FRANKLIN TEMPLETON

Franklin Flexible Alpha Bond Fund–Class A, C

Multi-Sector
Fixed Income
September 30, 2019

Product Profile

Product Details[1]

Fund Assets	$407,237,713.52
Fund Inception Date	08/03/2015
Investment Style	Multi-Sector
Benchmark	LIBOR 90 Day (USD) Index
Lipper Classification	Absolute Return Bond Funds
Morningstar Category™	Nontraditional Bond
Dividend Frequency	Monthly

	Inception Date
Class A	08/03/2015
Class C	08/03/2015

	CUSIP	NASDAQ Symbol
Class A	354 713 232	FABFX
Class C	354 713 224	FABDX

	Maximum Sales Charges
Class A	3.75% initial sales charge
Class C	1.00% contingent deferred sales charge (CDSC) in the first year only

	Total Annual Operating Expenses	
	With Waiver	Without Waiver
Class A	1.17%	1.26%
Class C	1.57%	1.66%

	30-Day Standardized Yield[2]	
	With Waiver	Without Waiver
Class A	2.44%	2.33%
Class C	2.13%	2.02%

This fund is proposing to reorganize into Franklin Low Duration Total Return Fund effective 10/25/2019, subject to shareholder approval. This date is subject to change. In preparation for the proposed reorganization, the fund closed to new investors with limited exceptions on 8/27/2019.

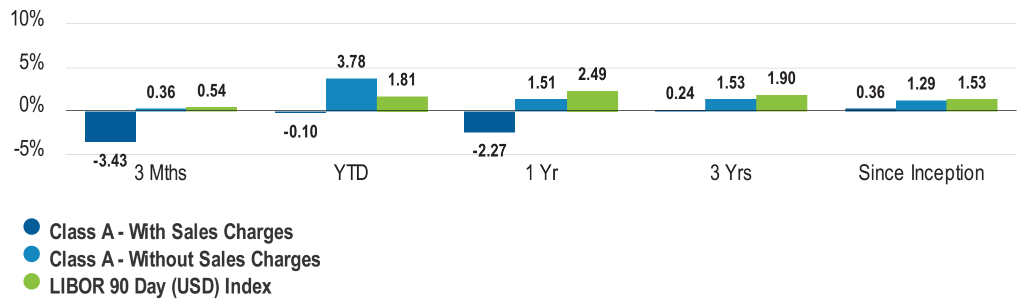
Fund Description

The fund seeks to provide total return through a combination of current income and capital appreciation by investing at least 80% of its net assets in bonds and investments that provide exposure to bonds, including global debt obligations of any credit quality, maturity or duration, and derivatives. The fund aims to provide attractive risk-adjusted total returns over a full market cycle.

Performance Data[3,4]

Average Annual Total Returns[5,6] (%)

	3 Mths	YTD	1 Yr	3 Yrs	Since Inception
Class A - With Sales Charges	-3.43	-0.10	-2.27	0.24	0.36
Class A - Without Sales Charges	0.36	3.78	1.51	1.53	1.29
Class C - With Sales Charges	-0.62	2.51	0.29	1.10	0.82
Class C - Without Sales Charges	0.37	3.51	1.28	1.10	0.82
LIBOR 90 Day (USD) Index	0.54	1.81	2.49	1.90	1.53



Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

The fund has an expense reduction and a fee waiver associated with any investments it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 08/31/2020. Fund investment results reflect the expense reduction and fee waiver; without these reductions, the results would have been lower.

1. All holdings are subject to change.
2. The fund's 30-day standardized yield is calculated over a trailing 30-day period using the yield to maturity on bonds and/or the dividends accrued on stocks. It may not equal the fund's actual income distribution rate, which reflects the fund's past dividends paid to shareholders.
3. Class A: Prior to 3/1/19, these shares were offered at a higher initial sales charge of 4.25%; thus actual returns would have differed. Total returns with sales charges have been restated to reflect the current maximum initial sales charge of 3.75%. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.
4. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
5. Periods shorter than one year are shown as cumulative total returns.
6. Since inception return for the benchmark is calculated to the fund inception date.

Calendar Year Returns (% Without Sales Charges)

	2018	2017	2016
Class A	-0.97	1.44	1.56
Class C	-1.22	0.85	0.88
LIBOR 90 Day (USD) Index	2.36	1.29	0.76

If the sales charge had been included, the returns would have been lower.

