AUGUST 31, 2013

ANNUAL REPORT AND SHAREHOLDER LETTER

A series of Templeton Funds

Sign up for electronic delivery at franklintempleton.com/edelivery



INTERNATIONAL

Templeton Foreign Fund



Franklin • Templeton • Mutual Series

Franklin Templeton Investments

Gain From Our Perspective®

Franklin Templeton's distinct multi-manager structure combines the specialized expertise of three world-class investment management groups—Franklin, Templeton and Mutual Series.

SPECIALIZED EXPERTISE

Each of our portfolio management groups operates autonomously, relying on its own research and staying true to the unique investment disciplines that underlie its success.

Franklin. Founded in 1947, Franklin is a recognized leader in fixed income investing and also brings expertise in growth- and value-style U.S. equity investing.

Templeton. Founded in 1940, Templeton pioneered international investing and, in 1954, launched what has become the industry's oldest global fund. Today, with offices in over 25 countries, Templeton offers investors a truly global perspective.

Mutual Series. Founded in 1949, Mutual Series is dedicated to a unique style of value investing, searching aggressively for opportunity among what it believes are undervalued stocks, as well as arbitrage situations and distressed securities.

TRUE DIVERSIFICATION

Because our management groups work independently and adhere to different investment approaches, Franklin, Templeton and Mutual Series funds typically have distinct portfolios. That's why our funds can be used to build truly diversified allocation plans covering every major asset class.

RELIABILITY YOU CAN TRUST

At Franklin Templeton Investments, we continuously seek to provide investors with strong risk-adjusted returns over the long term, as well as the reliable, accurate and personal service that has helped us become one of the most trusted names in financial services.

MUTUAL FUNDS | RETIREMENT PLANS | 529 COLLEGE SAVINGS PLANS | SEPARATELY MANAGED ACCOUNTS

Contents

Shareholder Letter	1	Annual Report		Financial Statements	28	Board Members and Officers	49
		Templeton Foreign Fund	3	Notes to Financial Statements	32	Shareholder Information	54
		Performance Summary	11	Report of Independent			
		Your Fund's Expenses	16	Registered Public Accounting Firm	46		
		Financial Highlights and	10	Tax Information			

Shareholder Letter

Dear Shareholder:

Many countries experienced growth during the 12 months ended August 31, 2013, supported by their central banks' monetary programs, and investor sentiment strengthened. Global developed market stocks, as measured by the MSCI World Index, generated robust gains in this environment. Although investor anxiety that the U.S. Federal Reserve Board would soon taper its asset purchase program contributed to short sell-offs, Treasury bill prices stabilized soon after. Stock performance also remained resilient amid late-period tension over potential military intervention in Syria. The U.S. dollar rose against most foreign currencies, long-term U.S. Treasury prices generally fell as yields rose, and developed and emerging market bonds declined.

We remain encouraged as the U.S. showed signs of continued economic growth and the eurozone economy expanded in the second quarter of 2013. With this positive economic environment, we believe companies generally should continue to deliver healthy earnings and cash flow, which have historically been favorable for stock prices. We also think equities look particularly interesting in an environment of low interest rates and declining stock market correlations, which we believe is encouraging for bottom-up investors. Keep in mind in all economic environments we remain committed to our long-term perspective and disciplined investment approach. First and foremost for us, this means conducting rigorous, fundamental analysis of securities with a continual emphasis on investment risk management.

Templeton Foreign Fund's annual report goes into greater detail about prevailing conditions during the period. In addition, you will find performance data, financial information and a discussion about investment decisions. Please remember all securities markets fluctuate, as do mutual fund share prices.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

If you would like more frequent updates, franklintempleton.com provides daily prices, monthly performance figures, portfolio holdings and other information. You can also access your account, buy and sell shares, read timely articles and find helpful financial planning tools. We hope you will take advantage of these online services.

Historically, patient investors have achieved rewarding results by evaluating their goals, diversifying their assets globally and maintaining a disciplined investment program, all hallmarks of the Templeton investment philosophy developed more than 50 years ago. We continue to recommend investors consult their financial advisors and review their portfolios to design a long-term strategy and portfolio allocation that meet their individual needs, goals and risk tolerance. We firmly believe most people benefit from professional advice and that advice is invaluable as investors navigate changing market environments.

We thank you for investing with Franklin Templeton, welcome your questions and comments, and look forward to serving your investment needs in the years ahead.

Sincerely,

Norman J. Boersma, CFA

President and Chief Executive Officer - Investment Management Templeton Funds

CFA® is a trademark owned by CFA Institute.

This letter reflects our analysis and opinions as of August 31, 2013. The information is not a complete analysis of every aspect of any market, country, industry, security or fund. Statements of fact are from sources considered reliable.

Annual Report

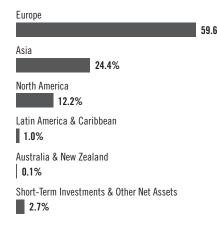
Templeton Foreign Fund

Your Fund's Goal and Main Investments: Templeton Foreign Fund seeks long-term capital growth. Under normal market conditions, the Fund invests primarily in equity securities of companies located outside the U.S., including emerging markets. The Fund will invest, under normal market circumstances, at least 80% of its net assets in "foreign securities," as defined in the prospectus.

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. Please visit franklintempleton.com or call (800) 342-5236 for most recent month-end performance.

Geographic Breakdown

Based on Total Net Assets as of 8/31/13



We are pleased to bring you Templeton Foreign Fund's annual report for the fiscal year ended August 31, 2013.

Performance Overview

Templeton Foreign Fund – Class A delivered a +25.17% cumulative total return for the 12 months under review. In comparison, the MSCI Europe, Australasia, Far East (EAFE) Index, which measures global equity performance in developed countries excluding the U.S. and Canada, posted a +19.17% total return.¹ The Fund's long-term relative results are shown in the Performance Summary beginning on page 11. For the 10-year period ended August 31, 2013, Templeton Foreign Fund - Class A delivered a +109.89% cumulative total return, compared with the MSCI EAFE Index's +116.92% cumulative total return for the same period. Please note index performance information is provided for reference and we do not attempt to track the index but rather undertake investments on the basis of fundamental research. You can find more performance data in the Performance Summary.

Economic and Market Overview

The 12 months under review encompassed a period of improving investor sentiment as reinvigorated policy support and economic recovery in the developed world offset a slowdown in emerging markets, sell-offs in bonds and

1. Source: © 2013 Morningstar. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. As of 8/31/13, the Fund's Class A 10-year average annual total return not including the maximum sales charge was +7.70%, compared with the MSCI EAFE Index's 10-year average annual total return of +8.05%. The index is unmanaged and includes reinvested dividends. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio.

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI). The SOI begins on page 23.

commodities, and rising geopolitical tensions. Investors entered the period cautiously, given economic uncertainty and imminent leadership transitions in some of the world's largest economies. Ultimately, those transitions in the U.S., China and Japan proceeded smoothly and the drama of electoral politics was replaced by that of fiscal politics as U.S. lawmakers struck a deal on New Year's Day to partially avert \$600 billion of automatic tax hikes and spending cuts.

The stock market rally accelerated in 2013 amid redoubled central bank commitments, continued corporate earnings strength and increasing signs of economic progress, though the recovery remained uneven. U.S. growth and employment trends generally exceeded expectations and Europe emerged from recession, while Japan's growth improved but failed to meet analysts' expectations. Growth in China and emerging markets, however, tended to lag. Differences in global economic trends corresponded with increasingly divergent policy approaches. The U.S. Federal Reserve Board vowed to keep interest rates low until unemployment met its 6.5% target but sparked considerable volatility and a Treasury sell-off by suggesting it may taper monthly bond purchases should economic conditions warrant. The European Central Bank cut benchmark interest rates to a record low and pledged to maintain systemic support following a bank run in Cyprus and political turmoil in Greece, Spain, Portugal and Italy. Elsewhere, the Bank of Japan set an explicit inflation target and pledged to double bond purchases in an unprecedented wave of policy reform.

Emerging market central banks were less accommodative, with Brazil and India hiking interest rates amid rising inflation and China taking measures to curb real estate and credit speculation. Chinese tightening rattled credit markets, and a spike in interbank lending rates underscored concerns about the country's shadow banking system. Volatility soon engulfed the broader emerging market region as protests roiled Turkey and Brazil, civil war threatened Egypt and international military intervention looked possible in Syria. Regional asset prices tumbled as investors responded to rising bond rates by unwinding highly leveraged emerging market carry trades.² In response, emerging market stocks recorded their biggest outflows on record and regional currencies sharply depreciated. Oil staged a late rally based on supply concerns related to geopolitical turmoil, while gold, which had recorded its biggest drop in four decades over the summer, recovered somewhat at period-end. Overall, risks remained elevated during the period, though policy stayed supportive, and increasingly divergent economic and political circumstances resulted in declining market correlations, which many bottom-up investors perceived as more favorable.

^{2.} In a carry trade, an investor seeks to profit from an interest rate differential by borrowing low-yielding currencies and lending high-yielding currencies. The use of borrowed capital to facilitate the trade creates leverage for the borrower.

Investment Strategy

Our investment strategy employs a bottom-up, value-oriented, long-term approach. We focus on the market price of a company's securities relative to our evaluation of the company's long-term earnings, asset value and cash flow potential. As we look internationally, we consider specific companies, rather than sectors or countries, while doing in-depth research to construct a bargain list from which we buy. Before we make a purchase, we look at the company's price/earnings ratio, price/cash flow ratio, profit margins and liquidation value.

