

Franklin Alternative Strategies Fund

Advisor Class: FABZX Class A: FAAAX

Commentary | as of March 31, 2026

Key Takeaways

- Markets:** Global equities declined during the first quarter of 2026 as the escalating conflict in the Middle East weighed heavily on investor sentiment. Oil prices surged in March, exacerbating concerns about inflation and reducing confidence that central banks would be able to ease policy quickly. The S&P 500 Index declined during the quarter and underperformed global, developed and emerging markets (EM) gauges. The energy sector rose with oil prices to post outsized gains. Value shares outperformed their growth peers across all market-cap tiers. Fixed income spread sector absolute returns were generally negative as the war dominated market sentiment in March, and global government bond markets sold off. A key US index rallied at the end of March to a near flat quarterly return. US Treasury and non-US sovereign bond yields broadly rose, and credit spreads generally widened. Global commodities markets rose sharply, largely in March, boosted by supply shocks that were concentrated in energy and agriculture, with oil futures trading above US\$100 per barrel.
- Contributors:** The Global Macro strategy was by far the largest contributor during the quarter, while the Relative Value strategy substantially boosted returns. Fixed income positioning and commodity positioning drove gains. Among subadvisors, CFM and Graham, from Global Macro, were top contributors, along with Long Short Equity's Electron.
- Detractors:** The Strategic Overlay and Long Short Equity strategy weighed meaningfully on returns. At the asset-class level, long equity positioning was the key detractor. Among subadvisors, ActusRay and Jennison were the lone detractors.
- Outlook:** We believe the market environment remains constructive on the surface but increasingly fragile underneath. Liquidity has improved, volatility remains contained and risk assets continue to find support. At the same time, valuations are elevated, positioning is crowded, and sensitivity to incremental macro and geopolitical developments is rising. In our view, this combination reinforces the importance of flexibility, selectivity and active risk management. Elevated dispersion across regions, sectors and capital structures is creating opportunities for managers able to operate with flexible mandates and disciplined risk budgets. We believe the investment opportunity set increasingly favors strategies that emphasize alpha over beta, exploit episodic volatility and remain adaptable as macro narratives evolve.

Performance Review

- Global equities declined during the first quarter of 2026 as the escalating conflict in the Middle East weighed heavily on investor sentiment. Oil prices surged in March, exacerbating concerns about inflation and reducing confidence that central banks would be able to ease policy quickly. In the first two months of the year, non-US equities advanced, led by emerging markets and improving sentiment toward Europe. US stocks were essentially flat as technology shares came under pressure amid a rotation away from mega-cap technology, toward more cyclical and defensive areas of the market. The S&P 500 Index declined during the quarter and underperformed global, developed and emerging markets (EM) gauges. In the US (and globally), the energy sector rose with oil prices to post outsized gains. Value shares outperformed their growth peers across all market-cap tiers. Fixed income spread sector absolute returns were generally negative as the war dominated market sentiment in March. Global government bond markets sold off during March, as an initial safe-haven bid in certain markets was overwhelmed by markets subsequently pricing in stagflationary outcomes. The Bloomberg US Aggregate Bond Index rallied at the end of March to a near flat quarterly return. US Treasury and non-US sovereign bond yields broadly rose, and credit spreads generally widened in both investment-grade and high-yield markets. Global commodities markets rose sharply, largely in March, boosted by supply shocks that were concentrated in energy and agriculture, with oil futures trading above \$100 per barrel. Gold prices advanced during the period, rising to more record highs in early March but declining for the month.
- On a gross basis, two of the four primary strategies and seven of the nine underlying managers contributed to the portfolio's performance during the quarter. The Global Macro strategy was the largest contributor, while Relative Value substantially boosted returns. In contrast, the Strategic Overlay and the Long Short Equity strategy were meaningful detractors. (The Event Driven strategy had no impact, as the team exited the strategy's lone active subadvisor, Bardin Hill, in September 2025.) At the asset-class level, long fixed income positioning and commodity positioning were the key contributors, followed by interest rate positioning also contributed. Conversely, long equity positioning was the largest detractor, and currency hedges also weighed on returns.
- The Global Macro strategy was the quarter's largest contributing strategy, owing largely to commodity positioning. Long equity, short fixed income positioning and short interest rate positioning also boosted performance. Currency hedges detracted. Subadvisor CFM was the quarter's leading contributor regardless of strategy, with Graham not far behind. Subadvisor BlueBay provided a more modest boost. CFM posted a quarterly gain thanks in large part to a strong March and commodity positioning. Interest rate hedges, short fixed income positioning and long equity positioning all contributed. Crude oil futures and other energy commodities drove gains. CFM's long position in South Korea's tech-heavy KOSPI 200 was a key contributor as the South Korean market repeatedly notched all-time highs. For Graham, commodity positioning was the key driver of gains, as long positioning in energy and metals and industrials commodities benefited from sharp rallies in March. Gains in both local and hard currency drove BlueBay's positive performance. Venezuela was a leading contributor, driven primarily by gains in sovereign credit, which benefited from US military intervention that could lead to the lifting of US sanctions and an increase in oil production. Positioning in Colombia and Brazil also aided performance.
- Relative Value was a meaningful contributor, driven by long fixed income positioning, and information technology (IT) sector bonds in particular. Gains were partially offset by detachment from long equity positions (driven largely by IT). No other asset class had a significant impact. All three subadvisors were meaningful contributors to the strategy's returns, led by Athena. Athena's contribution was driven by long equity positioning, especially in the health care sector. Cash positioning also contributed. Subadvisor Lazard posted gains across nearly all factors, led by the volatility yield factor. Long fixed income