Portfolio Manager Insight[7]

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Currencies	Duration/Yield Curve	Sectors
HELPED	Australian Dollar	United States	Bank Loans
	Swedish Krona	Australia	Covered Bonds
	Chinese Yuan	Canada	Residential Mortgage Backed Securities (RMBS)
HURT	Norwegian Krone	China	Sovereign Emerging Market (EM)
	Japanese Yen	Denmark	High-Yield Corporate Bonds
	Colombian Peso	—	Treasury Inflation Protected Securities (TIPS)

- Sector allocations contributed to performance over the quarter as our exposures to bank loans, covered bonds, and RMBS lifted returns. This was partially offset by positioning in sovereign EM, HY corporates, and TIPS which weighed on performance.
- Active currency exposures contributed to performance. Positive returns from our Australian dollar, Swedish krona, and Chinese yuan positions were offset by our exposure to Norwegian krone, Japanese yen, and Colombian peso which detracted from performance.
- Despite a generally neutral stance, our overall duration positioning was a strong contributor to absolute performance. Our fixed income holdings, including mortgage-backed securities (MBS), provided income returns that contributed to performance. We saw strong returns from our duration exposure in Australia and Canada. This was partially offset by our long duration positions in China and Denmark and an active short position in US duration.

Outlook & Strategy

- In our opinion, there has been undue attention on the shape of the yield curve and in particular to the brief inversion of the spread between the two-year and 10-year US Treasuries during the third quarter of 2019. The inversion is seen by many as a harbinger of an economic recession. Previously, the yield curve spread has flattened and then inverted immediately preceding the past seven recessions. Current financial conditions are relatively calm, as compared to prior episodes of inversions, and domestic macroeconomic fundamentals remain strong. We believe that the current compression in yields is largely a symptom of the more globalized bond market and a function of the effect of developed markets' unconventional monetary policy. Negative short-term interest rate policies, from both the European Central Bank and Bank of Japan (BoJ), has had a perverse effect on US rates. These policies have depressed longer dated government bond interest rates, outside the US, to fall below zero. This causes comparable US Treasuries to look much more attractive, especially as the US dollar has strengthened. In our opinion, there is little to no evidence of an imminent recession in US economic data despite the inverted yield curve.
- At its September policy meeting, the US Federal Reserve (Fed) cut its benchmark interest rate by 25 basis points validating market expectations. Chair Jerome Powell's message in the press conference following the meeting, however, was more carefully calibrated than in the past, in our view, and it had a sobering effect. While the market's immediate reaction was disappointment, we believe the Fed needed to rein in market expectations on the future path of rates. This was a reasonable first step. With two rate cuts under his belt this quarter, Powell said he expects this latest monetary easing to have an impact with the usual long and variable lags; and, he noted that the Fed expects growth to remain solid, the labor market to stay strong, and inflation to gradually move up to its target. With record low US unemployment, the Fed seems to be anticipating a deflationary situation that does not appear to exist. If we look at wage growth combined with the impact of US-China tariffs, at some stage, we must consider a rise in inflation. It is our view that the US consumer will remain the main driver of continue economic expansion. Consumer balance sheets are strong and personal savings rates remain solid. Consumers can fund current purchases from income and are not relying on additional debt.
- In term of investment-grade (IG) corporate debt, we continue to take a cautious approach to the sector. We believe fundamentals, while still generally supportive, face headwinds from slower global growth and geopolitical uncertainty, including China trade, Brexit, and 2020 US elections. There continues to be no real progress in reducing aggregate sector leverage. Valuations remain below recent averages and seem to have more downside risk than upside at these levels. We continue to believe that IG corporates offer decent carry relative to government bonds, but spreads are unlikely to tighten much further at this point of the cycle and the potential for increased volatility and significant widening exists.
- The US housing market is on solid footing as mortgage credit remains healthy. Strong mortgage credit fundamentals have been sustained as underwriting remains tight, mortgage credit availability is low from a historical perspective, and mortgage delinquencies are declining. Additionally, supply and demand trends support continued home price appreciation (HPA). We continue to expect home prices nationally to appreciate this year, but given stretched levels of housing affordability, we do expect HPA to slow over the next 12 months. With MBS spreads at the tighter end of their long-term average, we are looking for better opportunities to add to our exposure. We prefer exposure to the RMBS sector that is allocated higher in the capital structure, primarily seasoned Credit Risk Transfer and Re-performing Loan (RPL) sectors, where fundamental and technical forces remain positive. We do not anticipate material risk in bond duration extending.