Manager's Discussion

The Fund delivered solid absolute gains and outperformed the benchmark MSCI EAFE Index during the review period. The Fund also outperformed the benchmark on trailing two-, three-, five-, seven- and 15-year horizons, as well as since inception. Encouragingly, the bulk of outperformance during the Fund's fiscal year was attributable to stock selection, highlighting the benefits of our bottom-up value discipline during a period of improving market conditions. Arguably more important than the market's recent directional conviction was the market's recognition of characteristics that had seemingly been ignored since the global financial crisis began. The market's ability to distinguish between companies based on fundamentals represented one of these characteristics. Historically, firms with fundamental advantages — strong balance sheets, organic revenue growth and sustainable profit margins — were rewarded by the market with a premium valuation. After the 2008 global financial crisis, investors seemed to deemphasize business fundamentals. The ability of individual stocks to generate earnings, cash flow and asset value growth over the long term seemed to be viewed as less important than investors' need to navigate risk. In this environment, global equity correlations (the tendency of stocks to move in unison) spiked to two standard deviations above their long-term average, the highest level ever. These unusual conditions created significant challenges for disciplined investors who buy stocks on the basis of long-term intrinsic values.

To understand the challenges and opportunities confronting stock pickers in recent years requires understanding the unusual environment we experienced a new market paradigm created largely by global policymakers' actions. After Lehman Brothers Holdings' collapse in September 2008, central bankers who normally focused on price stability and politicians who usually focused on policy legislation suddenly had a new, urgent priority — stabilizing the reeling global financial system. Through various traditional and non-traditional tools intended to lower borrowing costs, open credit channels and backstop systemically important banking institutions, they pursued their key objective of restoring confidence to financial markets. Although the policymakers have

Top 10 Sectors/Industries Based on Equity Securities

8/31/13

	% of Total Net Assets
Commercial Banks	10.7%
Oil, Gas & Consumable Fuels	9.6%
Energy Equipment & Services	7.5%
Insurance	7.4%
Pharmaceuticals	6.7%
Diversified Financial Services	5.1%
Capital Markets	4.9%
Diversified Telecommunication Servi	ces 4.5%
Food & Staples Retailing	3.9%
Trading Companies & Distributors	3.0%

largely succeeded so far, a byproduct was a bipolar market environment characterized by knee-jerk movements in and out of risk assets, such as stocks. Instead of focusing on long-term business fundamentals, in recent years market participants speculated on the short-term direction of policy stimulus, adding or reducing exposure to risk assets accordingly. We have never speculated on variables we consider to be objectively unknowable. As Sir John Templeton explained, "I never ask if the market is going to go up or down, because I do not know, and besides it does not matter. I search nation after nation for stocks, asking: 'Where is the one that is lowest priced in relation to what I believe it is worth?" We cannot predict the future; instead, we analyze individual securities to understand what assumptions investors are making about the long-term earnings power, cash flow capabilities and asset growth potential of businesses.

Consequently, although the recent environment created certain challenges, we believe it also created excellent opportunities, as a market that ignores fundamental value tends to misprice it. As a result, we sought to take advantage of numerous short-term mispricings by purchasing stocks that had what we considered significant long-term value, and the Fund has outperformed its benchmark since the global financial crisis. The Fund's outperformance accelerated considerably during the review period as the global financial system appeared to stabilize, the market's risk rotation began to recede, and divergent global economic and policy trends contributed to a more nuanced investment environment. Against this backdrop, stock correlations fell to their lowest levels since the global financial crisis began as investors finally appeared more selective.

The market's shift from focusing on top-down economic and political trends to bottom-up stock fundamentals benefited the Fund's more contrarian value allocations. Our overweighted European and financials sector positions had been contrarian at a time when the eurozone and the global banking system faced severe threats to stability. Also contrarian were our materials sector and emerging markets underweightings, particularly at a time when resourcehungry developing markets were expected to decouple from their indebted developed world counterparts. However, we have found that cheap stocks can appreciate merely from less bad news, while expensively valued stocks can stumble after less good news. Many emerging market and materials stocks were seemingly priced for optimal conditions, in our view. Conversely, Europe and the financials sector, and other unpopular market segments such as information technology, energy, health care and telecommunication services were areas where we found many stocks whose prices seemed discounted to reflect worstcase scenarios that we considered unlikely.

This would certainly describe the challenges faced when we invested in European financials.³ When we began materially increasing European financials exposure in 2010, some of the region's banks traded at a 70% discount to their tangible book values, a level that major financial institutions had not reached since U.S. banks did in the Great Depression. The sector's unpopularity resulted from economic risks to European stability and stock-specific risks, including earnings impairments, onerous regulatory requirements and solvency concerns. We were encouraged by European policymakers' efforts to effectively strengthen the regional financial system and by the fact that the bailout costs required to hold the eurozone together would likely be significantly less than the costs of a eurozone breakup. We also felt the stock-specific risks were overstated given the fundamental restructuring and balance sheet repair undertaken at the corporate level. Our thorough fundamental sector analysis allowed us to identify what we believed were the most attractive bargain opportunities. These efforts generated solid results during the review period, and European financials holdings were among the largest contributors to relative performance.

Dutch financial services firm ING Groep was one of the Fund's leading financials sector performers. To us, ING Groep exemplified the opportunities we found in the sector amid crisis. The Dutch government bailed out ING Groep in 2008 and forced the firm to divest its insurance operations and reduce its balance sheet by nearly half, conditions that weighed heavily on investor sentiment. Although we expected a difficult and uneven recovery amid a tough restructuring process, we also believed ING's ability to favorably dispose of its valuable insurance assets and improve its core banking returns were being significantly underestimated by investors. At period-end, the company was nearing completion of its European Union-imposed bailout commitments following more than 35 disposals that raised roughly 23 billion euros, and recent results highlighted the operational gains achieved at ING's banking business as the company cut costs and improved margins. Like ING, many of our European financials holdings enjoyed enhanced capital reserves and improved returns on equity, which, we believed, in a weak loan growth environment could result in excess cash flows that were likely to be used for shareholder returns.⁴ However, in our opinion, valuations still failed to reflect the sector's progress, creating additional appreciation potential.

Top 10 Equity Holdings 8/31/13

Company Sector/Industry, Country	% of Total Net Assets
ING Groep NV Diversified Financial Services, Netherlands	4.3%
BNP Paribas SA Commercial Banks, France	2.9%
Credit Suisse Group AG Capital Markets, Switzerland	2.8%
Tesco PLC Food & Staples Retailing, U.K.	2.7%
Aviva PLC Insurance, U.K.	2.3%
Samsung Electronics Co. Ltd. Semiconductors & Semiconductor Equipment, South Korea	2.3%
Baker Hughes Inc. Energy Equipment & Services, U.S.	2.2%
AXA SA Insurance, France	2.1%
Roche Holding AG Pharmaceuticals, Switzerland	1.9%
KB Financial Group Inc. Commercial Banks, South Korea	1.9%

^{3.} The financials sector comprises capital markets, commercial banks, diversified financial services and insurance in the SOI.

^{4.} Return on equity is an amount, expressed as a percentage, earned on a company's common stock investment for a given period. It is calculated by dividing common stock equity (net worth) over the average of the accounting period into net income for the period after preferred stock dividends but before common stock dividends. Return on equity tells common shareholders how effectually their money is being employed. Comparing percentages for current and prior periods also reveals trends, and comparison with industry composites reveals how well a company is holding its own against its competitors.

The Fund's health care stocks also notably outperformed the benchmark during the review period. We found contrarian investment opportunities in the pharmaceuticals industry in recent years. The industry faced many challenges, including patent expirations, generic drug competition, increasing regulation and waning research and development productivity, all of which kept investors skeptical. As in the financials sector, low valuations reflected these well-known challenges but largely failed to credit companies for actively addressing them. We observed many companies cutting costs, refocusing their research and development efforts and shifting business mixes to longer duration assets, such as vaccines, consumer and animal health products, nutrition, emerging markets and large molecule drugs, to stabilize revenues and reduce patent dependency. It seems investors have finally begun to recognize these companies for their efforts. Major pharmaceuticals manufacturers such as France's Sanofi and Switzerland's Roche Holding, each with strong biotechnology businesses and notable emerging market exposure, performed well during the review period. With valuations we consider still modest and investors beginning to acknowledge the sector's unique combination of defensive characteristics — attractive yield, non-discretionary products, and growth potential from emerging market health care expansion, aging populations and biological innovation — we believe certain health care holdings are well positioned for continued competitive performance.

