



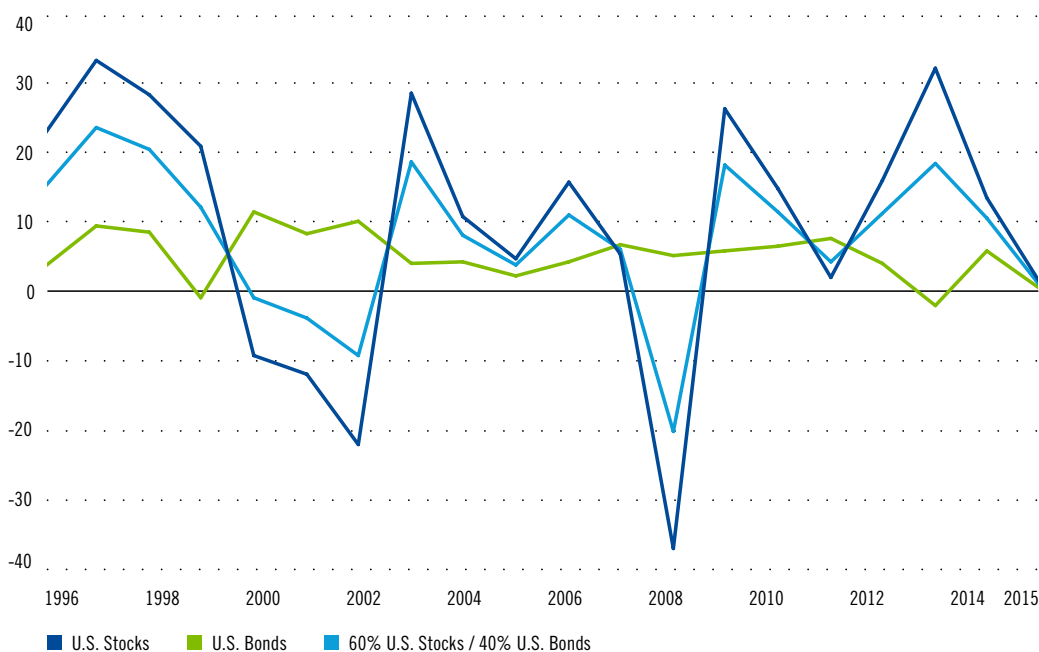
The Importance of Fixed Income Diversification

The Importance and Benefits of Fixed Income Diversification

It is important to remember the primary reasons to own fixed income funds do not change when market conditions change. In addition to providing income, fixed income funds are also an important component of a well-diversified portfolio. Because bond and stock markets have often behaved differently, fixed income funds can play a key role in helping to reduce the potential impact of stock market volatility on an overall portfolio. Also, generally speaking, U.S. bonds have been less volatile than U.S. stocks over the long term.¹

Annual Returns of U.S. Stocks, U.S. Bonds and a Combination of the Two²

1996–2015



Over the same time period, a 40% allocation to U.S. bonds would have reduced volatility by over 40%, while still achieving 92% of the return of an all-U.S. stock portfolio.²

Best and Worst Annual Returns²

1996–2015

	Best Return	Worst Return
■ U.S. Stocks	33%	-37%
■ U.S. Bonds	12%	-2%
■ 60% U.S. Stocks / 40% U.S. Bonds	24%	-20%

The chart and table are for illustrative purposes only and do not reflect the performance of any Franklin Templeton fund or separate account.

Now that you have been presented with the case illustrating the importance and benefits of diversifying an overall portfolio with fixed income investments, how would you know which are the right choices? The next two pages illustrate the annual total returns of some key fixed income sectors over a period of time. We recommend you work with a financial advisor who can help you determine, based on your investment goals, risk tolerance level and investment horizon, which fixed income sectors would be most appropriate for you in seeking your financial objectives.

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2. Source: © 2016 Morningstar. U.S. stocks as represented by the S&P 500 Index; U.S. bonds as represented by the Barclays U.S. Aggregate Index. Returns include reinvestment of interest and dividends. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. **Past performance does not guarantee future results.**

The Importance of Fixed Income Diversification

As shown below, not all fixed income sectors react the same way to economic and interest rate changes. For this reason, it is essential to make sure the fixed income allocation of your portfolio is well diversified. Please remember, past performance does not guarantee future results and diversification does not assure a profit or protect against a loss.