- Fundamentals continue to lead us to take a cautious view on the commercial real estate (CRE) sector, with later stage economic cycle factors such as declining transaction volumes, slowing net operating income growth, and troughing capitalization rates. Commercial property prices remain elevated and are near their peak in several markets. We prefer consumer-backed structures such as multi-family (apartment) mortgages compared to corporate-backed structures such as office and retail. Our focus remains in high-quality collateral and higher in the CMBS structure with a bias for shorter duration assets. We do still see areas of opportunity particularly in bonds back by multiple family housing projects guaranteed by US agencies.

7. 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.

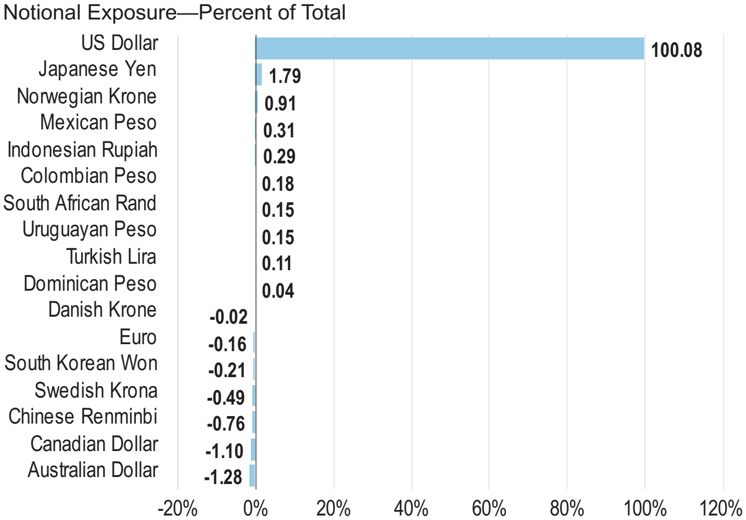
Portfolio Characteristics[8,9]

	Portfolio
Average Duration	1.31 Yrs
Average Weighted Maturity	4.87 Yrs

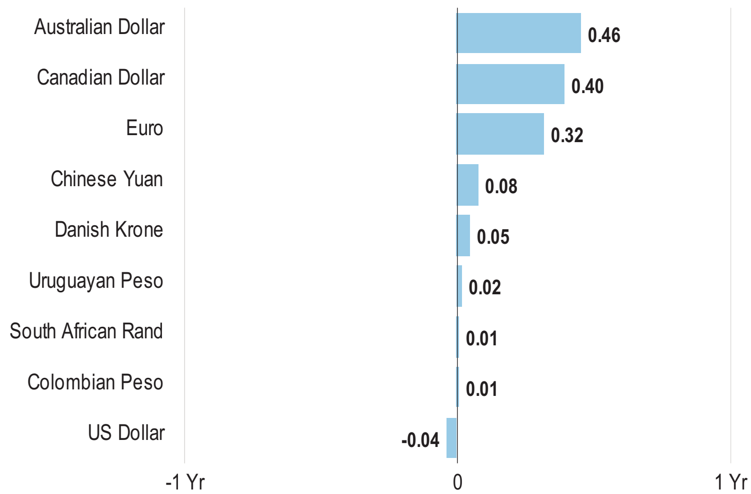
Portfolio Diversification[8]

Currency Exposure[10]