Morningstar Rating™

Overall Rating as of March 31, 2026



(4-Star) Advisor Class



(3-Star) Class A

As of 03/31/2026 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 104, 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.

positioning was the key driver on strength prior to the Iran conflict, but gains were largely offset by short equity positioning, although that group drove some monthly gains in March. Subadvisor Apollo posted positive results across most asset classes, led by long equity positioning. Catalyst-rich names drove Apollo's advance, including a short position in a UK-based luxury automaker and a US-based satellite communication and networking technology firm that holds a slice of a major space transportation company, the subject of a potentially imminent initial public offering.

- Conversely, the Long Short Equity strategy was a meaningful detractor, owing to long equity positioning. Weakness in the health care, IT and consumer discretionary sectors outweighed gains in the industrials sector and from index hedges. Subadvisors ActusRay and Jennison were two of the quarter's three largest overall detractors regardless of strategy. For ActusRay, long equity positioning in information technology was a key detractor, along with January losses in both the quant base and the discretionary overlay. Long positions in the pharmaceuticals, biotechnology and life science industry stocks weighed heavily on Jennison, though the subadvisor's equity index hedges helped contain the damage. Meanwhile, subadvisor Electron was one of the quarter's strongest contributors across all strategies, despite posting a negative return in March. Gains were supported by a rally in the energy sector and the capital goods industry. Key contributors included long positions in a Germany-based energy technology firm and a US-based clean energy technology infrastructure company, each of which benefited from increased market volatility.
- The Strategic Overlay was a notable detractor, as its long positioning in the S&P 500 and Nasdaq 100 index futures generated a negative return.
- During the quarter, the team made no significant adjustments to the portfolio's strategy weights.

