

# Franklin Floating Rate Daily Access Fund

Advisor Class: FDAAX Class A: FAFRX

Commentary | as of June 30, 2025

## Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. During April, fixed income spreads generally widened amid US President Donald Trump's "Liberation Day" tariff announcements due to fears that they could lead to a drop in growth and a new round of inflationary pressures. 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. Against this backdrop, bank loan sector returns were generally positive with tighter spreads.
- **Detractors:** Security selection in information technology and health care issuers. Underweight loan allocation in the cable/wireless video and housing industries. Cash exposure.
- **Contributors:** Security selection in leisure, automotive transportation and service issuers. Overweight loan allocation in the retail and diversified media industries. Underweight in the food/tobacco segment. Allocation to equity received from prior restructurings. Overweight allocation in middle-tier loans relative to the index.
- **Outlook:** Although bank loan fundamentals in general have remained relatively healthy, we expect loan market bifurcation to persist. Against this backdrop, we remain focused on diligent security selection.

## Performance Review

- During the quarter, our overall loan selection contributed to relative performance, led by selection in leisure, automotive transportation and service issuers. Conversely, our selection in information technology and health care issuers hindered results.
- During the quarter, our overweight loan allocation in the retail and diversified media industries and underweight in the food/tobacco segment contributed to relative performance. Our allocation to equity received from prior restructurings also benefited results. Conversely, our underweight loan allocation in the cable/wireless video and housing industries detracted from performance, as did our cash exposure.
- The fund's overweight allocation in middle-tier loans relative to the index contributed to results.

## Outlook

- During the period, technical conditions remained strong, with spreads trending tighter. While there has been an increase in new issuance activity, new money opportunities remain limited, and supply is tight, while demand from new collateralized loan obligation (CLO) issuance and retail flows remains steady. Technical tailwinds have led to opportunistic refinancing and repricing deals. A return of merger and acquisition transactions could contribute toward relieving the supply-and-demand imbalance and be supportive of bank loan spreads. We continue to believe that overall loans will continue to be supported by healthy demand in the current interest-rate environment, both from retail investors and CLOs.
- Bank loan fundamentals in general have remained relatively healthy. Recent geopolitical tensions stemming from the Iran conflict have led to a muted response from markets. Investors and issuers alike remain in a wait-and-see mode regarding implementation of the latest round of US tariffs on most trading partners (which was subsequently extended to August 1).
- We expect loan market bifurcation to persist. While there are solid oversubscribed credits currently trading at par-plus with tight spreads, we are encouraged to see investor discipline on issuances that have historically been stressed. Amid relatively stable (though bifurcated) fundamentals, higher-for-longer rates, policy uncertainty and the potential for trade war re-escalation, we could continue to see pressure on ratings in the near term. We believe pockets of volatility should be viewed as opportunities to add to positions among issuers that are fundamentally sound, with solid competitive advantages and strong balance sheets. Against this backdrop, we remain focused on diligent security selection.

## Morningstar Rating™

Overall Rating as of June 30, 2025



**(4-Star) Advisor Class**



**(4-Star) Class A**

As of 06/30/2025 the fund's Class A and Advisor Class shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 215, 204 and 174 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

	<b>Fund</b>
Distribution Frequency	Monthly
Effective Duration	0.10 Years
30-Day SEC Yield (Advisor Class)—With Waiver	7.59%
30-Day SEC Yield (Advisor Class)—Without Waiver	7.57%

## Sector Allocation (% of Total)

<b>Sector</b>	<b>Fund</b>
Technology/Information Systems	16.10
Finance	13.10
Services	9.93
Health Care	8.81
Transportation	6.56
Retail	5.19
Industrial	3.96
Gaming/Leisure	3.83
Other	25.61
Cash & Cash Equivalents	6.91

## Credit Quality Exposure (% of Total)

<b>Rating</b>	<b>Fund</b>
BBB	1.03
BB	18.40
B	60.82
CCC	5.47
NR	5.08
Not Applicable	2.29
Cash & Cash Equivalents	6.91

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	353612781	FDAAX	2.82	2.80	6.76	9.77	7.70	4.21	4.07	2.82	2.80	6.76	9.77	7.70	4.21	4.07	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	2.76	2.81	6.50	9.50	7.47	3.96	3.81	0.49	0.44	4.08	8.67	6.98	3.71	3.72	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	2.32	2.81	7.29	9.68	7.45	5.15	—	2.32	2.81	7.29	9.68	7.45	5.15	—	—	—	—	—	—

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](http://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.**

**Morningstar Rating™:** Source: Morningstar®, 06/30/2025. 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.

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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](http://www.franklintempleton.com). Please read it carefully.