**OCTOBER 1, 2013**

The U.S. Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) have not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

| Class A | Class C | Class R | Advisor Class |
|---|---|---|---|
| FGAAX | Pending | Pending | FGAZX |

**FRANKLIN TEMPLETON INTERNATIONAL TRUST**

**PROSPECTUS**

# Franklin Templeton Global Allocation Fund

FRANKLIN TEMPLETON INVESTMENTS

**Franklin · Templeton · Mutual Series**

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# FUND SUMMARY

## Investment Goal

Total return.

## Fees and Expenses of the Fund

These tables describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts in Class A if you and your family invest, or agree to invest in the future, at least $50,000 in Franklin Templeton funds. More information about these and other discounts is available from your financial professional and under "Your Account" on page 44 in the Fund's Prospectus and under "Buying and Selling Shares" on page 79 of the Fund's Statement of Additional Information.

**SHAREHOLDER FEES** *(fees paid directly from your investment)*

| | Class A | Class C | Class R | Advisor Class |
|---|---|---|---|---|
| Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price) | 5.75% | None | None | None |
| Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds) | None | 1.00% | None | None |





**ANNUAL FUND OPERATING EXPENSES**

*(expenses that you pay each year as a percentage of the value of your investment)*

| | Class A | Class C | Class R | Advisor Class |
|---|---|---|---|---|
| Management fees[1] | 0.95% | 0.95% | 0.95% | 0.95% |
| Distribution and service (12b-1) fees[2] | 0.30% | 1.00% | 0.50% | None |
| Other expenses[1] | | | | |
| Other expenses of the Fund | 0.29% | 0.29% | 0.29% | 0.29% |
| Other expenses of the Subsidiary (including Subsidiary management fees) | 0.03% | 0.03% | 0.03% | 0.03% |
| Acquired fund fees and expenses[3] | 0.02% | 0.02% | 0.02% | 0.02% |
| Total annual Fund operating expenses | 1.59% | 2.29% | 1.79% | 1.29% |
| Fee waiver and/or expense reimbursement[4] | -0.27% | -0.27% | -0.27% | -0.27% |
| **Total annual Fund operating expenses after fee waiver and/or expense reimbursement[3]** | **1.32%** | **2.02%** | **1.52%** | **1.02%** |

1. Management fees and other expenses have been restated to reflect current fiscal year fees and expenses as a result of the bundling of the Fund's investment management agreement with its fund administration agreement effective May 1, 2013. Such combined investment management fees are described further under "Management" in the Fund's prospectus. Total annual fund operating expenses are not affected by such bundling. In addition, other expenses of the Fund and other expenses of the Subsidiary have been restated to exclude non-recurring prior period expenses. If such expenses were included in the table above, the amounts stated would have been greater.
2. The Class A distribution and service (12b-1) fee has been restated to reflect the maximum annual contractual rate for the current fiscal year.
3. Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights, which reflect the operating expenses of the Fund and do not include acquired fund fees and expenses.
4. The investment manager has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee paid by a Cayman Islands-based company that is wholly owned by the Fund (Subsidiary). This waiver may not be terminated and will remain in effect for as long as the investment manager's contract with the Subsidiary is in place. Additionally, the investment manager and administrator have contractually agreed to waive or assume certain expenses so that common expenses (excluding Rule 12b-1 fees, acquired fund fees and expenses and certain non-routine expenses) do not exceed 1.00% until September 30, 2014. Contractual fee waiver and/or expense reimbursement agreements may not be terminated during their terms.

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of the period. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. The Example reflects adjustments made to the Fund's operating expenses due to the fee waiver and/or expense reimbursement by management for the 1 Year numbers

only. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|---|---|---|---|
| **Class A** | $702 | $1,023 | $1,367 | $2,334 |
| **Class C** | $305 | $690 | $1,201 | $2,605 |
| **Class R** | $155 | $537 | $944 | $2,083 |
| **Advisor Class** | $104 | $382 | $682 | $1,533 |
| If you do not sell your shares: | | | | |
| **Class C** | $205 | $690 | $1,201 | $2,605 |

## Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual Fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 47.73% of the average value of its portfolio.

## Principal Investment Strategies

Under normal market conditions, the Fund seeks to achieve its investment goal by (1) investing in a diversified core portfolio of equity and fixed income investments, and (2) tactically adjusting the Fund's exposure to certain asset classes, regions, currencies and sectors independent of the investment processes of the investment strategies that comprise the core portfolio.

Under normal market conditions, the Fund's baseline allocation between broad asset classes is:

- 50% Global Equity (U.S./International/Emerging)
- 35% Global Fixed Income (U.S./International/Emerging)
- 5% Commodity-linked Instruments
- 10% Cash and Derivative Instruments

The Fund is structured as a multi-manager fund, with the investment manager responsible for monitoring the Fund's overall investment performance, managing portions of the Fund's core portfolio, managing





the Fund's tactical asset allocation, and re-balancing the Fund's portfolio to maintain the baseline allocation to various asset classes and investment strategies. The baseline allocation also may change from time to time, at the discretion of the investment manager.

The investment manager sub-contracts with various other investment managers within Franklin Templeton Investments (the "Sub-Advisors") who independently manage separate portions of the Fund's core equity and fixed income portfolio. The allocations to each strategy may change from time to time, at the discretion of the investment manager, and are subject to periodic rebalancing due to changing market values of securities held in the portfolio or at the discretion of the investment manager.

- **Franklin U.S. Growth Equity**
  The goal of this strategy is to seek capital appreciation by investing predominantly in equity securities of U.S. companies in any industry and of any market capitalization.
- **Templeton Global Bond**
  The goal of this strategy is to seek current income with capital appreciation and growth of income by investing predominantly in debt securities of governments and government agencies located around the world.
- **Mutual Series Equity**
  The goal of this strategy is to seek capital appreciation by focusing on undervalued mid- and large-cap equity securities, which may include foreign securities and, to a lesser extent, distressed securities and merger arbitrage securities.
- **Franklin Non-U.S. Growth Equity**
  The goal of this strategy is to seek capital appreciation by investing predominantly in the equity securities of mid- and large-capitalization companies outside the U.S. with long-term growth potential.
- **Franklin Templeton Global Low Duration Bond**
  The goal of this strategy is to seek to maximize long-term total return while controlling overall risk by investing primarily in investment-grade debt securities, targeting an estimated average duration of three (3) years or less, across different debt sectors around the world, including government and corporate debt securities, and mortgage and asset-backed securities.

- **Templeton Emerging Markets Equity**
  The goal of this strategy is to seek long-term capital appreciation by investing predominantly in equity securities of companies located in emerging market countries, applying a "bottom-up," value-oriented, long term approach.
- **Templeton Equity**
  The goal of this strategy is to seek long-term capital growth by investing primarily in equity securities of companies located outside the U.S., including emerging markets, applying a "bottom-up," value-oriented, long term approach.

In addition to the core portfolio, the investment manager uses various derivative instruments to make tactical investment decisions based on quantitative research and a systematic investment strategy driven by bottom-up fundamentals analysis, top-down macroeconomic analysis and short-term sentiment indicators. The Fund's tactical asset allocation is intended to adjust the Fund's equity, fixed income, country/regional, and currency exposures. The investment manager does not attempt to time the direction of the entire market, but keeps the flexibility to shift the Fund's net exposure (the value of securities held long less the value of securities held short) depending on which market opportunities look more attractive. The Fund may, from time to time, have a net short position in certain asset classes, regions, currencies and sectors.

For purposes of pursuing its investment goal, the Fund regularly enters into various transactions involving derivative instruments. For the Fund's tactical asset allocation, the investment manager primarily uses stock index futures, government bond futures, and currency forwards and futures contracts. Stock index futures allow the Fund to obtain net long or net short exposures to a selected reference index and the underlying securities without actually having to purchase or sell such underlying securities. Bond/interest rate futures may allow the Fund to obtain net long or net short exposures to selected interest rates, durations or credit risks. Currency forwards and futures contracts may allow the Fund to obtain net long or net negative (short) exposure to selected currencies. The Fund may maintain significant positions in currency-related derivative instruments which could expose a large amount of the Fund's assets to obligations under the instruments. Derivative instruments may be used for tactical asset allocation to adjust or obtain net long or net negative (short) exposure to various asset classes, regions, currencies, sectors or securities, for hedging purposes, or to otherwise enhance Fund returns. The use of





derivative instruments may allow the investment manager to make tactical allocations with fewer transaction costs than it might otherwise incur by changing allocations to the separate portions of the core portfolio.

The investment manager and some of the Sub-Advisors also may enter into various transactions involving derivative instruments with respect to the Fund's core equity and fixed income portfolio, and its allocation to commodities, to obtain exposure to various asset classes, regions, currencies, sectors or securities, for hedging purposes, or to otherwise enhance Fund returns. Exposure to commodities is currently obtained through the use of exchange-traded notes (ETNs). Because the investment decisions related to the Fund's tactical asset allocation are based on factors separate and independent from the investment decisions related to the core portfolio strategies, it is possible that the Fund's tactical asset allocation will be contrary to individual investments held in the core portfolio portion.

## Principal Risks

You could lose money by investing in the Fund. Mutual fund shares are not deposits or obligations of, or guaranteed or endorsed by, any bank, and are not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency of the U.S. government.

**Market** The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. A security's market value may be reduced by market activity or other results of supply and demand unrelated to the issuer. This is a basic risk associated with all securities. When there are more sellers than buyers, prices tend to fall. Likewise, when there are more buyers than sellers, prices tend to rise.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

**Credit** An issuer of debt securities may fail to make interest payments and repay principal when due, in whole or in part. Changes in an issuer's financial strength or in a security's credit rating may affect a security's value.

**Interest Rate** When interest rates rise, debt security prices generally fall. The opposite is also generally true: debt security prices rise when interest

rates fall. In general, securities with longer maturities are more sensitive to these interest rate changes.

**Foreign Securities** Investing in foreign securities typically involves more risks than investing in U.S. securities, and includes risks associated with: political and economic developments - the political, economic and social structures of some foreign countries may be less stable and more volatile than those in the U.S.; trading practices - government supervision and regulation of foreign security and currency markets, trading systems and brokers may be less than in the U.S.; availability of information - foreign issuers may not be subject to the same disclosure, accounting and financial reporting standards and practices as U.S. issuers; limited markets - the securities of certain foreign issuers may be less liquid (harder to sell) and more volatile; and currency exchange rate fluctuations and policies. Although not typically subject to currency exchange rate risk, depositary receipts may be subject to the same risks as foreign securities generally. The risks of foreign investments typically are greater in less developed countries or emerging market countries.

**Region Focus** To the extent that the Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, the Fund may be subject to greater risks of adverse developments in such areas of focus than a fund that invests in a wider variety of countries, regions, industries, sectors or investments.

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe.

**Currency Management Strategies** Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. Using currency management strategies for purposes other than hedging further increases the Fund's exposure to foreign investment losses. Currency markets generally are not as regulated as securities markets. In addition, currency rates may fluctuate significantly over short periods of time, and can reduce returns.





**Emerging Markets** The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets, including: delays in settling portfolio securities transactions; currency and capital controls; greater sensitivity to interest rate changes; pervasiveness of corruption and crime; currency exchange rate volatility; and inflation, deflation or currency devaluation.

**Asset Allocation** The Fund's ability to achieve its investment goal depends upon the investment manager's skill in determining the Fund's asset allocation mix and selecting Sub-Advisors. There is the possibility that the investment manager's evaluations and assumptions regarding asset classes and Sub-Advisors will not be successful in view of actual market trends.

**Smaller and Midsize Companies** Securities issued by smaller and midsize companies may be more volatile in price than those of larger companies, involve substantial risks and should be considered speculative. Such risks may include greater sensitivity to economic conditions, less certain growth prospects, lack of depth of management and funds for growth and development and limited or less developed product lines and markets. In addition, smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans.

**Derivative Instruments** The performance of derivative instruments depends largely on the performance of an underlying instrument, such as a currency, security or index, and such instruments often have risks similar to the underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. Derivatives also present the risk that the other party to the transaction will fail to perform.

**Growth Style Investing** Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Prices of these companies' securities may be more volatile than other securities, particularly over the short term.

**Value Style Investing** A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

**Management** The Fund is subject to management risk because it is an actively managed investment portfolio. The Fund's investment manager applies investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results.

## Performance

The following bar chart and table provide some indication of the risks of an investment in the Fund by comparing the Fund's performance with a broad measure of market performance. The bar chart shows the Fund's performance for the most recent calendar year for Class A shares. The Fund's past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You can obtain updated performance information at franklintempleton.com or by calling (800) DIAL BEN/342-5236.

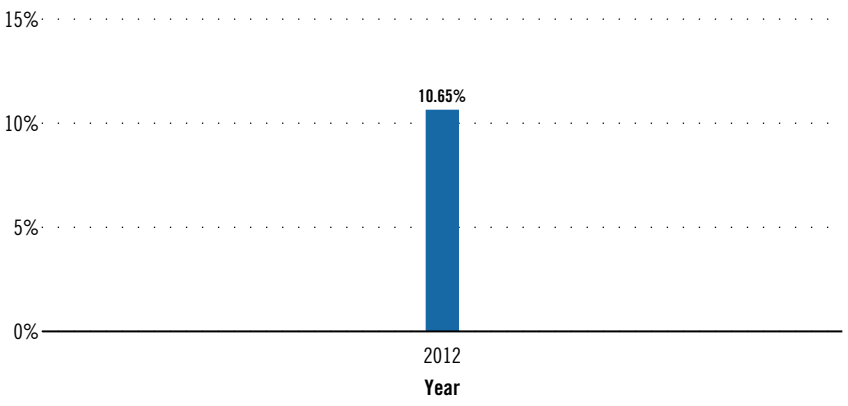
The secondary indices in the table below show how the Fund's performance compares to groups of securities that align with portions of the Fund's portfolio.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.





### CLASS A ANNUAL TOTAL RETURNS




| | | |
|---|---|---|
| Best Quarter: | Q1'12 | 7.90% |
| Worst Quarter: | Q2'12 | -4.82% |
| As of June 30, 2013, the Fund's year-to-date return was -0.48%. | | |

### AVERAGE ANNUAL TOTAL RETURNS

(figures reflect sales charges) *For the periods ended December 31, 2012*

| | 1 Year | Since Inception 9/1/2011 |
|---|---|---|
| **Franklin Templeton Global Allocation Fund - Class A** | | |
| Return Before Taxes | 4.26% | 0.72% |
| Return After Taxes on Distributions | 3.80% | 0.26% |
| Return After Taxes on Distributions and Sale of Fund Shares | 2.97% | 0.42% |
| **Franklin Templeton Global Allocation Fund - Class C** | 8.91% | 4.46% |
| **Franklin Templeton Global Allocation Fund - Class R** | 10.25% | 4.89% |
| **Franklin Templeton Global Allocation Fund - Advisor Class** | 10.78% | 5.40% |
| MSCI All Country World Index (index reflects no deduction for fees, expenses or taxes) | 16.80% | 9.99% |
| Citigroup World Government Bond Index (WGBI) (index reflects no deduction for fees, expenses or taxes) | 1.65% | -0.34% |
| Payden & Rygel 90 Day U.S. Treasury Bill Index (index reflects no deduction for fees, expenses or taxes) | 0.08% | 0.06% |
| Dow Jones-UBS Commodity Index Total Return℠ (index reflects no deduction for fees, expenses or taxes) | -1.00% | -11.75% |

No one index is representative of the Fund's portfolio.

The after-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown only for Class A and after-tax returns for other classes will vary.

## Investment Manager

Franklin Advisers, Inc. (Advisers)

## Sub-Advisors

Franklin Mutual Advisers, LLC (Franklin Mutual), Franklin Templeton Institutional, LLC (FT Institutional), Franklin Templeton Investment Management Limited (FTIML), Templeton Asset Management Ltd. (Asset Management), and Templeton Global Advisors Limited (Global Advisors). For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any Sub-Advisor.

