# Franklin U.S. Monthly Income Fund

March 31, 2021

**Product Profile**

## Product Details[1]

| | |
|---|---|
| Fund Assets | $210,669,894.06 |
| Fund Inception Date | 06/19/2013 |
| Number of Issuers | 101 |
| Base Currency | CAD |
| Morningstar Category ™ | Global Neutral Balanced |
| Distribution Frequency | Monthly |

**Risk Classification[2]**

| Low | **Low to Medium** | Medium | Medium to High | High |
|---|---|---|---|---|

## Fund Description

The fund seeks to maximize income, while maintaining prospects for capital appreciation, by investing in a diversified portfolio of dividend-paying stocks, bonds and convertible securities.

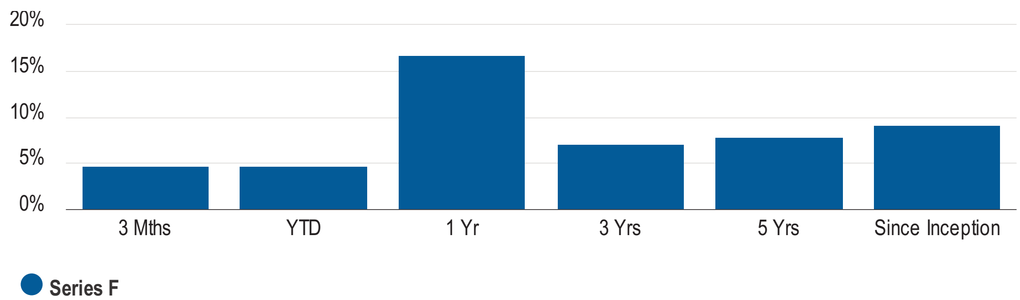
## Performance Data[3]

**Average Annual Total Returns[4] (%)**

| | 3 Mths | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Inception (06/28/2013) |
|---|---|---|---|---|---|---|
| Series F | 4.72 | 4.72 | 16.80 | 7.05 | 7.84 | 9.14 |

**Management Expense Ratio** (as of 06/30/2020 incl. HST)—1.10%

*The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all distributions 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. Please call Franklin Templeton Client Services at 1.800.387.0830 or visit www.franklintempleton.ca for the most recent month-end performance.*




**Calendar Year Returns (%)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| Series F | 2.86 | 9.65 | 3.65 | 1.74 | 12.83 | 12.47 | 15.83 |

1. All holdings are subject to change. Holdings of the same issuers have been combined.
2. Each fund is assigned an investment risk rating in one of the following categories: low, low to medium, medium, medium to high or high risk. The risk ratings were determined using a methodology that assesses a fund's historical volatility risk as measured by the standard deviation of fund performance. However, just as a fund's historical performance may not be indicative of its future returns, a fund's historical volatility may not be indicative of its future volatility. In addition, other types of risk may exist that can affect a fund's returns. Please read the prospectus for more information on fund risk ratings.
3. The fund offers other series subject to different fees and expenses, which will affect their performance.
4. Periods shorter than one year are shown as cumulative total returns.

## Portfolio Manager Insight[5]

### Performance Review

**QUARTERLY KEY PERFORMANCE DRIVERS**

| | Equity Holdings | Equity Sectors | Fixed Income Holdings | Fixed Income Sectors/Industries |
|---|---|---|---|---|
| HELPED | ExxonMobil | Financials | HighPoint Resources | Energy |
| | Bank of America | Energy | Community Health Systems | — |
| | JPMorgan Chase | Information Technology | Weatherford International | — |
| HURT | PepsiCo | Consumer Staples | US Treasury Notes | Financials |
| | Merck | — | Citigroup | Agency Mortgage-Backed Securities (GNMA and FNMA) |
| | Edison International | — | British American Tobacco | Communication Services |

