FRANKLIN TEMPLETON

Franklin Core Plus Bond Fund

Advisor Class: FKSAX Class A: FRSTX | **Commentary | as of September 30, 2026**

Key Takeaways

- **Markets:** Geopolitical developments remained a focus during the quarter, 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 Federal Reserve (Fed) raised the fed funds rate by 25 basis points (bps) at its September meeting, retaining a hawkish outlook. Fixed income volatility measures rose during the quarter. Credit spreads rose over the quarter, with the increases more pronounced in the high-yield (HY) sectors. Total returns in corporate bonds were negative over the quarter. Securitized sectors posted a negative excess return compared to duration-matched Treasuries. By the end of the period, the benchmark 10-year US Treasury yield rose 82 bps to 5.28%, its highest level since mid-2007.
- **Contributors**: Out-of-index positions in senior-secured floating-rate bank loans, collateralized loan obligations (CLOs) and residential mortgage-backed securities (RMBS). Security selection within sovereign emerging market (EM) debt, commercial mortgage-backed securities (CMBS) and HY corporate bonds. Overweight allocations to the 10- and 30-year segments of the yield curve, along with an underweight allocation to the two-year segment.
- **Detractors:** Out-of-index exposure to HY corporate bonds and overweight allocations to agency mortgage-backed securities (MBS) and investment-grade (IG) corporate credit. Selection within senior-secured floating-rate bank loans, asset-backed securities (ABS) and MBS. Overweight allocation to the five-year segment of the curve and an underweight allocation to the 20-year segment.
- **Outlook**: The September Federal Open Market Committee (FOMC) meeting reinforced our view that the Fed is committed to a higher-for-longer path. Following the September hike, we anticipate a second increase by year-end, although we do not expect a return to 2022-style sequential hikes.

Performance Review

- **Sector allocation was a strong contributor to performance** during the period, led by out-of-index positions in senior-secured floating-rate bank loans, CLOs and RMBS. In contrast, out-of-index exposure to HY corporate bonds and overweight allocations to MBS and IG corporate credit detracted from performance.
- **Security selection detracted from returns**, led by selection within senior-secured floating-rate bank loans, ABS and MBS. However, selection within sovereign EM debt, CMBS and HY corporate bonds partially offset these losses.
- **Yield curve positioning detracted from performance**, primarily because of an overweight allocation to the five-year segment of the curve and an underweight allocation to the 20-year segment. In contrast, gains from overweight allocations to the 10- and 30-year segments, along with an underweight allocation to the two-year segment, lifted returns.

Outlook

- On interest rates, Fed Chair Kevin Warsh's Jackson Hole speech in August materially repaired July's communication problem, while the September FOMC meeting saw Warsh backing his rhetoric with action, as the Fed hiked by 25 bps. Moreover, this was more than a one-off adjustment. The Fed does not expect September's hike to be quickly reversed. The projected policy path is not merely higher in the near-term, it is higher for longer because the Fed sees a stronger economy, tighter labor market and more persistent inflation than it did in June. Our base case is for a second 25 bps increase by year-end. A third increase in 2027 remains a possibility should inflation prove sticky or accelerate. However, we do not see this as a return to 2022-style sequential hikes. With the September hike now in the rearview mirror, further upside to front-end yields depends mainly on whether incoming data validates the additional hike indicated in the Fed dot plot.
- IG and HY corporate bonds continue to offer attractive income and carry, in our view, supported by resilient corporate fundamentals, although market technicals are beginning to soften. In IG, spreads finished September at +80 bps and have remained range-bound despite volatility from the Iran conflict and oil price spike, with strong demand from liability-management buyers, retail inflows and foreign buying, supported by attractive all-in yields, offsetting record supply. However, issuance trending toward roughly $2 trillion in 2026, particularly from hyperscalers and artificial intelligence-related infrastructure spending, is creating pockets of pressure and warrants a more tactical approach in supply-heavy sectors. In HY, fundamentals also remain resilient and the default rate remains below long-term averages at 2.68%, although supply from data centers has begun to outpace demand and spreads, while appropriate given the low default environment, are fair but not compelling, in our view. While policy uncertainty, geopolitical tensions, including uncertainty around the Strait of Hormuz and the potential for slower economic growth could drive bouts of volatility, we continue to favor a balanced risk posture, with a bias toward resilient, non-cyclical sectors, while remaining cautious on deeply distressed names and in areas facing elevated supply, weaker consumer fundamentals or greater macroeconomic sensitivity.
- We maintain a neutral outlook on securitized credit, with selectivity the common theme across sectors. In Agency MBS, we have a modestly constructive near-term bias following recent spread widening, as valuations have improved relative to investment-grade corporates and the sector continues to offer compelling carry and high-quality liquidity; we favor 30-year conventionals over 15-year and Ginnie Mae pass-throughs, with selective exposure across seasoned lower coupons and higher coupons, and while agency floaters offer attractive spread income, we are more cautious on longer-average-life floaters given uncertainty around front-end rates. In CMBS, our outlook has shifted to neutral with reasons for concern, as elevated rates raise refinancing risk for commercial real estate borrowers and generic spreads do not fully compensate for it, in our view, so we prefer shorter-spread-duration, loan-specific opportunities, including extension bonds and select seasoned idiosyncratic deals. In non-agency RMBS, housing and borrower fundamentals remain healthy, but tighter