We also remained positive toward our overweighted holdings in the energy and telecommunication services sectors, where we continued to find what we viewed as attractive opportunities from a bottom-up perspective. 6 However, these sectors were largely out of favor during the period and ended as the primary sector detractors from relative returns. The telecommunication services sector suffered as characteristics initially considered advantageous by investors were later seen as liabilities. The utility-like sector has long been allowed a rate of return well above other regulated industries, although this presumptive advantage challenged certain companies during the review period as increased competition pressured pricing and eroded profitability. Also, as emerging markets retreated during the period, a number of firms experienced operations impairments in these formerly desirable markets. However, we began to see signs of more rational industry dynamics emerging, with increasing consolidation that may improve profitability, and we remained favorable toward certain telecommunications firms with geographically diverse revenues, attractive dividend yields and, to us, undemanding valuations. We believe the energy sector

^{5.} The health care sector comprises biotechnology, health care equipment and supplies, health care providers and services, life sciences tools and services, and pharmaceuticals in the SOL

^{6.} The energy sector comprises energy equipment and services; and oil, gas and consumable fuels in the SOI. The telecommunication services sector comprises diversified telecommunication services and wireless telecommunication services in the SOI.

looked broadly undervalued after stocks declined during the past decade as production growth slowed and capital expenditures accelerated. We have become increasingly focused on energy companies we viewed as positioned for robust production growth and offering high dividend yields to reduce our reliance on sector optimism or a "stronger for longer" oil price environment.

Regionally, the Fund's European holdings outperformed owing to stock selection, particularly in Switzerland and the U.K. Stock selection in Japan also notably contributed to relative performance. Although the Fund's regional allocations benefited performance overall, exposure to off-benchmark countries Canada, South Korea and Taiwan weighed on relative results.

We believe our long track record demonstrates how we have tried to use patience to reap rewards. Our disciplined, value-oriented approach to Europe serves as a good example. Concerns about political tensions, weak economic growth and sovereign debt burdens eased during the period as investors sought to take advantage of valuation opportunities in a region that made considerable progress toward stabilization. We continued to find opportunities we considered attractive bargains in the region. European stocks remained near multi-decade lows based on valuation and price performance relative to the U.S. and appeared as dependent on a global growth recovery as emerging market stocks were. We gained exposure to global growth trends through developed world multinational companies, many based in Europe and trading at significant discounts because of their domicile in mature markets. Valuations were less compelling to us in emerging markets, and our cautious underweighting was rewarded as developing market stocks experienced their worst sell-off in years. However, valuations became more interesting to us and we continued to monitor emerging markets for opportunities amid ongoing volatility.

Our investment philosophy recognizes that finding opportunities in a fastchanging and unpredictable world requires discipline, patience and a contrarian perspective. As Sir John Templeton wrote, "There is only one reason a share goes to a bargain price — because other people are selling. There is no other reason. To get a bargain price, you have got to look for where the public is most frightened and pessimistic." Stock markets recovered strongly in recent years, although considerable fear and pessimism remained, as reflected in global stock valuations that ended the period nearly one standard deviation below their long-term, cyclically adjusted average. Within this relatively cheap investment universe, we believe the Fund stands out as a compelling source of value. The Fund traded at a considerable discount to the MSCI World Index on all major valuation metrics and, in a low interest rate environment, offered a respectable 2.9% dividend yield. Considerable uncertainty remained and future volatility may be expected, but we believe the Fund is attractively positioned for long-term capital preservation and appreciation if investors refocus on value and fundamentals over time.

Top 10 Countries Based on Equity Securities 8/31/13

	% of Total Net Assets
U.K.	18.5%
France	13.2%
South Korea	9.1%
Netherlands	8.8%
Switzerland	8.0%
U.S.	6.5%
Japan	6.2%
Canada	5.7%
China	5.4%
Germany	4.0%

Thank you for your continued participation in Templeton Foreign Fund. We look forward to serving your future investment needs.



Tuchen Acro

Tucker Scott, CFA



Norman J. Boersma, CFA



Lisa F. Myers, J.D., CFA

James Harper, CFA

Portfolio Management Team Templeton Foreign Fund

The foregoing information reflects our analysis, opinions and portfolio holdings as of August 31, 2013, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Performance Summary as of 8/31/13

Your dividend income will vary depending on dividends or interest paid by securities in the Fund's portfolio, adjusted for operating expenses of each class. Capital gain distributions are net profits realized from the sale of portfolio securities. The performance table and graphs do not reflect any taxes that a shareholder would pay on Fund dividends, capital gain distributions, if any, or any realized gains on the sale of Fund shares. Total return reflects reinvestment of the Fund's dividends and capital gain distributions, if any, and any unrealized gains or losses.

Price and Distribution Information

Class A (Symbol: TEMFX)		Change	8/31/13	8/31/12
Net Asset Value (NAV)		+\$1.41	\$7.67	\$6.26
Distributions (9/1/12-8/31/13)				
Dividend Income	\$0.1491			
Class C (Symbol: TEFTX)		Change	8/31/13	8/31/12
Net Asset Value (NAV)		+\$1.37	\$7.48	\$6.11
Distributions (9/1/12-8/31/13)				
Dividend Income	\$0.0986			
Class R (Symbol: TEFRX)		Change	8/31/13	8/31/12
Net Asset Value (NAV)		+\$1.38	\$7.54	\$6.16
Distributions (9/1/12-8/31/13)				
Dividend Income	\$0.1339			
Class R6 (Symbol: FTFGX)		Change	8/31/13	5/1/13
Net Asset Value (NAV)		+\$0.43	\$7.59	\$7.16
Advisor Class (Symbol: TFFAX)		Change	8/31/13	8/31/12
Net Asset Value (NAV)		+\$1.39	\$7.59	\$6.20
Distributions (9/1/12-8/31/13)				
Dividend Income	\$0.1657			

Performance

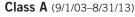
Cumulative total return excludes sales charges. Aggregate and average annual total returns and value of \$10,000 investment include maximum sales charges. Class A: 5.75% maximum initial sales charge; Class C: 1% contingent deferred sales charge in first year only; Class R/R6/Advisor Class: no sales charges.

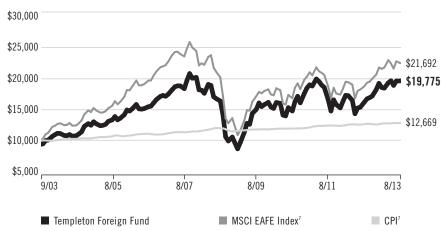
Class A		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+25.17%	+23.73%	+109.89%
Average Annual Total Return ²		+18.01%	+3.13%	+7.06%
Value of \$10,000 Investment ³		\$11,801	\$11,666	\$19,775
Avg. Ann. Total Return (9/30/13) ⁴		+21.70%	+7.36%	+7.63%
Total Annual Operating Expenses ⁵	1.21%			
Class C		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+24.21%	+19.15%	+94.80%
Average Annual Total Return ²		+23.21%	+3.57%	+6.90%
Value of \$10,000 Investment ³		\$12,321	\$11,915	\$19,480
Avg. Ann. Total Return (9/30/13)4		+26.99%	+9.01%	+7.85%
Total Annual Operating Expenses ⁵	1.96%			
Class R		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+24.81%	+22.25%	+104.83%
Average Annual Total Return ²		+24.81%	+4.10%	+7.43%
Value of \$10,000 Investment ³		\$12,481	\$12,225	\$20,483
Avg. Ann. Total Return (9/30/13) ⁴		+29.68%	+10.37%	+8.83%
Total Annual Operating Expenses ⁵	1.46%			
Class R6				Inception (5/1/13)
Cumulative Total Return ¹				+6.01%
Aggregate Total Return ⁶				+6.01%
Value of \$10,000 Investment ³				\$10,601
Aggregate Total Return (9/30/13) ^{4, 6}				+34.08%
Total Annual Operating Expenses ⁵	0.76%			
Advisor Class		1-Year	5-Year	10-Year
Cumulative Total Return ¹		+25.39%	+25.24%	+115.08%
Average Annual Total Return ²		+25.39%	+4.60%	+7.96%
Value of \$10,000 Investment ³		\$12,539	\$12,524	\$21,508
Avg. Ann. Total Return (9/30/13)4		+29.32%	+8.92%	+8.52%
Total Annual Operating Expenses ⁵	0.96%			

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown. For most recent month-end performance, go to franklintempleton.com or call (800) 342-5236.

Total Return Index Comparison for a Hypothetical \$10,000 Investment

Total return represents the change in value of an investment over the periods shown. It includes any current, applicable, maximum sales charge, Fund expenses, account fees and reinvested distributions. The unmanaged index includes reinvestment of any income or distributions. It differs from the Fund in composition and does not pay management fees or expenses. One cannot invest directly in an index.

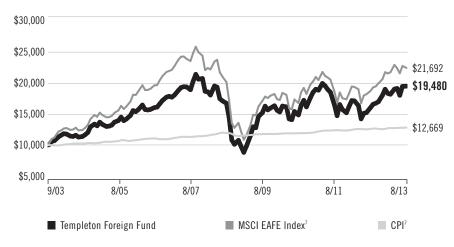




Average Annual Total Return

Class A	8/31/13
1-Year	+18.01%
5-Year	+3.13%
10-Year	+7.06%

Class C (9/1/03-8/31/13)



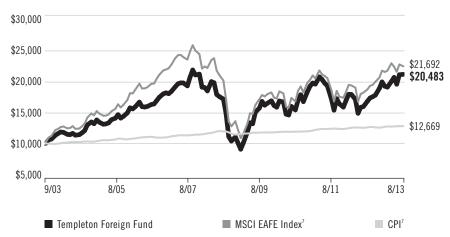
Average Annual Total Return

Class C	8/31/13
1-Year	+23.21%
5-Year	+3.57%
10-Year	+6.90%

Average Annual Total Return

Class R	8/31/13
1-Year	+24.81%
5-Year	+4.10%
10-Year	+7.43%

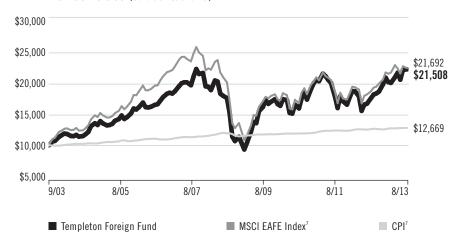
Class R (9/1/03-8/31/13)



Average Annual Total Return

Advisor Class	8/31/13
1-Year	+25.39%
5-Year	+4.60%
10-Year	+7.96%

Advisor Class (9/1/03-8/31/13)



Endnotes

All investments involve risks, including possible loss of principal. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments; investments in emerging markets involve heightened risks related to the same factors. To the extent the Fund focuses on particular countries, regions, industries, sectors or types of investment from time to time, it 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. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Class C: Prior to 1/1/04, these shares were offered with an initial sales charge; thus actual total returns would have differed. These shares

have higher annual fees and expenses than Class A shares.

