FRANKLIN TEMPLETON INVESTMENTS

Franklin High Income Fund

Series A
Series F
December 31, 2018

Fund Commentary

Performance Review

- During the fourth quarter (Q4) of 2018, market sentiment was weighed down by numerous issues including continuing declines in oil prices, the federal government shut-down, lingering concerns over trade tensions with China and political uncertainties in Europe such as Brexit. Slowing global growth indicators and uncertain interest-rate expectations going forward further contributed towards a general risk-off environment. As widely anticipated, the US Federal Reserve (Fed) increased its federal funds rate by 0.25% at its December meeting, but modestly lowered its forecasts for US economic growth for 2019.
- For the quarter, the fund's Series F shares returned -6.57%, and its benchmark, the Custom Franklin High Income Benchmark, returned -3.44%.

QUARTERLY KEY PERFORMANCE DRIVERS

	Security Selection	Allocation	Quality	Duration
HELPED	Wireless	Overweight in packaging	Energy	Yield-curve positioning
	Metals and mining	Underweight in wireline provider	Finance	—
	Consumer products	Overweight in utility	Wireless	—
HURT	Energy	Underweight in gaming	Packaging	—
	Paper	Underweight in media cable	Metals and mining	—
	Finance	Underweight in supermarkets	Building	—

- During the quarter, the fund's security selection within the energy industry was a detractor from relative results, as energy prices experienced significant downward pressure.
- Our ratings-quality tilt in the packaging, metals and mining and building industries also detracted from relative performance in a volatile quarter for financial markets.
- Amidst continuing market challenges for the telecommunications industry, our underweight allocation to wireline providers contributed to relative performance.

Outlook & Strategy

- During December, although high-yield (HY) credits suffered one of the weakest monthly results of the last decade, the sector still performed relatively better than equity markets in 2018. So far, the current weakness in the leveraged loan market has not translated into issuers tapping into the HY market for additional issuance. There remains a possibility this could change, however, should weakness in the leveraged loan market continue.
- We maintain our view that HY fundamentals should remain supportive overall—the default rate remains subdued and the sentiment-driven risk-off environment experienced during the month is not reflective of the real economy. Amidst the current challenges facing the HY market, the sector has become more attractively priced, in our view.
- As the economic cycle has progressed to the latter stages, we have maintained our risk mitigation measures, such as reducing our exposure to CCC rated credits that we believe are more prone to defaults in an economic downturn. Furthermore, we remain committed to our credit selection discipline, including passing on deals we believe do not offer adequate investor protection.
- We believe, however, that it is too early to adopt a purely defensive posture in our portfolio positioning as the current market sell-off is more sentiment driven (as previously mentioned), versus a fundamental shift in US economic outlook. We believe the current risk-off sentiment has been exacerbated by year-end risk aversion as investors were reluctant to take on additional risks so close to calendar year-end.
- As we look forward, we maintain our view that the HY sector offers relatively attractive value—the American economy has so far maintained its strength as consumer spending remains strong, supported by low unemployment numbers. If the path of interest-rate hikes begins to slow, it could provide a more supportive backdrop for consumer spending and housing prices, which could prolong the economic cycle.

Fund Details

Inception Date	02/17/2003
Benchmark	Custom Franklin High Income Benchmark, Custom Franklin High Income Time-linked Benchmark, Credit Suisse High Yield Index II, Credit Suisse High Yield Index (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 12/31/2018

	1 Month	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception
Series A	-2.90	-6.70	-5.39	-5.39	4.97	0.39	6.75	2.80
Series F	-2.86	-6.57	-4.84	-4.84	5.55	1.05	7.70	3.75
Credit Suisse High Yield Index	-2.28	-4.77	-2.37	-2.37	7.35	3.69	10.65	7.81

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.**

Investment Team

Glenn Voyles, CFA
Years with Firm 25
Years Experience 26

Important Legal Information

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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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