## Portfolio Managers

**SAMER HABL**

*Portfolio Manager of Advisers and lead portfolio manager of the Fund since inception (2011).*

**TODD SAUNDERS**

*Portfolio Manager of Advisers and a portfolio manager of the Fund since October 2013.*

**MICHAEL HASENSTAB, PH.D.**

*Senior Vice President of Advisers and portfolio manager of the Templeton Global Bond portion of the Fund since inception (2011).*

**PETER A. LANGERMAN**

*Chairman, President and Chief Executive Officer of Franklin Mutual and portfolio manager of the Mutual Series Equity portion of the Fund since inception (2011).*

**WARREN KEYSER**

*Portfolio Manager of FT Institutional and portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since inception (2011).*





**MARK MOBIUS, PH.D.**

*Executive Chairman of Templeton Emerging Markets Group, Portfolio Manager of Asset Management and portfolio manager of the Templeton Emerging Markets Equity portion of the Fund since inception (2011).*

**TUCKER SCOTT, CFA**

*Executive Vice President of Global Advisors and portfolio manager of the Templeton Equity portion of the Fund since inception (2011).*

**CONRAD B. HERRMANN, CFA**

*Senior Vice President of Advisers and portfolio manager of the Franklin U.S. Growth Equity portion of the Fund since inception (2011).*

**COLEEN F. BARBEAU**

*Executive Vice President of FT Institutional and portfolio manager of the Franklin Non-U.S. Growth Equity portion of the Fund since inception (2011).*

**KENT BURNS, CFA**

*Portfolio Manager of Advisers and portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since inception (2011).*

**DAVID ZAHN, CFA**

*Portfolio Manager of FTIML and portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since inception (2011).*

## Purchase and Sale of Fund Shares

You may purchase or redeem shares of the Fund on any business day online through our website at franklintempleton.com, by mail (Franklin Templeton Investor Services, P.O. Box 997151, Sacramento, CA 95899-7151), or by telephone at (800) 632-2301. For Class A, C and R, the minimum initial purchase for most accounts is $1,000 (or $50 under an automatic investment plan). Advisor Class is only available to certain qualified investors and the minimum initial investment will vary depending on the type of qualified investor, as described under "Your Account — Choosing a Share Class — Qualified Investors — Advisor Class" in the Fund's prospectus.

## Taxes

The Fund's distributions are generally taxable to you as ordinary income, capital gains, or some combination of both, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual

retirement account, in which case your distributions would generally be taxed when withdrawn from the tax-deferred account.

## Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your financial advisor or visit your financial intermediary's website for more information.





# FUND DETAILS

## Investment Goal

The Fund's investment goal is total return.

## Principal Investment Policies and Practices

Under normal market conditions, the Fund seeks to achieve its investment goal by (1) investing in a diversified core portfolio of equity and fixed income investments, and (2) tactically adjusting the Fund's exposure to certain asset classes, regions, currencies and sectors independent of the investment processes of the investment strategies that comprise the core portfolio.

Under normal market conditions, the Fund's baseline allocation between broad asset classes is:

- 50% Global Equity (U.S./International/Emerging)
- 35% Global Fixed Income (U.S./International/Emerging)
- 5% Commodity-linked Instruments
- 10% Cash and Derivative Instruments

The Fund is structured as a multi-manager fund, with the investment manager responsible for monitoring the Fund's overall investment performance, managing portions of the Fund's core portfolio, managing the Fund's tactical asset allocation, and re-balancing the Fund's portfolio to maintain the baseline allocation to various asset classes and investment strategies. The baseline allocation also may change from time to time, at the discretion of the investment manager.

The investment manager sub-contracts with various Sub-Advisors who independently manage separate portions of the Fund's core equity and fixed income portfolio in accordance with the following strategies. The allocations to each strategy may change from time to time, at the discretion of the investment manager, and are subject to periodic rebalancing due to changing market values of securities held in the portfolio or at the discretion of the investment manager.

- **Franklin U.S. Growth Equity**
  The goal of this strategy is to seek capital appreciation by investing

predominantly in equity securities of U.S. companies in any industry and of any market capitalization.

- **Templeton Global Bond**
  The goal of this strategy is to seek current income with capital appreciation and growth of income by investing predominantly in debt securities of governments and government agencies located around the world.
- **Mutual Series Equity**
  The goal of this strategy is to seek capital appreciation by focusing on undervalued mid- and large-cap equity securities, which may include foreign securities and, to a lesser extent, distressed securities and merger arbitrage securities.
- **Franklin Non-U.S. Growth Equity**
  The goal of this strategy is to seek capital appreciation by investing predominantly in the equity securities of mid- and large-capitalization companies outside the U.S. with long-term growth potential.
- **Franklin Templeton Global Low Duration Bond**
  The goal of this strategy is to seek to maximize long-term total return while controlling overall risk by investing primarily in investment-grade debt securities, targeting an estimated average duration of three (3) years or less, across different debt sectors around the world, including government and corporate debt securities, and mortgage and asset-backed securities.
- **Templeton Emerging Markets Equity**
  The goal of this strategy is to seek long-term capital appreciation by investing predominantly in equity securities of companies located in emerging market countries, applying a "bottom-up," value-oriented, long term approach.
- **Templeton Equity**
  The goal of this strategy is to seek long-term capital growth by investing primarily in equity securities of companies located outside the U.S., including emerging markets, applying a "bottom-up," value-oriented, long term approach.

An equity security represents a proportionate share of the ownership of a company; its value is based on the success of the company's business, any income paid to stockholders, the value of its assets and general market conditions. Common stocks and preferred stocks, and securities convertible





into common stock, are examples of equity securities. The Fund may invest in convertible securities without regard to the ratings assigned by the rating agencies. Debt securities obligate the issuer to repay a loan of money at a future date and generally provide for the payment of interest on the amount borrowed. These include bonds, notes and debentures.

In addition to the core portfolio, the investment manager uses various derivative instruments to make tactical investment decisions based on quantitative research and a systematic investment strategy driven by bottom-up fundamentals analysis, top-down macroeconomic analysis and short-term sentiment indicators. The Fund's tactical asset allocation is intended to adjust the Fund's equity, fixed income, country/regional, and currency exposures. The investment manager does not attempt to time the direction of the entire market, but keeps the flexibility to shift the Fund's net exposure (the value of securities held long less the value of securities held short) depending on which market opportunities look more attractive. The Fund may, from time to time, have a net short position in certain asset classes, regions, currencies and sectors.

For purposes of pursing its investment goal, the Fund regularly enters into various transactions involving derivative instruments. For the Fund's tactical asset allocation, the investment manager primarily uses stock index futures, government bond futures, equity total return swaps and currency forwards and futures contracts. Futures contracts, total return swaps and currency forward contracts may allow the Fund to obtain net long or net negative/short exposures to specific securities, securities indices, interest rates, credits, or currencies without having actually to purchase or sell underlying securities or other investments. The Fund may maintain significant positions in currency-related derivative instruments which could expose a large amount of the Fund's assets to obligations under the instruments. The derivative instruments used in the tactical asset allocation may be used to adjust or obtain net long or net negative (short) exposure to various asset classes, regions, currencies, sectors or securities, for hedging purposes, or to otherwise enhance Fund returns. The use of derivative instruments may allow the investment manager to make tactical allocations with fewer transaction costs than it might otherwise incur by changing allocations to the separate portions of the core portfolio.

Swap agreements, such as equity total return swaps, are contracts between the Fund and another party (the swap counterparty) involving the exchange of payments on specified terms over periods ranging from a few days to multiple years. A swap agreement may be negotiated

bilaterally and traded over-the-counter (OTC) between the two parties (for an uncleared swap) or, in some instances, must be transacted through a futures commission merchant (FCM) and cleared through a clearinghouse that serves as a central counterparty (for a cleared swap). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) earned or realized on a particular "notional amount" of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in the given instruments. In a total return swap, the Fund and the swap counterparty agree to "swap" the total return (including, typically, income and capital gains distributions, principal prepayment or credit losses) of an underlying reference asset (e.g., securities index) in exchange for a regular payment, at a floating rate, at a fixed rate or the total rate of return on another financial instrument. The Fund may take either position in a total return swap (i.e., the Fund may receive or pay the total return on the underlying reference asset or index).

A futures contract is a standard binding agreement to buy or sell a specified quantity of an underlying instrument or asset at a specified price at a specified later date that trades on an exchange. A "sale" of a futures contract means the acquisition of a contractual obligation to deliver the underlying instrument specified in the contract at a specified price on a specified date. A "purchase" of a futures contract means the acquisition of a contractual obligation to purchase the underlying instrument specified in the contract at a specified price on a specified date. The purchase or sale of a futures contract will allow the Fund to increase or decrease its exposure to the underlying instrument or asset. Although most futures contracts used by the Fund allow for a cash payment of the net gain or loss on the contract at maturity, in lieu of delivery of the underlying instrument or asset, some require the actual delivery or acquisition of the underlying instrument. The Fund may buy and sell futures contracts that trade on U.S. and foreign exchanges.

By way of example, when the investment manager believes that the value of a particular foreign government bond is expected to increase in value, the Fund could purchase futures contracts on such bonds to purchase those bonds at a future date. If at such future date the value of bonds exceeds the amount to be paid by the Fund under the contract, the Fund will recognize





a gain. When used for hedging purposes, a futures contract or other derivative instrument could be used to protect against possible declines in a security's or currency's value.

A currency forward contract is a non-standardized contract that represents an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date. Currency forwards are typically individually negotiated and privately traded by currency traders and their customers in the interbank market. A cross currency forward is a forward contract to sell a specific foreign currency in exchange for another foreign currency and may be used when the Fund believes that the price of one of those foreign currencies will experience a substantial movement against the other foreign currency. A cross currency forward will tend to reduce or eliminate exposure to the currency that is sold, and add or increase exposure to the currency that is purchased, similar to when the Fund sells a security denominated in one currency and purchases a security denominated in another currency. When used for hedging purposes, a cross currency forward will protect the Fund against losses resulting from a decline in the hedged currency, but will cause the Fund to assume the risk of fluctuations in the value of the currency it purchases.

It is anticipated that an affiliate of the investment manager will eventually manage the commodity-linked instruments for the Fund. Currently, however, the Fund's investment manager utilizes ETNs to obtain exposure to commodities. The ETNs used by the investment manager are senior, unsecured unsubordinated debt securities that trade on U.S. and foreign stock exchanges at market price. In addition, investors can receive a cash payment at the ETNs' scheduled maturity or through early redemption. The ETNs are backed by the credit of the issuer and their return is linked to the performance of an index intended to reflect the returns that are potentially available through an investment in futures contracts on the physical commodities comprising the index, plus a specified rate of interest. No periodic interest payments are made on the ETNs and there is no principal protection. The ETNs are designed to provide investors, such as the Fund, with a cost-effective investment in broad-based commodities, as measured by the index. The Fund may from time to time hold the ETNs and other commodity-linked instruments, such as commodity-linked exchange-traded funds (ETFs), in a Cayman Islands-based company that is wholly owned by the Fund (the "Subsidiary"). Investing through the Subsidiary is principally intended to allow the Fund to gain exposure

to such commodity-linked instruments within the federal income tax requirements that apply to the Fund.

The investment manager and some of the Sub-Advisors may also enter into various transactions involving derivative instruments with respect to the Fund's core equity and fixed income portfolio, and its allocation to commodities, to obtain exposure to various asset classes, regions, currencies, sectors or securities, for hedging purposes, or to otherwise enhance Fund returns. Because the investment decisions related to the Fund's tactical asset allocation are based on factors separate and independent from the investment decisions related to the core portfolio strategies, it is possible that investments for the Fund's tactical asset allocation will be contrary to individual investments held in the core portfolio. For example, it is possible that a Sub-Advisor may take a more positive view of a currency over a longer time horizon and invest on a long basis in a particular currency, while the investment manager, for the Fund's tactical asset allocation, with a more negative view of the same currency over a different time horizon, may take a short position in the same currency, in order to reduce the Fund's overall exposure to such currency.

### Temporary Investments

When the investment manager believes market or economic conditions are unfavorable for investors, up to 100% of the Fund's assets may be invested in a temporary defensive manner by holding all or a substantial portion of its assets in cash, cash equivalents or other high quality short-term investments. Temporary defensive investments generally may include short-term U.S. government securities, high-grade commercial paper, bank obligations, repurchase agreements, money market fund shares (including shares of an affiliated money market fund) and other money market instruments. The investment manager also may invest in these types of securities or hold cash while looking for suitable investment opportunities to maintain liquidity, or to segregate on the Fund's books in connection with its derivative strategies, such as forward currency, currency or interest rate futures positions. In these circumstances, the Fund may be unable to achieve its investment goal.





## Principal Risks

### Market

The market values of securities owned by the Fund will go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting individual issuers, securities markets generally or particular industries or sectors within the securities markets. The value of a security may go up or down due to general market conditions which are not specifically related to a particular issuer, such as real or perceived adverse economic conditions, changes in the general outlook for revenues or corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. They may also go up or down due to factors that affect an individual issuer or a particular industry or sector, such as changes in production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value. When markets perform well, there can be no assurance that securities held by the Fund will participate in or otherwise benefit from the advance.

Stock prices tend to go up and down more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various stocks held by the Fund.

### Credit

The Fund could lose money on a debt security if an issuer or borrower is unable or fails to meet its obligations, including failing to make interest payments and/or to repay principal when due. Changes in an issuer's financial strength, the market's perception of the issuer's financial strength or in a security's credit rating, which reflects a third party's assessment of the credit risk presented by a particular issuer, may affect debt securities' values. The Fund may incur substantial losses on debt securities that are inaccurately perceived to present a different amount of credit risk by the market, the investment manager or the rating agencies than such securities actually do.

### Interest Rate

Interest rate changes can be sudden and unpredictable. Debt securities generally tend to lose market value when interest rates rise and increase in value when interest rates fall. Securities with longer maturities or lower coupons or that make little (or no) interest payments before maturity tend to be more sensitive to these interest rate changes. The longer the Fund's

average weighted portfolio maturity, the greater the impact a change in interest rates will have on its share price.

## Foreign Securities

Investing in foreign securities typically involves more risks than investing in U.S. securities. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations.

**Currency exchange rates.** Foreign securities may be issued and traded in foreign currencies. As a result, their market values in U.S. dollars may be affected by changes in exchange rates between such foreign currencies and the U.S. dollar, as well as between currencies of countries other than the U.S. For example, if the value of the U.S. dollar goes up compared to a foreign currency, an investment traded in that foreign currency will go down in value because it will be worth fewer U.S. dollars. The Fund accrues additional expenses when engaging in currency exchange transactions, and valuation of the Fund's foreign securities may be subject to greater risk because both the currency (relative to the U.S. dollar) and the security must be considered.

**Currency management strategies.** Currency management strategies may substantially change the Fund's exposure to currency exchange rates and could result in losses to the Fund if currencies do not perform as the investment manager expects. In addition, currency management strategies, to the extent that they reduce the Fund's exposure to currency risks, may also reduce the Fund's ability to benefit from favorable changes in currency exchange rates. Using currency management strategies for purposes other than hedging further increases the Fund's exposure to foreign investment losses. Currency markets generally are not as regulated as securities markets. In addition, currency rates may fluctuate significantly over short periods of time, and can reduce returns.

**Political and economic developments.** The political, economic and social structures of some foreign countries may be less stable and more volatile than those in the United States. Investments in these countries may be subject to greater risks of internal and external conflicts, expropriation, nationalization of assets, foreign exchange controls (such as suspension of the ability to transfer currency from a given country), restrictions on removal of assets, political or social instability, military action or unrest, diplomatic developments, currency devaluations, foreign ownership limitations, and punitive or confiscatory tax increases. It is possible that a government may take over the assets or operations of a company or impose





restrictions on the exchange or export of currency or other assets. Some countries also may have different legal systems that may make it difficult or expensive for the Fund to vote proxies, exercise shareholder rights, and pursue legal remedies with respect to its foreign investments. Diplomatic and political developments, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war, could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in non-U.S. countries. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's investments.

