FRANKLIN TEMPLETON

Franklin Alternative Strategies Fund

Advisor Class: FABZX Class A: FAAAX | **Commentary | as of June 30, 2026**

Key Takeaways

- **Markets:** Global equities, as measured by the MSCI All Country World Index, rebounded strongly in the second quarter of 2026, recovering from the March energy shock as easing Middle East tensions, lower oil prices and broadly improving investor sentiment restored risk appetite. Growth stocks regained leadership, supported by renewed enthusiasm for artificial intelligence (AI), semiconductors and data centers, although markets declined in June as investors became more selective amid questions around AI spending and higher bond yields. As measured by the MCSI All Country indexes, Asia Pacific and the United States outperformed Europe, while emerging markets outpaced developed markets. Despite US Treasury yields moving higher, narrowing credit spreads helped fixed income spread sectors post positive absolute returns, with high-yield bonds broadly outperforming, as measured by Bloomberg indexes. Broad commodity benchmarks retreated from their 2026 highs during the quarter but finished well above their year-ago levels. Oil futures fell more than 20%, posting their largest quarterly decline since 2020.
- **Contributors:** The Long Short Equity and Global Macro strategies drove the portfolio's quarterly advance, led Long Short Equity subadvisor Electron and Global Macro subadvisors CFM, BlueBay and Graham. Overall, all four primary strategies contributed. Nine of the 10 underlying managers contributed. At the asset-class level, long fixed income positioning made the largest contribution.
- **Detractors:** Long equity positioning weighed substantially on returns. Long commodity positioning was a more modest detractor. While all active strategies contributed, subadvisor Athena was the lone subadvisor to detract overall.
- **Outlook:** As we enter the second half of 2026, the investment landscape remains constructive but increasingly reliant on continued economic resilience and supportive policy expectations. Risk assets have benefited from improving liquidity, resilient earnings and sustained investment in AI and productivity-enhancing technologies, but elevated valuations, concentrated market leadership and sensitivity to macroeconomic and geopolitical developments leave markets vulnerable to periods of volatility and repricing. We expect increasing differentiation across regions, sectors and individual securities, reinforcing the value of active management. In this setting, we believe hedge funds remain well positioned to provide diversification, risk management and alpha generation through security selection, episodic volatility and rapidly evolving market narratives.

Morningstar Rating™

Overall Rating as of June 30, 2026

★★★★ **(4-Star)** Advisor Class

★★★ **(3-Star)** Class A

As of 06/30/2026 the fund's Advisor Class shares received a 4 star and Class A shares received a 3 star overall Morningstar rating™, measuring risk-adjusted returns against 105, 99 and 66 Multistrategy 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. The number of funds in the category for the Overall Rating are listed under the 3-year period.