Shares are available to certain eligible investors as described in the prospectus. These shares have higher annual fees and expenses Class R:

than Class A shares.

Class R6: Shares are available to certain eligible investors as described in the prospectus.

Advisor Class: Shares are available to certain eligible investors as described in the prospectus.

1. Cumulative total return represents the change in value of an investment over the periods indicated.

- 2. Average annual total return represents the average annual change in value of an investment over the periods indicated.
- 3. These figures represent the value of a hypothetical \$10,000 investment in the Fund over the periods indicated.
- 4. In accordance with SEC rules, we provide standardized average annual total return information through the latest calendar quarter.
- 5. Figures are as stated in the Fund's current prospectus. In periods of market volatility, assets may decline significantly, causing total annual Fund operating expenses to become higher than the figures shown.
- 6. Aggregate total return represents the change in value of an investment for the period indicated. Since Class R6 shares have existed for less than one year, average annual total return is not available.
- 7. Source: © 2013 Morningstar. The MSCI EAFE Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada. The Consumer Price Index (CPI), calculated by the Bureau of Labor Statistics, is a commonly used measure of the inflation rate.

Your Fund's Expenses

As a Fund shareholder, you can incur two types of costs:

- Transaction costs, including sales charges (loads) on Fund purchases; and
- Ongoing Fund costs, including management fees, distribution and service (12b-1) fees, and other Fund expenses. All mutual funds have ongoing costs, sometimes referred to as operating expenses.

The following table shows ongoing costs of investing in the Fund and can help you understand these costs and compare them with those of other mutual funds. The table assumes a \$1,000 investment held for the six months indicated.

Actual Fund Expenses

The first line (Actual) for each share class listed in the table provides actual account values and expenses. The "Ending Account Value" is derived from the Fund's actual return, which includes the effect of Fund expenses.

You can estimate the expenses you paid during the period by following these steps. Of course, your account value and expenses will differ from those in this illustration:

- 1. Divide your account value by \$1,000. If an account had an \$8,600 value, then $$8,600 \div $1,000 = 8.6$.
- 2. Multiply the result by the number under the heading "Expenses Paid During Period." If Expenses Paid During Period were \$7.50, then $8.6 \times 7.50 = 64.50$.

In this illustration, the estimated expenses paid this period are \$64.50.

Hypothetical Example for Comparison with Other Funds

Information in the second line (Hypothetical) for each class in the table can help you compare ongoing costs of investing in the Fund with those of other mutual funds. This information may not be used to estimate the actual ending account balance or expenses you paid during the period. The hypothetical "Ending Account Value" is based on the actual expense ratio for each class and an assumed 5% annual rate of return before expenses, which does not represent the Fund's actual return. The figure under the heading "Expenses Paid During Period" shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds.

Your Fund's Expenses (continued)

Please note that expenses shown in the table are meant to highlight ongoing costs and do not reflect any transaction costs, such as sales charges. Therefore, the second line for each class is useful in comparing ongoing costs only, and will not help you compare total costs of owning different funds. In addition, if transaction costs were included, your total costs would have been higher. Please refer to the Fund prospectus for additional information on operating expenses.

Class A	Beginning Account Value 3/1/13	Ending Account Value 8/31/13	Expenses Paid During Period* 3/1/13–8/31/13
Actual	\$1,000	\$1,097.30	\$ 6.24
Hypothetical (5% return before expenses)	\$1,000	\$1,019.26	\$ 6.01
Class C			
Actual	\$1,000	\$1,092.00	\$10.18
Hypothetical (5% return before expenses)	\$1,000	\$1,015.48	\$ 9.80
Class R			
Actual	\$1,000	\$1,095.90	\$ 7.55
Hypothetical (5% return before expenses)	\$1,000	\$1,018.00	\$ 7.27
Class R6			
Actual (5/1/13-8/31/13)	\$1,000	\$1,060.10	\$ 2.53
Hypothetical (5% return before expenses)	\$1,000	\$1,021.53	\$ 3.72
Advisor Class			
Actual	\$1,000	\$1,098.40	\$ 4.92
Hypothetical (5% return before expenses)	\$1,000	\$1,020.52	\$ 4.74

^{*}Expenses are calculated using the most recent six-month expense ratio, annualized for each class (A: 1.18%; C: 1.93%; R: 1.43%; R6: 0.73%; and Advisor: 0.93%), multiplied by the average account value over the period, multiplied by 184/365 to reflect the one-half year period for Class R6 Hypothetical expenses and Actual and Hypothetical expenses for Classes A, C, R and Advisor. The multiplier is 123/365 for Actual Class R6 expenses to reflect the number of days since inception.

Financial Highlights

			ar Ended August		
Class A	2013	2012	2011	2010	2009
Per share operating performance (for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 6.26	\$ 6.57	\$ 6.01	\$ 6.20	\$10.24
Income from investment operations ^a :					
Net investment income ^b	0.12	0.14	0.14	0.10	0.12
Net realized and unrealized gains (losses)	1.44	(0.28)	0.54	(0.19)	(1.84)
Total from investment operations	1.56	(0.14)	0.68	(0.09)	(1.72)
Less distributions from:					
Net investment income	(0.15)	(0.17)	(0.12)	(0.10)	(0.32)
Net realized gains		_	_	_	(2.00)
Total distributions	(0.15)	(0.17)	(0.12)	(0.10)	(2.32)
Net asset value, end of year	\$ 7.67	\$ 6.26	\$ 6.57	\$ 6.01	\$ 6.20
Total return ^c	25.17%	(1.94)%	11.30%	(1.61)%	(7.96)%
Ratios to average net assets					
Expenses ^d	1.19%	1.21%	1.17%	1.19%	1.19%
Net investment income	1.72%	2.29%	1.97%	1.61%	2.11%
Supplemental data					
Net assets, end of year (000's)	\$3,904,719	\$3,418,240	\$3,775,303	\$3,636,256	\$4,248,049
Portfolio turnover rate	32.05%	20.17%	34.97%	16.09%	31.05% ^e

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

^bBased on average daily shares outstanding.

cTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable.

^dBenefit of expense reduction and reimbursement rounds to less than 0.01%.

eExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Class C	2013	Ye: 2012	ar Ended Aug 2011	ust 31, 2010	2009
Per share operating performance (for a share outstanding throughout the year)	2010		2011	2020	2003
Net asset value, beginning of year	\$ 6.11	\$ 6.40	\$ 5.86	\$ 6.05	\$10.00
Income from investment operations ^a :					
Net investment income ^b	0.07	0.09	0.08	0.05	0.07
Net realized and unrealized gains (losses)	1.40	(0.27)	0.53	(0.19)	(1.79)
Total from investment operations	1.47	(0.18)	0.61	(0.14)	(1.72)
Less distributions from:					
Net investment income	(0.10)	(0.11)	(0.07)	(0.05)	(0.23)
Net realized gains		_	_	_	(2.00)
Total distributions	(0.10)	(0.11)	(0.07)	(0.05)	(2.23)
Net asset value, end of year	\$ 7.48	\$ 6.11	\$ 6.40	\$ 5.86	\$ 6.05
Total return ^c	24.21%	(2.62)%	10.42%	(2.30)%	(8.69)%
Ratios to average net assets					
Expenses ^d	1.94%	1.96%	1.92%	1.94%	1.93%
Net investment income	0.97%	1.54%	1.22%	0.86%	1.37%
Supplemental data					
Net assets, end of year (000's)	\$517,468	\$459,838	\$555,999	\$575,258	\$667,534
Portfolio turnover rate	32.05%	20.17%	34.97%	16.09%	31.05%e

a The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

^bBased on average daily shares outstanding.

cTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable.

^dBenefit of expense reduction and reimbursement rounds to less than 0.01%.

^eExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Class R	Year Ended August 31, 2013 2012 2011 2010 2			2009	
Per share operating performance (for a share outstanding throughout the year)	2013	2012	2011	2010	2003
Net asset value, beginning of year	\$ 6.16	\$ 6.46	\$ 5.92	\$ 6.11	\$10.12
Income from investment operations ^a :					
Net investment income ^b	0.10	0.13	0.12	0.09	0.10
Net realized and unrealized gains (losses)	1.41	(0.28)	0.53	(0.20)	(1.82)
Total from investment operations	1.51	(0.15)	0.65	(0.11)	(1.72)
Less distributions from:					
Net investment income	(0.13)	(0.15)	(0.11)	(0.08)	(0.29)
Net realized gains		_	_	_	(2.00)
Total distributions	(0.13)	(0.15)	(0.11)	(0.08)	(2.29)
Net asset value, end of year	\$ 7.54	\$ 6.16	\$ 6.46	\$ 5.92	\$ 6.11
Total return ^c	24.81%	(2.07)%	10.91%	(1.83)%	(8.14)%
Ratios to average net assets					
Expenses ^d	1.44%	1.46%	1.42%	1.44%	1.44%
Net investment income	1.47%	2.04%	1.72%	1.36%	1.86%
Supplemental data					
Net assets, end of year (000's)	\$172,393	\$149,061	\$139,600	\$121,834	\$114,653
Portfolio turnover rate	32.05%	20.17%	34.97%	16.09%	31.05%e

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

^bBased on average daily shares outstanding.

cTotal return does not reflect sales commissions or contingent deferred sales charges, if applicable.

dBenefit of expense reduction and reimbursement rounds to less than 0.01%.

eExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Class R6	Period Ended August 31, 2013 ^a
Per share operating performance (for a share outstanding throughout the period)	
Net asset value, beginning of period	\$7.16
Income from investment operations ^b :	
Net investment income ^c	0.08
Net realized and unrealized gains (losses)	0.35
Total from investment operations	0.43
Net asset value, end of period	\$7.59
Total return ^d	6.01%
Ratios to average net assets ^e	
Expenses	0.74%
Net investment income	2.17%
Supplemental data	
Net assets, end of period (000's)	\$366,042
Portfolio turnover rate	32.05%

 $[\]ensuremath{^{\text{a}}} \text{For the period May 1, 2013}$ (effective date) to August 31, 2013.

b The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

^cBased on average daily shares outstanding.

dTotal return is not annualized for periods less than one year.

eRatios are annualized for periods less than one year.

Alicentification	Year Ended August 31,				2000
Advisor Class Per share operating performance	2013	2012	2011	2010	2009
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$ 6.20	\$ 6.51	\$ 5.95	\$ 6.14	\$10.21
Income from investment operations ^a :					
Net investment income ^b	0.13	0.16	0.16	0.11	0.13
Net realized and unrealized gains (losses)	1.43	(0.28)	0.54	(0.19)	(1.85)
Total from investment operations	1.56	(0.12)	0.70	(0.08)	(1.72)
Less distributions from:					
Net investment income	(0.17)	(0.19)	(0.14)	(0.11)	(0.35)
Net realized gains		_	_	_	(2.00)
Total distributions	(0.17)	(0.19)	(0.14)	(0.11)	(2.35)
Net asset value, end of year	\$ 7.59	\$ 6.20	\$ 6.51	\$ 5.95	\$ 6.14
Total return	25.39%	(1.49)%	11.53%	(1.41)%	(7.79)%
Ratios to average net assets					
Expenses ^c	0.94%	0.96%	0.92%	0.94%	0.94%
Net investment income	1.97%	2.54%	2.22%	1.86%	2.36%
Supplemental data					
Net assets, end of year (000's)	\$1,340,444	\$1,430,480	\$1,169,727	\$868,166	\$959,708
Portfolio turnover rate	32.05%	20.17%	34.97%	16.09%	31.05% ^d

a The amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations 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.

^bBased on average daily shares outstanding.

^cBenefit of expense reduction and reimbursement rounds to less than 0.01%.

dExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Statement of Investments, August 31, 2013

	Industry	Shares	Value
Common Stocks 96.3%			
Australia 0.1%			
Billabong International Ltd	Textiles, Apparel & Luxury Goods	15,593,314	\$ 5,899,82
D. I			
Belgium 0.2%	0	210 402	14.052.00
KBC GROEP NV	Commercial Banks	319,483	14,053,89
Brazil 0.0% [†]			
Centrais Eletricas Brasileiras SA	Electric Utilities	703,000	1,460,52
Centrais Eletricas Brasileiras SA			
(Eletrobras), ADR	Electric Utilities	38,000	80,56
			1,541,08
Canada 5.7%			
AGF Management Ltd	Capital Markets	1,338,790	16,267,03
Ensign Energy Services Inc	Energy Equipment & Services	4,529,930	75,595,58
HudBay Minerals Inc	Metals & Mining	6,042,750	39,694,17
Suncor Energy Inc	_		
6,	Oil, Gas & Consumable Fuels	2,138,100	72,051,40
Talisman Energy Inc	Oil, Gas & Consumable Fuels	5,843,960	62,408,80
Trican Well Service Ltd	Energy Equipment & Services	6,748,990	94,881,14
			360,898,14
China 5.4%			
China Coal Energy Co. Ltd., H	Oil, Gas & Consumable Fuels	58,782,400	34,643,43
China Life Insurance Co. Ltd., H	Insurance	6,503,000	15,950,7
China Mobile Ltd	Wireless Telecommunication Services	4,412,500	47,429,4
China Shenhua Energy Co. Ltd., H	Oil, Gas & Consumable Fuels	19,035,500	59,161,4
China Telecom Corp. Ltd., H	Diversified Telecommunication Services	101,299,582	51,078,9
Digital China Holdings Ltd	Electronic Equipment, Instruments & Components	18,913,050	20,878,18
Dongfang Electric Corp. Ltd., H	Electrical Equipment	10,000,000	13,979,3
Shanghai Electric Group Co. Ltd	Electrical Equipment	48,210,300	17,905,63
Shanghai Pharmaceuticals	Elootiloal Equipmont	10,210,000	17,500,00
Holding Co. Ltd., H	Health Care Providers & Services	20,562,000	38,979,8
Trina Solar Ltd., ADR	Semiconductors & Semiconductor Equipment	4,523,860	42,479,04
,	η, γ	, , , , , , , , , , , , , , , , , , , ,	
			342,486,03
France 13.2%	Floatrical Faccions	000 000	25 146 0
Alstom SA	Electrical Equipment	998,690	35,146,82
AXA SA	Insurance Commonical Bondon	5,967,292	130,026,53
BNP Paribas SA	Commercial Banks	2,866,553	179,655,89
Carrefour SA	Food & Staples Retailing	1,053,600	32,984,87
Cie Generale des Etablissements	Auto Commission	407 200	41.042.04
Michelin, B	Auto Components	437,300	41,843,09
Compagnie de Saint-Gobain	Building Products	519,460	24,265,23
Ipsen SA	Pharmaceuticals	559,750	20,716,5
Orange SA	Diversified Telecommunication Services	5,924,991	60,115,7
Sanofi	Pharmaceuticals	1,137,855	109,326,9
Societe Generale	Commercial Banks	1,375,016	60,186,38
Total SA, B	Oil, Gas & Consumable Fuels	1,740,950	96,454,28
Vivendi SA	Diversified Telecommunication Services	2,115,914	42,917,12
			833,639,57
			_

Statement of Investments, August 31, 2013 (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Germany 4.0%			
Commerzbank AG	Commercial Banks	1,861,430	\$ 21,642,01
Deutsche Lufthansa AG	Airlines	2,387,880	42,625,82
Gerresheimer AG	Life Sciences Tools & Services	277,200	16,726,29
^a Kloeckner & Co. SE	Trading Companies & Distributors	1,521,460	19,607,89
Metro AG	Food & Staples Retailing	1,179,304	43,303,57
Muenchener Rueckversicherungs-	,	, ,	, ,
Gesellschaft AG	Insurance	240,272	43,795,87
Siemens AG	Industrial Conglomerates	624,142	66,073,52
	aactilai eengienielatee	02 .,1 .2	
			253,775,00
Hong Kong 1.2%			
First Pacific Co. Ltd	Diversified Financial Services	16,393,500	17,018,64
Kingboard Chemical Holdings Ltd	Electronic Equipment, Instruments & Components	27,361,904	59,351,22
Value Partners Group Ltd	Capital Markets	3,187,400	1,816,83
Talao i artifolo dioup Eta	Supital Markets	3,107,400	
			78,186,7
India 0.4%			
ICICI Bank Ltd	Commercial Banks	1,222,640	14,728,8
Jain Irrigation Systems Ltd	Machinery	8,009,990	6,058,6
Power Grid Corp. of India Ltd	Electric Utilities	4,235,350	6,172,3
Tower and corp. or mala Eta	Liectife Offities	4,233,330	
			26,959,8
Ireland 0.6%			
CRH PLC	Construction Materials	1,617,990	34,239,93
Italy 1 69/			
Italy 1.6%	Commercial Banks	17 507 407	00.450.9
UniCredit SpA	Commercial Banks	17,587,407	99,450,8
Japan 6.2%			
Capcom Co. Ltd.	Software	2,302,160	39,739,7
ITOCHU Corp	Trading Companies & Distributors	10,194,100	115,720,4
Namco Bandai Holdings Inc	Leisure Equipment & Products	3,481,650	55,629,7
Nikon Corp	Leisure Equipment & Products	941,000	15,917,4
Nissan Motor Co. Ltd	Automobiles	1,546,000	15,391,4
Toyota Motor Corp	Automobiles	1,315,580	79,630,5
Trend Micro Inc	Software	1,940,040	68,005,6
	 	,, 3	
			390,035,1
Netherlands 8.8%			
Aegon NV	Insurance	14,637,985	104,404,44
Akzo Nobel NV	Chemicals	1,330,760	78,266,64
Fugro NV, IDR	Energy Equipment & Services	177,756	10,924,36
ING Groep NV, IDR	Diversified Financial Services	25,132,578	272,904,28
Randstad Holding NV	Professional Services	76,514	3,554,43
SBM Offshore NV	Energy Equipment & Services	4,381,276	86,085,7
	S , , , , , , , , , , , , , , , , , , ,	, ,	
			556,139,92

