

Performance Review

- Despite a continuing economic recovery and elevated inflationary concerns, the US Treasury (UST) yield curve flattened during the quarter with five-year yields modestly lower. Fixed income sectors posted generally positive total returns as spreads broadly tightened from the prior quarter-end.
- For the quarter, the fund's Series F shares returned 2.27%, and its benchmark, the Custom Franklin High Income 75% Hedged/25% Unhedged Benchmark, returned 2.38%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Energy	Underweight in Media Cable	Ratings-Quality Tilt	—
	Media Cable	Underweight in Wired	—	—
	Industrial	Overweight in Energy	—	—
HURT	Utility	Overweight in Packaging	—	US Yield-Curve Positioning
	Media Non-Cable	Overweight in Utility	—	—
	Technology	Overweight in Media Non-Cable	—	—

- Our ratings-quality tilt was the main contributor to relative performance. Conversely, our yield-curve positioning hindered results.
- Security selection detracted from performance, led by our selection in the utility, media non-cable and technology industries. Conversely, our security selection in the energy, media cable and industrial segments contributed to results.
- Our industry allocation had a largely neutral effect on performance. Our overweight allocation to the packaging, utility and media non-cable industries hindered results. Conversely, our underweight in the media cable and wired segments and overweight in the energy industry benefitted performance.

Outlook & Strategy

- Amidst continuing US economic recovery, fundamental high-yield (HY) credit quality improvement persists with a general market consensus of diminishing default risk for the remainder of the year. New issuance volume remains robust. As the primary market mix appears to have shifted more toward mergers and acquisitions (M&A) with a declining number of refinancing transactions, broad market expectations are for M&A and private equity-related issuance to increase through the remainder of the year.
- Against the backdrop of higher overall credit quality of HY issuers, combined with BB and B spreads that are still wide of historical and post global financial crisis tight, we maintain our view that absent sharp interest rate increases, there is room for further HY spread compression to absorb potential UST yield increases.
- Overall, we remain constructive on HY corporate bonds. Given our outlook for robust economic growth and potentially higher interest rates, we generally prefer B rated credits over longer duration (or more interest rate sensitive) BB rated issues.
- Given lower dispersion of credit spreads across issuers, industries and ratings categories, our focus remains on prudent security selection across the quality spectrum with a general aversion to securities with longer-term secular challenges. We do not believe inflationary pressures will be broadly detrimental to HY fundamentals—the majority of US HY issuers are either not expected to be significantly impacted by input cost inflation or are likely to be beneficiaries (such as from higher commodity prices), in our view.
- Amidst elevated sensitivity to higher interest rates and increasing likelihood of sooner than expected US Federal Reserve tapering, we maintain our view that security selection and vigorous credit differentiation remain crucial components of value generation.

Fund Details

Inception Date	02/17/2003
Benchmark Name	Custom Franklin High Income 75% Hedged/25% Unhedged Benchmark, Bloomberg Barclays US Corporate High Yield CAD Hedged, Bloomberg Barclays US Corporate High Yield CAD Unhedged (USD)

Fund Description

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.

Performance Data

Performance (%) as of 06/30/2021

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception	Inception Date
Series A	2.21	2.14	1.69	9.33	3.60	4.68	3.74	3.26	02/17/2003
Series F	2.26	2.27	1.97	9.93	4.20	5.23	4.53	4.16	02/17/2003
Custom Franklin High Income 75% Hedged/25% Unhedged Benchmark	2.00	2.38	2.88	12.42	6.20	6.66	7.20	-	-

Indicated rates of return include changes in unit or share value and reinvestment of all distributions and dividends and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Index rates of return are as shown in their indicated currency. Please refer to the prospectus for further details. **For details on the respective series inception dates, please consult the Fund Facts or simplified prospectus for the fund.** Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. **Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.**

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 Years Experience 28

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Series F is available to investors participating in programs that do not require Franklin Templeton to incur distribution costs in the form of trailing commissions to dealers. As a consequence, the management fee on Series F is lower than on Series A.

Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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