



FRANKLIN TEMPLETON
INVESTMENTS

December 31, 2017

Annual Management Report of Fund Performance



This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. If you have not received a copy of the annual financial statements with this report, you can get a copy of the annual financial statements at your request, and at no cost, by calling 1.800.387.0830, by writing to us at 5000 Yonge Street, Suite 900, Toronto ON M2N 0A7, or by visiting our website at www.franklintempleton.ca or SEDAR at www.sedar.com. Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Co-Lead Manager

Christopher J. Molumphy, CFA, MBA

Franklin Advisers, Inc. (Sub-Advisor)

Industry Experience: 31 years

Location: San Mateo, CA

Co-Lead Manager

Glenn Voyles, CFA

Franklin Advisers, Inc. (Sub-Advisor)

Industry Experience: 25 years

Location: San Mateo, CA

INVESTMENT OBJECTIVE AND STRATEGIES

Franklin High Income Fund (the “Fund”) seeks high current income and some long-term capital appreciation by investing primarily in high yield, lower-rated debt securities issued in the United States and throughout the world.

The portfolio sub-advisor (the “portfolio manager”) uses a “top down” analysis of macroeconomic trends, combined with a “bottom up” fundamental analysis, to take advantage of various sector reactions to economic events. Under normal market conditions, the Fund invests mainly in high yield, lower-rated debt securities issued by companies and governments in any country, developed or developing. The Fund may invest in bonds, notes, debentures, convertible securities and preferred stocks, and may invest in loans made to corporate and other entities by banks and other financial institutions. Such loans typically pay interest rates which are redetermined periodically on the basis of a floating base lending rate such as the London Interbank Offered Rate, plus a premium. The Fund may invest all of its assets in debt securities that are rated below investment grade, sometimes called “junk bonds” or “high yield” securities. The Fund may also invest in credit derivatives and credit-linked securities for non-hedging purposes in order to invest directly in securities or financial markets or gain exposure to other currencies. The Fund may invest in loan participations and other corporate debt obligations, including assignments of corporate loans, term loans, revolving credit facilities, synthetic term loans, delayed draw term loans and receivables purchase facilities.

RISK

The risks of investing in the Fund remain as stated in the prospectus. The Fund is suitable for investors who are willing to accept low to medium investment risk, with a medium- to long-term investment horizon, and are seeking a high level of income and some capital gains.

RESULTS OF OPERATIONS

As at December 31, 2017, total net asset value of the Fund was \$23.4 million, a decrease of 9.3% from December 31, 2016. This was primarily driven by \$3.3 million in net redemptions and partially offset by an increase of \$1.2 million in net assets from operations. The Fund paid out \$269,000 in cash distributions to unitholders.

During the past year, the Fund’s Series A units generated total returns of 4.7%. Over the same time period, the Fund’s benchmark, the Credit Suisse High Yield Index (the “Index”), returned 7.0%, in US-dollar terms. The Fund’s primary benchmark is the US-dollar version of the Index, to better reflect the way the Fund is managed with respect to currency. The performance of the Fund’s other series is substantially similar to that of its Series A units, except for differences in expense structure. For the return of the Fund’s other series (if applicable), please refer to the “Past Performance” section.

The Fund underperformed the Index during the reporting period, primarily driven by negative security selection. However, industry allocation added to relative performance.

The portfolio manager remains focussed on bottom-up security selection, seeking companies with relatively strong fundamentals. Regarding industry allocation, the portfolio manager expects existing pressures on the retail, media and telecommunications industries to continue into 2018, especially for wireline providers in the telecommunications industry. The portfolio manager believes industries that are not asset-rich, such as retail, could continue to be pressured as recovery values typically tend to be lower than in industries that have substantial assets, such as pay TV. Heading into 2018, the portfolio manager is mindful of the continuing uncertainties surrounding the health care sector, as the US Congress wrestles with health care reforms. Despite these industry-specific pressures, the portfolio manager expects a generally constructive credit outlook for 2018 given mostly positive fundamentals, but remains vigilant for sectors and individual issuers that might undergo distress.