Notional Exposure—Percent of Total

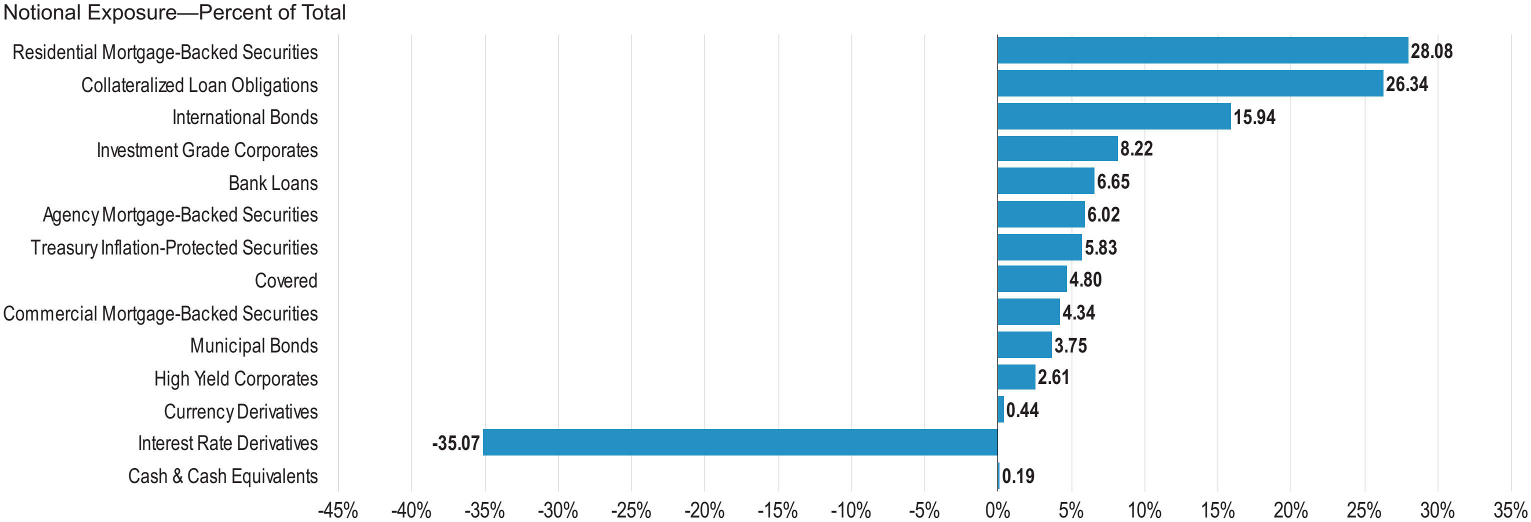


Duration Contribution by Currency[11]

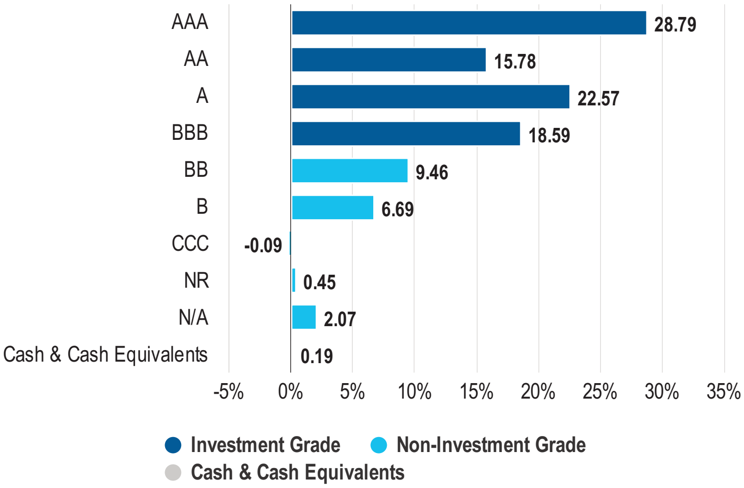


Sector Exposure[10,12]

