

Product Profile

Product Details¹

Fund Assets	\$1,255,152,242.66
Fund Inception Date	10/11/2013
Number of Holdings	1360
Investment Style	Multi Strategy
Benchmark	HFRX Global Hedge Fund Index
Lipper Classification	Alternative Multi-Strategy Funds
Morningstar Category™	Multialternative
Dividend Frequency	Annually in December

CUSIP NASDAQ Symbol

Advisor Class	352 41W 500	FABZX
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Maximum Sales Charges

Advisor Class	None
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Total Annual Operating Expenses² Advisor Class

Management Fee	1.90%
Div. Expense and Borrowing Fees for Securities Sold Short	0.53%
Additional Expenses	0.33%
Without Waiver	2.54%
With Waiver	2.34%

Third-Party Fund Data

Overall Morningstar Rating™³



As of 09/30/2019 the fund's Advisor Class shares received a 4 star overall Morningstar Rating™, measuring risk-adjusted returns against 248 U.S.-domiciled Multialternative mutual funds and exchange traded funds over the 3-year period. 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.

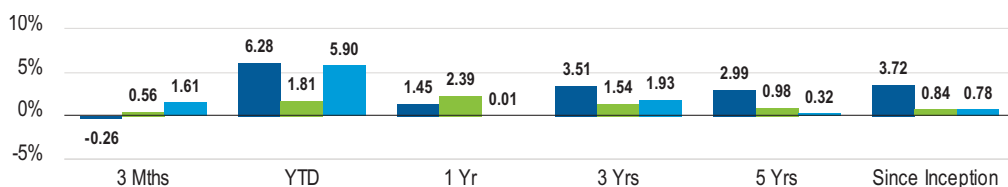
Fund Description

The fund's principal investment goal is capital appreciation with lower volatility relative to the broad equity markets. The fund seeks to achieve its investment goal by allocating its assets across multiple alternative strategies.

Performance Data⁴

Average Annual Total Returns⁵ (%)

	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Inception (10/11/2013)
Advisor Class	-0.26	6.28	1.45	3.51	2.99	3.72
ICE BofAML US 3-Month Treasury Bill Index	0.56	1.81	2.39	1.54	0.98	0.84
HFRX Global Hedge Fund Index	1.61	5.90	0.01	1.93	0.32	0.78



- Advisor Class
- ICE BofAML US 3-Month Treasury Bill Index
- HFRX Global Hedge Fund Index

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 at (800) DIAL BEN/342-5236 or visit franklintempleton.com for the most recent month-end performance.

Advisor Class shares are offered only 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.

The fund has an expense reduction contractually guaranteed through 09/30/2020. Fund investment results reflect the expense reduction ("Total Annual Operating Expenses with Waiver"); without this reduction, the results would have been lower.

Total Annual Operating Expenses with Waiver represents the expense ratio applicable to investors.

Div. Expense and Borrowing Fees for Securities Sold Short: Costs associated with the fund's short positions. The fund's manager and sub-advisors use short positions in an attempt to either protect against losses or provide an additional source of returns versus long-only strategies. There is no guarantee that these positions will perform as the fund's manager or sub-advisors intend, and losses may occur.

Additional Expenses: Includes distribution and service (12b-1) fees; acquired fund fees and expenses; and other expenses of the fund or the subsidiary.

1. 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. Unlike most asset class indexes, HFR Index returns reflect fees and expenses.

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

Calendar Year Returns (%)

	2018	2017	2016	2015	2014
Advisor Class	-2.19	6.84	1.90	0.19	5.23
ICE BofAML US 3-Month Treasury Bill Index	1.87	0.86	0.33	0.05	0.04
HFRX Global Hedge Fund Index	-6.72	5.99	2.50	-3.64	-0.58

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Portfolio Manager Insight⁶

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Strategy	Manager	Sectors/Currencies/Index Hedges (Fund Level)
HELPED	Global Macro	H20 (Global Macro)	Currency (long US dollar)
	Event Driven	Graham (Global Macro)	Information Technology (long)
	Conditional Risk Overlay (CRO)	Bardin Hill (Event Driven)	Consumer Discretionary (long)
HURT	Long Short Equity	Jennison (Long Short Equity)	Health Care (long)
	—	Impala (Long Short Equity)	Materials (long)
	—	Emso (Global Macro)	Energy Commodities (net long)