Annual Total Returns of Key Fixed Income Sectors over the Past 20 Years (1996–2015)³

	1996	1997	1998	1999	2000	2001	2002	2003	2004	
Best	Emerging Markets Debt (EMD) 35.23%	High-Yield Bonds 12.63%	International Bonds 17.79%	Emerging Markets Debt (EMD) 24.18%	10-Year U.S. Treasury Bonds 17.22%	Investment-Grade Corporate Bonds 10.31%	International Bonds 21.99%	High-Yield Bonds 27.94%	International Bonds 12.14%	
	High-Yield Bonds 12.42%	Investment-Grade Corporate Bonds 10.23%	Global Bonds 15.30%	Floating-Rate Loans 4.69%	Preferreds 16.20%	Preferreds 9.84%	Global Bonds 19.49%	Emerging Markets Debt (EMD) 25.66%	High-Yield Bonds 11.95%	
	Floating-Rate Loans 7.48%	Emerging Markets Debt (EMD) 11.95%	10-Year U.S. Treasury Bonds 14.58%	Short-Term Gov't Bonds 3.41%	Emerging Markets Debt (EMD) 14.41%	Asset Backed Securities (ABS) 9.81%	TIPS 16.57%	International Bonds 18.52%	Emerging Markets Debt (EMD) 11.73%	
	Preferreds 7.44%	Preferreds 9.99%	Agencies 8.85%	High-Yield Bonds 3.28%	TIPS 13.18%	Agencies 8.31%	10-Year U.S. Treasury Bonds 15.38%	Global Bonds 14.91%	Global Bonds 10.35%	
	Mortgage-Backed Securities 5.35%	10-Year U.S. Treasury Bonds 9.91%	Investment-Grade Corporate Bonds 8.57%	TIPS 2.39%	Agencies 12.18%	Short-Term Gov't Bonds 8.23%	Emerging Markets Debt (EMD) 13.11%	Floating-Rate Loans 11.01%	TIPS 8.46%	
	Short-Term Gov't Bonds 5.32%	Agencies 9.70%	Asset Backed Securities (ABS) 7.76%	Mortgage-Backed Securities 1.86%	Municipal Bonds 11.69%	Mortgage-Backed Securities 8.22%	Agencies 11.01%	Preferreds 9.43%	Floating-Rate Loans 5.60%	
	Asset Backed Securities (ABS) 5.05%	Mortgage-Backed Securities 9.49%	Mortgage-Backed Securities 6.96%	Asset Backed Securities (ABS) 1.82%	Mortgage-Backed Securities 11.16%	TIPS 7.90%	Investment-Grade Corporate Bonds 10.12%	TIPS 8.40%	Investment-Grade Corporate Bonds 5.39%	
	Municipal Bonds 4.43%	Municipal Bonds 9.19%	Preferreds 6.72%	Agencies -0.94%	Asset Backed Securities (ABS) 10.84%	High-Yield Bonds 5.80%	Municipal Bonds 9.60%	Investment-Grade Corporate Bonds 8.24%	Preferreds 5.11%	
	International Bonds 4.08%	Floating-Rate Loans 8.30%	Short-Term Gov't Bonds 6.59%	Investment-Grade Corporate Bonds -1.96%	Investment-Grade Corporate Bonds 9.08%	10-Year U.S. Treasury Bonds 5.40%	Mortgage-Backed Securities 8.75%	Municipal Bonds 5.31%	Mortgage-Backed Securities 4.70%	
	Global Bonds 3.62%	Asset Backed Securities (ABS) 7.41%	Municipal Bonds 6.48%	Municipal Bonds -2.06%	Short-Term Gov't Bonds 7.66%	Municipal Bonds 5.13%	Asset Backed Securities (ABS) 8.55%	Asset Backed Securities (ABS) 4.01%	10-Year U.S. Treasury Bonds 4.51%	
	Agencies 3.29%	Short-Term Gov't Bonds 6.40%	Floating-Rate Loans 5.31%	Global Bonds -4.27%	Floating-Rate Loans 4.94%	Floating-Rate Loans 2.65%	Preferreds 7.66%	Mortgage-Backed Securities 3.07%	Municipal Bonds 4.48%	
	Investment-Grade Corporate Bonds 3.28%	Global Bonds 0.23%	TIPS 3.95%	Preferreds -4.43%	Global Bonds 1.59%	Emerging Markets Debt (EMD) 1.36%	Short-Term Gov't Bonds 5.13%	Agencies 2.59%	Agencies 3.33%	
	10-Year U.S. Treasury Bonds 1.50%	International Bonds -4.26%	High-Yield Bonds 0.58%	International Bonds -5.07%	International Bonds -2.63%	Global Bonds -0.99%	High-Yield Bonds 3.10%	Short-Term Gov't Bonds 1.89%	Asset Backed Securities (ABS) 3.01%	
Worst	TIPS N/A	TIPS N/A	Emerging Markets Debt (EMD) -11.54%	10-Year U.S. Treasury Bonds -7.74%	High-Yield Bonds -5.21%	International Bonds -3.54%	Floating-Rate Loans 1.12%	10-Year U.S. Treasury Bonds 0.18%	Short-Term Gov't Bonds 0.92%	
Year-End	Federal Funds Target Rate ⁴	5.25%	5.50%	4.75%	5.50%	6.50%	1.75%	1.25%	1.00%	2.25%
	10-Year Treasury Bond Yield ⁴	6.43%	5.75%	4.65%	6.45%	5.12%	5.07%	3.83%	4.27%	4.24%
	6-Month CD Yield ⁴	5.46%	5.74%	4.97%	6.08%	6.10%	1.92%	1.32%	1.16%	2.72%