Statement of Investments, August 31, 2013 (continued)

	Industry	Shares	Value
Common Stocks (continued)			
Norway 2.3%			
Statoil ASA	Oil, Gas & Consumable Fuels	4,204,260	\$ 92,336,3
Telenor ASA	Diversified Telecommunication Services	2,649,156	55,065,3
		, ,	-
			147,401,7
Singapore 1.3%			
Flextronics International Ltd	Electronic Equipment, Instruments & Components	9,165,800	82,308,8
		-,,	
South Korea 9.1%			
Daum Communication Corp	Internet Software & Services	60,712	4,646,8
Hana Financial Group Inc	Commercial Banks	3,086,530	97,274,8
Hyundai Mobis	Auto Components	244,960	61,540,5
KB Financial Group Inc	Commercial Banks	3,652,317	117,408,2
KIWOOM Securities Co. Ltd	Capital Markets	552,080	25,750,9
Korea Investment Holdings Co. Ltd	Capital Markets	801,250	28,354,5
POSCO	Metals & Mining	327,220	95,023,5
Samsung Electronics Co. Ltd	Semiconductors & Semiconductor Equipment	117,164	144,325,2
			574,324,7
Spain 1.2%			
Telefonica SA	Diversified Telecommunication Services	5,334,885	72,455,7
Sweden 1.2%			
Ericsson, B	Communications Equipment	3,708,209	43,611,8
Getinge AB, B	Health Care Equipment & Supplies	839,205	28,912,5
			72,524,3
Switzerland 8.0%			
Basilea Pharmaceutica AG	Biotechnology	203,780	14,608,9
Credit Suisse Group AG	Capital Markets	6,054,209	174,520,5
GAM Holding Ltd	Capital Markets	724,100	12,763,5
Lonza Group AG	Life Sciences Tools & Services	546,990	38,743,1
Nobel Biocare Holding AG	Health Care Equipment & Supplies	3,353,320	48,295,8
Novartis AG	Pharmaceuticals	912,730	66,561,4
Roche Holding AG	Pharmaceuticals	471,350	117,584,1
Swiss Re AG	Insurance	357,903	27,465,9
			500,543,5
Taiwan 0.8%			
Taiwan 0.8%	Computers & Peripherals	70 696 777	<u> </u>
Taiwan 0.8% Compal Electronics Inc	Computers & Peripherals	70,696,777	47,573,4
	Computers & Peripherals	70,696,777	47,573,4
Compal Electronics Inc	Computers & Peripherals Insurance	70,696,777 24,653,274	47,573,4
Compal Electronics Inc			
Compal Electronics Inc. United Kingdom 18.5% Aviva PLC	Insurance	24,653,274	147,777,6
Compal Electronics Inc. United Kingdom 18.5% Aviva PLC	Insurance Aerospace & Defense	24,653,274 9,393,220	147,777,6 63,336,9
Compal Electronics Inc. United Kingdom 18.5% Aviva PLC BAE Systems PLC BP PLC	Insurance Aerospace & Defense Oil, Gas & Consumable Fuels	24,653,274 9,393,220 12,287,300	147,777,6 63,336,9 84,960,4 42,218,4
Compal Electronics Inc. United Kingdom 18.5% Aviva PLC BAE Systems PLC BP PLC Carillion PLC	Insurance Aerospace & Defense Oil, Gas & Consumable Fuels Construction & Engineering	24,653,274 9,393,220 12,287,300 9,515,960	147,777,6 63,336,9 84,960,4

Statement of Investments, August 31, 2013 (continued)

	Industry	Shares	Value
Common Stocks (continued) United Kingdom (continued)			
a Lloyds Banking Group PLC	Commercial Banks Capital Markets Multiline Retail Containers & Packaging Oil, Gas & Consumable Fuels Oil, Gas & Consumable Fuels Trading Companies & Distributors Food & Staples Retailing Wireless Telecommunication Services	61,292,030 37,648,150 8,593,195 4,786,560 768,672 1,933,840 19,426,219 29,515,500 32,788,242	\$ 68,924,725 47,570,546 62,883,738 36,199,495 24,882,591 65,115,445 52,539,677 167,705,109 104,825,856
			1,163,041,568
United States 6.5% Baker Hughes Inc	Energy Equipment & Services Communications Equipment Computers & Peripherals Energy Equipment & Services	3,044,320 4,577,090 4,380,710 1,746,517	141,530,437 106,691,968 97,865,061 64,970,432 411,057,898
Total Common Stocks (Cost \$5,969,089,708)			6,068,537,876
Preferred Stocks 0.5% Brazil 0.5% Petroleo Brasileiro SA, ADR, pfd	Oil, Gas & Consumable Fuels Metals & Mining	869,160 1,291,734	12,394,222 16,766,707
Total Preferred Stocks (Cost \$36,181,235)			29,160,929
Non-Registered Mutual Funds (Cost \$27,840,500) 0.5% Cayman Islands 0.5% a.c.d.e Templeton China Opportunities Fund, Ltd., Reg D	Diversified Financial Services	2,785,958	30,534,101
Total Investments before Short Term Investments (Cost \$6,033,111,443)			6,128,232,906

Statement of Investments, August 31, 2013 (continued)

	Principal Amount	Value
Short Term Investments 2.3% Time Deposits 2.2%		
Canada 1.2%		
Bank of Montreal, 0.04%, 9/03/13	\$ 80,000,000	\$ 80,000,000
United States 1.0%		
Scotia Capital Markets, 0.01%, 9/03/13	62,000,000	62,000,000
Total Time Deposits (Cost \$142,000,000)		142,000,000
Total Investments before Money Market Funds (Cost \$6,175,111,443)		6,270,232,906
	Shares	
Investments from Cash Collateral Received for Loaned Securities (Cost \$8,305,967) 0.1%		
Money Market Funds 0.1%		
United States 0.1%		
BNY Mellon Overnight Government Fund, 0.028%	8,305,967	8,305,967
Total Investments (Cost \$6,183,417,410) 99.6%		6,278,538,873
Other Assets, less Liabilities 0.4%		22,527,868
Net Assets 100.0%		\$6,301,066,741

See Abbreviations on page 45.

[†]Rounds to less than 0.1% of net assets.

^aNon-income producing.

bA portion or all of the security is on loan at August 31, 2013. See Note 1(d).

 $^{^{\}mathrm{c}}$ See Note 1(d) regarding investment in Templeton China Opportunities Fund, Ltd.

^dSee Note 8 regarding restricted securities.

eSee Note 9 regarding holdings of 5% voting securities.

^fSee Note 1(e) regarding securities on loan.

gThe rate shown is the annualized seven-day yield at period end.

Financial Statements

Statement of Assets and Liabilities

August 31, 2013

Assets:	
Investments in securities: Cost - Unaffiliated issuers	¢c 155 576 010
Cost - Non-controlled affiliated issuers (Note 9)	\$6,155,576,910 27,840,500
Total cost of investments	\$6,183,417,410
Value - Unaffiliated issuers	\$6,248,004,772
Value - Non-controlled affiliated issuers (Note 9)	30,534,101
Total value of investments (includes securities loaned in the amount of \$7,999,285)	6,278,538,873
Cash	745,909
Foreign currency, at value (cost \$942,019)	945,855
Receivables:	
Investment securities sold	29,926,346
Capital shares sold	9,652,375
Dividends	12,789,406
Other assets	1,130
Total assets	6,332,602,894
Liabilities:	
Payables:	
Investment securities purchased	5,894,312
Capital shares redeemed	8,928,671
Management fees	3,357,772
Administrative fees	435,662
Distribution fees	1,371,611
Transfer agent fees	2,589,040
Payable upon return of securities loaned	8,305,967 650,118
Accrued expenses and other liabilities	
Total liabilities	31,533,153
Net assets, at value	\$6,301,066,741
Net assets consist of:	
Paid-in capital	\$5,938,495,907
Undistributed net investment income	81,289,497
Net unrealized appreciation (depreciation)	95,134,293
Accumulated net realized gain (loss)	186,147,044
Net assets, at value	\$6,301,066,741

Financial Statements (continued)

Statement of Assets and Liabilities (continued)

August 31, 2013

Class A:	
Net assets, at value	\$3,904,718,678
Shares outstanding	509,164,711
Net asset value per share ^a	\$7.67
Maximum offering price per share (net asset value per share ÷ 94.25%)	\$8.14
Class C:	
Net assets, at value	\$ 517,468,143
Shares outstanding	69,167,990
Net asset value and maximum offering price per share ^a	\$7.48
Class R:	
Net assets, at value	\$ 172,393,275
Shares outstanding	22,876,952
Net asset value and maximum offering price per share	\$7.54
Class R6	
Net assets, at value	\$ 366,042,449
Shares outstanding	48,205,146
Net asset value and maximum offering price per share	\$7.59
Advisor Class:	
Net assets, at value	\$1,340,444,196
Shares outstanding	176,648,980
Net asset value and maximum offering price per share	\$7.59

^aRedemption price is equal to net asset value less contingent deferred sales charges, if applicable.

