



# FRANKLIN TEMPLETON INVESTMENTS

## Franklin Mutual Quest Fund—Class Z

Value  
Equity  
December 31, 2018

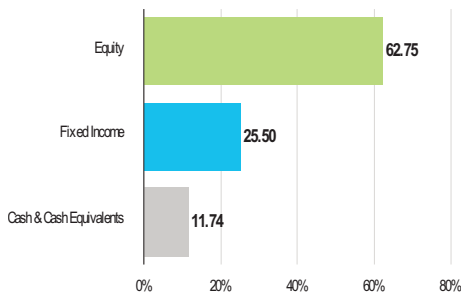
### Product Profile

#### Product Details<sup>1</sup>

Fund Assets	\$4,386,832,690.21
Fund Inception Date	09/26/1980
Number of Issuers	98
NASDAQ Symbol	MQIFX
Maximum Sales Charge	0.00
Base Currency	USD
Investment Style	Value
Benchmark	MSCI World Index
Lipper Classification	Flexible Portfolio Funds
Morningstar Category™	World Allocation
Dividend Frequency	Semiannually in October and December

#### Asset Allocation<sup>2</sup>

Percent of Total



#### Third-Party Fund Data

##### Overall Morningstar Rating™<sup>3</sup>



As of 12/31/2018 the fund's Class Z shares received a 4 star overall Morningstar Rating™, measuring risk-adjusted returns against 389, 322 and 160 U.S.-domiciled World Allocation mutual funds and exchange traded funds over the 3-, 5- and 10- year periods, respectively. A fund's overall rating is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics.

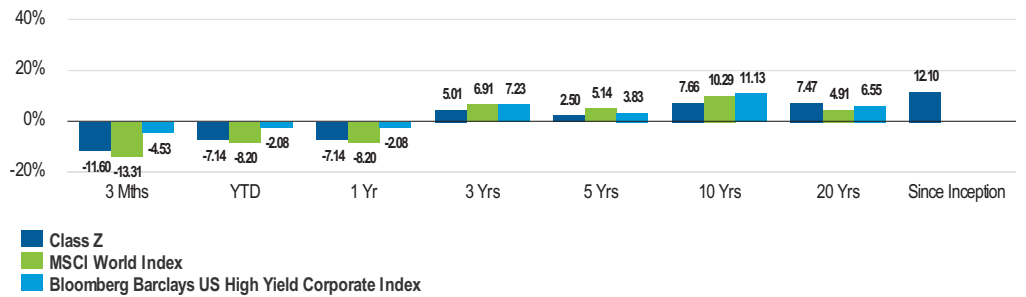
#### Fund Description

The fund seeks capital appreciation with income as a secondary goal. Its strategy is focused on undervalued mid- to large-cap equity securities with a significant portion of its assets in foreign securities. The fund also invests in distressed securities and merger arbitrage.

#### Performance Data<sup>4</sup>

##### Average Annual Total Returns<sup>5</sup> (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	20 Yrs	Since Inception (09/26/1980)
Class Z	-11.60	-7.14	-7.14	5.01	2.50	7.66	7.47	12.10
MSCI World Index	-13.31	-8.20	-8.20	6.91	5.14	10.29	4.91	-
Bloomberg Barclays US High Yield Corporate Index	-4.53	-2.08	-2.08	7.23	3.83	11.13	6.55	-



##### Total Annual Operating Expenses: 0.79%

Performance data represents past performance, which does not guarantee future results. Current performance may differ from figures shown. The fund's investment return and principal value will change with market conditions, and you may have a gain or a loss when you sell your shares. Please call Franklin Templeton Investments at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Class Z shares are only offered to certain eligible investors as stated in the prospectus. They are offered without sales charges or Rule 12b-1 fees. The fund offers other share classes subject to different fees and expenses, which will affect their performance. Please see the prospectus for details.

##### Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Class Z	-7.14	7.25	16.26	-5.55	3.44	25.97	12.57	-1.83	10.16	20.61
MSCI World Index	-8.20	23.07	8.15	-0.32	5.50	27.37	16.54	-5.02	12.34	30.79
Bloomberg Barclays US High Yield Corporate Index	-2.08	7.50	17.13	-	-	-	-	15.12	15.12	58.21

1. All holdings are subject to change. Holdings of the same issuers have been combined.

2. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

4. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

5. Periods shorter than one year are shown as cumulative total returns.

Portfolio Manager Insight<sup>6</sup>

## Performance Review

## QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Sectors	Countries
HELPED	Royal KPN NV	—	Netherlands
	General Motors Company	—	—
	Aetna Inc.	—	—
HURT	British American Tobacco p.l.c.	Communication Services	United States
	Baidu, Inc. Sponsored ADR Class A	Financials	United Kingdom
	Perrigo Co. Plc	Energy	Japan

- In November, shares of British American Tobacco and industry peers dropped, as the US Food and Drug Administration (FDA) revisited the possibility of banning menthol flavor in cigarettes. Any process to ban menthol-flavored cigarettes would take years with many steps to complete, and in our opinion, an FDA proposal would face litigation from the industry. Industry experts have suggested that it might not survive legal challenges.
- Internet stocks in China, including Baidu, declined on investor concerns about economic conditions in China, trade tensions between China and the United States, increasing competition and the potential for more government regulation. Baidu remains attractive to us as rapid growth in its video business and advertising feeds between and within online news articles are driving strong revenues and earnings gains.
- Shares of Royal KPN rose, as investors reacted favorably to the European Union's approval of the T-Mobile and Tele2 merger. It should improve the competitive dynamics in the Dutch mobile market. KPN's management also outlined a focus on increasing organic growth and profitability.

## Outlook Strategy

- As we enter 2019, the consensus view is for slower but still positive global economic growth led by the United States, with modest growth in corporate earnings. However, this is a notable slowdown from 2018, and downside risks to the global outlook appear to have risen, while investor sentiment has turned more cautious and the general level of financial market volatility has been on the rise. In our view, 2019 may favor prudent stock pickers with a disciplined approach.
- Policy events are likely to have considerable influence, for better or worse, on economic growth, financial market performance and investor sentiment. We will be closely monitoring US-China trade tensions, the path of monetary policy by major central banks, the possibility of Brexit without an agreement, and the effectiveness of China's fiscal and monetary stimulus measures.
- Market valuations have returned to more attractive levels, in our view. We have used this period of turbulence to seek out stocks we felt had strong corporate fundamentals and valuations whose risk/reward profiles turned more favorable as they became caught up in the broad selloff. Recently, we have been finding more of these within economically sensitive industries.
- Finding mispriced risk in credit markets was challenging in 2018, as low interest rates kept credit widely available, default rates remained at low levels and we continued to witness a deterioration in debt covenant terms. However, we are hopeful that more opportunities may emerge in 2019, especially if we are starting to enter latter stages of the business cycle.
- Value investing often requires an investor to be contrarian in nature. We continue to maintain a bottom-up stock-picking process that is disciplined, driven by rigorous fundamental analysis, and attempts to limit downside risk. In our view, investing in underappreciated and misunderstood companies with identifiable catalysts for unlocking shareholder value can offer meaningful upside potential and a degree of downside protection in periods of financial market turbulence.

6. 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.

Portfolio Characteristics<sup>7,8,9</sup>

	Portfolio	MSCI World Index
Price to Earnings (12 Month Trailing)	6.43x	16.09x
Price to Book	0.97x	2.15x
Price to Cash Flow	4.26x	10.32x
Market Capitalization (Millions in USD)	39,834	121,536

7. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalization figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: Factset. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

