

Franklin Managed Income Fund

Advisor Class: FBFZX Class A: FBLAX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** US stocks experienced heightened volatility during 2025's first quarter amid concerns about US President Donald Trump's tariff policies and their impact on economic growth, inflation and the US Federal Reserve's (Fed's) interest-rate path, with some investors fearing a potential recession or stagflation (i.e., economic stagnation and high inflation). Despite reaching record highs early in the quarter, major US indexes declined by period-end.
- **Contributors:** Allocations to both the fixed income and equity sides of the portfolio benefited the fund's absolute returns.
- **Detractors:** Selection and an underweight allocation to fixed income securities weakened relative fund returns, as did selection and overweight positioning among equity holdings.
- **Outlook:** We added to select areas of weakness in equity markets, while reducing exposure to investment-grade corporate bonds and increasing positioning among agency mortgage-backed securities.

Performance Review

- Franklin Managed Income Fund **underperformed its benchmark**, the Blended 60% Bloomberg US Aggregate Index + 40% MSCI USA High Dividend Yield Index, for the quarter ended March 31, 2025, while it outperformed the Bloomberg US Aggregate Index.
- Over the course of the quarter, the fund **increased its fixed income exposure** and **decreased its allocation to equities**.
- Fixed income allocations to **financials, securitized products and US Treasuries (USTs)** had a **positive effect** on absolute fund performance. **No sectors meaningfully detracted** from fixed income returns during the period.
- On an individual issuer basis, **USTs, Federal Home Loan Mortgage and Federal National Mortgage Association were the top performers** within the fund's fixed income holdings. In contrast, **Edison International hindered returns**.
- In terms of equities, the fund **benefited from positions within the health care, energy and consumer staples sectors**. However, **the financials, information technology, and consumer discretionary sectors detracted** from absolute returns.
- **Chevron, Exxon Mobil and Philip Morris International added value** within the fund's equity holdings. However, **Edison International, Target, and Sempra detracted from returns** during the period.

Outlook

- **Economy:** The economic growth outlook has been a major area of focus for the fund, as central banks around the world eased monetary policy to finish out 2024 and look to take cues from both inflation and employment data, as well as incoming policy impacts, to determine the path forward. The US economy remains resilient, largely driven by strong consumer spending on both goods and services, and while the labor market has incrementally cooled, unemployment levels are still low on a historical basis. We continue to monitor financial conditions and trade-related risks as leading indicators of future economic performance and Fed policy.
- **Equities:** Following two years of narrow market breadth, 2025 began with underperformance from some of the leading performers over the last couple of years. This has led to increased market volatility and reduced index level valuations from their recent highs. While we remain selective in engaging with equities, the current market pullback has presented opportunities for increased engagement.
- **Treasuries/Government-Backed Bonds:** The intermediate part of the yield curve has remained volatile as the outlook for deficit spending, as well as longer-term economic growth and inflation expectations, has had an impact on the belly of the yield curve. Government securities continue to provide an attractive investment opportunity, in our view, as yields remain elevated based on recent history. We believe they continue to offer good diversification potential and can serve as a ballast to help hedge portfolios during market volatility.
- **Investment-Grade Corporate Bonds:** While absolute yield levels are still attractive for an income-generating strategy, credit spreads have contracted materially over the past year, which has decreased the attractiveness of investment-grade corporate bonds, in our assessment.
- **High-Yield Corporate Bonds:** While the high-yield market offers attractive yields, we remain balanced and selective due to the potential for higher refinancing costs impacting companies' fundamentals.

Fund Characteristics

| Fund Characteristics | Fund |
|---|---------|
| Distribution Frequency | Monthly |
| 30-Day SEC Yield (Advisor Class)—With Waiver | 3.44% |
| 30-Day SEC Yield (Advisor Class)—Without Waiver | 3.43% |

Asset Allocation (% of Total)

| Asset Class | Fund |
|----------------------------------|-------|
| Fixed Income | 52.46 |
| Equity | 37.51 |
| Convertibles/Equity-Linked Notes | 8.82 |
| Cash & Cash Equivalents | 1.21 |

Top Holdings (% of Total)

| Issuer | Fund |
|----------------------------------|------|
| GOVT NATL MORTG ASSN | 6.29 |
| FREDDIE MAC POOL | 4.33 |
| UNITED STATES TREASURY NOTE/BOND | 4.02 |
| FANNIE MAE POOL | 3.14 |
| CHEVRON CORP | 2.85 |
| EXXON MOBIL CORP | 2.21 |
| BOEING CO/THE | 1.90 |
| SOUTHERN CO/THE | 1.83 |
| MORGAN STANLEY | 1.73 |
| HOME DEPOT INC/THE | 1.63 |