Index performance comparison information is provided for reference only. It is important to note that the Fund’s return reflects the effect of fees and expenses for professional management, while an index does not have such costs.

Average net assets of the series of the Fund that bear expenses have decreased for the year ended December 31, 2017. This has resulted in a corresponding decrease in expenses. Income received from investments held, excluding net realized and/or unrealized gain (loss) on investments and derivatives, decreased due to the results of the Fund’s investment activities, including, but not limited to, those previously discussed for the period in review.

RECENT DEVELOPMENTS

The portfolio manager believes the recently enacted US tax reforms should have a limited impact on high-yield credits in general, with the exception of highly levered issuers that might be negatively impacted by the interest-deductibility proposal. The portfolio manager is watching to see how companies will eventually adapt to changing tax codes, but generally does not expect significant impacts on a majority of the high-yield universe. The portfolio manager’s benign outlook for defaults rates for 2018 is in line with market consensus expectations of 2.0–2.5%, which is low compared to historical standards. In light of potential challenges for 2018, such as tighter valuations and interest-rate increases that could exceed market expectations, the portfolio manager remains focussed on credit selection.

FORWARD-LOOKING STATEMENTS

Investors should take note that certain statements in this report about a fund, including its strategy and expected future performance, are forward-looking. Forward-looking statements are statements that are predictive in nature, depend upon or refer to future events or conditions, or that include words such as “may,” “will,” “should,” “could,” “expect,” “anticipate,” “intend,” “plan,” “believe,” or “estimate” or other similar expressions. Any statement that is made concerning future strategies or performance is also a forward-looking statement. Statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in the forward-looking statements.

The forward-looking statements are by their nature based on numerous assumptions, which include, amongst other things, that (i) the Fund can attract and maintain investors and has sufficient capital under management to effect its investment strategies, (ii) the investment strategies will produce the results intended by the portfolio manager, and (iii) the markets will react and perform in a manner consistent with the investment strategies. Although the forward-looking statements contained herein are based upon what the portfolio manager believes to be reasonable assumptions, the portfolio manager cannot assure that actual results will be consistent with these forward-looking statements.

Forward-looking statements are not guarantees of future performance. Any number of factors could contribute to differing results, including, among other things, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings and catastrophic events. This list of factors is not exhaustive. Investors should not place undue reliance on forward-looking information and should be aware that the Fund may not update any forward-looking statements, whether as a result of new information, future events or otherwise.

RELATED PARTY TRANSACTIONS

The Manager is an indirect wholly-owned subsidiary of Franklin Resources, Inc., a global investment management organization known as Franklin Templeton Investments. The Manager is the manager, registrar and transfer agent and a principal distributor of the Fund. The Manager provides or arranges for the provision of these services for day-to-day Fund operations, including the marketing, promotion and distribution of the Fund and portfolio advisory services. In consideration of these management and portfolio advisory services, the Fund pays the Manager a monthly management fee plus applicable taxes, based on the average net asset value of each series of the Fund (except Series O and OT, as applicable), calculated daily, as set out under Management Fees below. During the year ended December 31, 2017, the Fund paid management fees of \$287,000 (2016–\$326,000).

Franklin Templeton Services, LLC (FTS) provides the Manager with fund accounting and portfolio valuation services in connection with the Fund, and provides certain back office administration services to the Manager. The Administration Fee, as discussed below, covers the cost of the services provided by FTS.

The Manager pays the operating expenses of the Fund, other than certain fund costs—which include, but are not limited to, the cost of compliance with new governmental and regulatory requirements, fees and expenses of the Fund’s Independent Review Committee (IRC), borrowing and interest costs and investor meeting costs (as permitted by Canadian securities regulation)—in exchange for the payment by the Fund of an annual fixed-rate administration fee of 0.21% plus applicable taxes, applied against the average daily net assets of the Fund (“Administration Fee”), except for Series PF, which has an annual Administration Fee of 0.10%, and Series O and OT, which have no annual Administration Fee. The Manager will pay all operating expenses of Series O and OT, as applicable, as part of its agreement with each investor. The Manager may, at its discretion, waive a portion of a series’ Administration Fee or absorb certain fund costs. During the year ended December 31, 2017, the Fund paid Administration Fees of \$48,000 (2016–\$57,000).