- Eight of the 14 underlying subadvisors strengthened third-quarter returns. Global macro was the top performing strategy, although absolute performance was dispersed across subadvisors. Short positioning in non-US currencies benefited returns, including short exposure to the euro and Swiss franc. In contrast, Emso's results were challenged by long exposure to Argentine sovereign debt. Fears over a potential new, less business-friendly government led to significant price declines in Argentine financial assets.
- Both subadvisors in the event driven strategy benefitted third-quarter results. One contributing position was a German utilities provider, which traded higher as the company continued to sell off businesses that do not fit into its new renewable energy-focused business plan. Conversely, a top detractor for the quarter was a global film and cable company, which traded lower after the company failed to clarify details regarding its equity buy-back program, negatively impacting investor sentiment.
- The relative value strategy contributed to performance, as two of the three subadvisors supported returns. On a sector basis, long positions in information technology, health care and industrials were net contributors. In contrast, the energy sector was a net detractor as a US oil and gas producer was hampered by disappointing earnings and revenues.
- Long short equity was the only strategy to weigh on absolute results. Although two of the five subadvisors posted gains, health care-focused subadvisor Jennison was a key detractor. Fears that healthcare costs would be a focus during the 2020 US Presidential election dragged down the sector. Long positions in materials also weighed on performance due to concerns over China tariffs. Conversely, long exposure in the consumer discretionary sector and European financials proved beneficial to returns.

Outlook & Strategy

- We trimmed allocations to a long short equity subadvisor and a global macro subadvisor in July in anticipation of higher volatility in coming months. We also added to a relative value subadvisor. These allocation changes reflect K2's somewhat cautious views of equities and fixed income. Markets are currently in a relatively quiet period ahead of earnings season, and buybacks appear on hold until after third quarter reports are made public. We also believe that investors are waiting for corporate results and guidance for the fourth quarter and 2020 to see if estimates will hold, or need to be revised downward.

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.

Manager Allocations⁷

	% of Invested Capital
Long Short Equity	
Wellington Management Company, LLP	4.91
Impala Asset Management, LLC	5.47
Portland Hill Asset Management Limited	6.29
Jennison Associates, LLC	6.42
Chilton Investment Company, LLC	7.12

	% of Invested Capital
Event Driven	
Bardin Hill Investment Partners L.P.	10.06
P. Schoenfeld Asset Management L.P.	9.84

	% of Invested Capital
Relative Value	
Loomis Sayles & Company, L.P.	6.88
Lazard Asset Management, LLC	8.57
Chatham Asset Management, LLC	9.13

	% of Invested Capital
Global Macro	
Graham Capital Management, L.P.	3.87
Grantham, Mayo, Van Otterloo & Co. LLC	6.47
Emso Asset Management Limited	7.37
H2O Asset Management	7.60

Portfolio Characteristics

Portfolio Exposure⁸

Percent of Total

	%
Long Exposure	90.45
Short Exposure	-61.38
Net Exposure	29.07
Gross Exposure	151.84

Portfolio Diversification

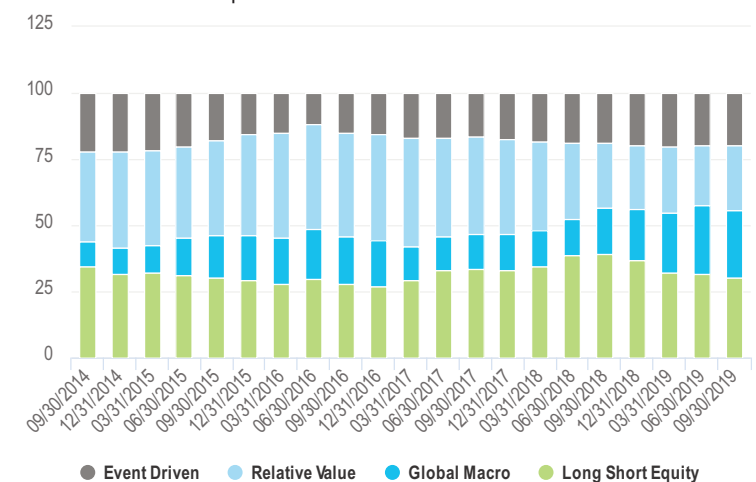
Strategy Allocation⁹

Percent of Invested Capital

	Target (%)	%
Long Short Equity	25 - 40	30.21
Global Macro	0 - 30	25.30
Relative Value	30 - 45	24.58
Event Driven	10 - 30	19.91

Historical Strategy Allocation¹⁰

Percent of Invested Capital



7. Source: HedgeMark. Weightings as a percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. Manager allocation includes managers that have been appointed as sub-advisors or managers of investment funds. K2 may determine in its sole discretion to not allocate to one or more of the managers and/or to add new managers. Accordingly, the allocation is presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

