

Franklin Floating Rate Daily Access Fund

Advisor Class: FDAAX Class A: FAFRX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The loan market saw a continuation of several themes over the last quarter – investors remain cautious, leading to bifurcation in the market. The themes include low investor appetite to put money to work, lackluster new issue supply, steady collateralized loan obligation (CLO) demand, and mild retail outflows. Idiosyncratic headlines seem to be a focus in the market – the sudden bankruptcy of First Brands was the talk of the town for a majority of the quarter, and even though it was highly specific to that one issuer, did cause ripple effects on loan issuers in the automotive sector and a general risk off sentiment in the loan market for several weeks. Additionally, discount margins on loans moved wider across the quarter.
- **Contributors:** Security selection in the retailers and transportation sectors.
- **Detractors:** Security selection in automotive and packaging related bonds.
- **Outlook:** On balance, we maintain our view that loan spreads will be generally range-bound with a bias toward widening in the near term, with choppiness over the coming months as the tariff and rate situation evolves. We view pockets of market volatility as opportunities to invest in fundamentally strong issuers with solid balance sheets, capital market access and lasting competitive advantages. Over the one-year period, we think loan spreads should remain stable, assuming a favorable or neutral macroeconomic environment.

Performance Review

- **Our ratings quality tilt detracted from quarterly returns.**
- **Security selection had a neutral impact on performance** as gains from selection in the retailers, transportation and technology sectors was fully offset by negative results from selection in automotive, packaging and healthcare related issues.
- **Industry allocations also had limited effect on results.** Underweight exposure to the chemical sector and overweight holdings in the finance and transportations segments of the market were accretive to returns. This was offset by an overweight to the automotive sector which detracted from performance.

Outlook

- Investors are looking at loans with increasing visibility on rate cuts, a healthier M&A outlook, technical headwinds but fundamental tailwinds particularly among the more stressed portion of the market.
- We think in the near-term technical conditions could be heavy as investors weigh this floating rate asset class in the context of falling rates, which could accelerate if a dovish Fed chair is appointed next year. However, we believe that the terminal rate should settle higher than it has in the past, given the fiscal deficit. Further, we think rapid rate cuts have the potential to create inflationary conditions, which may actually merit rate hikes in the medium term. Lastly, we think the tariff situation still is evolving and we will see changes over the coming months.
- On the positive side, in the near term, we think a falling rate environment will provide fundamental tailwinds to the lower quality loan issuers by way of easing interest burdens and will help them address near-term maturities. Overall, though, the loan market is in decent shape, with lower spreads post repricings, a lower maturity wall, improving interest coverage, and stabilizing or improving topline/margins in a constructive macro environment.
- We also believe that the CLO demand will provide key support to loan spreads, and act as a stabilizer in the market, as it has for the last decade, and could help mute the impact of continued retail outflows.
- All in all, in a year where volatility is likely to persist, we believe loan spreads will remain rangebound with a bias towards slight widening, given a steady macroeconomic background. In pockets of volatility, we would look for opportunities to add to issuers that we deem fundamentally sound and investable through market cycles. We think future performance will again be driven by selection, and we continue to stay focused on being selective in our portfolio construction.

Morningstar Rating™

Overall Rating as of December 31, 2025



(4-Star) Advisor Class



(4-Star) Class A

As of 12/31/2025 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 212, 201 and 173 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.

Fund Characteristics

Distribution Frequency	Fund
30-Day SEC Yield (Advisor Class)—With Waiver	Monthly 6.92%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.90%

Average annual total returns and fund expenses (%) - as of December 31, 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	353612781	FDAAX	0.75	4.63	4.63	9.29	6.91	4.84	4.06	0.75	4.63	4.63	9.29	6.91	4.84	4.06	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	0.55	4.36	4.36	9.03	6.65	4.58	3.80	-1.67	1.96	1.96	8.20	6.17	4.34	3.70	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	1.22	5.90	5.90	9.29	6.42	5.83	—	1.22	5.90	5.90	9.29	6.42	5.83	—	—	—	—	—	—

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 02/28/2026 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

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

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.

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

Source: Morningstar®

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 Class A shares received a Morningstar Rating of 4, 5 and 3 and fund's Advisor Class shares received a Morningstar Rating of 4, 5 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Class A and Advisor Class 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.