Portfolio Advisor

The Manager is the portfolio advisor of the Fund. The Manager has engaged Franklin Advisers, Inc., an affiliate of the Manager, as sub-advisor (the “Sub-Advisor”). The Sub-Advisor provides investment analysis and recommendations and executes or arranges for brokers to execute portfolio transactions.

Principal Distributor

As a principal distributor of the Fund, the Manager markets the Fund and arranges for the sale of the Fund through dealers across Canada. The Manager may retain companies to assist in the sale of certain series of units of the Fund.

The Manager’s affiliate, FTC Investor Services Inc. (“FTC ISI”), also acts as a principal distributor for Series F, O, OT, FT, PF and PF (Hedged) units of the Fund, as applicable.

For acting as a principal distributor of the applicable series, FTC ISI receives an inter-company service fee of 0.20% of the assets under management of the applicable series from the Manager with respect to those series of units.

Registrar and Transfer Agent

In addition to management and portfolio advisory services, the Manager acts as the registrar and transfer agent of the Fund. These services are in the normal course of operations and are covered by the Administration Fee paid by the Fund to the Manager.

Standing Instructions from the Independent Review Committee

The Manager relied on standing instructions from the IRC with respect to the allocation of any operating expenses not covered by the Administration Fee. The Manager relied, or may rely, on standing instructions from the IRC in respect of securities trades amongst mutual funds, investment funds or managed accounts managed by the Manager or an affiliate of the Manager. In both cases, the standing instructions require the Manager to comply with the policies and procedures presented to the IRC with respect to the above matters and to provide periodic reports to the IRC in accordance with NI 81-107.

MANAGEMENT FEES

A portion of the management fee paid by the Fund to the Manager is for trail fees and sales commissions the Manager pays to dealers (“Dealer Compensation”). The trail fees are a percentage of the daily average net asset value of each series of the Fund, which is held by the dealer’s clients. The remaining portion of the management fee is used to pay for portfolio advisory and administrative services related to the provision of portfolio advisory services. The table below outlines the Fund’s annual management fee, as well as the portion of the management fee used to pay for Dealer Compensation and for portfolio advisory services as an approximate percentage of the management fee for each series:

Series	Management Fee (%)	Dealer Compensation (%)*	Investment management, investment management expenses, and other (%)
A	1.25	67.40	32.60
F	0.75	–	100.00
I	1.15	44.14	55.86
PF	0.70	–	100.00

*Dealer compensation may include other fees related to distribution, which are not payable directly to dealers.

The management and administration fees for Series O are paid for by the unitholder directly to the Manager as follows:

- First C\$200,000 to under \$2.5 million—0.80%
- Next C\$2.5 million to under \$5 million—0.70%
- C\$5 million and over—0.65%

Certain institutional investors may negotiate the management and administration fees by written agreement with Franklin Templeton Investments.

MANAGEMENT REPORT OF FUND PERFORMANCE

Summary of Investment Portfolio (AS AT DECEMBER 31, 2017)

REGIONAL WEIGHTINGS (%)*

North America	82.80
Europe	4.08
Australia & New Zealand	2.22
Middle East & Africa	2.18
Latin America & Caribbean	2.04
Asia	1.09

ASSET CLASS WEIGHTINGS (%)

Foreign Corporate Bonds	87.96
Canadian Corporate Bonds	4.48
Common Stocks	1.47
Preferred Stocks	0.50
Short-term securities and all other assets, net	5.59

TOP 25 HOLDINGS (%)

