

BrandywineGLOBAL - Flexible Bond Fund

Class I: LFLIX Class A: LFLAX

Commentary | as of December 31, 2025

Key Takeaways

- **Markets:** The global fixed income market edged higher during the fourth quarter, supported by central bank rate cuts, resilient economic growth, and overall solid investor demand. These factors more than offset sticky inflation, chaotic tariff policies, and a 43-day government shutdown in the U.S. The U.S. Federal Reserve (Fed) lowered its benchmark interest rate 0.25% (25 basis points) at its meetings in September, October, and December. The Bank of England cut rates 25 basis points (bps) in December, while the European Central Bank kept rates steady. The Bank of Japan raised rates 25 bps in December to 1.75%, the highest level in 30 years. The 10-year US Treasury yield rose, ending the quarter three basis points higher at 4.18%. U.S. investment-grade and high-yield credit both posted positive total returns, as did U.S. mortgage-backed securities. Finally, the emerging market debt asset class rallied in the fourth quarter, while emerging market currencies were mixed versus the U.S. dollar.
- **Contributors:** Emerging market sovereigns and high-yield credit.
- **Detractors:** U.S. duration and exposure to the Japanese yen.
- **Outlook:** Corporate credit fundamentals remain constructive, in our view.

Fund Characteristics

Fund

Distribution Frequency	Quarterly
30-Day SEC Yield (Class I)—With Waiver	7.73%
30-Day SEC Yield (Class I)—Without Waiver	7.73%

Performance Review

- Emerging market sovereign debt was the top contributor during the quarter, led by Mexico, Argentina, and Egypt. Investor sentiment toward emerging market debt remained constructive, supported by continued demand for carry, while improving external balances in several countries helped underpin performance. Energy-related quasi-sovereigns also added to returns, benefiting from firm commodity prices and disciplined balance sheet management across the sector.
- U.S. high-yield corporate credit performed well, supported by resilient corporate fundamentals and a supportive technical backdrop. Emerging market hard-currency high-yield corporates also added to performance, as investor demand for spread assets remained steady amid limited new issuance.
- U.S. prime residential MBS, including credit risk transfer securities, were additive for performance, reflecting stable housing fundamentals, solid credit performance, and continued investor demand for high quality securitized assets.
- Rates performance was mixed. U.S. Treasury positions detracted from results as yields moved higher over the quarter, driven by firmer inflation data, higher term premiums, and a reassessment of the pace and extent of future Fed easing. UK gilts added modestly to performance as yields declined later in the quarter amid softer growth data and evolving expectations around the policy outlook.
- The Japanese yen detracted from performance as the currency was pressured by the BoJ's accommodative policy stance.

Outlook

- Heading into 2026, we expect developed market bond yields to remain broadly range-bound, extending 2025's unusually quiet trading conditions, as improving growth impulses are offset by emerging labor market fragility. Reduced tariff drag, supportive fiscal policy in major economies, and favorable financial conditions could underpin activity, but ongoing weakness in employment growth should limit the scope for a sustained move higher in yields and keep central banks attentive to downside risks.
- Credit fundamentals remain constructive, particularly within high-yield. Corporate balance sheets are generally strong, default rates are running at less than half their historical averages, recoveries have been above average, and overall credit quality has improved. High-yield starting yields in the 6–7% range remain attractive relative to the last decade. While spreads have compressed, the current macro backdrop—characterized by range-bound economic growth, supportive tax policy, and an accommodative Fed—continue to favor the asset class. However, with spreads largely range-bound since mid-2023 and new issuance increasing, we favor a selective approach. Absent a sustained bear market in equities or core fixed income, we expect this spread range to hold. Short-dated high-yield bonds remain appealing given their elevated income, limited duration risk, and pull-to-par characteristics.
- Emerging markets also continue to offer selective opportunities. Latin America sovereign markets benefit from elevated real yields and improving fiscal dynamics in select markets. A softer U.S. dollar over the medium term and the potential for gradual easing in global monetary policy should provide additional support for emerging market assets.

Average annual total returns and fund expenses (%) - as of December 31, 2025

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	
Class I	52471E449	LFLIX	1.39	8.81	8.81	7.06	2.02	—	4.77	1.39	8.81	8.81	7.06	2.02	—	4.77	0.75	0.75	—	—	5/31/2016
Class A	52471E456	LFLAX	1.32	8.57	8.57	6.84	1.78	—	4.51	-2.48	4.50	4.50	5.49	0.90	—	4.04	0.96	0.96	3.75	—	5/31/2016
Benchmark	—	—	1.10	7.30	7.30	4.66	-0.36	—	—	1.10	7.30	7.30	4.66	-0.36	—	—	—	—	—	—	—

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.

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Net expenses are capped under a contractual agreement, which cannot be terminated prior to 12/31/2026 without Board consent. Actual expenses may be higher and may impact portfolio returns.

Maximum sales charges have been updated as of August 15, 2022, please refer the Fund's prospectus for more information.

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. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Equity securities** are subject to price fluctuation and possible loss of principal. **Leverage** increases the volatility of investment returns and subjects investments to magnified losses and a decline in value. **Active and frequent trading** may increase a shareholder's tax liability and transaction costs. The portfolio is **non-diversified** and may invest in a relatively small number of issuers, which may negatively impact the fund's performance and result in greater fluctuation in the value of the fund's shares. 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 **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.

Gilts are bonds that are issued by the British government, and they are generally considered low-risk investments.

Important Information

Prior to July 7, 2020, this fund was known as the BrandywineGLOBAL - Global Flexible Income fund. At that time, the investment objective and strategy also changed.

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.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Source: Bloomberg Indices.

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.

Franklin Distributors, LLC. Member FINRA/SIPC.

© Franklin Templeton. All rights reserved.

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.