- Ten of the fund's 11 equity sector exposures added to absolute returns and accounted for all of the first-quarter gain. The fixed income portion's net result was just below breakeven and had almost no impact: Although high-yield credits in the energy sector fared well, their contribution was offset by small declines across all eight other corporate bond allocations. Outside the corporate sector, Treasuries and agency mortgage-backed securities (averaging just 3.9% of total net assets) also traded lower against rising yields. Additionally, the Canadian dollar was one of the few major currencies to strengthen against the US dollar (+1.3% over the January–March span), which had a slightly negative impact on returns as roughly 92% of the portfolio's holdings were priced in US-dollar terms.
- The fund's financials sector equities staged an impressive rally, especially banking conglomerates such as Bank of America, JPMorgan Chase and Morgan Stanley. Banks tend to do well as the economy strengthens as loan demand typically increases while default rates ebb. Additionally, interest rates have been climbing along with investors' expectations for a recovery, a dynamic that typically boosts banks' profit margins. We expect these trends to continue in the months ahead.
- Crude oil rallied solidly to a 52-week peak and held the potential to move higher, underpinning nearly across-the-board gains for energy sector names on both sides of the portfolio. The equities were true standouts as Exxon Mobil, Chevron and most others enjoyed double-digit percentage returns. Supply/demand fundamentals moved closer to alignment, while global road and aviation activity were expected to see continued improvement as vaccines are administered and travel restrictions are lifted. ExxonMobil rallied as investors focused on a recovery in demand and improving dividend coverage and despite the firm posting its first quarterly loss in at least 40 years. Meanwhile, HighPoint and Weatherford high-yield bonds were standout fixed income performers as they continued to bolster their financial standings and profitability at current oil prices; our HighPoint debt holdings collectively posted a larger gain than any of the fund's equities.
- Bond market news was dominated by rising interest rates and reflation; investors appeared to be projecting a period of both in the months ahead. Long maturity bonds have seen yields move substantially higher (resulting in lower prices) while the Fed's zero interest rate policy has kept short rates lower, resulting in a steeper curve. The portfolio continued to implement a corporate-credit positioning focus within the high yield market, which has lower duration and therefore less interest rate sensitivity than the bond market's longer-duration investment-grade corporate segment. Sub-investment grade bonds comprised 18.6% of the overall portfolio at the end of March while investment-grade credits (those rated BBB- or higher) stood at 9.6%. As the economy recovers, corporate revenues and earnings hold the potential to rebound sharply, which would drive improved credit metrics across most sectors.

### Outlook & Strategy

- **Market View:** A year after the COVID-19 pandemic unleashed an exogenous shock that sent the world into a deep—though short—recession, we continue seeing strong data in relation to the economy and financial markets, which has aligned well with our views and portfolio shifts since mid-2020. With broader lifting of COVID-19 restrictions visible on the horizon, we are cautiously embracing positive changes, as we could be on the cusp of a further economic revival backed by trillions of dollars of fiscal stimulus, ultra-low interest rates, and pent-up consumer demand. But as employment and economic growth hold the potential to speed up post-crisis, market-based expectations for inflation are also running hotter. Focusing on the medium-term growth outlook, we think inflation is unlikely to become problematic. However, a potential longer-term reflationary environment may not be easy for investors to navigate, highlighting the benefits of active and nimble asset management.
- **Equities:** Equity valuations are not cheap, but they are attractive, in our view, relative to bonds in the longer term. As a result, the portfolio has become more equity focused than it was a year ago given the current balance of opportunities and risks we are seeing in the market. As the recovery continues, we will be searching for companies offering good valuations—especially if the post-COVID economy lives up to its potential. Although the financials, materials and energy sectors were seeing forecasts for the largest profit increases since the end of 2020, we think the accelerated use of technology in traditional, non-tech industries may help other economically sensitive and previously unloved sectors excel in the months and years ahead. Meanwhile, the IT sector has been undergoing a consolidation phase, affirming our 2020 shifts to de-emphasize the portfolio's technology exposure.
- **Dividends:** After a pandemic-tinged period of dividend suspensions, 2021 has heralded a firming revival of dividend-oriented investing as companies grow confident enough to initiate, restore or raise their dividends as uncertainty subsides and demand normalises across most sectors. As yield-focused investors, we welcome this positive shift and continue to seek a balance between dividend yields and valuations, which in the current environment is getting more difficult to do. We are, however, seeing attractive opportunities in financials, industrials, utilities and health care, with our recent purchases focused on businesses that show an ability to support attractive dividend yields and grow them over time. We are also seeing the relative appeal of select companies offering dividend-related yield profiles that surpass their 10-year corporate bond yields.