The indexes above do not represent the performance of any Franklin Templeton fund or separate account. For current performance of any Franklin Templeton fund, please visit franklintempleton.com or call (800) DIAL BEN/342-5236.

3. Sources: © 2016 Morningstar, Credit Suisse, Federal Reserve, Federal Reserve H.15 Report. ■ Floating-Rate Loans as represented by the Credit Suisse Leveraged Loan Index; ■ Short-Term Government Bonds as represented by the Barclays U.S. Government 1–2 Year Index; ■ High-Yield Bonds as represented by the Credit Suisse High Yield Index; ■ Global Bonds as represented by the Citigroup World Government Bond Index; ■ Treasury Inflation-Protected Securities as represented by the Barclays U.S. TIPS Index, which is a component of the Barclays U.S. Treasury Index; ■ Municipal Bonds as represented by the

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Emerging Markets Debt (EMD) 10.73%	High-Yield Bonds 11.92%	TIPS 11.64%	10-Year U.S. Treasury Bonds 20.42%	High-Yield Bonds 54.22%	High-Yield Bonds 14.42%	10-Year U.S. Treasury Bonds 16.14%	Emerging Markets Debt (EMD) 18.54%	High-Yield Bonds 7.53%	Preferreds 15.44%	Preferreds 7.58%
Floating-Rate Loans 5.69%	Emerging Markets Debt (EMD) 9.88%	International Bonds 11.45%	Global Bonds 10.89%	Floating-Rate Loans 44.87%	Preferreds 13.66%	TIPS 13.56%	High-Yield Bonds 14.71%	Floating-Rate Loans 6.15%	10-Year U.S. Treasury Bonds 10.57%	Municipal Bonds 3.30%
Municipal Bonds 3.51%	Preferreds 8.10%	Global Bonds 10.95%	International Bonds 10.11%	Emerging Markets Debt (EMD) 28.18%	Emerging Markets Debt (EMD) 12.04%	Municipal Bonds 10.70%	Preferreds 13.60%	Short-Term Gov't Bonds 0.39%	Municipal Bonds 9.05%	Mortgage-Backed Securities 1.51%
10-Year U.S. Treasury Bonds 3.02%	Floating-Rate Loans 7.33%	10-Year U.S. Treasury Bonds 10.03%	Agencies 9.26%	Asset Backed Securities (ABS) 24.71%	Floating-Rate Loans 9.97%	Emerging Markets Debt (EMD) 8.46%	Investment-Grade Corporate Bonds 9.82%	Asset Backed Securities (ABS) -0.27%	Investment-Grade Corporate Bonds 7.46%	Asset Backed Securities (ABS) 1.25%
TIPS 2.84%	International Bonds 6.94%	Agencies 7.90%	Mortgage-Backed Securities 8.34%	Preferreds 20.07%	Investment-Grade Corporate Bonds 9.00%	Investment-Grade Corporate Bonds 8.15%	Floating-Rate Loans 9.43%	Agencies -1.38%	Mortgage-Backed Securities 6.08%	Emerging Markets Debt (EMD) 1.23%
Mortgage-Backed Securities 2.61%	Global Bonds 6.12%	Mortgage-Backed Securities 6.90%	Short-Term Gov't Bonds 5.96%	Investment-Grade Corporate Bonds 18.68%	10-Year U.S. Treasury Bonds 7.89%	Global Bonds 6.35%	TIPS 6.98%	Mortgage-Backed Securities -1.41%	Emerging Markets Debt (EMD) 5.53%	10-Year U.S. Treasury Bonds 1.13%
Agencies 2.33%	Mortgage-Backed Securities 5.22%	Short-Term Gov't Bonds 6.64%	TIPS -2.35%	Municipal Bonds 12.91%	TIPS 6.31%	Mortgage-Backed Securities 6.23%	Municipal Bonds 6.78%	Investment-Grade Corporate Bonds -1.53%	TIPS 3.64%	Agencies 1.01%
High-Yield Bonds 2.26%	Municipal Bonds 4.84%	Emerging Markets Debt (EMD) 6.28%	Municipal Bonds -2.48%	TIPS 11.41%	Asset Backed Securities (ABS) 5.85%	High-Yield Bonds 5.47%	Asset Backed Securities (ABS) 3.66%	Municipal Bonds -2.55%	Agencies 3.58%	Short-Term Gov't Bonds 0.31%
