FRANKLIN TEMPLETON

Franklin Floating Rate Daily Access Fund

Advisor Class: FDAAX Class A: FAFRX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets**: Global growth data released during the second quarter of 2026 painted a generally resilient picture despite the ongoing war in the Middle East, although the euro area remained a pocket of weakness. Inflation rates were mostly higher, partly as the effects of higher energy prices related to the war fed into the data. The US Federal Reserve (Fed) kept the fed funds rate unchanged over the quarter, although its tone turned more hawkish at its June meeting.
- The bank loan market performed strongly in the second quarter, benefiting from resilient economic fundamentals, rising Treasury yields and a more hawkish Fed. Bank loans saw positive returns during period, delivering their highest return since the second quarter of 2025. Loan performance in June was led by lower-tier credits, as CCC rated credits outperformed BB and B rated loans. However, year-to-date loan performance has been led by the BB rated cohort.
- Loan spreads widened to a 2.5-month high in June (and are up year-to-date [YTD]), accompanied by elevated sector dispersion amid rapidly evolving Fed expectations, less supportive technicals and renewed weakness in the software space. As well, the percentage of loans trading above par slid in June to a 2.5-month low of 24%. Loans reported their third consecutive monthly inflow in June, following outflows totaling -$5.8B in February and March. Loan primary market activity decreased -27% month-over-month in June, down from a four-month high in May. Second quarter new US CLO volume saw 282 deals totaling $126.8B, up from the first quarter's volume of 227 deals totaling $101B.
- **Contributors:** Security selection contributed to absolute fund performance during the quarter.
- **Detractors:** Ratings-quality exposure detracted from absolute fund results, as did yield curve positioning.
- **Outlook:** We expect company-specific fundamentals to remain the primary driver of performance as the loan market continues to bifurcate between issuers with ample financial flexibility and those facing mounting refinancing and operational challenges.

Performance Review

- **Security Selection:** Contributions were led by security selection in the Retailers, Media Non Cable, Industrials and Healthcare sectors.
- **Ratings-Quality:** Allocations to lower-quality Caa and Ca rated loans detracted from performance during the quarter, while allocations to Baa rated loans positively contributed.
- **Industry Allocations:** As the fund's industry allocations were largely neutral (but positive) during the quarter, underweighted exposure to the Media Cable sector, which helped performance, offset underweighted exposure to the Chemicals sector, which hurt.

Outlook

- Following heavier outflows earlier this year, flows to the asset class turned positive in May, as projections of higher rates contributed to stronger demand. However, YTD flows have remained negative, totaling -$6.8B. We expect mixed flows going forward as we believe that inflationary pressures may keep rates higher for longer, while higher US Treasury yields should contribute to demand for floating rate asset classes. However, macro uncertainty and higher software exposure may continue to limit demand from retail investors.
- With regard to fundamentals, we believe that the near-term loan maturity wall is healthy as issuers have successfully pushed out maturities, with only 3.1% set to mature in 2026 and 2027. Maturity rates increase meaningfully in 2028 (to 16.5%) and 2029 (to 13.1%), with software issuers comprising a disproportionate share of maturities due in both years. The leveraged loan market remains fundamentally stable, in our view, but credit conditions continue to diverge meaningfully across issuers. Looking ahead, the market's focus seems to be gradually shifting from near-term fundamentals towards medium-term refinancing risk. Encouragingly, many companies have already begun addressing these obligations through refinancings and liability management activity, but we believe that lower-rated borrowers and issuers facing sector-specific challenges remain vulnerable if capital market conditions deteriorate.
- New issuance to finance leveraged buyouts (LBOs) has reaccelerated YTD, outpacing last year due to a handful of new deals. However, despite the increase in issuance, demand has continued to outstrip supply. We expect issuance related to LBOs to improve, which would help CLO vehicles source collateral and be supportive of new CLO issuance, although primary activity will likely remain uneven, skewed toward higher-quality issuers and non-software issuers. CLO issuance remains strong, but has lagged last year's record pace. AAA demand has also been strong, as CLO exchange traded funds have seen inflows. An increase in net new loan supply should be supportive of CLO issuance moving forward. We expect that CLO demand will help to support prices for higher-quality loan issuers, but will continue to contribute to bifurcation as vehicles avoid deeply discounted names and unfavored sectors, such as software. We also expect inflationary pressures to persist, which should be supportive of demand for floating rate asset classes, as rates remain higher for longer.
- Overall, we think the backdrop for leveraged loans remains constructive, particularly for higher-quality issuers. However, the combination of slowing earnings growth, elevated leverage among weaker credits, a growing (2028-2030) maturity wall and continued reliance on liability management exercises suggests that credit selection will remain paramount. As the market continues to bifurcate between issuers with ample financial flexibility and those facing mounting refinancing and operational challenges, we expect company-specific fundamentals to remain the primary driver of performance.

Morningstar Rating™

Overall Rating as of June 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 06/30/2026 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 199, 188 and 166 Bank Loan 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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	8.12%
30-Day SEC Yield (Advisor Class)—Without Waiver	8.10%

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of June 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	353612781	FDAAX	1.71	1.08	2.88	7.07	6.05	4.44	4.02	1.71	1.08	2.88	7.07	6.05	4.44	4.02	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	1.79	1.09	2.63	6.86	5.80	4.19	3.77	-0.55	-1.18	0.38	6.07	5.31	3.95	3.67	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	1.88	1.31	4.36	7.55	6.01	5.50	—	1.88	1.31	4.36	7.55	6.01	5.50	—	—	—	—	—	—

Benchmark(s)

Benchmark =Morningstar LSTA U.S. Leveraged Loan 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.*
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. 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. **The fund should not be considered an alternative to money market funds or certificates of deposit (CDs). Floating-rate loans and debt securities** are typically rated below investment grade and are subject to greater risk of default, which could result in loss of principal. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. **Active management** does not ensure gains or protect against market declines. 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

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

Important Information

Effective March 1, 2024, the fund changed its benchmark to the Morningstar LSTA US Leveraged Loan Index.

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 **Morningstar LSTA US Leveraged Loan Index** is designed to reflect the performance of the largest facilities in the leveraged loan market. This fund is not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates.

Source: Morningstar®

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®, 06/30/2026. 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 Advisor Class shares received a Morningstar Rating of 3, 5 and 3 and fund's Class A shares received a Morningstar Rating of 3, 4 and 2 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.

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