8. Source: FactSet. Price ratio calculations for weighted average use harmonic means. Any exceptions to this are noted.

9. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

Portfolio Diversification

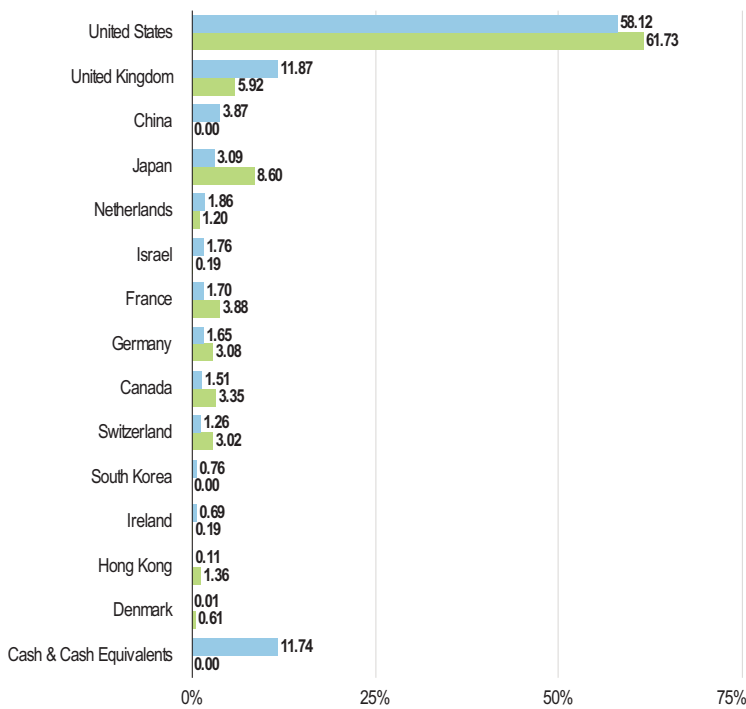
Top Ten Holdings<sup>10</sup>

Percent of Total

Top Holdings	Sector	Country	%
SORENSEN COMMUNICATIONS LLC	Technology Hardware & Equipment	United States	8.96
LEE ENTERPRISES INC	Media & Entertainment	United States	3.64
BRITISH AMERICAN TOBACCO PLC	Food, Beverage & Tobacco	United Kingdom	3.53
BAIDU INC	Media & Entertainment	China	3.39
ENVISION HEALTHCARE CORP	Health Care Equipment & Services	United States	3.28
VODAFONE GROUP PLC	Telecommunication Services	United Kingdom	2.86
HARTFORD FINANCIAL SERVICES GROUP INC	Insurance	United States	2.81
AT&T INC	Telecommunication Services	United States	2.52
JXTG HOLDINGS INC	Energy	Japan	2.51
NAVISTAR INTERNATIONAL CORP	Capital Goods	United States	2.16

Geographic Weightings vs. MSCI World Index<sup>11,12</sup>

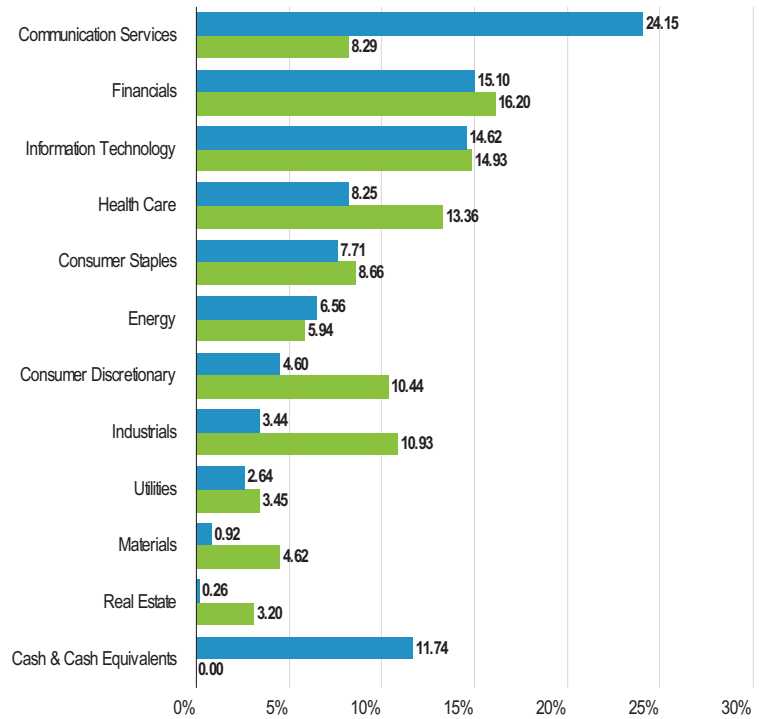
Percent of Total



Franklin Mutual Quest Fund (Blue)  
MSCI World Index (Green)

Sector Weightings vs. MSCI World Index<sup>13,14</sup>

Percent of Total



Franklin Mutual Quest Fund (Blue)  
MSCI World Index (Green)

10. 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 portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included.