**Sovereign debt securities.** A foreign country may be unwilling or unable to repay the principal and/or interest on its sovereign debt because of insufficient foreign reserves, the relative size of the debt service burden to the economy as a whole, the government's policy towards supranational agencies such as the International Monetary Fund, or the political constraints to which the government may be subject. If an foreign country defaults (or threatens to default) on its sovereign debt obligations, the indebtedness may be restructured. Restructuring may include obtaining additional credit to finance outstanding obligations, reduction and rescheduling of payments of interest and principal, or negotiation of new or amended credit agreements. In the event of a default on sovereign debt, the Fund may have limited legal recourse against the defaulting government. In certain cases, remedies must be pursued in the courts of the defaulting country itself, which may further limit the Fund's ability to obtain recourse.

In the event of a default on sovereign debt, the Fund may have limited legal recourse against the defaulting government entity. As a sovereign entity, the issuing government may be immune from lawsuits in the event of its failure or refusal to pay the obligations when due, and any rights the Fund may have may be restricted pursuant to the terms of applicable treaties with such sovereign entity. If a sovereign entity defaults, it may request additional time in which to pay or for further loans. There may be no legal process for collecting sovereign debt that a government does not pay or such legal process may be relatively more expensive, nor are there bankruptcy proceedings by which the Fund may collect in whole or in part on debt issued by a sovereign entity. In certain cases, remedies must be pursued in the courts located in the country of the defaulting sovereign entity itself, which may further limit the Fund's ability to obtain recourse.

**Trading practices.** Brokerage commissions, withholding taxes, custodial fees, and other fees generally are higher in foreign markets. The policies

and procedures followed by foreign stock exchanges, currency markets, trading systems and brokers may differ from those applicable in the United States, with possibly negative consequences to the Fund. The procedures and rules governing foreign trading, settlement and custody (holding of the Fund's assets) also may result in losses or delays in payment, delivery or recovery of money or other property. Foreign government supervision and regulation of foreign securities markets and trading systems may be less than or different from government supervision in the United States, and may increase the Fund's regulatory and compliance burden and/or decrease the Fund's investor rights and protections.

**Availability of information.** Foreign issuers may not be subject to the same disclosure, accounting, auditing and financial reporting standards and practices as U.S. issuers. Thus, there may be less information publicly available about foreign issuers than about most U.S. issuers.

**Limited markets.** Certain foreign securities may be less liquid (harder to sell) and their prices may be more volatile than many U.S. securities. Illiquidity tends to be greater, and valuation of the Fund's foreign securities may be more difficult, due to the infrequent trading and/or delayed reporting of quotes and sales.

**Regional.** Adverse conditions in a certain region or country can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region or a particular country, the Fund will generally have more exposure to the specific regional or country economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Fund's assets are invested, the Fund may experience substantial illiquidity or reduction in the value of the Fund's investments.

Current political uncertainty surrounding the European Union (EU) and its membership may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe. One or more EU member states might exit the EU, placing the European currency and banking system in jeopardy. Efforts of the EU to further unify the economic and monetary policies of its members may increase the potential interdependence of the economies of the EU members and thereby increase





the risk that adverse developments in one country will adversely affect the securities of issues located in other countries.

**Emerging market countries.** The Fund's investments in emerging market countries are subject to all of the risks of foreign investing generally, and have additional heightened risks due to a lack of established legal, political, business and social frameworks to support securities markets. Some of the additional significant risks include:

- less social, political and economic stability;
- smaller securities markets with low or nonexistent trading volume and greater illiquidity and price volatility;
- more restrictive national policies on foreign investment, including restrictions on investment in issuers or industries deemed sensitive to national interests;
- less transparent and established taxation policies;
- less developed regulatory or legal structures governing private and foreign investment or allowing for judicial redress for injury to private property;
- less familiarity with a capital market structure or market-oriented economy and more widespread corruption and fraud;
- less financial sophistication, creditworthiness and/or resources possessed by, and less government regulation of, the financial institutions and issuers with which the Fund transacts;
- less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies than in the U.S.;
- greater concentration in a few industries resulting in greater vulnerability to regional and global trade conditions;
- higher rates of inflation and more rapid and extreme fluctuations in inflation rates;
- greater sensitivity to interest rate changes;
- increased volatility in currency exchange rates and potential for currency devaluations and/or currency controls;
- greater debt burdens relative to the size of the economy;

- more delays in settling portfolio transactions and heightened risk of loss from share registration and custody practices; and
- less assurance that recent favorable economic developments will not be slowed or reversed by unanticipated economic, political or social events in such countries.

Because of the above factors, the Fund's investments in emerging market countries may be subject to greater price volatility and illiquidity than investments in developed markets.

### Asset Allocation

The Fund's ability to achieve its investment goal depends upon the investment manager's skill in determining the Fund's asset allocation mix and selecting Sub-Advisors. There is the possibility that the investment manager's evaluations and assumptions regarding asset classes and Sub-Advisors will not be successful in view of actual market trends.

### Smaller and Midsize Companies

While smaller and midsize companies may offer substantial opportunities for capital growth, they also involve substantial risks and should be considered speculative. Historically, smaller and midsize company securities have been more volatile in price than larger company securities, especially over the short term. Among the reasons for the greater price volatility are the less certain growth prospects of smaller and midsize companies, the lower degree of liquidity in the markets for such securities, and the greater sensitivity of smaller and midsize companies to changing economic conditions.

In addition, smaller and midsize companies may lack depth of management, be unable to generate funds necessary for growth or development, have limited product lines or be developing or marketing new products or services for which markets are not yet established and may never become established. Smaller and midsize companies may be particularly affected by interest rate increases, as they may find it more difficult to borrow money to continue or expand operations, or may have difficulty in repaying any loans which are floating rate.

### Derivative Instruments

The performance of derivative instruments depends largely on the performance of an underlying instrument, such as a currency, security or index, and such instruments often have risks similar to the underlying





instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that significantly exceeds the Fund's initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security or other risk being hedged. Derivatives also present the risk that the other party to the transaction will fail to perform.

Use of these instruments could also result in a loss if the counterparty to the transaction (with respect to forward currency contracts and other OTC derivatives) does not perform as promised, including because of such counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because the trading market becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time. In addition, the presence of speculators in a particular market could lead to price distortions. To the extent that the Fund is unable to close out a position because of market illiquidity, the Fund may not be able to prevent further losses of value in its derivatives holdings and the Fund's liquidity may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The Fund may also be required to take or make delivery of an underlying instrument that the investment manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. Investors should bear in mind that, while the Fund intends to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the investment manager elects not to do so due to availability, cost or other factors.

Under recent financial reforms, certain types of derivatives (i.e., certain swaps) are, and others eventually are expected to be, required to be cleared through a central counterparty. Central clearing is designed to reduce counterparty credit risk and increase liquidity compared to OTC swaps, but it does not eliminate those risks completely. With cleared swaps, there is also a risk of loss by the Fund of its initial and variation margin

deposits in the event of bankruptcy of the FCM with which the Fund has an open position in a swap contract. If an FCM does not provide accurate reporting, the Fund is also subject to the risk that the FCM could use the Fund's assets to satisfy its own financial obligations or the payment obligations of another customer to the central counterparty. With cleared swaps, the Fund may not be able to obtain as favorable terms as it would be able to negotiate for a bilateral, uncleared swap. In addition, an FCM may unilaterally amend the terms of its agreement with the Fund, which may include the imposition of position limits or additional margin requirements with respect to the Fund's investment in certain types of swaps. Central counterparties and FCMs generally can require termination of existing cleared swap transactions at any time, and can also require increases in margin above the margin that is required at the initiation of the swap agreement.

The regulation of cleared and uncleared swaps, as well as other derivatives, is a rapidly changing area of law and is subject to modification by government and judicial action. In addition, the SEC, CFTC and the exchanges are authorized to take extraordinary actions in the event of a market emergency, including, for example, the implementation or reduction of speculative position limits, the implementation of higher margin requirements, the establishment of daily price limits and the suspension of trading. It is not possible to predict fully the effects of current or future regulation. New requirements, even if not directly applicable to the Fund, may increase the cost of a Fund's investments and cost of doing business.

The use of derivative strategies may also have a tax impact on the Fund. The timing and character of income, gains or losses from these strategies could impair the ability of the investment manager to utilize derivatives when it wishes to do so.

### Growth Style Investing

Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. Growth stocks may be more expensive relative to their current earnings or assets compared to value or other stocks, and if earnings growth expectations moderate, their valuations may return to more typical norms, causing their stock prices to fall. Prices of these companies' securities may be more volatile than other securities, particularly over the short term.





### Value Style Investing

A value stock may not increase in price as anticipated by the investment manager if other investors fail to recognize the company's value and bid up the price, the markets favor faster-growing companies, or the factors that the investment manager believes will increase the price of the security do not occur.

### Commodities

Investing in physical commodities, either directly or through complex securities such as ETNs or ETFs, presents unique risks. Investing in physical commodities, including trading in futures contracts thereon, is speculative and can be extremely volatile. Market prices of commodities may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated or unrealized); weather; agriculture; trade; domestic and foreign political and economic events and policies; diseases; pestilence; technological developments; and monetary and other governmental policies, action and inaction. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity. Certain commodities are used primarily in one industry, and fluctuations in levels of activity in (or the availability of alternative resources to) one industry may have a disproportionate effect on global demand for a particular commodity. Moreover, recent growth in industrial production and gross domestic product has made China and other developing nations oversized users of commodities and has increased the extent to which certain commodities prices are influenced by those markets.

### Liquidity

Liquidity risk exists when the market for particular securities or types of securities are or become relatively illiquid so that the Fund is unable, or it becomes more difficult for the Fund, to sell the security at the price at which the Fund has valued the security. Illiquidity may result from political, economic or issuer specific events or overall market disruptions. Securities with reduced liquidity or that become illiquid involve greater risk than securities with more liquid markets. Market quotations for illiquid securities may be volatile and/or subject to large spreads between bid and ask prices. Reduced liquidity may have an adverse impact on market price and the Fund's ability to sell particular securities when necessary to meet the Fund's liquidity needs or in response to a specific economic event. To

the extent that the Fund and its affiliates hold a significant portion of the issuer's outstanding securities, the Fund may be subject to greater liquidity risk than if the issuer's securities were more widely held.

### Portfolio Turnover

The investment manager will sell a security or enter into or close out of a derivative position when it believes it is appropriate to do so, regardless of how long the Fund has held the instrument. These activities increase the Fund's portfolio turnover, may increase the Fund's transaction costs and may increase your tax liability if the transactions result in capital gains.

### Tax Risk

As a regulated investment company, the Fund must derive at least 90% of its gross income for each taxable year from sources treated as "qualifying income" under the Internal Revenue Code of 1986, as amended. The Fund intends to treat the income it derives from the Subsidiary and commodity-linked notes as qualifying income based on a private letter ruling the Fund has sought from the Internal Revenue Service (IRS) and a number of similar rulings. If, however, the IRS were to change its position with respect to the conclusions reached in these private letter rulings, the income and gains from the Fund's investment in the Subsidiary and/or ETNs might be non-qualifying income, in which case the Fund might not qualify as a regulated investment company. In this event, the Fund's Board may authorize a change in investment strategy. For more information, please see the "Distributions and Taxes" section in the Fund's SAI.

### Management

The Fund is actively managed and could experience losses if the investment manager's judgment about markets, interest rates or the attractiveness, relative values, liquidity, or potential appreciation of particular investments made for the Fund's portfolio prove to be incorrect. There can be no guarantee that these techniques or the investment manager's investment decisions will produce the desired results. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the investment manager in connection with managing the Fund and may also adversely affect the ability of the Fund to achieve its investment goal.





### Regulation under the Commodity Exchange Act

The investment manager is registered as a "commodity pool operator" (CPO) under the Commodity Exchange Act (CEA) and the rules of the CFTC and is subject to CFTC regulation with respect to the Fund. The CFTC has recently adopted rules regarding the disclosure, reporting and recordkeeping requirements that will apply with respect to the Fund as a result of the investment manager's registration as a CPO. Generally, these rules allow for substituted compliance with CFTC disclosure and shareholder reporting requirements, based on the investment manager's compliance with comparable SEC requirements. This means that for most of the CFTC's disclosure and shareholder reporting applicable to the investment manager as the Fund's CPO, the investment manager's compliance with SEC disclosure and shareholder reporting will be deemed to fulfill the investment manager's CFTC compliance obligations. However, as a result of CFTC regulation with respect to the Fund, the Fund may incur additional compliance and other expenses. The CFTC has neither reviewed nor approved the Fund, its investment strategies, or this prospectus.

More detailed information about the Fund, its policies and risks can be found in the Fund's Statement of Additional Information (SAI).

A description of the Fund's policies and procedures regarding the release of portfolio holdings information is also available in the Fund's SAI. Portfolio holdings information can be viewed online at franklintempleton.com.

## Management

Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906, is the Fund's investment manager. Together, Advisers and its affiliates manage, as of August 31, 2013, over $817 billion in assets, and have been in the investment management business since 1947.

Under separate agreements with Advisers, Franklin Mutual Advisers, LLC (Franklin Mutual), 101 John F. Kennedy Parkway, Short Hills, NJ 07078; Franklin Templeton Institutional, LLC (FT Institutional), 600 Fifth Avenue, New York, New York 10020; Franklin Templeton Investment Management Limited (FTIML), The Adelphi, 1-11 John Adam Street, London WC2N 6HT; Templeton Asset Management Ltd. (Asset Management), 7 Temasek Boulevard #38-03, Suntec Tower One, Singapore, 038987; and Templeton Global Advisors Limited (Global Advisors), Lyford Cay, Nassau, Bahamas, are the Fund's Sub-Advisors and provide Advisers with investment

management advice and assistance. Franklin Mutual, FT Institutional, FTIML, Asset Management and Global Advisors are indirect subsidiaries of Franklin Resources, Inc. (Resources) and Advisers is a direct subsidiary of Resources. For purposes of the Fund's investment strategies, techniques and risks, the term "investment manager" includes any Sub-Advisor.

The Fund is managed by a team of dedicated professionals. The portfolio managers of the team, including those of the Sub-Advisors, are as follows:

**SAMER HABL** *Portfolio Manager of Advisers*
Mr. Habl has been lead portfolio manager of the Fund since inception (2011). He has primary responsibility for the investments of the Fund. He has final authority and responsibility over all aspects of the Fund's investment portfolio, including but not limited to the Fund's tactical allocation investment decisions, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 2010. Prior to joining Franklin Templeton Investments, he worked at Mellon Capital Management as managing director of Global Tactical Asset Allocation Research.

**TODD SAUNDERS** *Portfolio Manager of Advisers*
Mr. Saunders has been a portfolio manager of the Fund since October 2013, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2011. Prior to joining Franklin Templeton Investments, he worked at Bayswater Asset Management LLC since 2007, most recently as chief financial officer and chief operating officer.

**MICHAEL HASENSTAB, PH.D.** *Senior Vice President of Advisers*
Dr. Hasenstab has been a portfolio manager of the Templeton Global Bond portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He first joined Franklin Templeton Investments in 1995, rejoining again in 2001 after a three-year leave to obtain his Ph.D.

**PETER A. LANGERMAN** *Chairman, President and Chief Executive Officer of Franklin Mutual*
Mr. Langerman has been a portfolio manager of the Mutual Series Equity portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk





assessment. He joined Franklin Templeton Investments in 1996. Between 1986 and 1996, he was employed at Heine Securities Corporation, the predecessor of Franklin Mutual.

**WARREN KEYSER** *Portfolio Manager and Research Analyst of FT Institutional*
Mr. Keyser has been a portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1986.

**MARK MOBIUS, PH.D.** *Executive Chairman of Templeton Emerging Markets Group and Portfolio Manager of Asset Management*
Dr. Mobius has been a portfolio manager of the Templeton Emerging Markets Equity portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1987.

