FRANKLIN TEMPLETON

Franklin Alternative Strategies Fund

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

Key Takeaways

- **Markets:** Global developed equities, as measured by the MSCI World Index, advanced during the third quarter of 2026 despite geopolitical uncertainty, rising bond yields and tighter monetary conditions. Global equity markets were subdued in July, strengthened in August and weakened in September amid concerns about energy-driven inflation and higher borrowing costs. US equities outperformed broader developed markets, supported by renewed interest in artificial intelligence (AI), while Japanese equities also advanced. Eurozone and emerging market equities lagged, with the latter affected by significant weakness in South Korean stocks. Fixed income markets declined as sovereign bond yields rose across major developed economies. US Treasury yields increased across the curve, particularly at intermediate and longer maturities, resulting in modest steepening. Interest-rate increases by the US Federal Reserve and other major central banks contributed to tighter financial conditions, while high-yield bonds proved more resilient than investment-grade securities. Hedge fund strategies experienced mixed performance, with the HFRX Global Hedge Fund Index declining during the quarter. Results varied across strategies, reflecting differences in market exposure and sensitivity to shifting asset prices. Commodity markets advanced, led by sharp gains in crude oil prices amid geopolitical tensions and supply concerns. Gold and copper prices also rose, highlighting continued dispersion across asset classes.
- **Contributors:** The Global Macro strategy was the largest contributor, while the Event Driven strategy meaningfully supported returns. Global macro subadvisors CFM and Graham led the way in terms of contribution. Long Short Equity subadvisor ActusRay helped limit detraction from its strategy. Short interest rate positioning and long commodity bolstered performance.
- **Detractors:** The Long Short Equity strategy drove the portfolio's modestly quarterly decline, due in large part to subadvisors Electron and Jennison. The Relative Value strategy also weighed on returns. Among asset classes, long fixed income positioning was the key detractor.
- **Outlook:** As we enter the final quarter of 2026, the investment backdrop remains constructive, supported by resilient economic growth, solid corporate earnings and continued investment in AI and other productivity-enhancing technologies. At the same time, elevated expectations, evolving policy dynamics and geopolitical uncertainty are contributing to wider performance differences across companies, sectors and regions. In our view, this increasing dispersion is creating a more favorable environment for hedge funds, where returns are driven less by broad market direction and more by security selection, active risk management and the ability to capitalize on differentiated opportunities.

Performance Review

- On a gross basis, two of the four primary strategies and four of the ten underlying managers detracted from the portfolio's performance during the quarter. The Long Short Equity strategy was the key driver of the portfolio's modestly negative return, while Relative Value was a meaningful detractor. Conversely, the Global Macro strategy was a substantial contributor, followed by the Event Driven strategy. The Strategic Overlay provided a more modest boost. At the asset-class level, long fixed income positioning was by far the largest detractor, while currency hedges and long equity positioning weighed meaningfully on returns. In a challenging quarter for fixed income markets, long positioning in information technology (IT), industrials and US/UK government bonds weighed the most on the portfolio's performance. In contrast, short interest rate positioning and long commodity positioning contributed, led respectively by developed market futures shorts and energy commodities.
- The Long Short Equity strategy was by far the largest detractor during the period, weighed down by long equity positioning in the industrials and IT sectors. The capital goods industry was a key detractor, along with the hardware and equipment and semiconductors industries in IT. Subadvisor Electron was by far the period's largest overall detractor with a double-digit negative return, while subadvisor Jennison ranked second. Electron's long positioning in the capital goods industry drove detraction in industrials, while hardware and equipment combined with semiconductors to drive weakness in IT. A challenging environment for artificial intelligence-related names and rising fixed income yields weighed on infrastructure and utilities longs, and detraction from the subadvisor's long book outweighed contribution from the short book. Jennison's weakness was focused in the pharmaceuticals, biotechnology and life sciences space, with additional detraction from equity index hedges tracking US health care sectors. In contrast, subadvisor ActusRay was among the top overall contributors during the period, driven by long equity positioning in health care and short positioning in communication services. ActusRay was a leader in September, when the portfolio advanced, as European and Asian alpha was up, both driven by gains in the quant base and the discretionary overlay.
- The Relative Value strategy was also a meaningful detractor, as losses from long fixed income positioning outweighed contribution from short equity positioning. Interest rate positioning, which was long overall, also weighed on returns. Subadvisor Apollo was a substantial detractor. Apollo's long equity positioning hurt, driven largely by US longs in IT. Long fixed income positioning also detracted, driven by US longs in communication services. In contrast, subadvisors Athena and Lazard provided modest contributions. Long equity positioning drove Athena's gains, with strength in industrials (especially capital goods) and IT (software and services, short). For Lazard, gains from equities, fueled by long positioning in IT. combined with cash to outweigh losses from long fixed income positioning, centered on total returns swaps of corporate bonds.
- On the positive side, the Global Macro strategy was the month's largest contributing strategy. Interest rate hedges, especially in the US and Europe, and long commodity positioning drove the strategy's gains, partially offset by losses from currency hedges and long fixed income positioning. Subadvisors CFM and Graham were the quarter's top overall contributors, while subadvisor BlueBay weighed on returns. CFM, a laggard in July, was a key contributor in both August and