Cash and cash equivalents**	2.85
HCA Inc., Senior Secured Note, First Lien, 5.00%, 3/15/2024	1.68
Calpine Corp., Senior Bond, 5.75%, 1/15/2025	1.28
United Rentals North America Inc., Senior Bond, 5.875%, 9/15/2026	1.15
Citigroup Inc., Junior Subordinated Bond, M, 6.30% to 5/15/24, Perpetual	1.15
Vertiv Group Corp., Senior Note, 9.25%, 10/15/2024	1.15
Navient Corp., Senior Note, 7.25%, 9/25/2023	1.15
T-Mobile USA Inc., Senior Bond, 6.50%, 1/15/2024	1.14
ARD Finance SA, Secured Note, Payment-In-Kind, 7.125%, 9/15/2023	1.13
SunCoke Energy Partners LP/SunCoke Energy Partners Corp., Senior Note, 7.50%, 6/15/2025	1.13
Lincoln Finance Ltd., Senior Secured Note, 7.375%, 4/15/2021	1.13
Crestwood Midstream Partners LP/Crestwood Midstream Finance Corp., Senior Note, 6.25%, 4/1/2023	1.12
First Data Corp., Secured Note, Second Lien, 5.75%, 1/15/2024	1.12
BlueScope Steel Ltd./BlueScope Steel Finance, Senior Note, 6.50%, 5/15/2021	1.12
First Quantum Minerals Ltd., Senior Note, 7.00%, 2/15/2021	1.12
Infor (U.S.) Inc., Senior Note, 6.50%, 5/15/2022	1.12
Owens-Brockway Glass Container Inc., Senior Note, 5.00%, 1/15/2022	1.12
Ascend Learning LLC, Senior Note, 6.875%, 8/1/2025	1.11
Bway Intermediate Co. Inc., Senior Note, 7.25%, 4/15/2025	1.11
KFC Holding Co./Pizza Hut Holdings LLC/Taco Bell of America LLC, Senior Note, 5.00%, 6/1/2024	1.11
Cott Corp., Senior Note, 5.50%, 4/1/2025	1.11
CSC Holdings LLC, Senior Bond, 5.50%, 4/15/2027	1.10
Rain CII Carbon LLC/CII Carbon Corp., Secured Note, Second Lien, 8.25%, 1/15/2021	1.10
Altice U.S. Finance I Corp., Secured Bond, 5.50%, 5/15/2026	1.10
Clear Channel Worldwide Holdings Inc., Senior Note, 6.50%, 11/15/2022	1.10

TOTAL NET ASSET VALUE: \$23,376,000

* Excluding short-term securities and all other assets, net.

** Cash and cash equivalents may include bonds that have a remaining term to maturity of 365 days or less that are issued by certain governments, supranational agencies or financial institutions and have a "designated rating" (as defined in Canadian securities law).

Above is an outline of the investments held in the Fund as a percentage of the Fund's net assets. Due to ongoing portfolio transactions, the investments and percentages may have changed by the time you purchase units of the Fund. The top 25 holdings are made available quarterly, 60 days after the quarter-end. To obtain a copy, please contact a member of our client services team at 1.800.387.0830 or visit www.franklintempleton.ca.

FRANKLIN HIGH INCOME FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series A (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

Net assets per unit (1)	2017	2016	2015	2014	2013
Net assets – beginning of period	\$5.68	\$5.12	\$6.13	\$6.65	\$6.57[†]
Increase (decrease) from operations:					
Total revenue	0.34	0.34	0.42	0.45	0.47
Total expenses	(0.09)	(0.09)	(0.10)	(0.14)	(0.17)
Realized gains (losses) for the period	0.17	(0.12)	(0.41)	0.75	(0.02)
Unrealized gains (losses) for the period	(0.15)	0.68	(0.47)	(1.08)	0.19
Total increase (decrease) from operations (2)	0.27	0.81	(0.56)	(0.02)	0.47
Distributions:					
From income (excluding dividends)	(0.24)	(0.27)	(0.36)	(0.47)	(0.40)
From dividends	–	–	–	(0.01)	–
From capital gains	–	–	–	–	–
Returns of capital	–	–	–	–	–
Total annual distributions (3)	(0.24)	(0.27)	(0.36)	(0.48)	(0.40)
Net assets – end of period	\$5.70	\$5.68	\$5.12	\$6.13	\$6.65
Ratios and supplemental data:	2017	2016	2015	2014	2013
Total net asset value (\$ millions) (1)	\$16.98	\$20.67	\$24.85	\$44.87	\$56.78
Number of units outstanding	2,977,955	3,636,430	4,854,531	7,320,322	8,544,485
Management expense ratio (2)	1.62%	1.62%	1.70%	2.07%	2.51%
Management expense ratio before waivers or absorptions	1.62%	1.62%	1.70%	2.07%	2.55%
Trading expense ratio (3)	–	–	–	–	–
Portfolio turnover rate (4)	28.70%	30.12%	40.06%	28.70%	28.14%
Net asset value per unit	\$5.70	\$5.68	\$5.12	\$6.13	\$6.65