**TUCKER SCOTT, CFA** *Executive Vice President of Global Advisors*
Mr. Scott has been a portfolio manager of the Templeton Equity portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1996.

**CONRAD B. HERRMANN, CFA** *Senior Vice President of Advisers*
Mr. Herrmann has been a portfolio manager of the Franklin U.S. Growth Equity portion of the Fund since its inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1989.

**COLEEN F. BARBEAU** *Executive Vice President of FT Institutional*
Ms. Barbeau has been a portfolio manager of the Franklin Non-U.S. Growth Equity portion of the Fund since inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. She joined Franklin Templeton Investments in 1983.

**KENT BURNS, CFA** *Portfolio Manager of Advisers*
Mr. Burns has been a portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since its inception (2011), providing research and advice on the purchases and sales of individual

securities, and portfolio risks assessment. He joined Franklin Templeton Investments in 1994.

**DAVID ZAHN, CFA** *Portfolio Manager of FTIML*
Mr. Zahn has been a portfolio manager of the Franklin Templeton Global Low Duration Bond portion of the Fund since its inception (2011), providing research and advice on the purchases and sales of individual securities, and portfolio risks assessment. He joined Franklin Templeton Investments in 2006.

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The Fund's SAI provides additional information about portfolio manager compensation, other accounts that they manage and their ownership of Fund shares.

Effective May 1, 2013, the Fund's investment management agreement was bundled with its fund administration agreement, including the fees of 0.20% payable thereunder, as approved by the board of trustees. As of such date, the Fund's investment management fee became:

- 0.95% of the value of its net assets up to and including $1 billion;
- 0.93% of the value of its net assets over $1 billion up to and including $5 billion;
- 0.91% of the value of its net assets over $5 billion up to and including $10 billion;
- 0.89% of the value of its net assets over $10 billion up to and including $15 billion;
- 0.87% of the value of its net assets over $15 billion up to and including $20 billion;
- 0.85% of the value of its net assets over $20 billion.

Advisers has contractually agreed to waive the management fee it receives from the Fund in an amount equal to the management fee paid by the Subsidiary. This waiver may not be terminated and will remain in effect for as long as the investment manager's contract with the Subsidiary is in place.

The Fund pays Advisers a fee for managing the Fund's assets. For the fiscal year ended May 31, 2013, Advisers agreed to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. In addition, Advisers has agreed to waive or limit its fees and to assume as its own expenses otherwise payable by the Fund





so that common expenses (i.e., a combination of investment management fees, administration fees, and other expenses, but excluding the Rule 12b-1 fees; acquired fund fees and expenses; and certain non-routine expenses or costs (including those relating to litigation, indemnification, reorganizations and liquidations)) for each class of the Fund do not exceed 1.00% until September 30, 2014.

The investment manager compensates each Sub-Advisor for providing investment advice and analysis and for managing that portion of the Fund's assets allocated to it from time to time by the investment manager. The separate portions of the Fund's assets managed by the investment manager are allocated fees that are retained from, and not in addition to, the overall investment management fee paid to the investment manager by the Fund.

A discussion regarding the basis for the board of trustees' approving the investment management contract of the Fund is available in the Fund's annual report to shareholders for the period ended May 31.

### Manager of Managers Structure

Advisers and the Trust have received an exemptive order from the SEC that allows the Fund to operate in a "manager of managers" structure whereby Advisers, as the Fund's investment manager, can appoint and replace sub-advisors from within Franklin Templeton Investments ("affiliated sub-advisors"), and enter into, amend and terminate sub-advisory agreements with affiliated sub-advisors, each subject to board approval but without obtaining prior shareholder approval (the "Manager of Managers Structure"). The Fund will, however, inform shareholders of the hiring of any new affiliated sub-advisor within 90 days after the hiring. The SEC exemptive order provides the Fund with greater flexibility.

The use of the Manager of Managers Structure with respect to the Fund is subject to certain conditions that are set forth in the SEC exemptive order. Under the Manager of Managers Structure, Advisers has the ultimate responsibility, subject to oversight by the Fund's board of trustees, to oversee the affiliated sub-advisors and recommend their hiring, termination and replacement. Advisers will also, subject to the review and approval of the Fund's board of trustees: set the Fund's overall investment strategy; evaluate, select and recommend affiliated sub-advisors to manage all or a portion of the Fund's assets; allocate and, when appropriate, reallocate the Fund's assets among affiliated sub-advisors; monitor and evaluate the affiliated sub-advisors' performance; and implement procedures reasonably

designed to ensure that each affiliated sub-advisor complies with the Fund's investment goal, policies and restrictions.

## Distributions and Taxes

### Income and Capital Gain Distributions

As a regulated investment company, the Fund generally pays no federal income tax on the income and gains it distributes to you. The Fund intends to pay income dividends at least annually from its net investment income. Capital gains, if any, may be paid at least annually. The amount of any distribution will vary, and there is no guarantee the Fund will pay either income dividends or capital gain distributions. Your income dividends and capital gain distributions will be automatically reinvested in additional shares at net asset value (NAV) unless you elect to receive them in cash.

**Annual statements.** After the close of each calendar year, you will receive tax information from the Fund with respect to the federal income tax treatment of the Fund's distributions and any taxable sales or exchanges of Fund shares occurring during the prior calendar year. If the Fund finds it necessary to reclassify its distributions or adjust the cost basis of any covered shares sold or exchanged after you receive your tax information, the Fund will send you revised tax information. Distributions declared in December to shareholders of record in such month and paid in January are taxable as if they were paid in December. Additional tax information about the Fund's distributions is available at franklintempleton.com.

**Avoid "buying a dividend"** At the time you purchase your Fund shares, the Fund's net asset value may reflect undistributed income, undistributed capital gains, or net unrealized appreciation in the value of the portfolio securities held by the Fund. For taxable investors, a subsequent distribution to you of such amounts, although constituting a return of your investment, would be taxable. Buying shares in the Fund just before it declares an income dividend or capital gain distribution is sometimes known as "buying a dividend."

### Tax Considerations

If you are a taxable investor, Fund distributions are generally taxable to you as ordinary income, capital gains or some combination of both. This is the case whether you reinvest your distributions in additional Fund shares or receive them in cash.





**Dividend income.** Income dividends are generally subject to tax at ordinary rates. Income dividends reported by the Fund to shareholders as qualified dividend income may be subject to tax by individuals at reduced long-term capital gains tax rates provided certain holding period requirements are met. A return-of-capital distribution is generally not taxable but will reduce the cost basis of your shares, and will result in a higher capital gain or a lower capital loss when you later sell your shares.

**Capital gains.** Fund distributions of short-term capital gains are also subject to tax at ordinary rates. Fund distributions of long-term capital gains are taxable at the reduced long-term capital gains rates no matter how long you have owned your Fund shares. For individuals in the 10% and 15% tax brackets, the long-term capital gains tax rate is 0%. For individuals in higher tax brackets, the long-term capital gains rate is 15% (20% for certain high income taxpayers). An additional 3.8% Medicare tax may also be imposed as discussed below.

**Sales of Fund shares.** When you sell your shares in the Fund, or exchange them for shares of a different Franklin Templeton fund, you will generally recognize a taxable capital gain or loss. If you have owned your Fund shares for more than one year, any net long-term capital gains will qualify for the reduced rates of taxation on long-term capital gains. An exchange of your shares in one class of the Fund for shares of another class of the same Fund is not taxable and no gain or loss will be reported on the transaction.

**Cost basis reporting.** If you acquire shares in the Fund on or after January 1, 2012, generally referred to as "covered shares," and sell or exchange them after that date, the Fund is generally required to report cost basis information to you and the IRS annually. The Fund will compute the cost basis of your covered shares using the average cost method, the Fund's "default method," unless you contact the Fund to select a different method, or choose to specifically identify your shares at the time of each sale or exchange. If your account is held by your financial advisor or other broker-dealer, that firm may select a different default method. In these cases, please contact the firm to obtain information with respect to the available methods and elections for your account. Shareholders should carefully review the cost basis information provided by the Fund and make any additional basis, holding period or other adjustments that are required when reporting these amounts on their federal and state income tax returns. Additional information about cost basis reporting is available at franklintempleton.com/costbasis.

**Medicare tax.** For taxable years beginning after December 31, 2012, an additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares) of U.S. individuals, estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds a threshold amount. Any liability for this additional Medicare tax will be reported on, and paid with, your federal income tax return.

**Backup withholding.** If you do not provide the Fund your taxpayer identification number and certain required certifications you may be subject to federal backup withholding at 28% on any taxable Fund distributions and proceeds from the sale of your Fund shares. The Fund must also withhold if the IRS instructs it to do so. State backup withholding may also apply.

**State, local and foreign taxes.** Distributions of ordinary income and capital gains, and gains from the sale of your Fund shares, are generally subject to state and local taxes. If the Fund qualifies, it may elect to pass through to you as a foreign tax credit or deduction any foreign taxes that it pays on its investments.

**Investment in commodities.** The Fund must meet certain requirements under the Internal Revenue Code for favorable tax treatment as a regulated investment company, including asset diversification and income requirements. The Fund intends to treat the income it derives from the Subsidiary and certain commodity-linked instruments as "qualifying income" based on a private letter ruling the Fund has sought from the IRS and a number of similar rulings. If, however, the IRS were to determine such income is non-qualifying, the Fund might fail to satisfy the income requirement. The Fund also intends to limit its investment in the Subsidiary to no more than 25% of the value of its total assets in order to satisfy the asset diversification requirement.

**Non-U.S. investors.** Non-U.S. investors may be subject to U.S. withholding tax at 30% or a lower treaty rate on Fund dividends of ordinary income. Non-U.S. investors may be subject to U.S. estate tax on the value of their shares. They are subject to special U.S. tax certification requirements to avoid backup withholding, claim any exemptions from withholding and claim any treaty benefits. Exemptions from U.S. withholding tax are provided for capital gain dividends paid by the Fund





from long-term capital gains and, with respect to taxable years of the Fund that begin before January 1, 2014 (sunset date), interest-related dividends paid by the Fund from its qualified net interest income from U.S. sources and short-term capital gain dividends. If these exemptions for interest-related dividends and short-term capital gain dividends are not extended or made permanent, and thus sunset, such amounts will again be treated as ordinary income subject to U.S. withholding tax at 30% or a lower treaty rate. However, notwithstanding such exemptions from U.S. withholding tax at source, any such dividends and distributions of income and capital gains will be subject to backup withholding at a rate of 28% if you fail to properly certify that you are not a U.S. person.

**Other reporting and withholding requirements.** Payments to a shareholder that is either a foreign financial institution (FFI) or a non-financial foreign entity (NFFE) within the meaning of the Foreign Account Tax Compliance Act (FATCA) may be subject to a generally nonrefundable 30% withholding tax on: (a) income dividends paid by the Fund after June 30, 2014, and (b) certain capital gain distributions and the proceeds arising from the sale of Fund shares paid by the Fund after December 31, 2016. FATCA withholding tax generally can be avoided: (a) by an FFI, subject to any applicable intergovernmental agreement or other exemption, if it enters into a valid agreement with the IRS to, among other requirements, report required information about certain direct and indirect ownership of foreign financial accounts held by U.S. persons with the FFI and (b) by an NFFE, if it: (i) certifies that it has no substantial U.S. persons as owners or (ii) if it does have such owners, reports information relating to them. The Fund may disclose the information that it receives from its shareholders to the IRS, non-U.S. taxing authorities or other parties as necessary to comply with FATCA. Withholding also may be required if a foreign entity that is a shareholder of the Fund fails to provide the Fund with appropriate certifications or other documentation concerning its status under FATCA.

**Other tax information.** This discussion of "Distributions and Taxes" is for general information only and is not tax advice. You should consult your own tax advisor regarding your particular circumstances, and about any federal, state, local and foreign tax consequences before making an investment in the Fund. Additional information about the tax consequences of investing in the Fund may be found in the SAI.

# Financial Highlights

The Financial Highlights present the Fund's financial performance for the past five years or since its inception. Certain information reflects financial results for a single Fund share. The total returns represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request.

CLASS A

| | Year Ended May 31, 2013 | 2012[a] |
|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | |
| Net asset value, beginning of year | $9.53 | $10.00 |
| Income from investment operations:[b] | | |
| Net investment income[c] | 0.08 | 0.06 |
| Net realized and unrealized gains (losses) | 1.36 | (0.47) |
| Total from investment operations | 1.44 | (0.41) |
| Less distributions from net investment income and net foreign currency gains | (0.19) | (0.06) |
| **Net asset value, end of year** | **$10.78** | **$9.53** |
| Total return[d] | 15.22% | (4.09)% |
| Ratios to average net assets[e] | | |
| Expenses before waiver and payments by affiliates | 2.10% | 2.85% |
| Expenses net of waiver and payments by affiliates | 1.16% | 1.08% |
| Net investment income | 0.76% | 0.79% |
| Supplemental data | | |
| Net assets, end of year (000's) | $23,472 | $18,055 |
| Portfolio turnover rate | 47.73% | 15.34% |

a. For the period September 1, 2011 (commencement of operations) to May 31, 2012.
b. The amount shown for a share outstanding throughout the period may not correlate with the Consolidated Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.





CLASS C

| | Year Ended May 31, 2013 | 2012[a] |
|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | |
| Net asset value, beginning of year | $9.49 | $10.00 |
| Income from investment operations:[b] | | |
| Net investment income (loss)[c] | —[d] | —[d] |
| Net realized and unrealized gains (losses) | 1.36 | (0.48) |
| Total from investment operations | 1.36 | (0.48) |
| Less distributions from net investment income and net foreign currency gains | (0.13) | (0.03) |
| **Net asset value, end of year** | **$10.72** | **$9.49** |
| Total return[e] | 14.40% | (4.77)% |
| Ratios to average net assets[f] | | |
| Expenses before waiver and payments by affiliates | 2.86% | 3.69% |
| Expenses net of waiver and payments by affiliates | 1.92% | 1.92% |
| Net investment income (loss) | —%[g] | (0.05)% |
| Supplemental data | | |
| Net assets, end of year (000's) | $6,315 | $3,639 |
| Portfolio turnover rate | 47.73% | 15.34% |

a. For the period September 1, 2011 (commencement of operations) to May 31, 2012.
b. The amount shown for a share outstanding throughout the period may not correlate with the Consolidated Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Amount rounds to less than $0.01 per share.
e. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.
f. Ratios are annualized for periods less than one year.
g. Rounds to less than 0.01%.

**CLASS R**

| | Year Ended May 31, 2013 | 2012[a] |
|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | |
| Net asset value, beginning of year | $9.51 | $10.00 |
| Income from investment operations:[b] | | |
| Net investment income[c] | 0.04 | 0.02 |
| Net realized and unrealized gains (losses) | 1.37 | (0.47) |
| Total from investment operations | 1.41 | (0.45) |
| Less distributions from net investment income and net foreign currency gains | (0.16) | (0.04) |
| **Net asset value, end of year** | **$10.76** | **$9.51** |
| Total return[d] | 14.84% | (4.45)% |
| Ratios to average net assets[e] | | |
| Expenses before waiver and payments by affiliates | 2.44% | 3.27% |
| Expenses net of waiver and payments by affiliates | 1.50% | 1.50% |
| Net investment income | 0.42% | 0.37% |
| Supplemental data | | |
| Net assets, end of year (000's) | $2,155 | $1,903 |
| Portfolio turnover rate | 47.73% | 15.34% |

a. For the period September 1, 2011 (commencement of operations) to May 31, 2012.
b. The amount shown for a share outstanding throughout the period may not correlate with the Consolidated Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return does not reflect sales commissions or contingent deferred sales charges, if applicable, and is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.