Outlook

- As we move through 2026, we think the market environment remains constructive on the surface but increasingly fragile underneath. Liquidity has improved, volatility remains contained and risk assets continue to find support. At the same time, valuations are elevated, positioning is crowded, and sensitivity to incremental macro and geopolitical developments is rising. In our view, this combination reinforces the importance of flexibility, selectivity and active risk management.
- In this environment, hedge funds have continued to offer differentiated value through diversification, active risk management and alpha generation. Elevated dispersion across regions, sectors and capital structures is creating opportunities for managers able to operate with flexible mandates and disciplined risk budgets. We believe the investment opportunity set increasingly favors strategies that emphasize alpha over beta, exploit episodic volatility and remain adaptable as macro narratives evolve.
- Global financial conditions have transitioned into a more neutral—and in some areas, tightening—phase, as of March 2026. While markets benefited earlier in the year from the residual effects of 2025's central bank easing, recent inflation surprises and geopolitical developments have reduced the margin of policy flexibility. As a result, the longer these pressures persist, the greater the risk of valuation and risk premium adjustment. Markets have become increasingly reactive to marginal changes in data, geopolitical developments and policy expectations. We see this as an environment where returns remain available, but the margin for error is thin.
- Despite ongoing geopolitical tensions, headline volatility measures have remained relatively muted; however, divergence among regions, sectors and individual securities is increasingly pronounced. This reflects uneven growth trajectories, differentiated balance sheet quality and concentrated positioning in a narrow set of themes. In our view, this is a favorable backdrop for active managers, but one that also carries the risk of sharp, short-lived drawdowns when crowded trades unwind.
- Geopolitical risk is now embedded in market structure. Trade policy uncertainty, shifting alliances and a more transactional global order are no longer episodic shocks—they are ongoing inputs into market pricing. These forces are influencing corporate decision-making, supply chains and capital allocation, and they increase the likelihood of discrete volatility events. We expect geopolitics to remain a source of periodic dislocation rather than sustained trends, reinforcing the value of tactical, flexible strategies.
- This is not a market that rewards static positioning or broad beta exposure. Instead, it favors managers who can adjust risk dynamically, avoid crowded trades and exploit short duration inefficiencies as they arise. Elevated dispersion and episodic volatility create a steady flow of opportunities, but outcomes are likely to vary widely across managers and strategies.
- We continue to see a near-term environment that should reward agility over conviction and alpha over beta. Traditional asset classes may continue to grind higher, but downside risks are asymmetric. Hedge fund strategies—particularly those with flexible mandates and disciplined risk management—remain well positioned to navigate this phase of the cycle and deliver differentiated returns.
- We maintain a neutral outlook for all of the portfolio's primary strategies.
- Our Long Short Equity outlook is neutral but more constructive. We believe the combination of increasing intra-market dispersion, broadening equity leadership beyond a narrow cohort of artificial intelligence (AI) beneficiaries, along with an acceleration in idiosyncratic, reform- or event-driven catalysts across regions, support an attractive environment for stock selection. We continue to favor lower-net strategies with the optionality for international exposure.
- In our view, the environment for Global Macro strategies remains broadly supportive, driven by policy divergence, elevated sovereign issuance and renewed volatility in foreign exchange and commodities. The Iran conflict has added a further source of cross-asset volatility, increasing the opportunity set but also increasing tail risks and likely widening dispersion across managers. The conflict and other geopolitical risks are adding complexity and uncertainty around inflation, growth and policy paths.
- Our outlook for Relative Value is neutral but improving, particularly for convertible and fixed income arbitrage, both benefiting from the ability to capitalize on elevated market volatility, tempered by heightened risk of liquidity stress or sharp spread dislocations.
- We have a neutral and modestly declining outlook for event-driven strategies. Elevated market volatility can temper confidence, leading to less deal activity. Additionally, certain event-driven strategies may exhibit higher downside beta in periods of market stress.
- The opportunity set in commodities looks vast but challenging. Volatility has increased noticeably over the last several months, improving the potential opportunity set and increasing tail risks. Elevated manager dispersion is likely to persist as long as geopolitics continue to drive large moves in price and inter- and intra-commodity relationships. We believe robust risk management is likely to remain a key differentiator between managers in the months ahead as markets adapt to the news flow. Managers that can navigate these dislocations may find more attractive opportunities as uncertainty recedes.

Average annual total returns and fund expenses (%) - as of March 31, 2026

Class	CUSIP	Ticker	Without Sales Charge							With Maximum Sales Charge							Expenses		Sales Charges		Inception Date
			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	
Advisor Class	35241W500	FABZX	2.07	2.07	10.23	8.26	3.74	4.19	3.97	2.07	2.07	10.23	8.26	3.74	4.19	3.97	2.47	2.18	—	—	10/11/2013
Class A	35241W104	FAAAX	1.99	1.99	9.93	7.98	3.47	3.93	3.71	-3.60	-3.60	3.85	5.97	2.31	3.34	3.24	2.72	2.43	5.50	—	10/11/2013
Benchmark 1	—	—	-0.57	-0.57	5.97	4.96	2.49	3.22	—	-0.57	-0.57	5.97	4.96	2.49	3.22	—	—	—	—	—	
Benchmark 2	—	—	0.85	0.85	4.00	4.74	3.34	2.26	—	0.85	0.85	4.00	4.74	3.34	2.26	—	—	—	—	—	

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

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

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

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 **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.

Stagflation is a seemingly contradictory condition described by slow economic growth and relatively high unemployment, or economic stagnation, which is at the same time accompanied by rising prices (i.e. inflation).

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®, 03/31/2026. 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. 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 4, 2 and 4 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

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