FRANKLIN TEMPLETON

Franklin Floating Rate Daily Access Fund

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

Key Takeaways

- **Markets:** Geopolitical developments remained a focus during the third quarter (Q3) of 2026, with receding expectations of a settlement nearer to quarter-end resulting in oil prices surging to over US$100/barrel, compared to around US$72/barrel in early July. This energy price move, combined with an increasingly hawkish central bank outlook, drove market moves especially nearer the end of the quarter. The US dollar (USD) was modestly stronger over the quarter, with mixed performance against other currencies. Notably, the Japanese yen appreciated against the USD over the period as it benefited from intervention during the quarter. Following on increasingly hawkish rhetoric, the US Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. The benchmark 10-year UST yield rose 82 bps over the quarter to 5.28%, its highest level since mid-2007. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield sectors.
- The Leveraged Loan market saw its strongest quarterly return since the second quarter of 2025, largely driven by strong collateralized loan obligation (CLO) issuance, steady inflows and a rising interest rate environment. Total US institutional loan activity reached roughly $195 billion (bn) over the quarter. Overall year-to-date (YTD) issuance was down compared to 2025, however, primarily due to a slower pace of repricing/refinancing. US gross CLO issuance volume reached $131.3 bn, bringing the YTD total to $361.1 bn across 822 deals. Non-US gross CLO volume (primarily driven by the European market) reached a total of €36.0 bn (US$40.3 bn) across 84 deals.
- **Contributors:** Industry allocations were the primary contributor to fund performance, followed by ratings-quality tilt.
- **Detractors:** Yield curve positioning detracted from the fund's results during the month, as did security selection.
- **Outlook:** The loan market has not had any large allergic reaction to the Iran war or the inflationary pressure that has created. So far fundamentals remain constructive, and we broadly expect that most industries in the loan market will acceptably weather any incremental pressures from here on. We do however expect that the lower rated issuers who either have a maturity coming up and/or have cash flow pressures, could incrementally buckle under higher rates.

Fund Characteristics

Fund Characteristics	Fund
Distribution Frequency	Monthly
30-Day SEC Yield (Advisor Class)—With Waiver	6.64%
30-Day SEC Yield (Advisor Class)—Without Waiver	6.63%

Performance Review

- **Industry Allocations:** Underweighted exposure to media cable lifted performance during the quarter, as did the fund's overweighted allocation to technology. However, overweighted allocations to automotive and restaurants detracted from results, as did underweighted exposure to chemicals.
- **Ratings-Quality Tilt:** Allocations to BB rated loans boosted returns during the quarter. CC rated loans hindered results.
- **Security Selection:** At the sector level, security selection in the finance, restaurants and building segments of the loan market were the primary detractors from fund performance. Conversely, selections in technology, media non cable and transportation meaningfully helped results.

Outlook

- Overall, we are constructive on the fundamental picture for the broadly syndicated loan market. The asset class continues to be driven by a lot of the same factors over the YTD period but remains relatively steady despite a changing interest rate outlook and ongoing conflict in the Middle East. Demand for the asset class has improved and CLO demand continues to be healthy, supporting the new issue calendar. Flows have also turned modestly positive following the Fed's rate hike in September.
- From a fundamental perspective, most companies remain in a relatively strong place with positive trends across key metrics and overall default rates remaining below long-term averages. Liability Management Exercises (LMEs) have continued to dominate default statistics and the stressed cohort. There is noticeable bifurcation in the market, with lower-rated issuers facing pressures, while most issuers remain in good standing (about 46% of the market is trading above par). This is a strong case for active management. We remain highly selective on CCC and lower-rated B credits.
- The loan market has not had any large allergic reaction to the US-Iran war or the inflationary pressure that it has created. So far, fundamentals remain constructive and we broadly expect that most industries in the loan market will acceptably weather any incremental pressures going forward. We do, however, expect that lower-rated issuers who either have a maturity coming up and/or have cash flow pressures could incrementally buckle under higher rates. We expect spreads to moderately widen, with continued supply from data center issuance and pent-up merger and acquisition (M&A) activity, but overall yields and carry will continue to drive returns, which at 8.6% for three-year yields remain attractive, in our view.

Not FDIC Insured | No Bank Guarantee | May Lose Value

Average annual total returns and fund expenses (%) - as of September 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	1.74	2.84	3.60	6.27	5.96	4.19	4.05	1.74	2.84	3.60	6.27	5.96	4.19	4.05	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	1.67	2.79	3.35	6.06	5.70	3.93	3.80	-0.66	0.48	1.07	5.24	5.22	3.70	3.70	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	1.95	3.29	4.55	7.03	6.19	5.38	—	1.95	3.29	4.55	7.03	6.19	5.38	—	—	—	—	—	—

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

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

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

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.

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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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