**ADVISOR CLASS**

| | Year Ended May 31, 2013 | 2012[a] |
|---|---|---|
| Per share operating performance (for a share outstanding throughout the year) | | |
| Net asset value, beginning of year | $9.53 | $10.00 |
| Income from investment operations:[b] | | |
| Net investment income[c] | 0.09 | 0.06 |
| Net realized and unrealized gains (losses) | 1.38 | (0.47) |
| Total from investment operations | 1.47 | (0.41) |
| Less distributions from net investment income and net foreign currency gains | (0.21) | (0.06) |
| **Net asset value, end of year** | **$10.79** | **$9.53** |
| Total return[d] | 15.47% | (4.09)% |
| Ratios to average net assets[e] | | |
| Expenses before waiver and payments by affiliates | 1.94% | 2.77% |
| Expenses net of waiver and payments by affiliates | 1.00% | 1.00% |
| Net investment income | 0.92% | 0.87% |
| Supplemental data | | |
| Net assets, end of year (000's) | $14,511 | $12,654 |
| Portfolio turnover rate | 47.73% | 15.34% |

a. For the period September 1, 2011 (commencement of operations) to May 31, 2012.
b. The amount shown for a share outstanding throughout the period may not correlate with the Consolidated Statement of Operations in the annual report for the period due to the timing of sales and repurchases of the Fund shares in relation to income earned and/or fluctuating market value of the investments of the Fund.
c. Based on average daily shares outstanding.
d. Total return is not annualized for periods less than one year.
e. Ratios are annualized for periods less than one year.

# YOUR ACCOUNT

## Choosing a Share Class

Each class has its own sales charge and expense structure, allowing you to choose the class that best meets your situation. Your investment representative (financial advisor) can help you decide. Investors may purchase Class C or Class R shares only for Fund accounts on which they have appointed an investment representative (financial advisor) of record. Investors who have not appointed an investment representative (financial advisor) to existing Class C or Class R share Fund accounts may not make additional purchases to those accounts but may exchange their shares for shares of a Franklin Templeton fund that offers Class C or Class R shares. Dividend and capital gain distributions may continue to be reinvested in existing Class C or Class R share Fund accounts. These provisions do not apply to Employer Sponsored Retirement Plans.

| Class A | Class C | Class R | Advisor Class |
|---|---|---|---|
| Initial sales charge of 5.75% or less | No initial sales charge | No initial sales charge | See "Qualified Investors - Advisor Class" below |
| Deferred sales charge of 1% on purchases of $1 million or more sold within 18 months | Deferred sales charge of 1% on shares you sell within 12 months | Deferred sales charge is not applicable | |
| Lower annual expenses than Class C or R due to lower distribution fees | Higher annual expenses than Class A due to higher distribution fees | Higher annual expenses than Class A due to higher distribution fees (lower than Class C) | |





### Class A, C & R

| SALES CHARGES - Class A | | |
|---|---|---|
| when you invest this amount | the sales charge makes up this % of the offering price[1] | which equals this % of your net investment[1] |
| Under $50,000 | 5.75 | 6.10 |
| $50,000 but under $100,000 | 4.50 | 4.71 |
| $100,000 but under $250,000 | 3.50 | 3.63 |
| $250,000 but under $500,000 | 2.50 | 2.56 |
| $500,000 but under $1 million | 2.00 | 2.04 |

1. The dollar amount of the sales charge is the difference between the offering price of the shares purchased (which factors in the applicable sales charge in this table) and the net asset value of those shares. Since the offering price is calculated to two decimal places using standard rounding criteria, the number of shares purchased and the dollar amount of the sales charge as a percentage of the offering price and of your net investment may be higher or lower depending on whether there was a downward or upward rounding.

### Sales Charge Reductions

**Quantity discounts.** We offer two ways for you to combine your current purchase of Class A Fund shares with other existing Franklin Templeton fund share holdings that might enable you to qualify for a lower sales charge with your current purchase. You can qualify for a lower sales charge when you reach certain "sales charge breakpoints." This quantity discount information is also available free of charge at franklintempleton.com/retail/jsp_cm/fund_perf/pub/quantity_discount.jsp. This web page can also be reached at franklintempleton.com by clicking the "Funds" tab and then choosing "Quantity Discounts."

**1. Cumulative quantity discount** - lets you combine certain existing holdings of Franklin Templeton fund shares - referred to as "cumulative quantity discount eligible shares" - with your current purchase of Class A shares to determine if you qualify for a sales charge breakpoint.

Cumulative quantity discount eligible shares are Franklin Templeton fund shares registered to (or held by a financial intermediary for):

- You, individually;
- Your spouse or domestic partner, as recognized by applicable state law, and your children under the age of 21 (each a "family member");
- You jointly with one or more family members;
- You jointly with another person(s) who is (are) not family members if that other person has not included the value of the shares as cumulative

quantity discount eligible shares for purposes of that person's separate investments in Franklin Templeton fund shares;

- A Coverdell Education Savings account for which you or a family member is the identified responsible person;
- A trustee/custodian of an IRA (which includes a Roth IRA and an employer sponsored IRA such as a SIMPLE IRA) or your non-ERISA covered 403(b) plan account, if the shares are registered/recorded under your or a family member's Social Security number;
- A 529 college savings plan over which you or a family member has investment discretion and control;
- Any entity over which you or a family member has (have) individual or shared authority, as principal, has investment discretion and control (for example, an UGMA/UTMA account for a child on which you or a family member is the custodian, a trust on which you or a family member is the trustee, a business account [not to include retirement plans] for your solely owned business [or the solely owned business of a family member] on which you or a family member is the authorized signer);
- A trust established by you or a family member as grantor.

Franklin Templeton fund shares held through an administrator or trustee/custodian of an Employer Sponsored Retirement Plan (see definition below) such as a 401(k) plan do not qualify for a cumulative quantity discount.

Franklin Templeton fund assets held in multiple Employer Sponsored Retirement Plans may be combined in order to qualify for sales charge breakpoints at the plan level if the plans are sponsored by the same employer.

If you believe there are cumulative quantity discount eligible shares that can be combined with your current purchase to achieve a sales charge breakpoint (for example, shares held in a different broker-dealer's brokerage account or with a bank or an investment advisor), it is your responsibility to specifically identify those shares to your financial advisor at the time of your purchase (including at the time of any future purchase). It may be necessary for you to provide your financial advisor with information and records (including account statements) of all relevant accounts invested in the Franklin Templeton funds. If you have not





designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to specifically identify any cumulative quantity discount eligible shares to the Fund's transfer agent at the time of any purchase.

If there are cumulative quantity discount eligible shares that would qualify for combining with your current purchase and you do not tell your financial advisor or the Franklin Templeton funds' transfer agent at the time of any purchase, you may not receive the benefit of a reduced sales charge that might otherwise be available since your financial advisor and the Fund generally will not have that information.

The value of cumulative quantity discount eligible shares equals the cost or current value of those shares, whichever is higher. The current value of shares is determined by multiplying the number of shares by their highest current public offering price. It is your responsibility to retain any records necessary to substantiate historical share costs because neither your current financial advisor nor the Franklin Templeton funds may have or maintain this information.

An "Employer Sponsored Retirement Plan" is a Qualified Retirement Plan, ERISA covered 403(b) plan and certain non-qualified deferred compensation arrangements that operate in a similar manner to a Qualified Retirement Plan, such as 457 plans and executive deferred compensation arrangements, but not including employer sponsored IRAs. A "Qualified Retirement Plan" is an employer sponsored pension or profit sharing plan that qualifies under section 401(a) of the Internal Revenue Code, including 401(k), money purchase pension, profit sharing and defined benefit plans.

**2. Letter of intent (LOI)** - expresses your intent to buy a stated dollar amount of "cumulative quantity discount eligible shares" (as defined in the "Cumulative quantity discount" section above) over a 13-month period and lets you receive the same sales charge as if all shares had been purchased at one time. We will reserve 5% of your total intended purchase in Class A shares registered in your name until you fulfill your LOI to cover any additional sales charge that may apply if you do not buy the amount stated in your LOI. It is your responsibility to tell your financial advisor when you believe you have fulfilled your LOI with sufficient cumulative quantity discount eligible shares. If you have not designated a financial advisor associated with your Franklin Templeton fund shares, it is your responsibility to tell the Fund's transfer agent when you believe you have

fulfilled your LOI with sufficient cumulative quantity discount eligible shares. Please refer to the SAI for more LOI details.

To sign up for these programs, complete the appropriate section of your account application.

**Franklin Templeton funds** include all of the U.S. registered mutual funds of Franklin Templeton Investments and the Franklin Mutual Recovery Fund. They do not include the funds in the Franklin Templeton Variable Insurance Products Trust.

### Sales Charge Waivers

Class A shares may be purchased without an initial sales charge or contingent deferred sales charge (CDSC) by certain investors or for certain payments. If you would like information about available sales charge waivers, call your investment representative or call Shareholder Services at (800) 632-2301.

**Waivers for investments from certain payments.** Class A shares may be purchased without an initial sales charge or CDSC by investors who reinvest within 90 days:

- Dividend and capital gain distributions from any Franklin Templeton fund. The distributions generally must be reinvested in the same share class. Certain exceptions apply, however, to Advisor Class or Class Z shareholders of a Franklin Templeton fund who may reinvest their distributions in the Fund's Class A shares.
- Annuity payments received under either an annuity option or from death benefit proceeds, if the annuity contract offers as an investment option the Franklin Templeton Variable Insurance Products Trust. You should contact your tax advisor for information on any tax consequences that may apply.
- Redemption proceeds from the sale of Class A shares of any of the Franklin Templeton Investment Funds if you are a qualified investor.
- If you paid a CDSC when you redeemed your Class A shares from a Franklin Templeton Investment Fund, a new CDSC will apply to your purchase of Fund shares and the CDSC holding period will begin again. We will, however, credit your Fund account with additional shares based on the CDSC you previously paid and the amount of the redemption proceeds that you reinvest.





- If you immediately placed your redemption proceeds in a Franklin Templeton money fund, you may reinvest them as described above. The proceeds must be reinvested within 90 days from the date they are redeemed from the money fund.

**Waivers for certain investors.** The following investors or investments qualify to buy Class A shares without an initial sales charge or CDSC due to anticipated economies in sales efforts and expenses, including:

- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Please consult your legal and investment advisors to determine if an investment in the Fund is permissible and suitable for you.
- Registered securities dealers and their affiliates, for their investment accounts only.
- Current employees of securities dealers and their affiliates and their family members, as allowed by the internal policies of their employer.
- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies.
- Current partners of law firms that currently provide legal counsel to the funds, Franklin Resources, Inc. or its affiliates.
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Certain unit investment trusts and their holders reinvesting distributions from the trusts.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, as amended.
- Group annuity separate accounts offered to retirement plans.
- Chilean retirement plans that meet the requirements described under "Retirement plans" below.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of

an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.

**Retirement plans.** Provided that Franklin Templeton Investor Services, LLC is notified, Class A shares at NAV are available for:

- Employer Sponsored Retirement Plans (Plan) that invest indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary; or
- A Plan if the employer sponsors one or more Plans with aggregate Plan assets of $1 million or more; or
- Investors who open an IRA with proceeds rolled over directly from a Plan if the IRA is a "Common Platform IRA." An IRA is a Common Platform IRA if (i) the IRA custodian or recordkeeper, or one of its affiliates, is the recordkeeper for the Plan at the time the IRA is opened; and (ii) Fund shares transferred in-kind to a "Common Platform IRA" opened by a direct rollover to that IRA from an Employer Sponsored Retirement Plan; or
- The portion of any direct rollover from a participant's Plan account or direct transfer from a 403(b) plan account to a Franklin Templeton IRA with Franklin Templeton Bank & Trust (FTB&T) as the custodian that is funded by the sale immediately prior to the rollover/transfer of Franklin Templeton fund shares held in the Plan account, provided that documentation accompanies the rollover/transfer instruction that reasonably supports this funding source requirement; or
- Investors who open an IRA as a spousal rollover or a Qualified Domestic Relations Order (QDRO) if opened with proceeds from a "Former DCS Plan" and/or a plan for which FTB&T is trustee; or
- Investors who open a Franklin Templeton IRA prior to November 1, 2012 with proceeds rolled over directly from a "Former DCS Plan."

A "Former DCS Plan" is an Employer Sponsored Retirement Plan that transferred participant level recordkeeping from the DCS Division of Franklin Templeton Investor Services, LLC to Great-West Retirement Services® (GWRS) on November 2, 2007 and is a recordkeeping client of GWRS at the time of the rollover.

### Investments of $1 Million or More

If you invest $1 million or more, either as a lump sum or through our cumulative quantity discount or letter of intent programs, you can buy Class A shares without an initial sales charge. However, there is a 1% CDSC on any shares you sell within 18 months of purchase. The way we calculate the CDSC is the same for each class (please see "Contingent Deferred Sales Charge (CDSC) - Class A & C").

### Distribution and Service (12b-1) Fees

Class A has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution fees of up to 0.30% per year to those who sell and distribute Class A shares and provide other services to shareholders. Because these fees are paid out of Class A's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

We calculate the amount of these fees over a 12-month period that may differ from the Fund's fiscal year. Therefore, the amount shown from time to time in the Fund's fee table (which is based upon the Fund's fiscal year) may differ from the amount set forth in the Rule 12b-1 plan due to timing differences, but will never exceed the amount set forth in the Rule 12b-1 plan over the 12-month measurement period.

**SALES CHARGES - Class C**

With Class C shares, there is no initial sales charge.

We place any investment of $1 million or more in Class A shares, since Class A's annual expenses are lower.

### CDSC

There is a 1% CDSC on any Class C shares you sell within 12 months of purchase. The way we calculate the CDSC is the same for each class (please see "Contingent Deferred Sales Charge (CDSC) - Class A & C").

### Distribution and Service (12b-1) Fees

Class C has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution and other fees of up to 1% per year for the sale of Class C shares and for services provided to shareholders. Because these fees are paid out of Class C's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

**SALES CHARGES - Class R**

With Class R shares, there is no initial sales charge.

### Retirement Plans

Class R shares are available to the following investors:

- Employer Sponsored Retirement Plans
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code
- Health Reimbursement Accounts and Health Savings Accounts, either as a direct investment or as a separate or managed account.

### Distribution and Service (12b-1) Fees

Class R has a distribution plan, sometimes known as a Rule 12b-1 plan, that allows the Fund to pay distribution and other fees of up to 0.50% per year for the sale of Class R shares and for services provided to shareholders. Because these fees are paid out of Class R's assets on an ongoing basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges.





### Contingent Deferred Sales Charge (CDSC) - Class A & C

The CDSC for each class is based on the current value of the shares being sold or their net asset value when purchased, whichever is less. There is no CDSC on shares you acquire by reinvesting your dividends or capital gain distributions.

To keep your CDSC as low as possible, each time you place a request to sell shares we will first sell any shares in your account that are not subject to a CDSC. If there are not enough of these to meet your request, we will sell the shares in the order they were purchased. We will use this same method if you exchange your shares into another Franklin Templeton fund (please see "Exchanging Shares").

The **holding period for the CDSC** begins on the day you buy your shares. Your shares will age one month on that same date the next month and each following month. For example, if you buy shares on the 18th of the month, they will age one month on the 18th day of the next month and each following month.

### Reinstatement Privilege

If you sell shares of a Franklin Templeton fund that were held indirectly for your benefit in an account with your investment representative's firm or your bank's trust department or that were registered to you directly by the Fund's transfer agent (or to an affiliated custodian or trustee of the Fund's transfer agent), you may reinvest all or a portion of the proceeds from that sale within 90 days of the sale without an initial sales charge. This Reinstatement Privilege does not apply to: (i) a purchase of Fund shares made through a regularly scheduled automatic investment plan such as a purchase by a regularly scheduled payroll deduction or transfer from a bank account, or (ii) a purchase of Fund shares with proceeds from the sale of Franklin Templeton fund shares that were held indirectly through a non-Franklin Templeton individual or employer sponsored IRA.

In order to take advantage of this Reinstatement Privilege, you must inform your investment representative or the Fund's transfer agent of this privilege at the time of your investment.