Performance Review

- On a gross basis, all four primary strategies and nine of the 10 underlying managers contributed to the portfolio's performance during the quarter. The Long Short Equity and Global Macro strategies were the largest contributors, while Relative Value provided a meaningful boost. The Event Driven strategy was a modest contributor, as the managers activated the strategy during the quarter for the first time since September 2025. The Strategic Overlay was a substantial contributor. At the asset-class level, long fixed income positioning was the dominant driver of positive returns, with a modest contribution from currency hedges and short interest rate positioning. Bonds in the information technology (IT) sector accounted for more than half of the portfolio's gains during the period. In contrast, equity positioning, which was long overall, weighed substantially on returns. Overall, positioning in IT was short, and detraction from equities nearly offset the sector's fixed income contribution. Long commodity positioning also detracted.
- Long Short Equity was the month's largest contributing strategy. Long equity positioning drove gains, led by the health care, information technology and industrials sectors. Subadvisor Electron was the period's largest overall contributor, while ActusRay was a notable contributor. Jennison provided a slight boost. Electron's gains, largely due to long equity positioning, were concentrated in the technology hardware and equipment industry and the capital goods industry, where long positioning was broadly supported by continued investment tied to global electrification and energy transition initiatives, as well as rising demand for advanced components underpinning data center and AI infrastructure. Key contributors included long positions at a Germany-based energy equipment manufacturer, a U.S.-based infrastructure contractor and a Singapore-based global electronics manufacturing services provider. ActusRay recovered from a challenging April to make a substantial contribution, owing largely to European and Asian equities, where the subadvisor's long-book gains sharply outweighed losses from its short book. The discretionary overlay drove contribution, offsetting modest detraction from the quant base. Regionally, Italy and South Korea were key contributors. Financials and health care were among the largest contributing sectors. Jennison's equity and cash positioning drove the subadvisor's slight contribution.
- The Global Macro strategy was a key contributor, falling just a few basis points behind Long Short Equity. Long fixed income positioning and long equity positioning led contributors, with additional gains from currency hedges and short interest rate positioning. Only commodity positioning, which was long overall, detracted. Fixed income gains were concentrated in emerging market sovereign bonds, while contribution from equities was keyed by longs in South Korean indexes. All three subadvisors were among the quarter's top overall contributors, trailing only Long Short Equity subadvisor Electron across all strategies. Subadvisor CFM recorded gains in six of its seven asset classes, led by currency hedges, particularly shorts of the Japanese yen and the euro. Short equity positioning was a modest contributor, as gains from South Korea's Kospi 200 Index and the S&P 500 Index were offset by hedges from the Russell 2000 Index and FTSE Taiwan Index. Only commodities detracted, largely due to energy longs. Graham's gains were concentrated in equities, primarily long positions in the Nasdaq 100 Index and Nikkei 225 Index. Commodity positioning detracted, primarily because of energy and precious metal longs. Subadvisor BlueBay's long fixed income positioning, led by sovereigns in Columbia, Argentina and Mexico, drove the subadvisor's contribution. Currency hedges and credit positioning detracted.
- The Strategic Overlay was a substantial contributor, as its long positioning in the S&P 500 and Nasdaq 100 index futures generated a 27%-plus positive return.
- The Relative Value strategy was also a meaningful contributor, as contribution from long fixed income positioning outweighed detraction from short equity positioning. Credit positioning, which was short overall, weighed modestly on

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returns. Subadvisors Lazard and Apollo were meaningful contributors. In contrast, subadvisor Athena detracted. For Lazard, fixed income gains outweighed losses from short equity positioning, led by gains in information technology, and especially software and services. Apollo's long equity positioning drove contribution, led by communication services and communication services holdings. Gains were partially offset by detraction from credit hedges. Athena was the quarter's lone detracting subadvisor, weighed down by equity positioning, as shorts in industrials and IT detracted.

- The Event Driven strategy was a modest contributor. In mid-May, the managers implemented a position in a new Event Driven subadvisor, Birnam Oak Advisors, LP. Birnam Oak is a New York–based investment firm focused on event-driven strategies, seeking to exploit market inefficiencies arising from corporate actions, capital structure dynamics and dislocations across global asset markets. Birnam Oak was a modest contributor due primarily to its long equity positioning, led by index longs. A position in a consumer health company whose acquisition by a larger rival is expected to close in the second half of 2026 was among the largest contributors, driven by progress toward the deal.
- During the quarter (largely in May), the managers reduced exposure to the Long Short Equity and Relative Value strategies through multiple subadvisors, and reduced exposure to Global Macro subadvisor CFM. At period-end, the portfolio's cash position was significantly larger than at the end of March.