Morningstar Rating™

Overall Rating as of September 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 09/30/2026 the fund's Advisor Class and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 495, 453 and 351 Intermediate Core-Plus Bond 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	5.06%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.98%

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valuations, elevated issuance, higher mortgage rates and greater extension and convexity risk have reduced the appeal of broad exposure. As a result, we favor senior profiles with limited extension risk and shorter spread duration. We are cautious on down-in-stack (lower-rated, subordinated tranches that absorb losses first), on-the-run (most recently issued) credit risk transfer (CRT) bonds, given the flat credit curve. We see attractive opportunities in senior non-performing loan (NPL), re-performing loan (RPL) and residential transition loan (RTL) securities for investors seeking higher returns.

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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	354713737	FKSAX	-3.79	-2.67	-1.66	4.64	1.03	2.30	5.65	-3.79	-2.67	-1.66	4.64	1.03	2.30	5.65	0.56	0.48	—	—	5/24/1994
Class A	354713505	FRSTX	-3.75	-2.86	-1.79	4.38	0.78	2.05	5.43	-7.32	-6.54	-5.51	3.06	0.01	1.67	5.30	0.81	0.73	3.75	—	5/24/1994
Benchmark	—	—	-3.51	-2.91	-1.84	4.06	-0.64	1.14	—	-3.51	-2.91	-1.84	4.06	-0.64	1.14	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg U.S. Aggregate 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.*

The fund began offering Advisor Class shares on 8/12/1999. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 8/12/1999, a restated figure is used based on the fund's Class A performance. The performance was adjusted to take into account differences in class-specific operating expenses and maximum sales charges. (b) For periods after share class offering, performance for the specific share class is used, reflecting the expenses and maximum sales charges applicable to that class.

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 08/31/2027 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

During periods of rising inflation, fund yields can vary significantly from month-to-month and may not be repeated.

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. **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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **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. **Asset-backed, mortgage-backed or mortgage-related securities** are subject to prepayment and extension risks. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. 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.

Commercial mortgage-backed securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets.

Convexity is a measure of the curvature, or the degree of the curve, in the relationship between bond prices and bond yields.

A **Credit Risk Transfer (CRT)** is a channel for government-sponsored enterprises (GSEs) like Fannie Mae and Freddie Mac to transfer credit risk to private investors and away from taxpayers.

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

The **Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve that dictates U.S. monetary policy, specifically targeting the federal funds rate and managing open market operations.

Residential mortgage-backed securities (RMBS) are a type of mortgage-backed debt obligation created from residential debt, such as mortgages, home-equity loans and subprime mortgages.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

Important Information

Effective December 11, 2024, the Franklin Strategic Income Fund changed its name to the Franklin Core Plus Bond Fund and modified its principal investment strategies. Such a change can impact performance.

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 **Bloomberg US Aggregate Index** is comprised of investment-grade, U.S. dollar-denominated government, corporate, and mortgage- and asset-backed issues having at least one year to maturity.

Source: Bloomberg Indices.

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®, 09/30/2026. 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 4 and fund's Advisor Class shares received a Morningstar Rating of 4, 5 and 4 star(s) for the 3-, 5- and 10-year periods,

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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.

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