

Franklin Floating Rate Daily Access Fund

Advisor Class: FDAAX Class A: FAFRX

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** The loan market was a tale of two-halves in the first quarter of 2026. Performance in January remained resilient, with continued strong technicals and benign macro news. However, sentiment shifted in February, with artificial intelligence (AI) headlines disrupting the software sector, leading to the worst monthly performance since September 2022. Markets remained volatile during the quarter—the conflict in the Middle East emerged in late February, leading to decompression as buyers looked to shift up in quality. Overall, fundamentals remained constructive in the first quarter despite significant volatility as investors awaited clarity on the broad impacts of heightened geopolitical risks.
- **Contributors:** Security selection contributed to absolute performance during the first quarter.
- **Detractors:** Ratings-quality exposure detracted from absolute results, as did industry allocations and yield curve positioning.
- **Outlook:** Overall, we expect slower growth, but believe the drag should be partially offset by fiscal stimulus.

Performance Review

- **Quality:** Underweighted allocations to lower-quality loans (in the technology sector) was the primary detractor from absolute performance during the quarter. Allocations to Ba-rated loans also detracted from results. However, allocations to Caa-rated loans benefited returns during the period.
- **Industry Allocations:** Underweighted allocations to the energy, media cable and industrial sectors hurt performance during the quarter, while overweighted allocations to the gaming and transportation sectors helped.
- **Security Selection:** Contributions were led by security selection in the technology, retailers and finance segments of the market. Conversely, security selection in the media non-cable, building and packaging sectors curbed results.

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 March 31, 2026



(4-Star) Advisor Class



(4-Star) Class A

As of 03/31/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 203, 192 and 165 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	7.14%
30-Day SEC Yield (Advisor Class)—Without Waiver	7.13%

Average annual total returns and fund expenses (%) - as of March 31, 2026

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	-0.62	-0.62	4.00	7.58	6.35	4.63	3.99	-0.62	-0.62	4.00	7.58	6.35	4.63	3.99	0.72	0.70	—	—	5/1/2001
Class A	353612823	FAFRX	-0.68	-0.68	3.60	7.26	6.09	4.36	3.73	-2.91	-2.91	1.31	6.47	5.62	4.12	3.64	0.97	0.95	2.25	—	5/1/2001
Benchmark	—	—	-0.55	-0.55	4.81	8.00	5.93	5.61	—	-0.55	-0.55	4.81	8.00	5.93	5.61	—	—	—	—	—	

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®, 03/31/2026. 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 Class A shares received a Morningstar Rating of 3, 5 and 3 and fund's Advisor Class shares received a Morningstar Rating of 3, 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.