Outlook

- As we enter the second half of 2026, the investment landscape remains constructive but increasingly dependent on continued economic resilience and supportive policy expectations. Risk assets have benefited from improved liquidity, resilient corporate earnings and ongoing investment tied to artificial intelligence (AI) and productivity-enhancing technologies. However, elevated valuations, concentrated market leadership and heightened sensitivity to macroeconomic and geopolitical developments have left markets vulnerable to bouts of volatility and rapid repricing.
- While financial conditions remain generally supportive, recent inflation surprises, evolving central- bank expectations and persistent geopolitical tensions have narrowed the margin for policy flexibility. As a result, investors face a backdrop in which optimism remains prevalent, but the tolerance for disappointment appears increasingly limited. We believe this environment is likely to produce greater differentiation across regions, sectors, industries and individual securities.
- In this setting, we also believe hedge funds remain well positioned to provide diversification, active risk management and alpha generation. Rising dispersion, uneven fundamental performance and periodic market dislocations are creating attractive opportunities for managers with flexible mandates and disciplined risk frameworks. We continue to favor strategies that emphasize security selection over broad market exposure, capitalize on episodic volatility and can adapt quickly as market leadership, policy expectations and macroeconomic narratives evolve.
- During the quarter, we moved to a more constructive, "overweight" outlook for Long Short Equity strategies on the back of solid fundamentals, strong earnings reactions, reduced intra-stock correlation and elevated dispersion across single-stocks, market caps, sectors and geographies. The set of investment opportunities has broadened beyond the mega-cap hyperscalers that have largely driven markets in recent years. Additionally, as the impacts of AI and related technologies permeate throughout the economy, they are likely to create additional cohorts of winners and losers across sectors, thereby deepening the opportunity set on both the long and short sides.
- We maintain a neutral outlook for the portfolio's other primary strategies.
- The opportunity set remains robust for Global Macro strategies, particularly for tactical approaches that can react to shifts in geopolitics, policy and economic trends. Managers continue to face an environment with multiple opportunities, though sharp reversals remain possible as markets react to macro-driven newsflow. Developed market central banks remain a key focus as policymakers respond to changing growth and inflation data, while emerging market specialists continue to find opportunities from leadership changes and idiosyncratic developments. We maintain our long-term conviction in systematic strategies, as persistent macro trends and asset class dispersion could remain supportive.
- Our Relative Value strategy outlook has remained neutral, albeit with modest downgrades at the sub-strategy level. Convertible arbitrage has benefited from record issuance tied to refinancing needs and AI-related infrastructure spending, though new bonds are often priced richly and competition remains intense. Within volatility, persistent selling has suppressed levels and limited breakouts during market corrections, while central bank issuance, refinancing activity and investor demand have supported fixed income relative value strategies. Despite favorable conditions, risks tied to policy missteps and a fragile, leveraged market backdrop lead us to maintain a balanced outlook.
- The outlook for Event Driven remains neutral, though marginally improved from the prior quarter due in part to improvements at the sub-strategy level. First-quarter equity market volatility has largely subsided, releasing pent-up demand for corporate activity. Record levels of mergers and acquisitions, leverage buyouts, activist campaigns, and initial public offering issuance are creating ample opportunities for managers and are expected to remain supportive through year-end. Offsetting some of this optimism are tight event spreads, elevated equity valuations and potential fragility in credit markets.

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Average annual total returns and fund expenses (%) - as of June 30, 2026

			Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception
Class	CUSIP	Ticker	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Inception	Gross	Net	Initial Charge	CDSC	Date
Advisor Class	35241W500	FABZX	3.70	5.85	11.57	9.04	3.88	4.39	4.19	3.70	5.85	11.57	9.04	3.88	4.39	4.19	2.47	2.18	—	—	10/11/2013
Class A	35241W104	FAAAX	3.64	5.71	11.28	8.77	3.62	4.12	3.93	-2.10	-0.09	5.18	6.74	2.46	3.53	3.47	2.72	2.43	5.50	—	10/11/2013
Benchmark 1	—	—	5.40	4.80	9.66	6.59	3.08	3.65	—	5.40	4.80	9.66	6.59	3.08	3.65	—	—	—	—	—	—
Benchmark 2	—	—	0.89	1.75	3.84	4.64	3.52	2.34	—	0.89	1.75	3.84	4.64	3.52	2.34	—	—	—	—	—	—

Benchmark(s)

Benchmark 1=HFRX Global Hedge Fund Index

Benchmark 2=ICE BofA US 3-Month Treasury Bill Index

Performance data quoted represents past performance, which does not guarantee future results. *Current performance may be lower or higher than the figures shown. Principal value and investment returns will fluctuate, and investors' shares, when redeemed, may be worth more or less than the original cost. Performance would have been lower if fees had not been waived in various periods. Total returns assume the reinvestment of all distributions and the deduction of all fund expenses. Returns with sales charge reflect a deduction of the stated maximum sales charge. An investor cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges. Returns for periods of less than one year are not annualized. All classes of shares may not be available to all investors or through all distribution channels. For current month-end performance, please visit franklintempleton.com.*