Financial Statements (continued)

Statement of Operations

for the year ended August 31, 2013

Investment income:	
Dividends (net of foreign taxes of \$14,619,621)	\$ 171,724,599
Interest	69,543
Income from securities loaned	474,884
Total investment income	172,269,026
Expenses:	
Management fees (Note 3a)	36,447,554
Administrative fees (Note 3b)	4,740,340
Distribution fees: (Note 3c)	
Class A	9,190,201
Class B	16,808
Class C	4,890,264
Class R	814,537
Transfer agent fees: (Note 3e)	
Class A	7,380,925
Class B	3,480
Class C	981,922
Class R	327,050
Class R6	56 2,989,966
Advisor Class	422,388
Custodian fees (Note 4)	895,560
Reports to shareholders	506,883
Registration and filing fees	155,708
Professional fees	163,584
Trustees' fees and expenses	127,765
Other	195,190
Total expenses	70,250,181
Net investment income	102,018,845
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	273,330,247
Non-controlled affiliated issuers	(66,738,453)
Written options	3,643,752
Foreign currency transactions	(941,723)
Net realized gain (loss)	209,293,823
Net change in unrealized appreciation (depreciation) on:	
Investments	995,056,717
Translation of other assets and liabilities denominated in foreign currencies	98,915
Change in deferred taxes on unrealized appreciation	63,702
Net change in unrealized appreciation (depreciation)	995,219,334
Net realized and unrealized gain (loss)	1,204,513,157
Net increase (decrease) in net assets resulting from operations	\$1,306,532,002

Financial Statements (continued)

Statements of Changes in Net Assets

	Year Ended 2013	August 31, 2012
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 102,018,845	\$ 122,797,707
Net realized gain (loss) from investments, written options and foreign currency transactions	209,293,823	149,473,376
Net change in unrealized appreciation (depreciation) on investments, translation of other		
assets and liabilities denominated in foreign currencies and deferred taxes	995,219,334	(382,471,243)
Net increase (decrease) in net assets resulting from operations	1,306,532,002	(110,200,160)
Distributions to shareholders from:		
Net investment income:		
Class A	(77,761,555)	(94,795,069)
Class B	_	(181,245)
Class C	(6,972,711)	(9,388,114)
Class R	(3,129,651)	(3,431,503)
Advisor Class	(37,507,920)	(36,755,595)
Total distributions to shareholders	(125,371,837)	(144,551,526)
Capital share transactions: (Note 2)		
Class A	(248,431,160)	(183,480,167)
Class B	(5,754,524)	(18,964,656)
Class C	(39,690,927)	(69,458,484)
Class R	(8,943,072)	15,918,472
Class R6	349,729,949	_
Advisor Class	(389,857,098)	307,492,830
Total capital share transactions	(342,946,832)	51,507,995
Net increase (decrease) in net assets	838,213,333	(203,243,691)
Net assets:		
Beginning of year	5,462,853,408	5,666,097,099
End of year	\$6,301,066,741	\$5,462,853,408
Undistributed net investment income included in net assets:		
End of year	\$ 81,289,497	\$ 99,260,226

Notes to Financial Statements

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Templeton Funds (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of two separate funds. The Templeton Foreign Fund (Fund) is included in this report. The financial statements of the remaining fund in the Trust are presented separately. The Fund offers five classes of shares: Class A, Class C, Class R, Class R6, and Advisor Class. Effective May 1, 2013, the Fund began offering a new class of shares, Class R6. Effective March 22, 2013, all Class B shares were converted to Class A. Each class of shares differs by its initial sales load, contingent deferred sales charges, voting rights on matters affecting a single class, its exchange privilege and fees primarily due to differing arrangements for distribution and transfer agent fees.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Under procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator, investment manager and other affiliates have formed the Valuation and Liquidity Oversight Committee (VLOC). The VLOC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or the NYSE, whichever is 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 on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities. Time deposits are valued at cost which approximates market value. Investments in non-registered funds are valued at closing net asset value.

Certain derivatives trade in the OTC market. The Fund's pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund's net benefit or obligation under the derivative contract, as measured by the fair market value of the contract, is included in net assets.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the VLOC convenes on a regular basis to review such financial instruments and considers a number of factors, including

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

a. Financial Instrument Valuation (continued)

significant unobservable valuation inputs, when arriving at fair value. The VLOC primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VLOC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before the daily close of business on the NYSE. 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 reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at the close of the NYSE. In order to minimize the potential for these differences, the VLOC 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 may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services.

In addition, certain foreign markets may be open on days that the NYSE is closed, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

b. Foreign Currency Translation (continued)

contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events 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.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments on the Statement of Operations.

Realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Derivative Financial Instruments

The Fund invested in derivatives in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown on the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

The Fund purchased or wrote exchange traded and/or OTC option contracts primarily to manage exposure to equity price risk. An option is a contract entitling the holder to purchase or sell a specific amount of shares or units of an asset or notional amount of a swap (swaption), at a specified price. Options purchased are recorded as an asset while options written are recorded as a liability. Upon exercise of an option, the acquisition cost or sales proceeds of the underlying investment is adjusted by any premium received or paid. Upon expiration of an option, any premium received or paid is recorded as a realized gain or loss. Upon closing an option other than through expiration or exercise, the difference between the premium and the cost to close the position is recorded as a realized gain or loss.

Notes to Financial Statements (continued)

- 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)
- d. Investment in Templeton China Opportunities Fund, Ltd.

The Fund invests in Templeton China Opportunities Fund, Ltd. (China Fund), a private offering of unregistered shares in a Cayman Islands Exempt Company. The China Fund investment objective is to seek capital growth primarily through investments in A-shares of Chinese companies listed on the Shanghai and Shenzhen stock exchanges. Chinese A-shares are traded in Chinese Renminbi and are only available as an investment to domestic (Chinese) investors and holders of a Qualified Foreign Institutional Investors license. The China Fund is managed by Templeton Investment Counsel, LLC (an affiliate of the investment manager). No additional management or administrative fees are incurred on assets invested in the China Fund.

The China Fund may be subject to certain restrictions and administrative processes relating to its ability to repatriate cash balances, investment proceeds and earnings associated with its investment, as such activities are subject to approval by agencies of the Chinese government and thus the Fund may incur delays in redeeming its investment in the China Fund. The Fund's investment in the China Fund is valued based upon the fair value of the China Fund's portfolio securities and other assets and liabilities.

e. Securities Lending

The Fund participates in an agency based securities lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market value of loaned securities, as determined at the close of fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is invested in a non-registered money fund as indicated on the Statement of Investments. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

f. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

Notes to Financial Statements (continued)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Income and Deferred Taxes (continued)

The Fund recognizes the tax benefits of uncertain tax positions only when the position is "more likely than not" to be sustained upon examination by the tax authorities based on the technical merits of the tax position. As of August 31, 2013, and for all open tax years, the Fund has determined that no liability for unrecognized tax benefits is required in the Fund's financial statements related to uncertain tax positions taken on a tax return (or expected to be taken on future tax returns). Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

g. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Dividend income is recorded on the ex-dividend date except that certain dividends from foreign securities are recognized as soon as the Fund is notified of the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis may differ from earnings recorded in accordance with accounting principles generally accepted in the United States of America. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.

Common expenses incurred by the Trust are allocated among the funds based on the ratio of net assets of each fund to the combined net assets of the Trust. Fund specific expenses are charged directly to the fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, not including class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions, by class, are generally due to differences in class specific expenses.

h. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

i. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

2. SHARES OF BENEFICIAL INTEREST

At August 31, 2013, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

		Voc. Fred	lad Armusk 21	
	20	Year End 13	led August 31, 20	12
	Shares	Amount	Shares	Amount
Class A Shares:				
Shares sold	81,343,137	\$ 578,494,573	89,627,887	\$ 548,578,830
Shares issued in reinvestment				
of distributions	10,093,321	69,644,302	14,856,959	85,724,651
Shares redeemed	(127,967,011)	(896,570,035)	(133,583,112)	(817,783,648)
Net increase (decrease)	(36,530,553)	\$(248,431,160)	(29,098,266)	\$(183,480,167)
Class B Shares ^a :				
Shares sold	6,983	\$ 48,215	34,022	\$ 208,991
Shares issued in reinvestment				
of distributions	_	_	26,754	152,497
Shares redeemed	(856,158)	(5,802,739)	(3,191,998)	(19,326,144)
Net increase (decrease)	(849,175)	\$ (5,754,524)	(3,131,222)	\$ (18,964,656)
Class C Shares:				
Shares sold	7,101,778	\$ 49,802,018	5,914,153	\$ 35,698,445
Shares issued in reinvestment				
of distributions	880,029	5,957,796	1,391,975	7,878,582
Shares redeemed	(14,022,357)	(95,450,741)	(18,944,447)	(113,035,511)
Net increase (decrease)	(6,040,550)	\$ (39,690,927)	(11,638,319)	\$ (69,458,484)
Class R Shares:				
Shares sold	6,945,473	\$ 48,052,688	9,725,484	\$ 59,119,419
Shares issued in reinvestment				
of distributions	436,912	2,971,002	575,596	3,269,384
Shares redeemed	(8,707,711)	(59,966,762)	(7,707,479)	(46,470,331)
Net increase (decrease)	(1,325,326)	\$ (8,943,072)	2,593,601	\$ 15,918,472
Class R6 Sharesb:				
Shares sold ^c	53,951,140	\$ 392,178,824		
Shares redeemed	(5,745,994)	(42,448,875)		
Net increase (decrease)	48,205,146	\$ 349,729,949		

Notes to Financial Statements (continued)

2. Shares of Beneficial Interest (continued)

	Year Ended August 31,						
	20	13	20	2012			
	Shares	Amount	Shares	Amount			
Advisor Class Shares:							
Shares sold	37,078,050	\$ 259,775,040	80,274,580	\$ 485,448,392			
Shares issued in reinvestment							
of distributions	4,886,367	33,325,022	5,834,836	33,258,565			
Shares redeemed ^c	(96,068,452)	(682,957,160)	(35,153,807)	(211,214,127)			
Net increase (decrease)	(54,104,035)	\$(389,857,098)	50,955,609	\$ 307,492,830			

^aEffective March 22, 2013, all class B Shares were converted to Class A.

