

Franklin Total Return Fund

Advisor Class: FBDAX Class A: FKBA

Commentary | as of June 30, 2025

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. Fixed income spreads generally widened in April amid US President Donald Trump's "Liberation Day" tariff announcements. A subsequent 90-day pause for most of the increased levies and the passage of the "One Big Beautiful Bill" spending package after quarter-end helped reduce fixed income market uncertainties.
- **Contributors:** Exposure to high-yield (HY) corporate and overweight allocations to investment-grade (IG) corporate bonds, senior secured floating-rate bank loans and collateralized loan obligations (CLOs). Overweight allocations to agency mortgage-backed securities (MBS), non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities. US duration positioning.
- **Detractors:** Security selection in IG corporate bonds.
- **Outlook:** In our view, the US Federal Reserve (Fed) is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. We expect longer-term rates to continue to climb higher through the rest of the year.

Performance Review

- The fund's exposure to HY corporate bonds contributed to relative performance, as did overweight allocations to IG corporate bonds, senior secured floating-rate bank loans and CLOs. Conversely, security selection in IG corporate bonds hindered results. During the quarter, we increased our allocation to IG corporate bonds. We trimmed our exposure to HY corporate bonds, senior secured floating-rate bank loans and CLOs.
- US duration positioning contributed to results.
- Overweight allocations to MBS and RMBS contributed to results. We maintained our MBS allocation while increasing our RMBS exposure.

Outlook

- In our view, the Fed is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. Companies are expected to raise prices as pre-tariff inventories diminish, leading to a likely rise in core goods inflation. Furthermore, average US tariff rates remain historically high despite a temporary easing in US-China trade tensions. We therefore expect potentially higher inflation and slower growth. With inflation still above target and risks skewed to the upside, we expect the Fed to maintain its pause. Amid still-resilient industrial production and retail sales, we believe the Fed is likely to stay on hold until there is clear evidence of labor market deterioration without a simultaneous rise in inflation.
- The "One Big Beautiful Bill" spending package will further increase the US deficit over the next decade. Combined with factors such as uncertain trade policy (which has raised stagflationary concerns) and an expansionary fiscal policy (which implies greater debt issuance), we expect longer-term rates to continue to climb higher through the rest of the year.
- For the corporate credit sectors, we maintain our emphasis on diligent security selection and individual company fundamentals. IG credit fundamentals have remained supportive. While we believe IG corporate bonds continue to offer relatively attractive yield, spread levels offer little cushion for further economic, market or geopolitical surprises. In our view, spreads are likely to remain in a trading range but, at current levels, are more likely to widen than tighten. In the lower-credit-quality HY and floating-rate bank loan sectors, although we remain broadly constructive amid generally supportive technical conditions, we continue to favor quality companies amid persistent market bifurcation and idiosyncratic opportunities as we evaluate each company's fundamentals and exposure to different possible policy alternatives.
- For securitized sectors, our generally neutral stance remains largely unchanged. Prepayment risk remains minimal, and mortgage credit quality remains high. The fundamental and technical outlook for the sector remains favorable, with attractive relative value to IG corporates. We also anticipate increased demand from banks if the yield curve normalizes or regulatory uncertainty dissipates. For RMBS, heightened macroeconomic uncertainty due to the Trump administration's fiscal and foreign policies and tense geopolitical climate could result in more periods of elevated rate volatility and "risk-off" episodes. We therefore prefer a defensive positioning at the top of capital stack in higher carry profile bonds with limited extension risk. Despite our generally cautious stance, we are finding value and identifying opportunities in higher-quality fixed income investments.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	6.07 Years
30-Day SEC Yield (Advisor Class)—With Waiver	4.49%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.30%

Sector Exposure (% of Total)

Sector	Fund
Agency Mortgage-Backed Securities	37.38
Investment Grade Corporates	36.63
U.S. Treasuries	16.32
Collateralized Loan Obligation	6.65
High Yield Corporates	4.87
Residential Mortgage-Backed Securities	3.81
Bank Loans	3.05
Commercial Mortgage Backed Securities	2.73
Other	9.51
Cash & Cash Equivalents	-15.38

Credit Quality Exposure (% of Total)

Rating	Fund
AAA	10.42
AA	57.40
A	13.95
BBB	24.80
BB	4.62
B	3.95
CCC	0.35
NR	2.59
Not Applicable	0.02
Cash & Cash Equivalents	-15.38

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	353612849	FBDAX	1.46	3.88	6.30	3.19	-0.11	1.57	4.10	1.46	3.88	6.30	3.19	-0.11	1.57	4.10	0.69	0.49	—	—	8/3/1998
Class A	353612856	FKBAX	1.41	3.78	6.08	2.96	-0.33	1.33	3.84	-2.35	-0.12	2.09	1.66	-1.09	0.94	3.69	0.94	0.74	3.75	—	8/3/1998
Benchmark	—	—	1.21	4.02	6.08	2.55	-0.73	1.76	—	1.21	4.02	6.08	2.55	-0.73	1.76	—	—	—	—	—	—

Benchmark(s)

Benchmark = Bloomberg US Aggregate 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 8/3/1998. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 8/3/1998, 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.

During periods of rising inflation, fund yields can vary significantly from month-to-month and may not be repeated.

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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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**. **Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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

A **collateralized loan obligation (CLO)** is a single security backed by a pool of debt.

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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 **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity. Source: Bloomberg Indices.

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

Effective Duration is a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change. Duration measures the sensitivity of price (the value of principal) of a fixed-income investment to a change in interest rates. The higher the duration number, the more sensitive a fixed-income investment will be to interest rate changes. 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.

Credit Quality is a measure of a bond issuer's ability to repay interest and principal in a timely manner. The credit ratings shown are based on each portfolio security's rating as provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. and typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. For this purpose, the manager assigns each security the middle rating from these three agencies. When only two agencies provide ratings, the lower of the two ratings will be assigned. When only one agency assigns a rating, that rating will be used. Foreign government bonds without a specific rating are assigned a country rating, if available. Securities that are unrated by all three agencies are reflected as such. The credit quality of the investments in the Fund's portfolio does not apply to the stability or safety of the Fund. These ratings are updated monthly and may change over time.

Please note, the Fund itself has not been rated by an independent rating agency.

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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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