Gross expenses are the fund's total annual operating expenses as of the fund's prospectus available at the time of publication. Actual expenses may be higher and may impact portfolio returns. Net expenses reflect contractual fee waivers, expense caps and/or reimbursements, which cannot be terminated prior to 09/30/2026 without Board consent. Additional amounts may be voluntarily waived and/or reimbursed and may be modified or discontinued at any time without notice.

Dividend Expense and Borrowing Fees for Sec. 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. **The annual expense is 0.44%.** There is no guarantee that these positions will perform as the fund's manager or sub-advisors intended, and losses may occur.

What are the Risks?

All investments involve risks, including possible loss of principal. The fund is actively managed and could experience losses if the investment **manager's and subadvisors'** judgment about particular investments made for the fund's portfolio prove to be incorrect. The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results**.** Some subadvisors may have little or no experience managing the assets of a registered investment company. **International investments** are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets. Derivative instruments** can be illiquid, may disproportionately increase losses, and have a potentially large impact on performance. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. **Currency management** strategies could result in losses to the fund if currencies do not perform as expected. **Short selling** is a speculative strategy. Unlike the possible loss on a security that is purchased, there is no limit on the amount of loss on an appreciating security that is sold short. 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. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. These and other risks are discussed in the fund's prospectus.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Earnings per share (EPS) is defined as a company's net income divided by the number of outstanding shares of its common stock.

An **initial public offering (IPO)** is the process of offering shares in a private corporation to the public for the first time.

The **MSCI All Country World Index** is a market capitalization-weighted index that is designed to measure equity market performance of developed and emerging markets. Source: MSCI makes no warranties and shall have no liability with respect to any MSCI data reproduced herein. No further redistribution or use is permitted. This report is not prepared or endorsed by MSCI.

The **Nasdaq 100 Index** is a basket of the 100 largest, most actively traded U.S companies listed on the Nasdaq stock exchange. Source: Nasdaq OMX.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. Source: FTSE.

The **S&P 500 Index** features 500 leading U.S. publicly traded companies, with a primary emphasis on market capitalization. Source: © S&P Dow Jones Indices LLC. All rights reserved.

Important Information

Effective January 30, 2026, the K2 Alternative Strategies Fund was renamed Franklin Alternative Strategies Fund.

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.

Reference Index: 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.

Monthly reporting HFRX Index constituents are comprised of private hedge funds. The **HFRX Global Hedge Fund Index** is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies, including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry. The **ICE BofA U.S. 3-Month Treasury Bill Index** is an unmanaged index that comprises a single U.S. Treasury issue with approximately three months to final maturity, purchased at the beginning of each month and held for one full month.

Source: The index data referenced herein is the property of Intercontinental Exchange ("ICE") and/or its licensors and has been licensed for use by Franklin Templeton. ICE and its licensors accept no liability in connection with this use. Source: Hedge Fund Research, Inc. The HFR indices are being used under license from Hedge Fund Research, Inc., which does not endorse or approve of any of the contents of this report. Unlike most asset class indexes, the HFR Index reflect fees and expenses.

Important data provider notices and terms available at www.franklintempletondatasources.com. All data is subject to change.

Morningstar Rating™: Source: Morningstar®, 06/30/2026. For each mutual fund and ETF 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.

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The fund's Advisor Class shares received a Morningstar Rating of 4, 3 and 4 and fund's Class A shares received a Morningstar Rating of 3, 3 and 3 star(s) for the 3-, 5- and 10-year periods, respectively. Franklin Templeton provides this fund's Morningstar Rating™ for Advisor Class and Class A shares only. Other share classes may have different Morningstar ratings. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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Before investing, carefully consider a fund's investment objectives, risks, charges and expenses. You can find this and other information in each prospectus, or summary prospectus, if available, at www.franklintempleton.com. Please read it carefully.

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