The proceeds from the earlier sale must also be invested within the same share class as that of the sold shares, with the following exceptions:

- Class C or Class R shares will be reinvested in Class A shares if at the time of investment you have not appointed an investment representative

(financial advisor) of record for the Fund account(s) in which the purchased shares will be held.

Proceeds from the earlier sale of Class Z shares from another fund may also be invested in Class A shares under this Reinstatement Privilege.

Generally, if you paid a CDSC when you sold your shares, Franklin Templeton Distributors, Inc. (Distributors) will credit back to you the CDSC paid on the amount you are reinvesting within 90 days of the sale by adding it to the amount of your reinvestment. The new shares issued with your reinvestment WILL BE subject to any otherwise applicable CDSC. If, however, you (except Employer Sponsored Retirement Plans) paid a CDSC when you sold the following shares and you invest the proceeds from that sale in Class A shares within 90 days, you will not receive a credit for the CDSC and new Class A shares issued with your reinvestment WILL NOT BE subject to any otherwise applicable CDSC:

- Class C shares held at the time of sale in a Franklin Templeton fund account without an investment representative (financial advisor) appointed by you

This privilege does not apply to shares you buy and sell under our exchange program. Shares purchased with the proceeds from a money fund may be subject to a sales charge.

### Qualified Investors - Advisor Class

The following investors or investments qualify to buy Advisor Class shares of the Fund:

- Advisory Fee Programs. Shares acquired by an investor in connection with a comprehensive fee or other advisory fee arrangement between the investor and a registered broker-dealer or investment advisor, trust company or bank (referred to as the "Sponsor") in which the investor pays that Sponsor a fee for investment advisory services and the Sponsor or a broker-dealer through whom the shares are acquired has an agreement with Distributors authorizing the sale of Fund shares. No minimum initial investment.
- Governments, municipalities, and tax-exempt entities that meet the requirements for qualification under section 501 of the Internal Revenue Code when purchasing direct from the Fund. Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.





- Current and former officers, trustees, directors, full-time employees (and, in each case, their family members) of both Franklin Templeton Investments and Franklin Templeton funds, consistent with our then-current policies. Minimum initial investment: $1,000 ($50 for accounts with an automatic investment plan).
- Assets held in accounts managed by a subsidiary of Franklin Resources, Inc.: (1) under an advisory agreement (including sub-advisory agreements); and/or (2) as trustee of an inter vivos or testamentary trust.
- Assets held in accounts managed by a state or federally regulated trust company or bank (Trust Company) either as discretionary trustee of an inter vivos or testamentary trust or as investment manager under an advisory agreement (including sub-advisory) or other agreement that grants the Trust Company investment discretion over those assets (Trust Company Managed Assets) if (i) the aggregate value of Trust Company Managed Assets invested in Franklin Templeton funds at the time of purchase equals at least $1 million; and (ii) the purchased shares are registered directly to the Trust Company in its corporate capacity (not as trustee of an individual trust) and held solely as Trust Company Managed Assets.
- An Employer Sponsored Retirement Plan (Plan) if the employer sponsors one or more Plans with aggregate Plan assets of $1 million or more.
- A Plan that invest indirectly in Fund shares through Fund omnibus accounts registered to a financial intermediary.
- Any trust or plan established as part of a qualified tuition program under Section 529 of the Internal Revenue Code, provided that Distributors or an affiliate of Distributors has entered into a contract with the state sponsor of the program or one of its service providers to provide certain services relating to the operation of the program or to provide Fund shares for purchase in connection with the program. No initial minimum investment.
- An individual or entity associated with a current customer of Franklin Templeton Institutional, LLC (FTI, LLC) if approved by FTI, LLC in consultation with its customer.
- Unaffiliated U.S. registered mutual funds, including those that operate as "fund of funds." Minimum initial investment: $1 million in Advisor Class or Class Z shares of any Franklin Templeton fund.

- Assets held in accounts under the recommendation of an investment consultant provided that (1) assets are held with a firm unaffiliated with the investment consultant's firm; (2) the investment consultant is under a retainer or other similar fee arrangement with its clients; (3) the client is not an individual; and (4) a subsidiary of Franklin Resources, Inc. approves the investment.





## Buying Shares

**MINIMUM INVESTMENTS - CLASS A, C & R**

| | Initial |
|---|---|
| Regular accounts, UGMA/UTMA accounts, current and former full-time employees, officers, trustees and directors of Franklin Templeton entities, and their family members | $1,000 |
| Automatic investment plans | $50 |
| Employer Sponsored Retirement Plans, SIMPLE-IRAs, SEP-IRAs, SARSEPs or 403(b) plan accounts | no minimum |
| IRAs, IRA rollovers, Coverdell Education Savings Plans or Roth IRAs | $250 |
| Broker-dealer sponsored wrap account programs | no minimum |

Please note that you may only buy shares of a fund eligible for sale in your state or jurisdiction.

In addition, the Fund is not registered in any provincial or territorial jurisdiction in Canada and shares of the Fund have not been qualified for sale in any Canadian jurisdiction. The shares offered by this prospectus may not be directly or indirectly offered or sold in any provincial or territorial jurisdiction in Canada or to or for the benefit of residents thereof. Prospective investors may be required to declare that they are not a Canadian resident and are not acquiring shares on behalf of any Canadian residents. If an investor becomes a Canadian resident after purchasing shares of the Fund, the investor will not be able to purchase any additional shares of the Fund.

## Account Application

If you are opening a new account, please complete and sign the enclosed account application. Make sure you indicate the share class you have chosen. If you do not indicate a class, we will place your purchase in Class A shares. To save time, you can sign up now for services you may want on your account by completing the appropriate sections of the application (see "Investor Services"). For example, if you would like to link one of your bank accounts to your Fund account so that you may use electronic funds transfer to and from your bank account to buy and sell shares, please complete the bank information section of the application. We will keep your bank information on file for future purchases and redemptions. We do not accept cash, credit card convenience checks, non-bank money orders or travelers checks as forms of payment to purchase shares.

Franklin Templeton Investor Services
P.O. Box 997151, Sacramento, CA 95899-7151
Call toll-free: (800) 632-2301
(Monday through Friday
5:30 a.m. to 5:00 p.m., Pacific time)
or visit us online 24 hours a day, 7 days a week,
at franklintempleton.com

BUYING SHARES

| | Opening an account | Adding to an account |
|---|---|---|
| **Through your investment representative** | Contact your investment representative | Contact your investment representative |
| **By Phone/Online**<br>(Up to $100,000 per shareholder per day)<br>(800) 632-2301<br>franklintempleton.com<br>*Note: (1) certain account types are not available for online account access and (2) the amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" under "Investor Services" for more information regarding eligibility.* | If you have another Franklin Templeton fund account with your bank account information on file, you may open a new identically registered account by phone. At this time, a new account may not be opened online.<br>To make a same day investment, your phone order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier. | Before requesting a telephone or online purchase into an existing account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and address and a voided check or savings account deposit slip. If there is a difference between the Fund account owner(s) and the bank account owner(s), your written request must be signed by **all** Fund **and** bank account owners, and each individual must have his or her signature guaranteed. If the Fund account is registered to FTB&T as custodian/trustee for a retirement plan or education savings account, or as a custodial account for a minor (UGMA/UTMA) and there is at least one common owner on the Fund account and the bank account, signature guarantees are not required.<br>To make a same day investment, your phone or online order must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier. |
| **By Mail** | Make your check payable to the Fund.<br>Mail the check and your signed application to Investor Services. | Make your check payable to the Fund. Include your account number on the check.<br>Fill out the deposit slip from your account statement. If you do not have a slip, include a note with your name, the Fund name, and your account number.<br>Mail the check and deposit slip or note to Investor Services. |
| **By Wire**<br>(800) 632-2301<br>or (650) 312-2000 collect | Call to receive a wire control number and wire instructions.<br>Wire the funds and mail your signed application to Investor Services. Please include the wire control number or your new account number on the application.<br>To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier. | Call to receive a wire control number and wire instructions.<br>To make a same day wire investment, the wired funds must be received and accepted by us by 1:00 p.m. Pacific time or the close of the New York Stock Exchange, whichever is earlier. |
| **By Exchange**<br>franklintempleton.com | Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order.<br>(Please see "Exchanging Shares" for more information on exchanges.) | Call Shareholder Services at (800) 632-2301, or send signed written instructions. You also may place an online exchange order.<br>(Please see "Exchanging Shares" for more information on exchanges.) |

# Investor Services

## Automatic Investment Plan

This plan offers a convenient way for you to invest in the Fund by automatically transferring money from your checking or savings account each month to buy shares. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your account application and mail it to Investor Services. If you are opening a new account, please include your minimum initial investment with your application.

## Automated Telephone System

Our automated system offers around-the-clock access to information about your account or any Franklin Templeton fund. This service is available by dialing any of the following numbers from a touch-tone phone:

| | |
|---|---|
| **Shareholder Services** | (800) 632-2301 |
| **Advisor Services** | (800) 524-4040 |
| **Retirement Services** | (800) 527-2020 |

## Distribution Options

You may reinvest distributions you receive from the Fund in an existing account in the same share class* of the Fund or another Franklin Templeton fund. Initial sales charges and CDSCs will not apply to reinvested distributions. You also can have your distributions deposited in a bank account, or mailed by check. Deposits to a bank account may be made by electronic funds transfer.

*Class C shareholders may reinvest their distributions in Class A shares of any Franklin Templeton money fund. Advisor Class shareholders may reinvest in Advisor Class or Class A shares of another Franklin Templeton fund. To reinvest your distributions in Advisor Class shares of another Franklin Templeton fund, you must be a current shareholder in Advisor Class or otherwise qualify to buy that fund's Advisor Class shares.

If you received a distribution and chose to return it to purchase additional shares in Class A shares of another Franklin Templeton fund, you will not be charged an initial sales charge if you invest the distribution within 90 days of the distribution date.

Please indicate on your application the distribution option you have chosen, otherwise we will reinvest your distributions in the same share class of the Fund.





## Retirement Plans

Franklin Templeton Investments offers a variety of retirement plans for individuals and businesses. These plans require separate applications, may require special forms for redemptions, and their policies and procedures may be different than those described in this prospectus. For more information, including a free retirement plan brochure or application, please call Retirement Services at (800) 527-2020.

## Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account, allowing you to obtain or view your account information, and conduct a number of transactions by phone or online, including: buy, sell, or exchange shares of most funds; use electronic funds transfer to buy or sell shares of most funds; change your address; and add or change account services (including distribution options, systematic withdrawal plans and automatic investment plans).

To view your account information or request online transactions, you will first need to register for these services at the shareholder section of our website at franklintempleton.com. You will be asked to accept the terms of an online agreement(s) and establish a password for online services. If you are registered for online services, you may enroll online in Franklin Templeton's electronic delivery program for your shareholder documents. This will allow you to receive electronic delivery (through our website) of most Franklin Templeton funds' prospectuses, annual/semiannual reports to shareholders, and proxy statements, as well as your account(s) statements and trade confirmations, and discontinue receiving your paper copies through the U.S. mail. Using our shareholder website means you are consenting to sending and receiving personal financial information over the Internet, so you should be sure you are comfortable with the risks.

As long as we follow reasonable security procedures and act on instructions we reasonably believe are genuine, we will not be responsible for any losses that may occur from unauthorized requests. We will request passwords or other information, and also may record calls. To help safeguard your account, keep your password confidential, and verify the accuracy of your confirmation statements immediately after you receive them. Contact us immediately if you believe someone has obtained unauthorized access to your account or password. For transactions done over the Internet, we recommend the use of an Internet browser with 128-bit encryption. Certain methods of contacting us (such as by phone

or by Internet) may be unavailable or delayed during periods of unusual market activity. *Of course, you can decline telephone buy, sell, or exchange privileges on your account application, or choose not to register for online privileges. If you have telephone/online privileges on your account and want to discontinue them, please contact us for instructions.* You may reinstate these privileges at any time in writing, including online registration with respect to online privileges.

**Note:** We discourage you from including confidential or sensitive information in any Internet communication to us. If you do choose to send email (encrypted or not) to us over the Internet, you are accepting the associated risks of lack of confidentiality.

### Systematic Withdrawal Plan

This plan allows you to automatically sell your shares and receive regular payments from your account. A CDSC may apply to withdrawals that exceed certain amounts. Certain terms and minimums apply. To sign up, visit us online at franklintempleton.com or complete the appropriate section of your application.

### Franklin Templeton VIP Services®

You may be eligible for Franklin Templeton VIP Services® if you are currently eligible for the $250,000 sales charge breakpoint based solely on shares registered directly with the Franklin Templeton funds' transfer agent and excluding shares held indirectly through brokerage accounts. Franklin Templeton VIP Services® shareholders enjoy enhanced service and transaction capabilities. Please contact Shareholder Services at (800) 632-2301 for additional information on this program.





## Selling Shares

You can sell your shares at any time. Please keep in mind that a contingent deferred sales charge (CDSC) may apply.

### Selling Shares in Writing

Generally, requests to sell $100,000 or less can be made over the phone, online, or with a simple letter. Sometimes, however, to protect you and the Fund we will need written instructions signed by all registered owners, with a signature guarantee for each owner, if:

- you are selling more than $100,000 worth of shares
- you want your proceeds paid to someone who is not a registered owner
- you want to send your proceeds somewhere other than the address of record, or preauthorized bank or brokerage firm account

We also may require a signature guarantee when we receive instructions from an agent, not the registered owners; you want to send your proceeds to a bank account that was added or changed on your account without a signature guarantee within the last 15 days; you want to send proceeds to your address that was changed without a signature guarantee within the last 15 days; or we believe it would protect the Fund against potential claims based on the instructions received.

The amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" above for more information regarding eligibility.

A **signature guarantee** helps protect your account against fraud. You can obtain a signature guarantee at most banks and securities dealers.

A notary public CANNOT provide a signature guarantee.

### Selling Recently Purchased Shares

If you sell shares recently purchased, we may delay sending you the proceeds until your check, draft or wire/electronic funds transfer has cleared, which may take seven business days.

### Redemption Proceeds

Your redemption check will be sent within seven days after we receive your request in proper form. We are not able to receive or pay out cash in the form of currency.

## Retirement Plans

You may need to complete additional forms to sell shares in a Franklin Templeton Bank & Trust retirement plan. For participants under the age of 59½, tax penalties may apply. Call Retirement Services at (800) 527-2020 for details.





SELLING SHARES

### To sell some or all of your shares

**Through your investment representative**

Contact your investment representative

**By Mail**

Send written instructions and endorsed share certificates (if you hold share certificates) to Investor Services. Corporate, partnership or trust accounts may need to send additional documents.

Specify the Fund, the account number and the dollar value or number of shares you wish to sell. Be sure to include all necessary signatures and any additional documents, as well as signature guarantees if required.

A check will be mailed to the name(s) and address on the account, or otherwise according to your written instructions.

**By Phone/Online**

(800) 632-2301
franklintempleton.com

As long as your transaction is for $100,000 or less and you do not hold share certificates, you can sell your shares by phone or online. The amount may be higher for members of Franklin Templeton VIP Services®. Please see "Franklin Templeton VIP Services®" above for more information regarding eligibility.

A check will be mailed to the name(s) and address on the account, or a pre-authorized secondary address. Written instructions, with a signature guarantee, are required to send the check to another address or to make it payable to another person.

If you have changed your address within the last 15 days without a signature guarantee, requests to sell your shares and mail the check to the name(s) and address on the account must be in writing and we may require a signature guarantee. Requests to sell your shares and send the proceeds to a pre-authorized secondary address may be requested by phone or online.

**By Electronic Funds Transfer (ACH)**

You can call, write, or visit us online to have redemption proceeds sent to a bank account. See the policies at left for selling shares by mail, phone, or online.

