

Franklin Floating Rate Daily Access Fund

Advisor Class: FDAAX Class A: FAFRX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** There was a significant swing in financial market sentiment across the first quarter of 2025 as participants digested the first few months of US President Donald Trump's new administration's policies. Although there was no change in the fed funds rate, US Federal Reserve policymakers now expect materially slower growth, higher unemployment and higher inflation this year.
- **Detractors:** Security selection in information technology, health care and diversified media issuers. Allocation to equity received from prior restructurings and cash exposure. Overweight loan allocation in the retail industry. Underweight loan allocation in the telecommunications segment. Overweight allocation in middle-tier loans.
- **Contributors:** Security selection in service, chemical and food issuers. Underweight loan allocation in the housing industry. Overweight loan allocation in the financial segment.
- **Outlook:** Overall, we believe that the loan market is in a better position than it was a few years ago, with a manageable maturity wall and issuers having confronted and mitigated balance sheet issues when possible over the last few years.

Performance Review

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

Outlook

- During March, the bank loan market receded somewhat from tight levels, as investors and issuers took a step back to assess the likely impacts from policy announcements. Overall though, technical conditions remained supportive in the form of healthy collateralized loan obligation (CLO) demand and muted new issue supply. Issuers continued to be nimble in accessing the high-yield, private debt and loan markets for the best financing terms. However, activity slowed down materially in the last week of the month as investors awaited tariff announcements from President Trump's administration.
- Since then, loan prices have not been immune to Trump's "Liberation Day" announcements after quarter-end. Supply and demand have pulled back materially, with the secondary market trading down, CLO liability spreads widening out, and retail funds seeing outflows. As a partial offset, new issue loan supply has dwindled to minimal levels. We see investors being diligent about identifying opportunities in the secondary market and, more importantly, assessing portfolio risks in issuers that will have an outsized impact from an admittedly currently murky tariff picture. On the fundamentals front, we are awaiting first-quarter earnings from loan issuers and will be watching out for changes in forward guidance.
- Overall, we believe that the loan market is in a better position than it was a few years ago, with a manageable maturity wall and issuers having confronted and mitigated balance sheet issues when possible over the last few years. We also believe that further stimulative policy announcements from the administration in the form of tax cuts and/or business deregulation will provide some offset to the pressures that heightened tariffs will create. In this environment of heightened uncertainty, we remain focused on the underlying fundamentals of issuers over the medium term. We do expect that bifurcation will persist as some industries and issuers will be disproportionately impacted by tariff implementations. We therefore remain focused on diligent security selection.

Fund Characteristics

	Fund
Distribution Frequency	Monthly
Effective Duration	0.13 Years
30-Day SEC Yield (Advisor Class)—With Waiver	7.34%
30-Day SEC Yield (Advisor Class)—Without Waiver	7.33%

Sector Allocation (% of Total)

Sector	Fund
Technology/Information Systems	16.89
Finance	11.73
Services	9.11
Health Care	8.78
Transportation	5.97
Retail	4.46
Gaming/Leisure	4.16
Chemicals	3.71
Other	29.29
Cash & Cash Equivalents	5.90

Credit Quality Exposure (% of Total)

Rating	Fund
BBB	1.47
BB	16.76
B	60.05
CCC	5.57
CC	0.62
NR	5.55
Not Applicable	4.09
Cash & Cash Equivalents	5.90

Average annual total returns and fund expenses (%)

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	-0.03	-0.03	5.03	6.83	7.77	3.97	3.99	-0.03	-0.03	5.03	6.83	7.77	3.97	3.99	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	0.04	0.04	4.78	6.57	7.53	3.72	3.74	-2.26	-2.26	2.42	5.77	7.03	3.48	3.64	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	0.48	0.48	6.86	7.21	8.96	4.98	—	0.48	0.48	6.86	7.21	8.96	4.98	—	—	—	—	—	—

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.

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.

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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.