

Franklin California Intermediate-Term Tax-Free Income Fund

Advisor Class: FRCZX Class A: FCCQX

Commentary | as of March 31, 2025

Key Takeaways

- **Markets:** The municipal (muni) bond market, as measured by the Bloomberg Municipal Bond Index, posted a slightly negative result for the first quarter of 2025 (Q1). January and February saw positive returns supported by healthy inflows of funds and steady demand, while returns posted in March reversed those gains.
- **Detractors:** Overweight allocation to muni bonds with 20 or more years to maturity, security selection in A rated bonds and underweight allocation to AAA rated bonds.
- **Contributors:** Overweight allocation to muni bonds with no external credit rating, security selection in AAA rated bonds and overweight allocation to muni bonds with two years to maturity.
- **Outlook:** Potential policy changes under US President Donald Trump's administration, such as the possible elimination of tax exemptions for certain bonds and the cancellation of federal leases, are adding uncertainty to the muni market outlook, alongside broader concerns about how federal decisions may impact local economies.

Performance Review

- Over the quarter, Franklin California Intermediate-Term Tax-Free Income Fund underperformed its benchmark, the Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond Index.
- The fund's yield curve positioning detracted from relative performance during the first quarter, primarily driven by our overweight to muni bonds with 20 or more years to maturity and underweight to muni bonds with five years to maturity. However, this was partially offset by our overweight to muni bonds with two years to maturity and underweight to muni bonds with 10 years to maturity, which limited some of the losses.
- Rating allocations benefited relative returns for the period, led by our overweight to bonds with no external credit rating and underweight to AA rated bonds. Conversely, our underweight to AAA rated bonds partially mitigated some of those gains. Security selection detracted from relative results, particularly due to selection in A and AA rated securities. Meanwhile, selection in AAA rated securities added to returns.

Outlook

- There was a significant swing in market sentiment across Q1 as participants digested the first few months of the new Trump administration. January saw positive excess returns across a number of sectors as market sentiment moved higher in anticipation of new business friendly initiatives. This was replaced by a negative shift in risk appetite during February and March as unclear tariff policies became the market's focus. Throughout the quarter, investment-grade munis underperformed US Treasuries. Despite modest outflows in March, muni funds overall benefited from steady inflows earlier in the quarter.
- Muni credit fundamentals remain broadly stable, with signs of improvement even in sectors that struggled post-pandemic, though revenue growth is moderating, and economic tailwinds are slowing. High reserves and fiscal flexibility continue to support most issuers, and credit ratings are expected to remain steady over the next six months, though sector-specific challenges persist.
- Potential policy changes under the Trump administration, such as the possible elimination of tax exemptions for certain bonds and the cancellation of federal leases, are adding uncertainty to the muni market outlook, alongside broader concerns about how federal decisions may impact local economies. At the same time, US consumer sentiment is softening, and overall uncertainty around the economic growth outlook has increased in response to the administration's proposed reforms and policy direction.
- However, hard data continues to indicate a resilient US economy. The labor market appears to have reached an equilibrium of a low level of both new additions and layoffs, with a still-low unemployment rate, and economic activity remains solid.
- Going forward, our economists are looking to deregulation and tax reforms to support growth over the medium term. The heightened uncertainty surrounding the administration's trade policy and the impact on US businesses makes US Federal Reserve policy difficult to predict. It remains to be seen whether risks are skewed toward a significant slowdown in growth or higher inflation. However, our economists remain optimistic on US growth, considering that the economy remains on solid footing and pro-growth measures are still expected. Consequently, we are penciling in only one 25-basis point rate reduction in 2025, though an absence of rate cuts this year is also possible.

Morningstar Rating™

Overall Rating as of March 31, 2025



(4-Star) Advisor Class



(3-Star) Class A

As of 03/31/2025 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 58, 57 and 46 Muni California Intermediate 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 Characteristics	Fund
Distribution Frequency	Monthly
Effective Duration	5.16 Years
30-Day SEC Yield (Advisor Class)—With Waiver	3.25%
30-Day SEC Yield (Advisor Class)—Without Waiver	3.20%
Taxable Equivalent Yield (Advisor Class)—With Waiver	6.93%
Taxable Equivalent Yield (Advisor Class)—Without Waiver	6.82%

State / U.S. Territory Allocation (% of Total)

State	Fund
California	97.52
Arizona	0.75
Florida	0.74
Puerto Rico	0.25
Guam	0.22
N/A	0.02
Cash & Cash Equivalents	0.50

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	352519888	FRCZX	-0.11	-0.11	1.87	1.64	0.99	1.57	4.05	-0.11	-0.11	1.87	1.64	0.99	1.57	4.05	0.57	0.49	—	—	9/21/1992
Class A	352519813	FCCQX	-0.08	-0.08	1.62	1.39	0.76	1.38	3.95	-2.33	-2.33	-0.67	0.63	0.30	1.15	3.88	0.82	0.74	2.25	—	9/21/1992
Benchmark	—	—	0.38	0.38	1.17	1.86	0.92	1.78	—	0.38	0.38	1.17	1.86	0.92	1.78	—	—	—	—	—	

Benchmark(s)

Benchmark = Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond 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 10/31/2008 and the fund began offering A Class shares on 9/10/2018. Performance quotations have been calculated as follows: (a) for Advisor Class periods prior to 10/31/2008, a restated figure is used based on the fund's Class A1 performance; for A Class periods prior to 9/10/2018, a restated figure is used based on the fund's Class A1 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 10/31/2025 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

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. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes in that state than a geographically diversified fund. **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. An investor may be subject to the federal **Alternative Minimum Tax**, and state and local taxes may apply. 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%).

The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year. Source: Bloomberg Indices.

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

Important Information

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 Fund's benchmark is the **Bloomberg Municipal M.F. CA Intermediate Index**. The **Linked Bloomberg Muni M.F. CA Intermediate/10-Year Muni Bond Index** reflects performance of the Bloomberg 10-Year Municipal Bond Index from the fund's inception through 11/29/1993 and the Bloomberg Municipal M.F. CA Intermediate Index thereafter. The **Bloomberg Municipal M.F. CA Intermediate Index** measures the performance of investment-grade California municipal bonds with maturities of at least five years and less than 10 years. 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.

Morningstar Rating™: Source: Morningstar®, 03/31/2025. 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 4, 4 and 3 and fund's Class A shares received a Morningstar Rating of 3, 3 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.

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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.