

# Franklin California Intermediate-Term Tax-Free Income Fund

**Advisor Class: FRCZX Class A: FCCQX** 

Commentary | as of September 30, 2025

# **Key Takeaways**

- Markets: In the third quarter of 2025 (Q3), a new issuance of municipal (muni) bonds exceeded the average seen in the
  past few years, driven by a 34% year-over-year surge in July issuance, per Bloomberg. By quarter end, the yield on the
  benchmark 10-year US Treasury (UST) note fell by eight basis points (bps) to 4.15%, while the 30-year UST yield
  decreased by four bps to 4.73%. US markets rose on clearer tariff policies, economic resilience, and a more dovish Fed,
  which cut rates by 25 bps to 4.00%-4.25% in September.
- **Detractors**: Security selection in A rated bonds, overweight allocation to muni bonds with no external credit rating and underweight allocation to muni bonds with five to 10 years to maturity.
- Contributors: Overweight allocation to muni bonds with 20 or more years to maturity and underweight allocation to AA rated bonds.
- Outlook: Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more
  challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying
  relative value and preserving portfolio quality.

#### **Performance Review**

- Over the quarter, Franklin California Intermediate-Term Tax-Free Income Fund underperformed its benchmark, the Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond Index.
- The fund's yield curve positioning curbed relative performance during the third quarter, primarily driven by our underweight to muni bonds with five to 10 years to maturity. However, this was partially offset by our overweights to muni bonds with 20 or more and two years to maturity, which limited some of the losses.
- Rating allocations detracted from relative returns for the period, owing to our overweight to bonds with no external
  credit rating. Conversely, our underweight to AA rated bonds partially lifted results. Security selection detracted from
  relative results, particularly due to selection in A and AA rated securities.

#### Outlook

- Muni bond issuance exceeded historical averages in Q3 as issuers, who had been reluctant to issue new bonds under the
  looming threat to their tax-exempt status, came to market. Positive fund flows into the asset class were not able to keep up
  with the supply. The muni bond yield curve continues to steepen, with longer-maturity bond valuations cheapening
  somewhat
- Fundamentals remain broadly stable, however, as the economy slows and inflationary pressures ease, tax revenue growth at the state and local level is expected to moderate, placing greater importance on credit selectivity going forward.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields are near multi-year highs, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

### Morningstar Rating™

Overall Rating as of September 30, 2025



(4-Star) Advisor Class



(3-Star) Class A

As of 09/30/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 53, 52 and 42 Muni California Intermediate 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

<b>Fund Characteristics</b>	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	3.30%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.22%
Taxable Equivalent Yield (Advisor Class)—With Waiver	7.04%
Taxable Equivalent Yield (Advisor Class)— Without Waiver	6.87%

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

			Without Sales Charge						With Maximum Sales Charge							Expenses		Sales Charges	Inception	
Class	CUSIP	Ticker	3-Мо	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	352519888	FRCZX	2.58	2.60	1.77	4.34	0.83	1.82	4.07	2.58	2.60	1.77	4.34	0.83	1.82	4.07	0.57	0.49		9/21/1992
Class A	352519813	FCCQX	2.52	2.50	1.52	4.09	0.58	1.62	3.97	0.21	0.20	-0.76	3.30	0.12	1.39	3.90	0.82	0.74	2.25 —	9/21/1992
Benchmark	_	_	3.25	4.76	3.34	4.60	0.94	2.10	_	3.25	4.76	3.34	4.60	0.94	2.10	_	_	_		_

## Benchmark(s)

Benchmark = Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond 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 10/31/2008 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 10/31/2008, a restated figure is used based on the fund's Class A1 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 10/31/2025 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. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Portfolios focused on a single state are subject to greater risk of adverse economic and regulatory changes in that state than a geographically diversified fund. 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. An investor may be subject to the federal Alternative Minimum Tax, and state and local taxes may apply. These and other risks are discussed in the fund's prospectus.

#### Glossary

A basis point (bp, or bps) is one one-hundredth of one percent (1/100% or 0.01%).

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

## **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 Fund's benchmark is the **Bloomberg Municipal M.F. CA Intermediate Index**. The **Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond Index** reflects performance of the Bloomberg 10-Year Municipal Bond Index from the fund's inception through 11/29/1993 and the Bloomberg Municipal M.F. CA Intermediate Index thereafter. The **Bloomberg Municipal M.F. CA Intermediate Index** measures the performance of investment-grade California municipal bonds with maturities of at least five years and less than 10 years. Source: Bloomberg Indices.

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

The **30-day SEC 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.

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/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 received 3-year period actually has the greatest impact because it is included in all three rating periods. The fund's Advisor Class shares received a Morningstar Rating of 4, 4 and 3 and fund's Class A shares received a Morningstar Rating of 3, 3 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A 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.