Sector Allocation (Fixed as a % of Total)

| Sector | Fund |
|-----------------------------|-------|
| Investment Grade Corporates | 34.19 |
| Mortgage-Backed Securities | 13.57 |
| U.S. Treasuries | 4.70 |

Sector Allocation (Equity as a % of Total)

| Sector | Fund |
|------------------------|------|
| Information Technology | 7.74 |
| Energy | 6.93 |
| Health Care | 6.73 |
| Consumer Staples | 5.65 |
| Industrials | 5.14 |
| Utilities | 4.76 |
| Consumer Discretionary | 3.66 |
| Materials | 2.47 |
| Financials | 2.22 |
| Communication Services | 1.02 |

Average annual total returns and fund expenses (%)

| 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 | 353612658 | FBFZX | 2.85 | 2.85 | 6.14 | 3.16 | 8.85 | 6.07 | 6.43 | 2.85 | 2.85 | 6.14 | 3.16 | 8.85 | 6.07 | 6.43 | 0.66 | 0.65 | — | — | 7/3/2006 |
| Class A | 353612682 | FBLAX | 2.79 | 2.79 | 5.97 | 2.92 | 8.58 | 5.80 | 6.14 | -2.88 | -2.88 | 0.13 | 1.01 | 7.36 | 5.20 | 5.82 | 0.91 | 0.90 | 5.50 | — | 7/3/2006 |
| Benchmark 1 | — | — | 3.79 | 3.79 | 6.94 | 4.20 | 7.38 | 6.12 | — | 3.79 | 3.79 | 6.94 | 4.20 | 7.38 | 6.12 | — | — | — | — | — | |
| Benchmark 2 | — | — | 2.78 | 2.78 | 4.88 | 0.52 | -0.40 | 1.46 | — | 2.78 | 2.78 | 4.88 | 0.52 | -0.40 | 1.46 | — | — | — | — | — | |

Benchmark(s)

Benchmark 1=Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index

Benchmark 2=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.

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 02/28/2026 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. **Equity securities** are subject to price fluctuation and possible loss of principal. 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. **Managed Distribution Policy Risks** - The fund is not guaranteed to achieve its investment goal nor is there any guarantee that the fund will provide sufficient income at or through the investor's retirement. In addition, some of its distributions may be treated in part as a return of capital, which will decrease shareholders' cost basis in the fund and affect the amount of any capital gain or loss that they realize when selling or exchanging fund shares. The annual payout rate may be adjusted higher or lower from year to year and could vary substantially over time. It is possible for the fund to suffer substantial investment losses and simultaneously experience additional asset reductions as a result of its distributions to shareholders under the managed distribution policy. Investors who hold the fund within a tax-advantaged retirement account should consult their tax professional to discuss tax consequences of receiving cash distributions. In addition, use of the fund or election of the option to receive distribution payments in cash may be restricted in certain retirement plans by the terms of the governing plan documents and/or the discretion of the plan administrator. Investors are strongly advised to consult with their financial professional for assistance before selecting the appropriate fund, based on their goals and personal situations, including time horizon, retirement income needs, risk tolerance, and tax bracket.

Glossary

The **Federal National Mortgage Association (FNMA)**, typically known as Fannie Mae, is a government-sponsored enterprise (GSE) founded in 1938 by Congress. Currently, it is the largest backer of 30-year fixed rate mortgages.

Stagnation is a prolonged period of little or no growth in an economy.

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

Important Information

Effective 3/1/2019, Franklin Balanced Fund repositioned to become an income strategy. The fund changed its name to Franklin Managed Income Fund, as well as its dividend policy, investment management fee and primary benchmark. Effective February 28, 2025, the fund changed its benchmark to the Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield 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 **Linked 60% Bloomberg U.S. Aggregate Index & 40% MSCI USA High Dividend Yield Index** reflects the performance of the Blended 50% MSCI USA High Dividend Yield Index + 25% ICE BofA US Corporate & High Yield Index + 25% Bloomberg US Aggregate Index from fund inception through 2/28/2025 and 40% MSCI USA High Dividend Index & 60% Bloomberg US Aggregate thereafter. The **MSCI USA High Dividend Yield Index** is designed to reflect the performance of mid- and large-cap equities (excluding REITs) with higher dividend income, which is sustainable and persistent, than average dividend yields of securities in the MSCI USA Index, its parent index. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI. 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.

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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.