For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

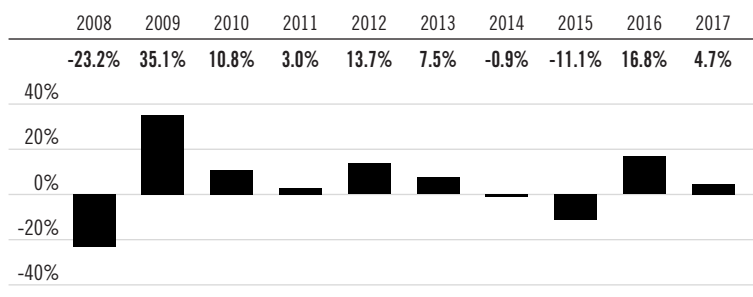
[†] The opening net assets have been adjusted in accordance with IFRS. Information pertaining to 2013 was derived from the audited annual financial statements prepared under Canadian GAAP.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.[‡]

	1 Year	3 Years	5 Years	10 Years	Since Inception
Series A Units	4.7%	2.8%	3.0%	4.6%	3.4%
Credit Suisse High Yield Index (USD)	7.0%	6.4%	5.7%	7.6%	8.5%

[‡] For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN HIGH INCOME FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series F (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

Net assets per unit (1)	2017	2016	2015	2014	2013
Net assets – beginning of period	\$6.51	\$5.83	\$6.94	\$7.45	\$7.28†
Increase (decrease) from operations:					
Total revenue	0.39	0.38	0.47	0.51	0.53
Total expenses	(0.07)	(0.06)	(0.07)	(0.08)	(0.10)
Realized gains (losses) for the period	0.25	(0.02)	(0.46)	0.85	(0.02)
Unrealized gains (losses) for the period	(0.26)	0.71	(0.51)	(1.23)	0.13
Total increase (decrease) from operations (2)	0.31	1.01	(0.57)	0.05	0.54
Distributions:					
From income (excluding dividends)	(0.27)	(0.31)	(0.41)	(0.53)	(0.44)
From dividends	(0.01)	–	–	(0.01)	–
From capital gains	–	–	–	–	–
Returns of capital	–	–	–	–	–
Total annual distributions (3)	(0.28)	(0.31)	(0.41)	(0.54)	(0.44)
Net assets – end of period	\$6.56	\$6.51	\$5.83	\$6.94	\$7.45
Ratios and supplemental data:	2017	2016	2015	2014	2013
Total net asset value (\$ millions) (1)	\$0.84	\$0.46	\$1.79	\$3.83	\$3.54
Number of units outstanding	127,824	70,323	306,956	551,978	474,740
Management expense ratio (2)	1.06%	1.07%	1.05%	1.07%	1.33%
Management expense ratio before waivers or absorptions	1.06%	1.07%	1.05%	1.07%	1.33%
Trading expense ratio (3)	–	–	–	–	–
Portfolio turnover rate (4)	28.70%	30.12%	40.06%	28.70%	28.14%
Net asset value per unit	\$6.56	\$6.51	\$5.83	\$6.94	\$7.45