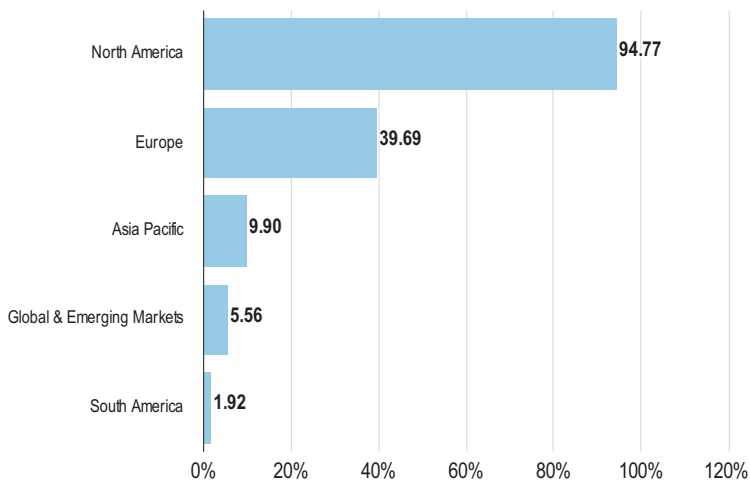
8. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

9. Source: HedgeMark. Actual Allocation is a percentage of invested capital into fund managers (sub-advisors or co-advisors) as of the end of the period. Percentage may not equal 100% due to rounding. Target Allocations are as of the end of the period. The Fund may shift allocations among strategies at any time. K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly, the Target Allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the Fund's portfolio (and its managers), which may change at any time. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

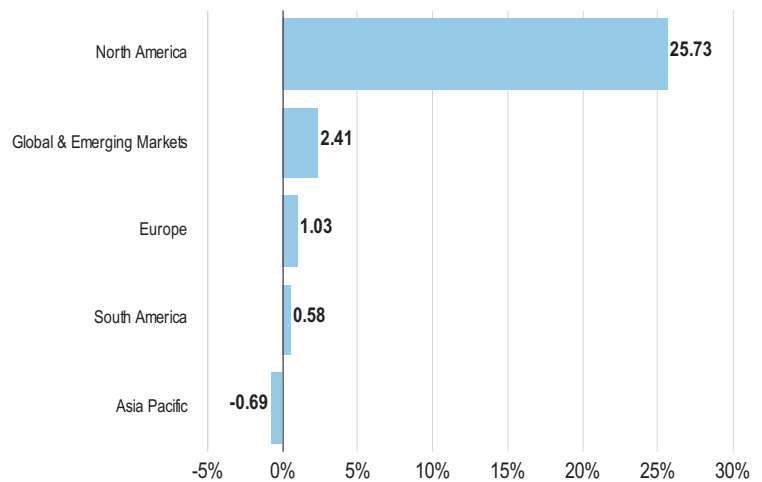
10. Source: HedgeMark. Weightings as percent of invested capital into fund managers (sub-advisors or co-managers). Percentage may not equal 100% due to rounding. The Fund may shift allocations among strategies at any time. Further, K2 may determine in its sole discretion to not allocate to one or more of the strategies and/or to add new strategies. Accordingly the above target allocations are presented for illustrative purposes only, and should not be viewed as predictive of the ongoing composition of the fund's portfolio (and its managers), which may change at any time.

Geographic Exposure (Gross)¹¹

Percent of Total

**Geographic Exposure (Net)¹²**

Percent of Total

**Asset Class Exposure (Gross)¹³**

Percent of Total

	%
Equity	90.81
Fixed Income	36.11
Currency	23.10
Commodities	1.82

Asset Class Exposure (Net)¹⁴

Percent of Total

	%
Fixed Income	22.74
Equity	18.80
Currency ¹⁵	-11.85
Commodities ¹⁶	-0.63

Top Ten Long Exposures¹⁷

Equity as a Percent of Total

Top Holdings	%
CELGENE CORP	1.00
GENESEE & WYOMING INC	0.97
MEDIDATA SOLUTIONS INC	0.83
ALLERGAN PLC	0.81
ZAYO GROUP HOLDINGS INC	0.81
WELLCARE HEALTH PLANS INC	0.74
WESTJET AIRLINES LTD	0.73
SHERWIN-WILLIAMS CO/THE	0.68
CAESARS ENTERTAINMENT CORP	0.61
BALL CORP	0.60