Asset Backed Securities (ABS) 2.09%	Asset Backed Securities (ABS) 4.70%	Investment-Grade Corporate Bonds 4.56%	Investment-Grade Corporate Bonds -4.94%	Mortgage-Backed Securities 5.89%	Mortgage-Backed Securities 5.37%	International Bonds 5.17%	10-Year U.S. Treasury Bonds 2.73%	Preferreds -3.65%	Floating-Rate Loans 2.06%	Floating-Rate Loans -0.38%
Short-Term Gov't Bonds 1.93%	Agencies 4.37%	Municipal Bonds 3.36%	Asset Backed Securities (ABS) -12.72%	International Bonds 4.39%	International Bonds 5.21%	Asset Backed Securities (ABS) 5.14%	Mortgage-Backed Securities 2.59%	Global Bonds -4.00%	Asset Backed Securities (ABS) 1.88%	Investment-Grade Corporate Bonds -0.68%
Investment-Grade Corporate Bonds 1.68%	Investment-Grade Corporate Bonds 4.30%	High-Yield Bonds 2.65%	Emerging Markets Debt (EMD) -10.91%	Global Bonds 2.55%	Global Bonds 5.17%	Agencies 4.82%	Agencies 2.16%	International Bonds -4.56%	High-Yield Bonds 1.86%	TIPS -1.44%
Preferreds 0.96%	Short-Term Gov't Bonds 4.18%	Asset Backed Securities (ABS) 2.21%	Preferreds -25.24%	Agencies 1.53%	Agencies 4.36%	Preferreds 4.11%	Global Bonds 1.65%	Emerging Markets Debt (EMD) -6.58%	Short-Term Gov't Bonds 0.41%	Global Bonds -3.57%
Global Bonds -6.88%	10-Year U.S. Treasury Bonds 2.53%	Floating-Rate Loans 1.88%	High-Yield Bonds -26.17%	Short-Term Gov't Bonds 1.28%	Municipal Bonds 2.38%	Floating-Rate Loans 1.82%	International Bonds 1.51%	10-Year U.S. Treasury Bonds -8.50%	Global Bonds -0.48%	High-Yield Bonds -4.93%
International Bonds -9.20%	TIPS 0.41%	Preferreds -11.31%	Floating-Rate Loans -28.75%	10-Year U.S. Treasury Bonds -10.09%	Short-Term Gov't Bonds 1.65%	Short-Term Gov't Bonds 1.01%	Short-Term Gov't Bonds 0.37%	TIPS -8.61%	International Bonds -2.68%	International Bonds -5.54%
4.25%	5.25%	4.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%
4.39%	4.71%	4.04%	2.25%	3.85%	3.30%	1.89%	1.78%	3.04%	2.17%	2.27%
4.65%	5.32%	4.62%	1.70%	0.28%	0.40%	0.64%	0.33%	0.33%	0.43%	0.85%

Barclays Municipal Bond Index; Treasury Bonds as represented by the Payden & Rygel 10-Year U.S. Treasury Index; Mortgage-Backed Securities as represented by the Barclays U.S. Mortgage-Backed Securities Index; Investment-Grade Corporate Bonds as represented by the Barclays U.S. Corporate Investment Grade Index; Emerging Markets Debt (EMD) as represented by the JP Morgan Emerging Market Bond Index Global; International Bonds as represented by the Citigroup World Government Bond Index Non-U.S.; Agencies as represented by the Barclays U.S. Agency Index; Asset-Backed Securities (ABS) as represented by the Barclays Asset Backed Securities Index; Preferreds as represented by the Bank of America Merrill Lynch Preferred Stock Fixed Rate Index; Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

4. Source: © 2016 Morningstar, Federal Reserve H.15 Report.

Franklin Templeton Has Your Fixed Income Needs Covered

Whether your risk/return profile leads you to a conservative, moderate or aggressive asset allocation plan, Franklin Templeton Investments offers mutual funds and separately managed accounts across the entire fixed income spectrum to meet your needs.