For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

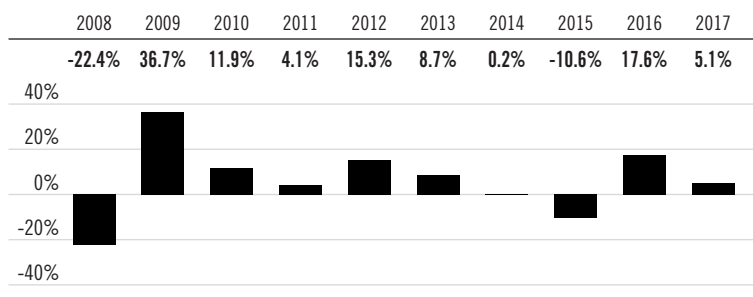
† The opening net assets have been adjusted in accordance with IFRS. Information pertaining to 2013 was derived from the audited annual financial statements prepared under Canadian GAAP.

PAST PERFORMANCE

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Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

	1 Year	3 Years	5 Years	10 Years	Since Inception
Series F Units	5.1%	3.4%	3.8%	5.5%	4.4%
Credit Suisse High Yield Index (USD)	7.0%	6.4%	5.7%	7.6%	8.5%

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN HIGH INCOME FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series I (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

Net assets per unit (1)	2017	2016	2015	2014	2013
Net assets – beginning of period	\$9.72	\$8.74	\$10.45	\$11.27	\$11.06[†]
Increase (decrease) from operations:					
Total revenue	0.58	0.58	0.71	0.76	0.80
Total expenses	(0.15)	(0.13)	(0.16)	(0.17)	(0.19)
Realized gains (losses) for the period	0.28	(0.23)	(1.11)	1.27	(0.03)
Unrealized gains (losses) for the period	(0.23)	1.15	0.29	(1.95)	0.27
Total increase (decrease) from operations (2)	0.48	1.37	(0.27)	(0.09)	0.85
Distributions:					
From income (excluding dividends)	(0.41)	(0.47)	(0.61)	(0.80)	(0.67)
From dividends	(0.01)	–	(0.01)	(0.01)	–
From capital gains	–	–	–	–	–
Returns of capital	–	–	–	–	–
Total annual distributions (3)	(0.42)	(0.47)	(0.62)	(0.81)	(0.67)
Net assets – end of period	\$9.76	\$9.72	\$8.74	\$10.45	\$11.27
Ratios and supplemental data:	2017	2016	2015	2014	2013
Total net asset value (\$ millions) (1)	\$0.17	\$0.20	\$0.23	\$1.45	\$1.16
Number of units outstanding	17,086	20,482	26,097	138,959	102,925
Management expense ratio (2)	1.48%	1.47%	1.53%	1.54%	1.70%
Management expense ratio before waivers or absorptions	1.48%	1.47%	1.53%	1.54%	1.87%
Trading expense ratio (3)	–	–	–	–	0.24%
Portfolio turnover rate (4)	28.70%	30.12%	40.06%	28.70%	28.14%
Net asset value per unit	\$9.76	\$9.72	\$8.74	\$10.45	\$11.27

For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

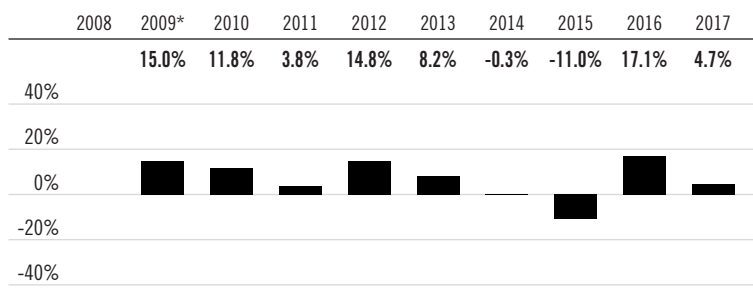
[†] The opening net assets have been adjusted in accordance with IFRS. Information pertaining to 2013 was derived from the audited annual financial statements prepared under Canadian GAAP.