Top Ten Short Exposures¹⁸

Equity as a Percent of Total

Top Holdings	%
BB&T CORP	-0.55
BRISTOL-MYERS SQUIBB CO	-0.52
CENTENE CORP	-0.39
ABBVIE INC	-0.31
ELDORADO RESORTS INC	-0.19
COLRUYT SA	-0.15
RAYTHEON CO	-0.13
INNOVATIVE INDUSTRIAL PROPERTIES INC	-0.12
MICROCHIP TECHNOLOGY INC	-0.11
CARNIVAL CORP	-0.09

11,12,13,14. Source: HedgeMark. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

15,16. The negative cash position reflects a temporary position that is a result of a delay in securities settlement transactions.

17,18. The Top Ten Long and Short Exposures represent the ten largest long and short equity issuer exposures of Franklin K2 Alternative Strategies Fund as of the date indicated. Issuer exposures include actual security holdings and single security exposures obtained through the use of derivatives. Direct security holdings and derivatives exposures are combined for calculation purposes. These direct holdings and derivatives do not represent all of the securities purchased, sold or recommended for advisory clients, and the reader should not assume that investment in securities of the issuers listed was or will be profitable. The portfolio manager for the fund reserves the right to withhold release of information with respect to holdings that would otherwise be included in the top 10 holdings list. The information provided is not a recommendation to purchase, sell, or hold any particular security. Figures reflect certain derivatives held in the portfolio (or their underlying reference assets) and may not total 100% or may be negative due to rounding, use of derivatives, unsettled trades or other factors. Information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change.

Supplemental Performance Statistics

Supplemental Risk Statistics vs. S&P 500 Index¹⁹

	3 Yrs
Standard Deviation	3.53
Alpha	-1.18
Beta	0.27
Correlation	0.91
R-Squared	0.83
Sharpe Ratio	0.56
Upside Capture Ratio (%)	30.03
Downside Capture Ratio (%)	43.19
% of Positive Months	72.22
% of Negative Months	27.78
% Maximum Drawdown (Peak-to-Trough)	5.86
Drawdown Period	04/15-12-15

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Investment Philosophy

Our investment philosophy is to work to grow capital by seeking to produce attractive risk-adjusted returns with lower correlation to traditional asset classes and reduced volatility. We believe that comprehensive risk management, rigorous manager research and active strategy allocation are key to a successful multi-strategy, multi-manager alternatives fund.

Investment Process

K2 Advisors (K2) combines manager research with strategy allocation analysis to construct a dynamic multi-manager, multi-strategy fund that seeks to reduce downside risk while providing capital appreciation potential from a complementary alternative source of returns.

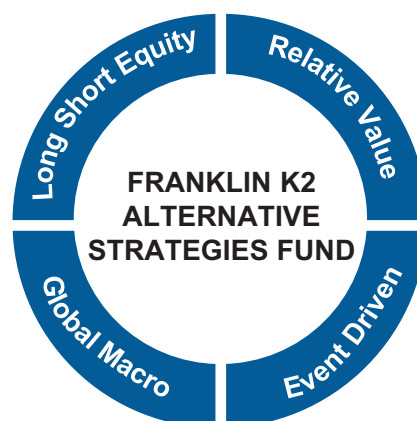
- Dynamic and diversified alternative strategy allocation analysis is performed from a top-down perspective. Through this analysis, K2 seeks to identify factors influencing returns and risks across market cycles.
- Utilizing holdings-based transparency, K2 seeks to identify alpha-generating managers through manager research and monitoring. On an ongoing basis, K2 then monitors each manager's market exposures as well as operational and headline risks.
- K2's portfolio construction process aims to manage overall portfolio exposures and risks through extensive modeling and scenario analysis.

LONG SHORT EQUITY Generally seeks to produce returns from investments in the equity markets by making long and short investments in stocks and common stock indices

Strategy examples: Growth • Value • Market Neutral • Sector • Region

GLOBAL MACRO Generally focuses on macroeconomic opportunities across numerous markets and investments

Strategy examples: Discretionary • Systematic



RELATIVE VALUE Encompasses a wide range of investment techniques that are intended to profit from pricing inefficiencies

Strategy examples: Credit Long Short • Credit Arbitrage • Convertible Arbitrage • Volatility Arbitrage

EVENT DRIVEN Generally invests in securities of companies undergoing corporate events

Strategy examples: Merger Arbitrage • Special Situations (spin-offs, recapitalizations, exchange offers, liquidations)

19. Alpha, Beta, Correlation, R-Squared, Upside and Downside Capture Ratios information are displayed for the product versus the S&P 500 Index. The S&P 500 Index is solely utilized as a reference benchmark to illustrate difference in behavior between U.S. equity markets and the fund. However, the S&P 500 Index is not fully reflective of the risk profile of the fund, which is not limited to investing solely for long U.S. equity market exposures.