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September, driven by short interest rate positioning, with gains focused on Europe, UK and US shorts. Equity index hedges in the US also contributed. Graham's gains were driven by long commodity positioning, especially wholesale gasoline, low sulfur gasoil and diesel futures. Short fixed income positioning and interest rate hedges also contributed, partially offset by detraction from long equity positioning. BlueBay's long fixed income positioning drove the subadvisor's detraction, led by long positioning in EM sovereigns, especially from Argentina. Currency positioning also weighed on returns, driven by India longs.

- The Event Driven strategy was a meaningful contributor, as subadvisor Birnam Oak posted gains in long equity positioning. The subadvisor had a strong August, bolstered by a combination of beta (with rising MSCI All Country World Index exposure as a key contributor) and alpha, primarily in the merger arbitrage book. One of the largest individual contributors during the quarter was a global media and entertainment company, a merger situation with tightening spreads. Another was a supplier of radio-frequency semiconductors, which benefited from increased investor confidence in the completion of its pending merger with another wireless and connectivity chipmaker, though a position in the latter's stock was a notable detractor.
- During the quarter, the team made no significant adjustments to the portfolio's strategy weights.

Outlook

- As we enter the final quarter of 2026, the investment backdrop remains constructive but increasingly differentiated. Economic growth and corporate earnings have remained resilient, while continued investment in artificial intelligence (AI) and other productivity-enhancing technologies has supported capital spending and market sentiment. At the same time, elevated expectations, shifting policy dynamics, geopolitical uncertainty, and increasingly divergent fundamentals across companies, sectors and regions are creating a more complex investment environment.
- We believe the opportunity set for hedge funds is becoming less dependent on the direction of broad markets and more influenced by the dispersion occurring beneath the surface. Strong aggregate fundamentals can coexist with meaningful differences in earnings growth, balance-sheet quality, capital allocation and sensitivity to interest rates and policy changes.
- In this environment, we believe hedge funds remain particularly well positioned to provide diversification, active risk management, and differentiated sources of return. Greater dispersion, evolving correlations, and periodic dislocations should continue to create opportunities for managers able to express both long and short views, dynamically adjust exposures, and allocate capital across markets. Rather than requiring a broad market correction or sustained increase in volatility, the current environment favors strategies that can capitalize on complexity itself. We continue to favor approaches that emphasize security selection over broad beta, maintain disciplined risk management, and possess the flexibility to adapt as market leadership, policy expectations, and fundamental trends evolve.
- During the quarter, we moved from a more constructive, "overweight" outlook for Long Short Equity strategies to neutral, given increased uncertainty around growth, inflation, interest rates and geopolitics, leading to reduced reliability of broad market beta as a source of returns. As a result, we favor equity market neutral strategies with robust risk management frameworks that are better suited to navigate market uncertainty while also being able to extract alpha from the current market structure. The short side has also become particularly important relative to prior years in which shorting was frequently difficult because broad liquidity and multiple expansion lifted weaker companies alongside stronger ones.
- Given that change, we hold a neutral outlook for the portfolio's other primary strategies.