5. 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.

- **Treasuries/Government-Backed Bonds:** Partially as a result of the cyclical rebound and reflation scenario fuelled by the ample liquidity that central banks continue to provide, government bond yields have started to shift higher and yield curves have steepened. The benchmark 10-year Treasury yield was likely previously too low in relation to economic expansion—and just about every other asset class. Nearly all other asset classes have regained their pre-pandemic levels as the 10-year Treasury yield climbed to as high as 1.74% in March, up from less than 1% at the start of the year. The fund's shorter-maturity Treasury holdings were meaningfully reduced over the course of 2020 and early 2021, and represented just 1.3% of the overall portfolio at the end of March.
- **Corporate Bonds (Overall):** Despite rising term premiums and a supportive fundamental backdrop, long-term valuations on corporate bonds have remained expensive as central bank purchases are supporting the market, which are unlikely to end any time soon. As the COVID-19 and geopolitical backdrop look somewhat clearer in the medium term, we retain a moderately bearish view of bonds at the asset allocation level, reflecting valuation concerns.
- **Investment-Grade Bonds:** The investment-grade sector has benefitted from robust Fed support. Primary issuance remains elevated, highlighting ample corporate liquidity, which helps offset higher backwards-looking leverage metrics, as we believe forward prospects point to continued balance sheet repair. However, valuations do not offer significant protection against a normalisation of the economy that leads to rising Treasury yields, according to our analysis. As such, we retain a more defensive stance to this segment given tighter valuations and challenging total return prospects.
- **High-Yield Bonds:** The impacts of recession have weighed on the fundamentals for lower-rated fixed income sectors such as high yield. However, default rates peaked at far lower levels than anticipated due to central bank policy accommodation and companies' overall ability to access capital. With the economic outlook having improved over the past several months, high-yield spreads have declined to their lowest levels in more than a decade. Nevertheless, we maintain a somewhat more constructive view on this market, reflecting shorter duration and yield attractiveness relative to other fixed income opportunities, tempered by caution over valuations that we believe might be understating longer-term fundamental credit risk.

## Portfolio Characteristics[a,b]

| | Portfolio | S&P 500 Index |
|---|---|---|
| Price to Earnings (12-Month Trailing) | 22.47x | 30.29x |
| Price to Book | 2.52x | 4.34x |
| Price to Cash Flow | 10.87x | 16.58x |
| Weighted Average Market Capitalization (Millions in CAD) | 245,051 | 584,344 |

| | Portfolio |
|---|---|
| Average Duration | 2.94 Yrs |
| Average Weighted Maturity | 3.31 Yrs |

