FRANKLIN TEMPLETON

Franklin California High Yield Municipal Fund

Advisor Class: FVCAX Class A: FCQAX | **Commentary | as of December 31, 2025**

Key Takeaways

- **Markets:** In the fourth quarter of 2025 (Q4) new issuance of municipal (muni) bonds increased 14% year-over-year compared to 2024, culminating in a new annual record with tax-exempt issuance surpassing $500 billion. By quarter end, the yield on the benchmark 10-year UST note moved two basis points (bps) higher to 4.17%, and the yield on the 30-year UST bond increased by 11 bps to 4.84%. US market sentiment dipped in throughout the quarter due to consumers concerns over personal finances problems, driven by weak labor and persistent inflation expectations, according to the latest University of Michigan's consumer surveys. The mid-November resolution of the US federal government shutdown supported sentiment through year-end. Federal Reserve (Fed) policy also drove overall returns, with three consecutive 25-bp rate cuts which were well received by the market. However, the future path of cuts grew ambiguous as Fed members were split on the need for further adjustments.
- **Contributors:** Overweight allocation to muni bonds with 20 or more years to maturity, overweight allocation to muni bonds with no external credit rating and security selection in BB rated bonds.
- **Detractors:** Security selection in AA rated bonds, off benchmark position in BB rated bonds and underweight allocation to muni bonds with six months to 10 years to maturity.
- **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 High Yield Municipal Fund outperformed its benchmark, the Bloomberg Municipal Bond California Exempt Index.
- The fund's yield curve positioning contributed to relative performance during the fourth quarter, primarily driven by an overweight to muni bonds with 20 or more years to maturity. In addition, off benchmark positions in US Treasuries with two- to five-year maturities were beneficial. However, underweights to muni bonds with six-month to 10-year maturities curbed returns.
- Rating allocations benefited relative returns for the period, led by overweight allocations to bonds with no external credit rating and bonds rated B and BBB. Conversely, an off benchmark allocation to BB rated bonds detracted, an underweight to AA rated bonds and an overweight to A rated bonds partially mitigated some of those gains. Security selection benefited relative results, particularly due to selection in BB, BBB and A rated securities. Meanwhile, selection in AA rated securities hindered results

Outlook

- While Q4 muni bond issuance exceeded historical averages, the pace of issuance slowed going into year-end, nonetheless full-year issuance exceeded last year's already elevated levels. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach exceptional highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. This provides a stronger technical backdrop as demand has also increased over the past several months. The muni-bond yield curve remained relatively stable during the quarter.
- Fundamentals remain stable; however, slower economic growth will limit expansion in revenues across many sectors, in particular tax revenues. Rainy day funds remain healthy at the state and local government levels, which bolster fiscal resilience despite ongoing expense growth.
- Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, 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 December 31, 2025

★★★★★ **(5-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 12/31/2025 the fund's Advisor Class shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 101, 101 and 77 Muni California Long 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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	4.38%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.36%
Taxable Equivalent Yield (Advisor Class)—With Waiver	9.34%
Taxable Equivalent Yield (Advisor Class)—Without Waiver	9.30%

Average annual total returns and fund expenses (%) - as of December 31, 2025

			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	354025801	FVCAX	1.76	3.26	3.26	4.29	0.77	2.72	4.93	1.76	3.26	3.26	4.29	0.77	2.72	4.93	0.55	0.55	—	—	5/3/1993
Class A	354025835	FCQAX	1.70	3.01	3.01	4.03	0.52	2.53	4.82	-2.12	-0.86	-0.86	2.72	-0.24	2.14	4.70	0.80	0.80	3.75	—	5/3/1993
Benchmark	—	—	1.55	4.11	4.11	3.76	0.76	2.29	—	1.55	4.11	4.11	3.76	0.76	2.29	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg Municipal Bond California Exempt 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 11/15/2006 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 11/15/2006, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, 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. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 06/30/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. 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 **Bloomberg California Municipal Bond Exempt Index** is a market value-weighted index of California investment-grade fixed-rate municipal bonds with maturities of one year or more.

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

Source: Bloomberg Indices.

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®, 12/31/2025. 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 recent 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 5, 5 and 5 and fund's Class A shares received a Morningstar Rating of 4, 4 and 5 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. 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.