Before requesting to have redemption proceeds sent to a bank account, please make sure we have your bank account information on file. If we do not have this information, you will need to send written instructions with your bank's name and a voided check or savings account deposit slip. If there is a difference between the Fund account owner(s) and the bank account owner(s), you must provide written instructions signed by **all** Fund **and** bank account owners, and each individual must have his or her signature guaranteed. If the Fund account is registered to FTB&T as custodian/trustee for a retirement plan or education savings account, or as a custodial account for a minor (UGMA/UTMA) and there is at least one common owner on the Fund account and the bank account, signature guarantees are not required.

If the bank account was added or changed without a signature guarantee within the last 15 days, you may be required to provide written instructions signed by all fund account owners, with a signature guarantee for each fund account owner.

If we receive your request in proper form by 1:00 p.m. Pacific time, proceeds sent by ACH generally will be available within two to three business days.

**By Exchange**

Obtain a current prospectus for the fund you are considering. Prospectuses are available online at franklintempleton.com.

Call Shareholder Services at the number below or send signed written instructions. You also may place an exchange order online. See the policies at left for selling shares by mail, phone, or online.

If you hold share certificates, you will need to return them to the Fund before your exchange can be processed.

Franklin Templeton Investor Services
P.O. Box 997151, Sacramento, CA 95899-7151
Call toll-free: (800) 632-2301
(Monday through Friday 5:30 a.m. to 5:00 p.m., Pacific time)
or visit us online 24 hours a day, 7 days a week, at franklintempleton.com

# Exchanging Shares

## Exchange Privilege

**Class A, C & R**

You can exchange shares between most Franklin Templeton funds within the same class,* generally without paying any additional sales charges. If you exchange shares from a money fund and those shares were not charged a sales charge previously, however, a sales charge may apply.

*Class Z shareholders of Franklin Mutual Series Funds may exchange into Class A without any sales charge. Advisor Class shareholders of another Franklin Templeton fund also may exchange into Class A without any sales charge. If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class or Class Z, you may exchange your Class A shares for Advisor Class or Class Z shares if you are a current shareholder in Advisor Class or Class Z or you otherwise qualify to buy the fund's Advisor Class or Class Z shares.

Any CDSC will continue to be calculated from the date of your initial investment and will not be charged at the time of the exchange. The purchase price for determining a CDSC on exchanged shares will be the price you paid for the original shares.

**Advisor Class**

You can exchange your Advisor Class shares for Advisor Class shares of other Franklin Templeton funds. You also may exchange your Advisor Class shares for Class A shares of a fund that does not currently offer an Advisor Class (without any sales charge)* or for Class Z shares of Franklin Mutual Series Funds.

*If you exchange into Class A shares and you later decide you would like to exchange into a fund that offers an Advisor Class, you may exchange your Class A shares for Advisor Class shares if you are a current shareholder in Advisor Class or you otherwise qualify to buy the fund's Advisor Class shares.

**All Classes**

The remainder of the "Exchanging Shares" section applies to all classes.

Generally exchanges may only be made between identically registered accounts, unless you send written instructions with a signature guarantee.

An **exchange** is really two transactions: a sale of one fund and the purchase of another. In general, the same policies that apply to purchases and sales also apply to exchanges, including minimum investment amounts (except exchanges of an entire account balance). Exchanges also generally have the same tax consequences as ordinary sales and purchases.

**Rejected exchanges.** If the Fund rejects an exchange request involving the sale of Fund shares, the rejected exchange request will also mean rejection of the request to purchase shares of another fund with the proceeds of the sale. Of course, you may generally redeem shares of the Fund at any time.

**Exchanges through financial intermediaries.** If you are investing indirectly in the Fund through a financial intermediary such as a broker-dealer, a bank, an insurance company separate account, an investment advisor, an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan that maintains a master account (an Omnibus Account) with the Fund for trading on behalf of its customers, different exchange and/or transfer limit guidelines and restrictions may apply. The financial intermediary through whom you are investing may choose to adopt different trading restrictions designed to discourage short-term or excessive trading. Consult with your financial intermediary (or in the case of a 401(k) retirement plan, your plan sponsor) to determine what trading restrictions, including exchange/transfer limitations, may be applicable to you.

**Fund exchange privilege changes/waiver.** The Fund may terminate or modify (temporarily or permanently) this exchange privilege in the future. You will receive 60 days' notice of any material changes, unless otherwise provided by law.

**Other funds' exchange privileges.** If there is a conflict between the exchange privileges of two funds involved in an exchange transaction, the stricter policy will apply to the transaction. Other Franklin Templeton funds may have different exchange restrictions. Check each fund's prospectus for details.

## Frequent Trading Policy

The Fund's board of trustees has adopted the following policies and procedures with respect to frequent trading in Fund shares (Frequent Trading Policy).

The Fund does not intend to accommodate short-term or frequent purchases and redemptions of Fund shares that may be detrimental to the Fund. For example, this type of trading activity could interfere with the efficient management of the Fund's portfolio or materially increase the Fund's transaction costs, administrative costs or taxes.

In addition, since the Fund may invest in foreign securities, it may be vulnerable to a form of short-term trading that is sometimes referred to as "time-zone arbitrage." Time-zone arbitrage occurs when an investor seeks to take advantage of delays between changes in the value of a mutual

fund's portfolio holdings and the reflection of those changes in the fund's net asset value per share. These delays are more likely to occur in the case of foreign investments, due to differences between the times during which the Fund's international portfolio securities trade on foreign markets and the time as of which the Fund's NAV is calculated (generally as of the close of the NYSE - please see "Account Policies - Calculating Share Price"). Time-zone arbitrage traders seek to purchase or redeem shares of a fund based on events occurring after foreign market closing prices are established, but before calculation of the fund's NAV. This can result in the value of the Fund's shares being diluted. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibility of this type of arbitrage (please see "Account Policies - Security Valuation - Foreign Securities - Potential Impact of Time Zones and Market Holidays"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

Since the Fund may invest in securities that are, or may be, restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid ("relatively illiquid securities"), it may be particularly vulnerable to arbitrage short-term trading. Such arbitrage traders may seek to take advantage of a possible differential between the last available market prices for one or more of those relatively illiquid securities that are used to calculate the Fund's NAV and the latest indications of market values for those securities. One of the objectives of the Fund's fair value pricing procedures is to minimize the possibilities of this type of arbitrage (please see "Account Policies - Fair Valuation - Individual Securities"); however, there can be no assurance that the Fund's valuation procedures will be successful in eliminating it.

Through its transfer agent, the Fund performs ongoing monitoring of shareholder trading in shares of the Fund and other Franklin Templeton funds in order to try and identify shareholder trading patterns that suggest an ongoing short-term trading strategy. If shareholder trading patterns identified by the transfer agent through monitoring or from other information regarding the shareholder's trading activity in non-Franklin Templeton funds leads the transfer agent to reasonably conclude that such trading may be detrimental to the Fund as described in this Frequent Trading Policy, the transfer agent, on behalf of the Fund, may temporarily or permanently bar future purchases into the Fund or, alternatively, may limit the amount, number or frequency of any future purchases and/or the method by which you may request future purchases and redemptions





(including purchases and/or redemptions by an exchange or transfer between the Fund and any other mutual fund).

In considering an investor's trading patterns, the Fund may consider, among other factors, the investor's trading history both directly and, if known, through financial intermediaries, in the Fund, in other Franklin Templeton funds, in non-Franklin Templeton mutual funds, or in accounts under common control or ownership (see, for example, "Buying and Selling Shares - Investment by asset allocators and large shareholders" in the SAI). The transfer agent may also reject any purchase or redemption request, whether or not it represents part of any ongoing trading pattern, if the Fund's investment manager or transfer agent reasonably concludes that the amount of the requested transaction may disrupt or otherwise interfere with the efficient management of the Fund's portfolio. In determining what actions should be taken, the Fund's transfer agent may consider a variety of factors, including the potential impact of such remedial actions on the Fund and its shareholders. If the Fund is a "fund of funds," the Fund's transfer agent may take into account the impact of the trading activity and of any proposed remedial action on both the Fund and the underlying funds in which the Fund invests.

**Frequent trading through financial intermediaries.** You are an investor subject to this Frequent Trading Policy whether you are a direct shareholder of the Fund or you are investing indirectly in the Fund through a financial intermediary, such as a broker-dealer, bank, trust company, insurance company product such as an annuity contract, investment advisor, or an administrator or trustee of an IRS-recognized tax-deferred savings plan such as a 401(k) retirement plan and a 529 college savings plan.

Some financial intermediaries maintain master accounts with the Fund on behalf of their customers ("omnibus accounts"). The Fund has entered into "information sharing agreements" with these financial intermediaries, which permit the Fund to obtain, upon request, information about the trading activity of the intermediary's customers that invest in the Fund. If the Fund's transfer agent identifies omnibus account level trading patterns that have the potential to be detrimental to the Fund, the transfer agent may, in its sole discretion, request from the financial intermediary information concerning the trading activity of its customers. Based upon its review of the information, if the transfer agent determines that the trading activity of any customer may be detrimental to the Fund, it may, in its sole discretion, request the financial intermediary to restrict or limit further

trading in the Fund by that customer. There can be no assurance that the transfer agent's monitoring of omnibus account level trading patterns will enable it to identify all short-term trading by a financial intermediary's customers.

**Revocation of trades.** While the Fund reserves the right to reject any purchase order for any reason, the Fund may also revoke executed purchase orders that the transfer agent reasonably concludes in its sole discretion may have been contrary to the objectives of the Fund's Frequent Trading Policy.





# Account Policies

## Calculating Share Price

**Class A, C & R**

When you buy shares, you pay the "offering price" for the shares. The "offering price" is determined by dividing the NAV per share by an amount equal to 1 minus the sales charge applicable to the purchase (expressed in decimals), calculated to two decimal places using standard rounding criteria. The number of Fund shares you will be issued will equal the amount invested divided by the applicable offering price for those shares, calculated to three decimal places using standard rounding criteria. For example, if the NAV per share is $10.25 and the applicable sales charge for the purchase is 5.75%, the offering price would be calculated as follows: 10.25 divided by 1.00 minus 0.0575 [10.25/0.9425] equals 10.87533, which, when rounded to two decimal points, equals 10.88. The offering price per share would be $10.88.

When you sell shares, you receive the NAV minus any applicable CDSC.

**All Classes**

The value of a mutual fund is determined by deducting the fund's liabilities from the total assets of the portfolio. The NAV per share is determined by dividing the total net asset value of each fund's share class by the applicable number of shares outstanding per share class.

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time which normally coincides with the close of trading on the New York Stock Exchange (NYSE). The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year's Day, Martin Luther King Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close or unscheduled early close, the Fund's share price would still be determined as of 1 p.m. Pacific time/4 p.m. Eastern time.

When determining its NAV, the Fund values cash and receivables at their realizable amounts, and records interest as accrued and dividends on the ex-dividend date. The Fund generally utilizes two independent pricing services to assist in determining a current market value for each security. If market quotations are readily available for portfolio securities listed on a securities exchange, the Fund values those securities at the last quoted sale price or the official closing price of the day, respectively, or, if there is

no reported sale, within the range of the most recent quoted bid and ask prices. The Fund values over-the-counter portfolio securities within the range of the most recent bid and ask prices. If portfolio securities trade both in the over-the-counter market and on a stock exchange, the Fund values them according to the broadest and most representative market.

Requests to buy and sell shares are processed at the NAV next calculated after we or an approved financial intermediary receive your request in proper form.

Generally, trading in corporate bonds, U.S. government securities and money market instruments is substantially completed each day at various times before the close of the NYSE. The value of these securities used in computing the NAV is determined as of such times. Occasionally, events affecting the values of these securities may occur between the times at which they are determined and the close of the NYSE that will not be reflected in the computation of the NAV. The Fund relies on third-party pricing vendors to provide evaluated prices that reflect current fair market value at the close of the NYSE.

### Fair Valuation – Individual Securities

Since the Fund may invest in securities that are restricted, unlisted, traded infrequently, thinly traded, or relatively illiquid, there is the possibility of a differential between the last available market prices for one or more of those securities and the latest indications of market values for those securities. The Fund has procedures, approved by the board of trustees, to determine the fair value of individual securities and other assets for which market prices are not readily available (such as certain restricted or unlisted securities and private placements) or which may not be reliably priced (such as in the case of trade suspensions or halts, price movement limits set by certain foreign markets, and thinly traded or illiquid securities). Some methods for valuing these securities may include: fundamental analysis (earnings multiple, etc.), matrix pricing, discounts from market prices of similar securities, or discounts applied due to the nature and duration of restrictions on the disposition of the securities. The board of trustees oversees the application of fair value pricing procedures.

The application of fair value pricing procedures represents a good faith determination based upon specifically applied procedures. There can be no assurance that the Fund could obtain the fair value assigned to a security if it were able to sell the security at approximately the time at which the Fund determines its NAV per share.





### Security Valuation – Foreign Securities – Computation of U.S. Equivalent Value

The Fund generally determines the value of a foreign security as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of the close of trading on the NYSE, if earlier. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at the close of the NYSE (generally 1:00 p.m. Pacific time) on the day that the value of the foreign security is determined. If no sale is reported at that time, the foreign security will be valued within the range of the most recent quoted bid and ask prices. Occasionally events (such as repatriation limits or restrictions) may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the board of trustees.

### Security Valuation – Foreign Securities – Potential Impact of Time Zones and Market Holidays

Trading in securities on foreign securities stock exchanges and over-the-counter markets, such as those in Europe and Asia, may be completed well before the close of business on the NYSE on each day that the NYSE is open. Occasionally, events occur between the time at which trading in a foreign security is completed and the close of the NYSE that might call into question the availability (including the reliability) of the value of a foreign portfolio security held by the Fund. As a result, the Fund may be susceptible to what is referred to as "time-zone arbitrage." Certain investors in the Fund may seek to take advantage of discrepancies in the value of the Fund's portfolio securities as determined by the foreign market at its close and the latest indications of value attributable to the portfolio securities at the time the Fund's NAV is computed. Trading by these investors, often referred to as "arbitrage market timers," may dilute the value of the Fund's shares, if such discrepancies in security values actually exist. To attempt to minimize the possibilities for time-zone arbitrage, and in accordance with procedures established and approved by the Fund's board of trustees, the investment manager monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds).

These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that might call into question the availability (including the

reliability) of the values of foreign securities between the times at which they are determined and the close of the NYSE. If such an event occurs, the foreign securities may be valued using fair value procedures established and approved by the board of trustees. In certain circumstances these procedures include the use of independent pricing services. The intended effect of applying fair value pricing is to compute an NAV that accurately reflects the value of the Fund's portfolio at the time that the NAV is calculated, to discourage potential arbitrage market timing in Fund shares, to mitigate the dilutive impact of such attempted arbitrage market timing and to be fair to purchasing, redeeming and existing shareholders. However, the application of fair value pricing procedures may, on occasion, worsen rather than mitigate the potential dilutive impact of shareholder trading.

In addition, trading in foreign portfolio securities generally, or in securities markets in a particular country or countries, may not take place on every NYSE business day. Furthermore, trading takes place in various foreign markets on days that are not business days for the NYSE, and on which the Fund's NAV is not calculated (in which case, the net asset value of the Fund's shares may change on days when shareholders will not be able to purchase or redeem Fund shares). Thus, the calculation of the Fund's NAV does not take place contemporaneously with the determination of the prices of many of the foreign portfolio securities used in the calculation. If events affecting the last determined values of these foreign securities occur (determined through the monitoring process described above), the securities will be valued at fair value determined in good faith in accordance with the Fund's fair value procedures established and approved by the board of trustees.

### Accounts with Low Balances

If your account has been open for more than one year and its value falls below $500, we will mail you a notice asking you to bring the account back up to its applicable minimum investment amount. If you choose not to do so within 30 days, we will close your account and mail the proceeds to the address of record. You will not be charged a CDSC if your account is closed for this reason. This policy does not apply to: (1) certain broker-controlled accounts established through the National Securities Clearing Corporation's Networking system; (2) Class A accounts established pursuant to a conversion from Class B; (3) tax-deferred retirement plan accounts; (4) active automatic investment plan accounts; (5) broker-dealer sponsored separately managed accounts (wrap accounts); (6) accounts





held through a 529 college savings program; and (7) Coverdell Education Savings Plan accounts.