Symbols/CUSIPs for Franklin Templeton Fixed Income Funds	Advisor Class	Class A	
High-Yield Bonds	Franklin High Income Fund	FVHIX	FHAIX
Global Bonds	Templeton Hard Currency Fund	ICHHX	ICPHX
	Templeton Global Bond Fund	TGBAX	TPINX
	Templeton Global Total Return Fund	TTRZX	TGTRX
Emerging Markets Debt (EMD)	Templeton Emerging Markets Bond Fund	880 208 780	FEMGX
International Bonds	Templeton International Bond Fund	FIBZX	TBOAX
Floating-Rate Loans	Franklin Floating Rate Daily Access Fund	FDAAX	FAFRX
Multi-Sector	Franklin Flexible Alpha Bond Fund	FZBAX	FABFX
	Franklin Low Duration Total Return Fund	FLDZX	FLDAX
	Franklin Strategic Income Fund	FKSAX	FRSTX
	Franklin Total Return Fund	FBDAX	FKBAX
Mortgage-Backed Securities	Franklin Adjustable U.S. Government Securities Fund ⁵	FAUZX	FISAX
	Franklin Strategic Mortgage Portfolio	354 71H 405	354 71H 207
	Franklin U.S. Government Securities Fund ⁵	FUSAX	FKUSX
TIPS⁶	Franklin Real Return Fund	FARRX	FRRAX
Municipal Bonds⁷	Franklin Federal Intermediate-Term Tax-Free Income Fund	FITZX	FKITX
	Franklin Federal Limited-Term Tax-Free Income Fund	FTFZX	FFTFX
	Franklin Federal Tax-Free Income Fund	FAFTX	FKTIX
	Franklin High Yield Tax-Free Income Fund	FHYVX	FRHIX
	Franklin Insured Tax-Free Income Fund ⁵	FINZX	FTFIX

Franklin Separately Managed Accounts⁸

- Franklin Intermediate Fixed Income SMA (Multisector)
- Franklin Intermediate Municipal SMA (Municipal Bonds)
- Franklin Multi Strategy Municipal SMA (Municipal Bonds)

5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
6. Investors in Franklin Real Return Fund who do not reinvest income that comes from inflation adjustments may not maintain the purchasing power of the investment over the long term. Income earned depends on the amount of principal invested, and that principal may not keep up with inflation if the investor does not reinvest the principal adjustment paid out as part of the fund's income.
7. For investors subject to the alternative minimum tax, a small portion of a fund's dividends may be taxable. Distributions of capital gains are generally taxable.
8. Separately Managed Accounts (SMAs) are individually managed investment portfolios of securities directly owned by high-net-worth clients, allowing an individual cost basis, transparency, and a level of customization based on the owner's financial situation, investment objectives and requested restrictions. SMAs are not mutual funds and are managed and governed under different guidelines by Franklin Templeton Portfolio Advisors and Templeton Portfolio Advisors, divisions of Franklin Templeton Portfolio Advisors, Inc., an affiliate of Franklin Templeton Distributors, Inc.
9. Source: Strategic Insight, ICI. As of 12/31/15.
10. As of 12/31/15.

Franklin Templeton is one of the largest fixed income managers in the nation,⁹ managing over \$300 billion in fixed income assets for over 1.1 million shareholder accounts.¹⁰ Our global research platform enables us to offer investors exceptional depth and breadth of expertise across the fixed income universe.

FIXED INCOME RISKS

Interest rate movements will affect each bond fund's share price and yield. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in a fund adjust to a rise in interest rates, a fund's share price may decline. High-yield bonds and floating-rate loans are generally lower-rated, higher-yielding instruments, which are subject to increased risk of default and can potentially result in loss of principal. The markets for particular securities or types of securities are or may become relatively illiquid. Reduced liquidity will have an adverse impact on the security's value and on a fund's ability to sell such securities when necessary to meet the fund's liquidity needs or in response to a specific market event. Global and foreign bond risks include currency fluctuations and political uncertainty. Investments in developing markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Mortgage-backed securities are susceptible to prepayment risk. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. These and other risk considerations are discussed in the appropriate fund prospectus.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial advisor, call us at (800) DIAL BEN/342-5236 or visit franklintempleton.com. Please carefully read a prospectus before you invest or send money.



Franklin Templeton Distributors, Inc.
 One Franklin Parkway
 San Mateo, CA 94403-1906
 (800) DIAL BEN® / 342-5236
franklintempleton.com