## Portfolio Diversification[a]

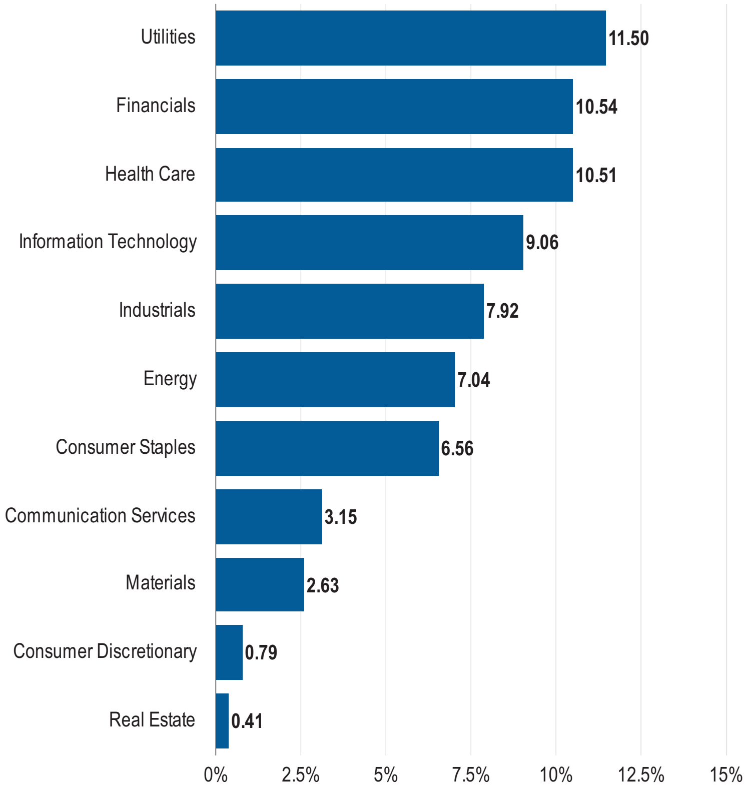
**Top Ten Holdings[6]**

Percent of Total

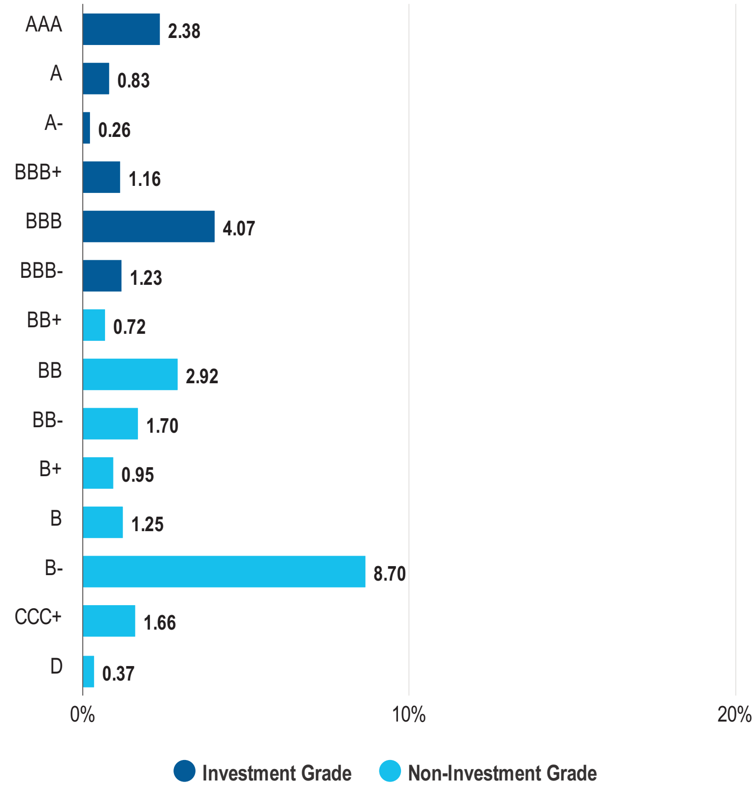
| Top Holdings | % |
|---|---|
| COMMUNITY HEALTH SYSTEMS, INC. | 5.06 |
| JPMORGAN CHASE & CO. | 2.70 |
| CVS HEALTH CORPORATION | 2.52 |
| BANK OF AMERICA CORP | 2.50 |
| CHEVRON CORPORATION | 2.41 |
| EXXON MOBIL CORPORATION | 2.36 |
| SOUTHERN COMPANY | 2.34 |
| DOMINION ENERGY INC | 2.29 |
| RAYTHEON TECHNOLOGIES CORPORATION | 2.12 |
| PROCTER & GAMBLE COMPANY | 2.05 |

6. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager reserves the right to withhold release of information with respect to holdings that would otherwise be included.

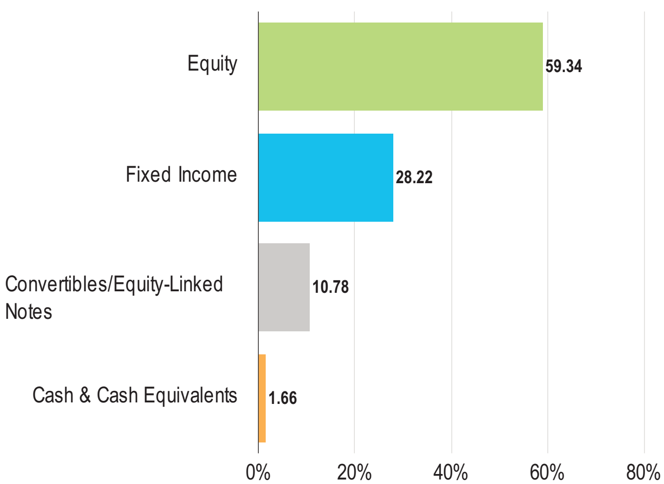
**Sector Allocation[7]**
Equity as a Percent of Total




