FRANKLIN TEMPLETON

Franklin Core Plus Bond Fund

Advisor Class: FKSAX Class A: FRSTX | **Commentary | as of June 30, 2025**

Key Takeaways

- **Markets:** There were large swings in financial market sentiment across the second quarter of 2025. Fixed income spreads generally widened in April amid US President Donald Trump's "Liberation Day" tariff announcements. 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.
- **Contributors:** Overweights to high-yield (HY) and investment-grade (IG) corporate bonds and collateralized loan obligations (CLOs). Exposure to senior secured floating-rate bank loans and agency mortgage-backed securities (MBS). Overweight to commercial mortgage-backed securities. Allocation to sovereign emerging market debt.
- **Detractors:** Security selection in HY and IG corporate bonds. Security selection in sovereign emerging market debt. US duration positioning relative to the benchmark.
- **Outlook:** In our view, the US Federal Reserve (Fed) is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. We expect longer-term rates to continue to climb higher through the rest of the year.

Performance Review

- The fund's overweight allocations to HY and IG corporate bonds contributed to relative performance, as did exposure to senior secured floating-rate bank loans and an overweight allocation to CLOs. Conversely, security selection in HY and IG corporate bonds hindered results. During the quarter, we increased our allocations to IG corporate bonds and CLOs. We trimmed our HY corporate bond allocation while maintaining our senior secured floating-rate bank loan exposure.
- Our exposure to MBS contributed to performance. Our overweight to residential mortgage-backed securities (RMBS) also benefited results. We increased our exposure to MBS and RMBS during the quarter.
- US duration positioning relative to the benchmark hindered performance.

Outlook

- In our view, the Fed is unlikely to cut interest rates soon. Despite recent signs of cooling inflation, Fed officials remain cautious due to ongoing tariff-related uncertainties. Companies are expected to raise prices as pre-tariff inventories diminish, leading to a likely rise in core goods inflation. Furthermore, average US tariff rates remain historically high despite a temporary easing in US-China trade tensions. We therefore expect potentially higher inflation and slower growth. With inflation still above target and risks skewed to the upside, we expect the Fed to maintain its pause. Amid still-resilient industrial production and retail sales, we believe the Fed is likely to stay on hold until there is clear evidence of labor market deterioration without a simultaneous rise in inflation.
- The "One Big Beautiful Bill" spending package will further increase the US deficit over the next decade. Combined with factors such as uncertain trade policy (which has raised stagflationary concerns) and an expansionary fiscal policy (which implies greater debt issuance), we expect longer-term rates to continue to climb higher through the rest of the year.
- For the corporate credit sectors, we maintain our emphasis on diligent security selection and individual company fundamentals. IG credit fundamentals have remained supportive. While we believe IG corporate bonds continue to offer relatively attractive yield, spread levels offer little cushion for further economic, market or geopolitical surprises. In our view, spreads are likely to remain in a trading range but, at current levels, are more likely to widen than tighten. In the lower-credit-quality HY and floating-rate bank loan sectors, although we remain broadly constructive amid generally supportive technical conditions, we continue to favor quality companies amid persistent market bifurcation and idiosyncratic opportunities as we evaluate each company's fundamentals and exposure to different possible policy alternatives.
- For securitized sectors, our generally neutral stance remains largely unchanged. Prepayment risk remains minimal, and mortgage credit quality remains high. The fundamental and technical outlook for the sector remains favorable, with attractive relative value to IG corporates. We also anticipate increased demand from banks if the yield curve normalizes or regulatory uncertainty dissipates. For RMBS, heightened macroeconomic uncertainty due to the Trump administration's fiscal and foreign policies and tense geopolitical climate could result in more periods of elevated rate volatility and "risk-off" episodes. We therefore prefer a defensive positioning at the top of capital stack in higher carry profile bonds with limited extension risk. Despite our generally cautious stance, we are finding value and identifying opportunities in higher-quality fixed income investments.

Morningstar Rating™

Overall Rating as of June 30, 2025

★★★★★ **(5-Star)** Advisor Class

★★★★ **(4-Star)** Class A

As of 06/30/2025 the fund's Advisor Class shares received a 5 star and Class A shares received a 4 star overall Morningstar rating™, measuring risk-adjusted returns against 541, 480 and 353 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.

Fund Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	5.97 Years
30-Day SEC Yield (Advisor Class)—With Waiver	4.78%
30-Day SEC Yield (Advisor Class)—Without Waiver	4.71%

Sector Exposure (% of Total)

Sector	Fund
Investment Grade Corporates	34.22
Agency Mortgage-Backed Securities	33.31
U.S. Treasuries	14.44
High Yield Corporates	12.27
Collateralized Loan Obligation	4.31
Commercial Mortgage Backed Securities	4.11
Residential Mortgage-Backed Securities	3.64
Non-Local Currency Emerging Market Bonds	2.67
Other	6.52
Cash & Cash Equivalents	-18.52

Credit Quality Exposure (% of Total)

Rating	Fund
AAA	6.56
AA	50.85
A	11.34
BBB	25.16
BB	6.88
B	8.22
CCC	0.48
NR	3.60
Not Applicable	1.15
Cash & Cash Equivalents	-18.52

Average annual total returns and fund expenses (%) - as of June 30, 2025

			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	1.59	4.07	6.31	5.72	2.74	2.54	5.87	1.59	4.07	6.31	5.72	2.74	2.54	5.87	0.59	0.50	—	—	5/24/1994
Class A	354713505	FRSTX	1.52	3.82	5.93	5.42	2.47	2.28	5.64	-2.25	-0.08	1.96	4.08	1.70	1.89	5.51	0.84	0.75	3.75	—	5/24/1994
Benchmark	—	—	1.21	4.02	6.08	2.55	-0.73	1.76	—	1.21	4.02	6.08	2.55	-0.73	1.76	—	—	—	—	—	—

Benchmark(s)

Benchmark =Bloomberg US 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 12/31/2025 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. **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 **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.

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.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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.

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 Advisor Class shares received a Morningstar Rating of 5, 5 and 4 and fund's Class A shares received a Morningstar Rating of 5, 5 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings.

Franklin Distributors, LLC. Member FINRA/SIPC.

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.