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Brooks Ritchey	13	36
Robert Christian	9	29
Anthony M Zanolla, CFA	4	25

% Maximum Drawdown (Peak-to-Trough): A fund's largest loss, expressed in percentage terms, from a highest point to a lowest point during the specified time period.

% of Negative Months: Percentage of months the fund's returns were less than 0%.

% of Positive Months: Percentage of months the fund's returns were greater than 0%.

Alpha: Alpha measures the difference between a fund's actual returns and its expected returns given its risk level as measured by its beta. A positive alpha figure indicates the fund has performed better than its beta would predict. In contrast, a negative alpha indicates a fund has underperformed, given the expectations established by the fund's beta. Some investors see alpha as a measurement of the value added or subtracted by a fund's manager.

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%.

Correlation: The linear relationship between two return series. Correlation shows the strength of the relationship between two return series. The higher the relationship, the more similar the returns.

Downside Capture Ratio: Explains how well a portfolio performed in time periods where the benchmark's returns were less than zero. A downside capture ratio of less than 100 indicates that a fund lost less than its benchmark during periods of losses for the benchmark.

Gross Exposure: Gross exposure is the sum of the absolute value of all exposures, directly or through derivatives, as a percentage of total assets. The sum of the percentage of long positions and short (in absolute terms) positions.

Long Exposure: Sum of the long exposures, directly or through derivatives, as a percentage of total assets.

Net Exposure: Net exposure is the sum of the total value of all exposures, directly or through derivatives, as a percentage of total assets. The percentage value of the long positions less the percentage value of the short positions.

R-Squared: A measure of how much of a portfolio's performance can be explained by the returns from the overall market (or a benchmark index). If a portfolio's total return precisely matched that of the overall market or benchmark, its R-squared would be 100. If a portfolio's return bore no relationship to the market's returns, its R-squared would be 0.

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.

Short Exposure: Sum of the short exposures, directly or through derivatives, as a percentage of total assets.

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.

Upside Capture Ratio: Explains how well a fund performed in time periods where the benchmark's returns were greater than zero. An upside capture ratio over 100 indicates that a fund generally outperformed the benchmark during periods of positive returns for the benchmark.

What Are The Risks?

All investments involve risks, including possible loss of principal. The market values of securities owned by the fund will go up or down, sometimes rapidly or unpredictably. The fund's performance depends on the manager's skill in selecting, overseeing, and allocating fund assets to the sub-advisors. The fund is actively managed and could experience losses if the investment manager's and sub-advisors' judgment about particular investments made for the fund's portfolio prove to be incorrect. Some sub-advisors may have little or no experience managing the assets of a registered investment company. Foreign investments are subject to greater investment risk such as political, economic, credit and information risks as well as risk of currency fluctuations. Investments in derivatives involve costs and create economic leverage, which may result in significant volatility and cause the fund to participate in losses (as well as gains) that significantly exceed the fund's initial investment. Lower-rated or high yield debt securities involve greater credit risk, including the possibility of default or bankruptcy. Currency management strategies could result in losses to the fund if currencies do not perform as the investment manager or sub-advisor expects. The fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Merger arbitrage investments risk loss if a proposed reorganization in which the fund invests is renegotiated or terminated. Liquidity risk exists when securities have become more difficult to sell, or are unable to be sold, at the price at which they have been valued. Please see the prospectus and summary prospectus for information on these as well as other risk considerations.

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. Please carefully read a prospectus before you invest or send money.

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2. The investment manager has contractually agreed to waive or assume certain expenses so that the total annual fund operating expenses (excluding 12b-1 fees; acquired fund fees and expenses; expenses related to securities sold short; and certain non-routine expenses) for each class of the fund do not exceed (and could be less than) 1.95% until September 30, 2017. This rate differs from the Total Annual Operating Expense with Waiver (the fund's "Net Expense Ratio"), which reflects the full costs associated with an investment in the fund minus the contractual waivers/reductions, and is the figure that is used to calculate a fund's total returns.

3. Source: Morningstar®, 09/30/2019. 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 Advisor Class shares received a Morningstar Rating of 4 star(s) for the 3-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.**



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