**Credit Quality Allocation Ratings[8]**
Fixed Income as a Percent of Total




**Asset Allocation[9,10]**
Percent of Total




7. All holdings are subject to change.
8. Ratings shown are assigned by one or more Nationally Recognized Statistical Rating Organizations ('NRSRO'), such as Standard & Poor's, Moody's and Fitch. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). When ratings from all three agencies are available, the middle rating is used; when two are available, the lowest rating is used; and when only one is available, that rating is used. Foreign government bonds without a specific rating are assigned the country rating provided by an NRSRO, if available. If listed, the Not Rated category consists of rateable securities that have not been rated by an NRSRO. The Not Applicable category consists of nonrateable securities (e.g., equities). Cash includes equivalents, which may be rated. Derivatives are excluded from this breakdown. All holdings are subject to change.
9,10. Percentage may not equal 100% due to rounding. All holdings are subject to change.

## Supplemental Performance Statistics

**Supplemental Risk Statistics**[11,12]

| | 3 Year | 5 Year |
|---|---|---|
| **Standard Deviation (%)** | 6.35 | 7.78 |
| **Tracking Error (%)** | 2.89 | 3.48 |
| **Information Ratio** | -0.82 | -0.74 |
| **Beta** | 0.87 | 0.84 |
| **Sharpe Ratio** | 0.81 | 0.96 |

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## Investment Philosophy and Process

### Investment Philosophy

To maximize income while maintaining prospects for capital appreciation.

### Investment Approach

**Opportunistic Across Capital Structure**

Seek to take advantage of investment opportunities where our fundamental views may differ from the market consensus.

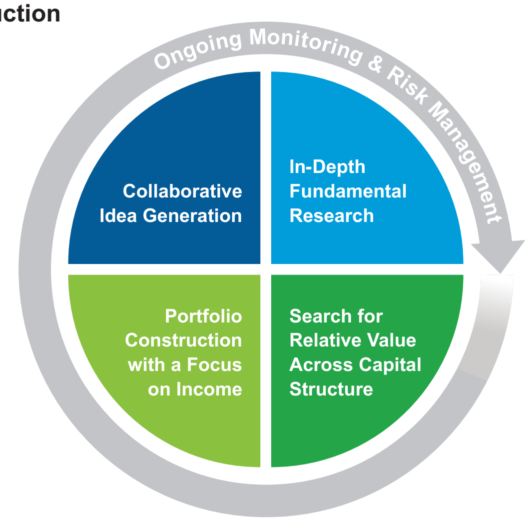
**Focus on Income & Relative Value**

Search for undervalued or out-of-favor securities that offer attractive income and strong long-term capital appreciation potential.

**Broad Opportunity Set**

Seek relative value opportunities across the capital structure including equities, fixed income and convertible securities.

### Investment Process: Fundamental Research Drives Portfolio Construction




## Investment Team

| Portfolio Manager | Years with Firm | Years Experience |
|---|---|---|
| Edward D. Perks, CFA | 28 | 28 |
| Brendan Circle, CFA | 6 | 10 |
| Todd Brighton, CFA | 20 | 20 |

## Glossary

**Average Duration**: The market-weighted average of the duration of bonds. Duration of each bond is the estimated percentage change in the bond's price for a 1% change in the bond's yield.

**Average Weighted Maturity**: An estimate of the number of terms to maturity, taking the possibility of early payments into account, for the underlying holdings. Maturity is expressed as a number of years.

**Beta**: A measure of the magnitude of a portfolio's past share-price fluctuations in relation to the ups and downs of the overall market (or appropriate market index). The market (or index) is assigned a beta of 1.00, so a portfolio with a beta of 1.20 would have seen its share price rise or fall by 12% when the overall market rose or fell by 10%.