- For Relative Value strategies, more muted opportunities in convertible and volatility trading strategies offset favorable dynamics in fixed income arbitrage, in our view. Within fixed income, we are observing more active and divergent central bank activity contributing to elevated bond market volatility, and greater dispersion between regions and maturities. High US deficits and reduced forward guidance are contributing to elevated uncertainty premia that sophisticated arbitrageurs can take advantage of. The same cannot be said for equity market volatility. Elevated geopolitical and financial uncertainty has contributed to higher single-stock volatility, but dispersion and persistent systematic volatility selling are keeping index volatility depressed. The resulting equilibrium is unlikely to be permanent and may contribute to an eventual sharp risk unwind, which would be beneficial for long-biased volatility managers.
- Our outlook for Global Macro strategies is cautiously constructive in the near-term and still structurally positive over the long-term. The opportunity set remains broad, but elevated tail risks around elections, geopolitics and policy uncertainty temper our conviction over the next few months. Changes in central bank policies, ongoing fiscal expansion and corporate capex, and political developments should continue to provide tactical managers with opportunities across asset classes, while also raising the risk of abrupt reversals. Managers with an edge in identifying policy shifts and market trends early may benefit in the evolving landscape. We maintain our long-term conviction in systematic strategies, particularly given their potential to provide differentiated return drivers within a broader portfolio.
- We maintain a neutral outlook for event-driven strategies in aggregate. Merger arbitrage has been benefiting from record-setting levels of M&A across a diverse range of markets, including US and international cross-border deals, sponsor-backed activity and private acquisitions. Typically, strong deal volumes lead to wider deal spreads, since there is usually not enough arbitrage capital to fully collapse them. That has not been the case recently—the combination of a benign regulatory regime and significant fundraising by multi-portfolio manager firms has anchored average merger spreads at relatively modest levels. There remain substantial attractive opportunities in activism and special situations investing, but those require a more active investment style, leading us to favor more dynamic and trading-oriented managers in the strategy.
- We have a positive outlook for commodity trading strategies. A broad set of structural and cyclical drivers may continue to sustain trends, volatility and dispersion across sectors, including industrial investment, defense spending, electrification trends, evolving trade policy and weather-related disruptions. The opportunity is further supported by the tendency for commodity markets to respond idiosyncratically to regional supply constraints, inventory dynamics and policy shifts, which can create differentiated sources of alpha. While exogenous shocks and abrupt price moves keep tail risks elevated, we believe this places a premium on specialist expertise and robust risk management, supporting an overweight stance toward managers with flexible mandates and a demonstrated ability to navigate market volatility.

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Average annual total returns and fund expenses (%) - as of September 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	-0.17	5.67	7.39	9.01	4.08	4.14	4.09	-0.17	5.67	7.39	9.01	4.08	4.14	4.09	2.53	2.18	—	—	10/11/2013
Class A	35241W104	FAAAX	-0.17	5.53	7.17	8.77	3.82	3.89	3.84	-5.67	-0.26	1.24	6.74	2.66	3.31	3.39	2.78	2.43	5.50	—	10/11/2013
Benchmark 1	—	—	-0.82	3.93	5.40	6.03	2.94	3.34	—	-0.82	3.93	5.40	6.03	2.94	3.34	—	—	—	—	—	—
Benchmark 2	—	—	0.89	2.65	3.65	4.49	3.70	2.42	—	0.89	2.65	3.65	4.49	3.70	2.42	—	—	—	—	—	—

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 09/30/2027 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

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.

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Important Information

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

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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.

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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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