### Statements, Reports and Prospectuses

You will receive quarterly account statements that show all your account transactions during the quarter. You also will receive written notification after each transaction affecting your account (except for distributions and transactions made through automatic investment or withdrawal programs, which will be reported on your quarterly statement).

You also will receive the Fund's financial reports every six months as well as an annual updated prospectus. To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and prospectus. This process, called "householding," will continue indefinitely unless you instruct us otherwise. If you prefer not to have these documents householded, please call us at (800) 632-2301. At any time you may view current prospectuses and financial reports on our website.

If you choose, you may receive your statements, financial reports and prospectuses through electronic delivery (please see "Investor Services - Telephone/Online Privileges").

### Investment Representative Account Access

If there is a dealer or other investment representative of record on your account, he or she will be able to obtain your account information, conduct transactions for your account, and also will receive copies of all notifications and statements and other information about your account directly from the Fund.

### Street or Nominee Accounts

You may transfer your shares from the street or nominee name account of one dealer to another, as long as both dealers have an agreement with Distributors. We will process the transfer after we receive authorization in proper form from your delivering securities dealer.

### Joint Accounts

Unless you specify a different registration, shares issued to two or more owners are registered as "joint tenants with rights of survivorship" (shown as "Jt Ten" on your account statement). To make any ownership changes to

jointly owned shares, or to sever a joint tenancy in jointly owned shares, all owners must agree in writing.

### Joint Account Risk with Telephone/Online Privileges

You will automatically receive telephone/online privileges when you open your account. If your account has more than one registered owner, telephone/online privileges allow the Fund to accept online registration for online services (including electronic delivery of shareholder documents) and transaction instructions online or by telephone from only one registered owner. This means that *any one registered owner on your account, acting alone and without the consent of any other registered owner*, may give the Fund instructions by telephone, online or in writing (subject to any limitations in telephone or online privileges) to:

- Exchange shares from a jointly registered Fund account requiring all registered owner signatures into an identically registered money fund account that only requires one registered owner's signature to redeem shares;
- Redeem Fund shares and direct the redemption proceeds to a pre-established bank account that may or may not be owned by you and, if owned by you jointly with someone else, only requires one person to withdraw funds by check or otherwise; and
- Purchase Fund shares by debiting a pre-established bank account that may be owned by you.

If you do NOT want another registered owner on your account to be able to issue these kinds of instructions to the Fund without your consent, you must instruct the Fund to deny/terminate online privileges and the ability to issue such instructions by telephone so that these types of instructions will only be accepted in writing signed by all account owners. This decision will apply to any other fund into which you may exchange your jointly owned Fund shares. Any later decision to permit these types of instructions by telephone and/or online will need to be given to the Fund in a written instruction signed by all registered owners.

### Additional Policies

Please note that the Fund maintains additional policies and reserves certain rights, including:

- The Fund may restrict, reject or cancel any purchase orders, including an exchange request.





- The Fund may modify, suspend, or terminate telephone/online privileges at any time.
- The Fund may make material changes to or discontinue the exchange privilege on 60 days' notice or as otherwise provided by law.
- The Fund may stop offering shares completely or may offer shares only on a limited basis, for a period of time or permanently.
- Normally, redemptions are processed by the next business day, but may take up to seven days to be processed if making immediate payment would adversely affect the Fund.
- In unusual circumstances, we may temporarily suspend redemptions or postpone the payment of proceeds, as allowed by federal securities laws.
- For redemptions over a certain amount, the Fund may pay redemption proceeds in securities or other assets rather than cash if the investment manager determines it is in the best interest of the Fund, consistent with applicable law.
- You may only buy shares of a fund (including the purchase side of an exchange) eligible for sale in your state or jurisdiction.
- To permit investors to obtain the current price, dealers are responsible for transmitting all orders to the Fund promptly.

### Dealer Compensation

**Class A, C & R**

Qualifying dealers who sell Fund shares may receive sales commissions and other payments. These are paid by Distributors from sales charges received from purchasing or redeeming shareholders, from distribution and service (12b-1) fees from the Fund and from Distributors' other financial resources. Dealers may also receive shareholder servicing fees for servicing investors who indirectly hold Franklin Templeton fund shares through dealer-maintained brokerage accounts as more fully described under "Shareholder servicing and transfer agent" of the "Management and Other Services" section in the SAI. These fees are paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

No dealer commission will be paid on Class A NAV purchases by Employer Sponsored Retirement Plans.

If any dealer commissions are paid in connection with a purchase which is subsequently rejected or results in any trading restriction placed on the

purchaser as a result of a determination by the Fund's investment manager or transfer agent that the purchase may be connected with trading activity that may be detrimental to the Fund as described in the Fund's "Frequent Trading Policy," the dealer shall, upon demand, refund such commissions to Distributors.

| | Class A | Class C | Class R |
|---|---|---|---|
| **Commission (%)** | — | 1.00[1] | — |
| Investment under $50,000 | 5.00 | — | — |
| $50,000 but under $100,000 | 3.75 | — | — |
| $100,000 but under $250,000 | 2.80 | — | — |
| $250,000 but under $500,000 | 2.00 | — | — |
| $500,000 but under $1 million | 1.60 | — | — |
| $1 million or more | up to 1.00[2] | — | — |
| **12b-1 fee to dealer** | 0.25[2, 3] | 1.00[4] | 0.50 |

1. Commission includes advance of the first year's 0.25% 12b-1 service fee. Distributors may pay a prepaid commission. However, Distributors does not pay a prepaid commission on any purchases by Employer Sponsored Retirement Plans.
2. For purchases at NAV where Distributors paid a prepaid commission, dealers may start to receive the 12b-1 fee in the 13th month after purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.
3. Under the Distribution Plan for Class A, the Fund may pay up to 0.30% to Distributors or others, out of which 0.05% generally will be retained by Distributors for its distribution expenses.
4. Dealers may be eligible to receive up to 0.25% at the time of purchase and may be eligible to receive 1% starting in the 13th month. During the first 12 months, the full 12b-1 fee will be paid to Distributors to partially offset the commission and the prepaid service fee paid at the time of purchase. For purchases at NAV where Distributors did not pay a prepaid commission, dealers may start to receive the 12b-1 fee at the time of purchase.

**Other dealer and financial intermediary compensation.** Distributors may make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain dealers who have sold shares of the Franklin Templeton mutual funds. In the case of any one dealer, marketing support payments will not exceed the sum of 0.08% of that dealer's current year's total sales of Franklin Templeton mutual funds, and 0.05% (or 0.03%) of the total assets of equity (or fixed income) funds attributable to that dealer, on an annual basis. Marketing support payments made to organizations located outside the U.S., with respect to investments in the Fund by non-U.S. persons, may exceed this limitation. Distributors makes these payments in connection with the qualifying dealers' efforts to educate financial advisors about the Franklin Templeton funds. Any current year sales to, or assets held on behalf of, Employer Sponsored Retirement Plans for which payment is made to a financial





intermediary pursuant to the following paragraph will be excluded from the calculation of marketing support payments pursuant to this paragraph.

Distributors and/or its affiliates may also make payments (a portion of which may be reimbursable under the terms of the Fund's Rule 12b-1 distribution plans) to certain financial intermediaries in connection with their activities that are intended to assist in the sale of shares of the Franklin Templeton mutual funds, directly or indirectly, to certain Employer Sponsored Retirement Plans. In the case of any one financial intermediary, such payments will not exceed 0.10% of the total assets of Franklin Templeton mutual funds held, directly or indirectly, by such Employer Sponsored Retirement Plans, on an annual basis.

A number of factors will be considered in determining these payments, including the qualifying dealer or financial intermediary's sales, assets and redemption rates, the nature and quality of any servicing provided by the financial intermediary, and the quality of the dealer or financial intermediary's relationship with Distributors. Distributors will, on an annual basis, determine the advisability of continuing these payments. These payments may be in addition to any shareholder servicing fees paid by the Fund's transfer agent from payments it receives under its agreement with the Fund.

To the extent permitted by SEC and Financial Industry Regulatory Authority rules and other applicable laws and regulations, Distributors may pay or allow other promotional incentives or payments to dealers.

Sale of Fund shares, as well as shares of other funds in Franklin Templeton Investments, is not considered a factor in the selection of broker-dealers to execute the Fund's portfolio transactions. Accordingly, the allocation of portfolio transactions for execution by broker-dealers that sell Fund shares is not considered marketing support payments to such broker-dealers.

You can find further details in the SAI about the payments made by Distributors and the services provided by your financial advisor. Your financial advisor may charge you additional fees or commissions other than those disclosed in this prospectus. You should ask your financial advisor for information about any payments it receives from Distributors and any services it provides, as well as about fees and/or commissions it charges.

## Questions

If you have any questions about the Fund or your account, you can write to us at P.O. Box 997151, Sacramento, CA 95899-7151. You also can call us at one of the following numbers. For your protection and to help ensure we provide you with quality service, all calls may be monitored or recorded.

| Department Name | Telephone Number | Hours (Pacific time, Monday through Friday) |
|---|---|---|
| **Shareholder Services** | (800) 632-2301 | 5:30 a.m. to 5:00 p.m. |
| **Fund Information** | (800) DIAL BEN<br>(800) 342-5236 | 5:30 a.m. to 5:00 p.m. |
| **Retirement Services** | (800) 527-2020 | 5:30 a.m. to 5:00 p.m. |
| **Advisor Services** | (800) 524-4040 | 5:30 a.m. to 5:00 p.m. |
| **Hearing Impaired Assistance** | For hearing impaired assistance, please contact us via a Relay Service. | |
| **Automated Telephone System** | (800) 632-2301<br>(800) 524-4040<br>(800) 527-2020 | (around-the-clock access) |





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## FRANKLIN TEMPLETON FUNDS

**Literature Request.** *To receive a summary prospectus and/or prospectus, please call us at (800) DIAL BEN/ 342-5236 or visit* ***franklintempleton.com****. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information. Please carefully read a prospectus before investing.*

**VALUE**
Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund[1]
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund[2]
Mutual Shares Fund

**BLEND**
Franklin Focused Core Equity Fund
Franklin Large Cap Equity Fund
Franklin Rising Dividends Fund

**GROWTH**
Franklin DynaTech Fund
Franklin Flex Cap Growth Fund
Franklin Growth Fund
Franklin Growth Opportunities Fund
Franklin Small Cap Growth Fund
Franklin Small-Mid Cap Growth Fund

**SECTOR**
Franklin Biotechnology Discovery Fund
Franklin Global Real Estate Fund
Franklin Gold & Precious Metals Fund
Franklin Natural Resources Fund
Franklin Real Estate Securities Fund
Franklin Utilities Fund
Mutual Financial Services Fund

**GLOBAL**
Franklin World Perspectives Fund
Mutual Global Discovery Fund
Templeton Global Opportunities Trust
Templeton Global Smaller Companies Fund
Templeton Growth Fund
Templeton World Fund

**INTERNATIONAL**
Franklin India Growth Fund
Franklin International Growth Fund
Franklin International Small Cap Growth Fund[3]
Mutual European Fund
Mutual International Fund
Templeton Asian Growth Fund
Templeton BRIC Fund
Templeton China World Fund
Templeton Developing Markets Trust
Templeton Emerging Markets Small Cap Fund
Templeton Foreign Fund
Templeton Foreign Smaller Companies Fund
Templeton Frontier Markets Fund

**HYBRID**
Franklin Balanced Fund
Franklin Convertible Securities Fund
Franklin Equity Income Fund
Franklin Income Fund
Templeton Emerging Markets Balanced Fund
Templeton Global Balanced Fund

**ASSET ALLOCATION**
Franklin Templeton Corefolio® Allocation Fund
Franklin Templeton Founding Funds Allocation Fund
Franklin Templeton Conservative Allocation Fund
Franklin Templeton Growth Allocation Fund
Franklin Templeton Moderate Allocation Fund
Franklin LifeSmart™ Retirement Target Funds (2015-2050)[4]
Franklin Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

**FIXED INCOME**
Franklin Adjustable U.S. Government Securities Fund[5]
Franklin Floating Rate Daily Access Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government Securities Fund[5]
Franklin Low Duration Total Return Fund
Franklin Real Return Fund
Franklin Strategic Income Fund
Franklin Strategic Mortgage Portfolio
Franklin Templeton Hard Currency Fund
Franklin Total Return Fund
Franklin U.S. Government Securities Fund[5]
Templeton Emerging Markets Bond Fund
Templeton Global Bond Fund
Templeton Global Total Return Fund
Templeton International Bond Fund

**TAX-FREE INCOME[6]**

**National**
Double Tax-Free Income Fund[7]
Federal Tax-Free Income Fund
High Yield Tax-Free Income Fund
Insured Tax-Free Income Fund[8, 9]

**Limited-/Intermediate-Term**
California Intermediate-Term Tax-Free Income Fund
Federal Intermediate-Term Tax-Free Income Fund
Federal Limited-Term Tax-Free Income Fund
New York Intermediate-Term Tax-Free Income Fund

**State-Specific**
Alabama
Arizona
California (4 funds)[9]
Colorado
Connecticut
Florida
Georgia
Kentucky
Louisiana
Maryland
Massachusetts
Michigan
Minnesota
Missouri
New Jersey
New York (2 funds)
North Carolina
Ohio
Oregon
Pennsylvania
Tennessee
Virginia

**INSURANCE FUNDS**
Franklin Templeton Variable Insurance Products Trust[10]

1. The fund is closed to new investors. Existing shareholders and select retirement plans can continue adding to their accounts.
2. The fund is a continuously offered, closed-end fund. Shares may be purchased daily; there is no daily redemption. However, each quarter, pending board approval, the fund will authorize the repurchase of 5%-25% of the outstanding number of shares. Investors may tender all or a portion of their shares during the tender period.
3. Effective June 3, 2013, the fund closed to new investors, with limited exceptions.
4. Effective May 1, 2013, the Franklin Templeton Retirement Target Funds changed their names to Franklin LifeSmart Retirement Target Funds. The funds' investment goals and principal investment strategies remained unchanged. These funds are in increments of 5 years.
5. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
6. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
7. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
8. The fund invests primarily in insured municipal securities.
9. Effective at the close of market March 1, 2013, Franklin Insured Tax-Free Income Fund and Franklin California Insured Tax-Free Income Fund closed to all new investments (other than reinvestment of dividends and capital gains distributions).
10. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

## FOR MORE INFORMATION

You can learn more about the Fund in the following documents:

### Annual/Semiannual Report to Shareholders

Includes a discussion of recent market conditions and Fund strategies that significantly affected Fund performance during its last fiscal year, financial statements, detailed performance information, portfolio holdings and, in the annual report only, the independent registered public accounting firm's report.

### Statement of Additional Information (SAI)

Contains more information about the Fund, its investments and policies. It is incorporated by reference (is legally a part of this prospectus).

For a free copy of the current annual/semiannual report or the SAI, please contact your investment representative or call us at the number below. You also can view the current annual/semiannual report and the SAI online through franklintempleton.com.

You also can obtain information about the Fund by visiting the SEC's Public Reference Room in Washington, DC (phone (202) 551-8090) or the EDGAR Database on the SEC's Internet site at http://www.sec.gov. You can obtain copies of this information, after paying a duplicating fee, by writing to the SEC's Public Reference Section, Washington, DC 20549-1520 or by electronic request at the following email address: publicinfo@sec.gov.

FRANKLIN TEMPLETON INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

One Franklin Parkway, San Mateo, CA 94403-1906
**(800) DIAL BEN®/342-5236**
**franklintempleton.com**

For hearing impaired assistance,
please contact us via a Relay Service.

Investment Company Act file #811-06336

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10% Total Recycled Fiber

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