**Information Ratio**: In investing terminology, the ratio of expected return to risk. Usually, this statistical technique is used to measure a manager's performance against a benchmark. This measure explicitly relates the degree by which an investment has beaten the benchmark to the consistency by which the investment has beaten the benchmark.

11. Beta, Information Ratio and Tracking Error information are measured against the Blended 50% MSCI USA High Dividend Yield Index + 25% Bloomberg Barclays High Yield Very Liquid Index + 25% Bloomberg Barclays US Aggregate Index.
12. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

**Market Capitalization**: A determination of a company's value, calculated by multiplying the total number of company stock shares outstanding by the price per share. Market capitalization is expressed in millions of CAD.

**Price to Book Value**: The price per share of a stock divided by its book value (i.e., net worth) per share. For a portfolio, the value represents a weighted average of the stocks it holds.

**Price to Cash Flow**: Supplements price/earnings ratio as a measure of relative value for a stock. For a portfolio, the value represents a weighted average of the stocks it holds.

**Price to Earnings (12-mon Trailing)**: The share price of a stock, divided by its per-share earnings over the past year. For a portfolio, the value represents a weighted average of the stocks it holds.

**Sharpe Ratio**: To calculate a Sharpe ratio, an asset's excess returns (its return in excess of the return generated by risk-free assets such as Treasury bills) are divided by the asset's standard deviation.

**Standard Deviation**: A measure of the degree to which returns vary from the average of its previous returns. The larger the standard deviation, the greater the likelihood (and risk) that performance will fluctuate from the average return.

**Tracking Error**: Measure of the deviation of the return of a product compared to the return of a benchmark over a fixed period of time. Expressed as a percentage. The more passively the investment is managed, the smaller the tracking error.

**Fund Codes[13,14]**

| | Series | | Hedged Series | |
|---|---|---|---|---|
| | CAD | USD | CAD | USD |
| Series A Front | TML3640 | TML3651 | TML5809 | — |
| Series A DSC | TML3642 | TML3653 | TML5811 | — |
| Series A Low Load | TML3641 | TML3652 | TML5810 | — |
| Series F | TML3643 | TML3654 | TML5812 | — |
| Series F ADM | TML5014 | TML5037 | TML5813 | — |
| Series FT | TML3647 | — | TML5814 | — |
| Series FT ADM | TML5050 | — | TML5815 | — |
| Series I (Closed to new investors) | TML3644 | TML3655 | — | — |
| Series O | TML3645 | TML3656 | TML5816 | — |
| Series OT | TML3646 | — | TML5817 | — |
| Series PA Front | TML5517 | TML5520 | TML5818 | — |
| Series PA DSC | TML5519 | TML5522 | TML5820 | — |
| Series PA Low Load | TML5518 | TML5521 | TML5819 | — |
| Series PF | TML3904 | TML3905 | TML5821 | — |
| Series PF ADM | TML5082 | TML5108 | TML5822 | — |
| Series PFT | TML3906 | — | — | — |
| Series PFT ADM | TML5127 | — | — | — |
| Series PT Front | TML5523 | TML5526 | TML5823 | — |
| Series PT DSC | TML5525 | TML5528 | TML5825 | — |
| Series PT Low Load | TML5524 | TML5527 | TML5824 | — |
| Series T Front | TML3648 | TML3659 | TML5826 | — |
| Series T DSC | TML3650 | TML3661 | TML5828 | — |
| Series T Low Load | TML3649 | TML3660 | TML5827 | — |

Series I closed to new investors as of November 22, 2016.

13. 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.
14. "ADM" refers to the Investment Advisory Services Fee purchase option for series F,FT, PF, PF(Hedged), and PFT. Please see the simplified prospectus for further details.

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*Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus or fund facts document before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.*

Franklin Templeton and Franklin Templeton Canada are business names used by Franklin Templeton Investments Corp.

a. All holdings are subject to change.
b. Average Duration and Average Weighted Maturity reflect certain derivatives held in the portfolio (or their underlying reference assets).

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