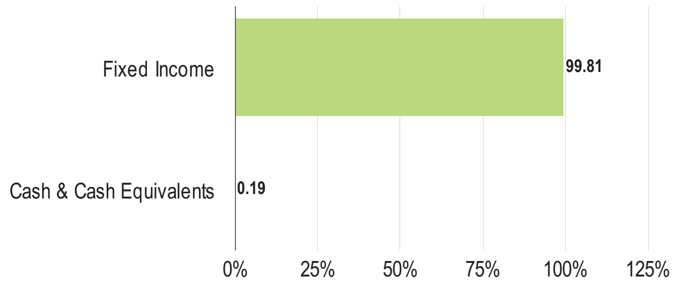
Notional Exposure—Percent of Total



Credit Quality Exposure[13,14]
Notional Exposure—Percent of Total



Asset Allocation[15]
Market Value—Percent of Total

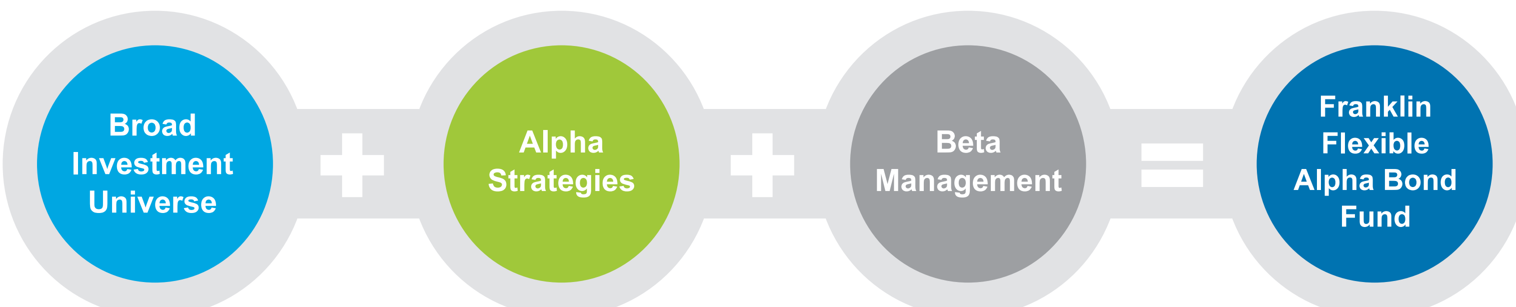


Investment Philosophy

We believe that applying a tactical, risk-focused approach to a diversified set of holdings across global fixed income sectors can create a more attractive risk/return profile that can help to neutralize the impact of interest rate risk.

Investment Process

Fund's Investment Universe and Flexible Range of Tools to Potentially Drive Alpha



Investment Team

Portfolio Manager	Years with Firm	Years Experience
David Yuen, CFA, SVP, Multi-Sector and Quantitative Strategies	23	31
Michael Materasso, SVP / Head of Insurance Portfolio Management / Co-Chair of FIPC	31	47
Sonal Desai, Ph. D., EVP/CIO Head of U.S. Fixed Income	9	25

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

Average Duration: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Average Weighted Maturity: An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

13. Notional exposure figures are intended to estimate the portfolio's exposure to issuer credit risk, including any hedged or increased exposure through credit derivatives held in the portfolio (or their underlying reference assets). Any credit derivatives are assigned the ratings of their underlying reference assets. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
14. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. The NR category consists of ratable securities that have not been rated by an NRSRO. The N/A category consists of nonratable securities (e.g., equities). Cash includes equivalents, which may be rated.

Beta: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

What Are The Risks?

All investments involve risk, including possible loss of principal. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. Interest rate movement and mortgage prepayments will affect the fund's share price and yield. During periods of declining interest rates, principal prepayments tend to increase as borrowers refinance their mortgages at lower rates; therefore the fund may be forced to reinvest returned principal at lower interest rates, reducing income. Bond prices generally move in the opposite direction of interest rates. Thus, as the price of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. The fund may be affected by issuers that fail to make interest payments and repay principal when due. The risks associated with higher-yielding, lower-rated securities (commonly called junk bonds) include higher risk of default and loss of principal. Derivatives, including currency management strategies, involve costs and can create economic leverage in the portfolio which may result in significant volatility and cause the fund to participate in losses (as well as enable gains) in an amount that exceeds the fund's initial investment. The fund may not achieve the anticipated results, and may realize losses when a counterparty fails to perform as intended. These and other risks considerations are discussed in the fund's prospectus.

Important Legal Information

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.

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8. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.
9. Average Duration and Average Weighted Maturity reflect certain derivatives held in the portfolio (or their underlying reference assets).
10. Notional exposure figures are intended to estimate the portfolio's exposure, including any hedged or increased exposure through certain derivatives held in the portfolio (or their underlying reference assets). Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.
11. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets).
12. Interest Rate Derivatives sector consists of Treasury, interest rate and other derivatives that are primarily used for duration management; a negative number indicates that we are seeking to hedge interest rate risk.
15. Market value figures reflect the trading value of the investments. Portfolio breakdown percentages may not total 100% and may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, CA 94403-1906
(800) DIAL BEN/342-5236
franklintempleton.com