11,13. Information is historical and may not reflect current or future portfolio characteristics. Percentage may not equal 100% due to rounding. All holdings are subject to change.

12,14. Source for Index: FactSet. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

## Supplemental Performance Statistics

### Supplemental Performance Statistics<sup>15,16</sup>

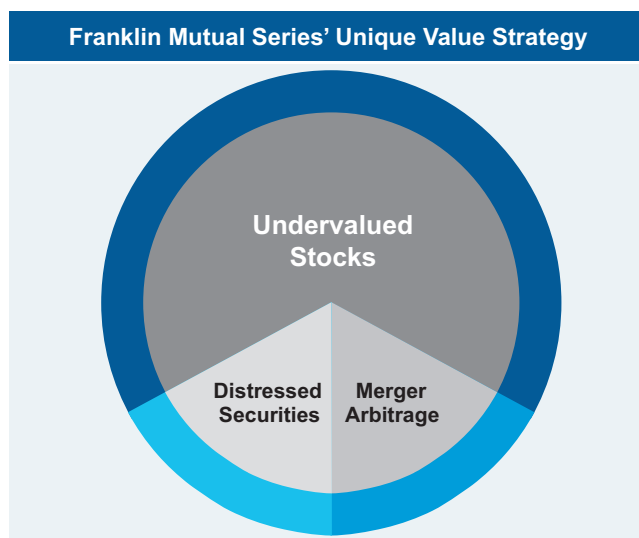
	3 Yrs	5 Yrs	10 Yrs
<b>Standard Deviation (%)</b>	7.80	8.00	9.27
<b>Tracking Error (%)</b>	5.47	5.13	7.04
<b>Information Ratio</b>	-0.35	-0.52	-0.37
<b>Beta</b>	0.65	0.67	0.59
<b>Sharpe Ratio</b>	0.51	0.23	0.79

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## Investment Philosophy and Process

### Bottom-Up Value Approach

- We seek to buy companies at a significant discount to their intrinsic value.
- We seek to understand and limit downside risk.
- We think and act like owners of the business.
- Undervalued stocks comprise the bulk of our portfolios.
- We search for catalysts to unlock value:
  - Corporate restructuring
  - Spin-offs
  - Share buybacks
  - Our own initiatives



## Investment Team

Portfolio Manager	Years with Firm	Years Experience
Shawn Tumulty, Portfolio Manager/Research Analyst	18	30
Keith W. Luh, CFA, Portfolio Manager/Research Analyst	13	22

**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.

**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 USD.

**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-mo 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.

15. Beta, Information Ratio and Tracking Error information are measured against the MSCI World Index.

16. 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).

**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.

**What Are The Risks?**

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated or may decline further in value. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments. Because the Fund may invest its assets in companies in a specific region, including Europe, it is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Current political and financial uncertainty surrounding the European Union may increase market volatility and the economic risk of investing in companies in Europe. Smaller-company stocks have exhibited greater price volatility than larger-company stocks, particularly over the short term. The fund's investments in companies engaged in mergers, reorganizations or liquidations also involve special risks as pending deals may not be completed on time or on favorable terms. The fund may invest in lower-rated bonds, which entail higher credit risk. Please consult the prospectus for a more detailed description of the fund's risks.

**Important Legal Information**

*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](http://franklintempleton.com). Please carefully read a prospectus before you invest or send money.*

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3. Source: Morningstar®, 12/31/2018. For each mutual fund and exchange traded fund with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on how a fund ranks on a Morningstar Risk-Adjusted Return measure against other funds in the same category. This measure takes into account variations in a fund's monthly performance, and does not take into account the effects of sales charges and loads, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. The weights are: 100% 3-year rating for 36-59 months of total returns, 60% 5-year rating/40% 3-year rating for 60-119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent 3-year period actually has the greatest impact because it is included in all three rating periods. The Fund's Class Z shares received a Morningstar Rating of 4, 3 and 4 star(s) for the 3-, 5- and 10-year periods, respectively. Morningstar Rating™ is for the named share class only; other classes may have different performance characteristics. **Past performance is not an indicator or a guarantee of future performance.**



**FRANKLIN TEMPLETON  
INVESTMENTS**

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