/2006, the fund began offering Advisor Class Shares. For periods prior to the fund's Advisor Class inception date, a restated figure is used based on the fund's oldest share class, Class A1 performance, excluding the effect of Class A1's maximum initial sales charge but reflecting the effect of the Class A1 Rule 12b-1 fees; and b) for periods after the fund's Advisor Class inception date, actual Advisor Class performance is used, reflecting all charges and fees applicable to that class.



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