PAST PERFORMANCE

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Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2009 Series I return: July 3 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.[‡]

	1 Year	3 Years	5 Years	10 Years	Since Inception
Series I Units	4.7%	3.0%	3.3%	N/A	7.2%
Credit Suisse High Yield Index (USD)	7.0%	6.4%	5.7%	N/A	9.7%

[‡] For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN HIGH INCOME FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
Series 0 (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

Net assets per unit (1)	2017	2016	2015	2014	2013
Net assets – beginning of period	\$7.80	\$6.91	\$8.10	\$8.57	\$8.26[†]
Increase (decrease) from operations:					
Total revenue	0.47	0.47	0.55	0.59	0.60
Total expenses	–	–	–	–	–
Realized gains (losses) for the period	0.20	(0.17)	–	0.87	(0.01)
Unrealized gains (losses) for the period	(0.20)	0.98	(1.72)	(0.57)	0.23
Total increase (decrease) from operations (2)	0.47	1.28	(1.17)	0.89	0.82
Distributions:					
From income (excluding dividends)	(0.33)	(0.37)	(0.48)	(0.61)	(0.51)
From dividends	(0.01)	–	(0.01)	(0.01)	–
From capital gains	–	–	–	–	–
Returns of capital	–	–	–	–	–
Total annual distributions (3)	(0.34)	(0.37)	(0.49)	(0.62)	(0.51)
Net assets – end of period	\$7.95	\$7.80	\$6.91	\$8.10	\$8.57
Ratios and supplemental data:	2017	2016	2015	2014	2013
Total net asset value (\$ millions) (1)	\$3.48	\$2.54	\$2.15	\$0.39	\$102.49
Number of units outstanding	437,128	325,750	311,101	48,388	11,961,612
Management expense ratio (2)	–	–	–	–	–
Management expense ratio before waivers or absorptions	0.01%	0.01%	0.01%	–	0.09%
Trading expense ratio (3)	–	–	–	–	0.24%
Portfolio turnover rate (4)	28.70%	30.12%	40.06%	28.70%	28.14%
Net asset value per unit	\$7.95	\$7.80	\$6.91	\$8.10	\$8.57

For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

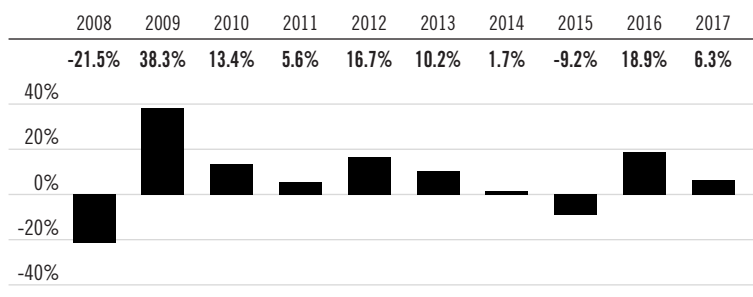
[†] The opening net assets have been adjusted in accordance with IFRS. Information pertaining to 2013 was derived from the audited annual financial statements prepared under Canadian GAAP.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.[‡]

	1 Year	3 Years	5 Years	10 Years	Since Inception
Series 0 Units	6.3%	4.7%	5.1%	6.9%	5.7%
Credit Suisse High Yield Index (USD)	7.0%	6.4%	5.7%	7.6%	8.5%

[‡] For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

FRANKLIN HIGH INCOME FUND
MANAGEMENT REPORT OF FUND PERFORMANCE
 Series PF (AS AT DECEMBER 31, 2017)

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the fiscal periods ended December 31.

Net assets per unit (1)	2017	2016	2015
Net assets – beginning of period	\$9.53	\$8.53	\$10.00
Increase (decrease) from operations:			
Total revenue	0.57	0.60	0.39
Total expenses	(0.09)	(0.09)	(0.05)
Realized gains (losses) for the period	0.29	(0.75)	(0.37)
Unrealized gains (losses) for the period	(0.27)	1.76	(1.51)
Total increase (decrease) from operations (2)	0.50	1.52	(1.54)
Distributions:			
From income (excluding dividends)	(0.40)	(0.46)	(0.28)
From dividends	(0.01)	–	–
From capital gains	–	–	–
Returns of capital	–	–	–
Total annual distributions (3)	(0.41)	(0.46)	(0.28)
Net assets – end of period	\$9.63	\$9.53	\$8.53
Ratios and supplemental data:	2017	2016	2015
Total net asset value (\$ millions) (1)	\$1.92	\$1.90	\$0.09
Number of units outstanding	199,325	199,383	9,993
Management expense ratio (2)	0.92%	0.97%	0.99%
Management expense ratio before waivers or absorptions	0.92%	0.97%	0.99%
Trading expense ratio (3)	–	–	–
Portfolio turnover rate (4)	28.70%	30.12%	40.06%
Net asset value per unit	\$9.63	\$9.53	\$8.53

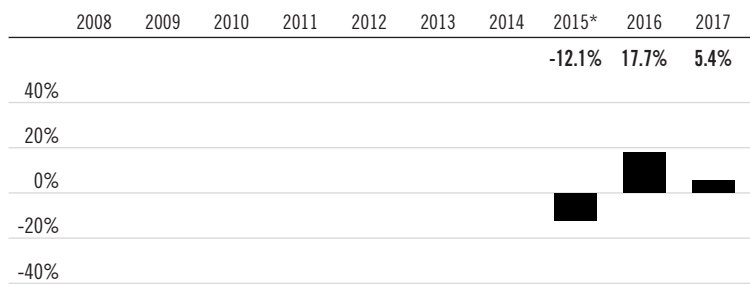
For explanatory notes, please refer to “Explanatory Notes to Financial Highlights” at the end of the section.

PAST PERFORMANCE

The following information assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund and does not take into account sales, redemption, distribution or other optional charges that would have reduced returns. Past performance does not necessarily indicate how the Fund will perform in the future.

Year-by-Year Returns

The bar chart shows the Fund's annual performance for each of the years shown, and illustrates how the investment Fund's performance has changed from year to year. In percentage terms, the bar chart indicates how much an investment made on January 1 would have grown or decreased by the December 31 of each year shown.



*2015 Series PF return: June 15 to December 31

Annual Compound Returns

The table shows the annual compound total returns for each of the periods shown ended December 31, 2017. The returns are compared against the benchmark(s) over the same period.‡

	1 Year	3 Years	5 Years	10 Years	Since Inception
Series PF Units	5.4%	N/A	N/A	N/A	3.4%
Credit Suisse High Yield Index (USD)	7.0%	N/A	N/A	N/A	6.3%

‡ For a definition of the benchmark(s), please refer to “Benchmark(s) Information” at the end of the section.

NOTES TO FINANCIAL HIGHLIGHTS

Net Assets per Unit:

- (1) This information is derived from the Fund's audited annual financial statements. In the period a fund or series is established, the financial information is provided from the date of inception to the end of the period. In cases where the net assets per unit presented in the financial statements differ from the net asset value calculated for Fund pricing purposes, an explanation of these differences can be found in the notes to the financial statements.
- (2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. This table is not intended to be a reconciliation of opening and closing net assets per unit.
- (3) Distributions were paid in cash or reinvested in additional units of the Fund or both, and exclude distributions of management fee reductions to unitholders.

Ratios and Supplemental Data:

- (1) This information is provided as at the period-end of the year shown.
- (2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of net asset value during the period.
- (4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling each security in its portfolio once in the course of the relevant period. The higher the portfolio turnover rate in the period, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund.

OTHER FUND INFORMATION

Reported year-by-year returns for past years may be revised, based on the results of recalculations, audits and/or other historical review processes. Such revisions are considered immaterial to performance disclosure unless otherwise stated.

Series I and V, as applicable, are presently capped (closed to new investors). Investors who currently own units of Series I and Series V may continue to purchase additional units in those series. These series may become available for purchase by new investors at the discretion of the Manager.

BENCHMARK(S) INFORMATION

Credit Suisse First Boston High Yield Index is a trader-priced index constructed to mirror the public high-yield debt market. All securities within the Index are rated B or lower. Index returns are shown in US dollars.