3. TRANSACTIONS WITH AFFILIATES

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers and trustees of the Trust are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Templeton Global Advisors Limited (TGAL)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

The Fund pays an investment management fee to TGAL based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.630%	Up to and including \$1 billion
0.615%	Over \$1 billion, up to and including \$5 billion
0.600%	Over \$5 billion, up to and including \$10 billion
0.580%	Over \$10 billion, up to and including \$15 billion
0.560%	Over \$15 billion, up to and including \$20 billion
0.540%	Over \$20 billion, up to and including \$25 billion
0.530%	Over \$25 billion, up to and including \$30 billion
0.520%	Over \$30 billion, up to and including \$35 billion
0.510%	In excess of \$35 billion

^bFor the period May 1, 2013 (effective date) to August 31, 2013.

^cEffective May 1, 2013, a portion of Advisor Class shares were exchanged into Class R6.

Notes to Financial Statements (continued)

3. Transactions with Affiliates (continued)

b. Administrative Fees

The Fund pays its allocated share of an administrative fee to FT Services based on the Trust's aggregate average daily net assets as follows:

Annualized Fee Rate	Net Assets
0.150%	Up to and including \$200 million
0.135%	Over \$200 million, up to and including \$700 million
0.100%	Over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

c. Distribution Fees

The Board has adopted distribution plans for each share class, with the exception of Class R6 and Advisor Class shares, pursuant to Rule 12b-1 under the 1940 Act. Distribution fees are not charged on shares held by affiliates. Under the Fund's Class A reimbursement distribution plan, the Fund reimburses Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate. Under the Class A reimbursement distribution plan, costs exceeding the maximum for the current plan year cannot be reimbursed in subsequent periods. In addition, under the Fund's Class B, C, and R compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to the maximum annual plan rate for each class. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

The maximum annual plan rates, based on the average daily net assets, for each class, are as follows:

Class A	0.25%
Class B	1.00%
Class C	1.00%
Class R	0.50%

d. Sales Charges/Underwriting Agreements

Front-end sales charges and contingent deferred sales charges (CDSC) do not represent expenses of the Fund. These charges are deducted from the proceeds of sales of Fund shares prior to investment or from redemption proceeds prior to remittance, as applicable. Distributors has advised the Fund of the following commission transactions related to the sales and redemptions of the Fund's shares for the year:

Sales charges retained net of commissions paid to unaffiliated	
broker/dealers	\$912,029
CDSC retained	\$ 31,988

Notes to Financial Statements (continued)

3. Transactions with Affiliates (continued)

e. Transfer Agent Fees

Each class of shares, except for Class R6, pays transfer agent fees to Investor Services for its performance of shareholder servicing obligations and reimburses Investor Services for out of pocket expenses incurred, including shareholding servicing fees paid to third parties. These fees are allocated daily based upon their relative proportion of such classes' aggregate net assets. Class R6 pays Investor Services transfer agent fees specific to that class.

For the year ended August 31, 2013, the Fund paid transfer agent fees of \$11,683,399, of which \$5,256,443 was retained by Investor Services.

f. Waiver and Expense Reimbursements

Investor Services has contractually agreed in advance to waive or limit its fees so that the Class R6 transfer agent fees do not exceed 0.01% until December 31, 2014. There were no expenses waived during the year ended August 31, 2013.

4. EXPENSE OFFSET ARRANGEMENT

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended August 31, 2013, there were no credit earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

During the year ended August 31, 2013, the Fund utilized \$4,875,291 of capital loss carryforwards.

The tax character of distributions paid during the years ended August 31, 2013 and 2012, was as follows:

Distributions paid from ordinary income

2013	2012
\$125,371,837	\$144,551,526

Notes to Financial Statements (continued)

5. INCOME TAXES (continued)

At August 31, 2013, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments	\$6,186,726,095
Unrealized appreciation	(687,241,054)
Undistributed ordinary income	109,369,248
Distributable earnings	\$ 270,790,272

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of passive foreign investment company shares.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the year ended August 31, 2013, aggregated \$1,854,297,098 and \$2,308,916,887, respectively.

Transactions in options written during the year ended August 31, 2013, were as follows:

	Number of Contracts	Premiums Received	
Options outstanding at August 31, 2012	_	\$ —	
Options written	8,670	3,643,752	
Options expired	(8,670)	(3,643,752)	
Options exercised	_	_	
Options closed			
Options outstanding at August 31, 2013		\$	

See Notes 1(c) regarding derivative financial instruments and other derivative information, respectively.

7. Concentration of Risk

Investing in foreign securities may include certain risks and considerations not typically associated with investing in U.S. securities, such as fluctuating currency values and changing local and regional economic, political and social conditions, which may result in greater market volatility. In addition, certain foreign securities may not be as liquid as U.S. securities.

Notes to Financial Statements (continued)

8. RESTRICTED SECURITIES

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At August 31, 2013, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Shares	Issuer	Acquisition Dates	Cost	Value
Templeton Fo	oreign Fund			
2,785,958	Templeton China Opportunities Fund, Ltd., Reg D			
	Total Restricted Securities (Value is 0.48% of Net Assets)	1/27/10 – 12/01/11	\$27,840,500	\$30,534,101

9. HOLDINGS OF 5% VOTING SECURITIES OF PORTFOLIO COMPANIES

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. Investments in "affiliated companies" for the Fund for the year ended August 31, 2013, were as shown below.

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Capital Gain (Loss)
Templeton Foreign Fund							
Non-Controlled Affiliates Premier Foods PLC	13,942,348	_	13,942,348		\$ —	_a \$ \$(66,738,453)
Templeton China Opportunities Fund, Ltd., Reg D	2,785,958	_	_	2,785,958	30,534,10	1 —	_
Total Affiliated Securities (Value is 0.	48% of Net Asse	ts)			\$30,534,10	1 \$— \$(66,738,453)

^aAs of August 31, 2013, no longer an affiliate.

10. Special Servicing Agreement

The Fund, which is an eligible underlying investment of one or more of the Franklin Templeton Fund Allocator Series Funds (Allocator Funds), participated in a Special Servicing Agreement (SSA) with the Allocator Funds and certain service providers of the Fund and the Allocator Funds. Under the SSA, the Fund may pay a portion of the Allocator Funds' expenses (other than any asset allocation, administrative, and distribution fees) to the extent such payments are less than the amount of the benefits realized or expected to be realized by the Fund

Notes to Financial Statements (continued)

10. Special Servicing Agreement (continued)

(e.g., due to reduced costs associated with servicing accounts) from the investment in the Fund by the Allocator Funds. The Allocator Funds are either managed by Franklin Advisers, Inc. or administered by FT Services, affiliates of TGAL. For the year ended August 31, 2013, the Fund was held by one or more of the Allocator Funds and the amount of expenses borne by the Fund is noted in the Statement of Operations. At August 31, 2013, 4.55% of the Fund's outstanding shares was held by one or more of the Allocator Funds. Effective May 1, 2013, the SSA was discontinued until further notice and approval by the Board.

11. CREDIT FACILITY

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling \$1.5 billion (Global Credit Facility) which matures on January 17, 2014. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.07% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses on the Statement of Operations. During the year ended August 31, 2013, the Fund did not use the Global Credit Facility.

12. FAIR VALUE MEASUREMENTS

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 quoted prices in active markets for identical financial instruments
- Level 2 other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those financial instruments.

For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement

Notes to Financial Statements (continued)

12. FAIR VALUE MEASUREMENTS (continued)

A summary of inputs used as of August 31, 2013, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments ^{a,b}	\$6,097,698,805	\$ —	\$ —	\$ 6,097,698,805
Non-Registered Mutual Funds	_	_	30,534,101	30,534,101
Short Term Investments		150,305,967	_	150,305,967
Total Investments in Securities	\$6,097,698,805	\$ 150,305,967	\$30,534,101	\$ 6,278,538,873

alncludes common and preferred stocks as well as other equity investments.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 investments at the end of the period.

13. New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in the ASU enhance disclosures about offsetting of financial assets and liabilities to enable investors to understand the effect of these arrangements on a fund's financial position. In January 2013, FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in ASU No. 2013-01 clarify the intended scope of disclosures required by ASU No. 2011-11. These ASUs are effective for interim and annual reporting periods beginning on or after January 1, 2013. The Fund believes the adoption of these ASUs will not have a material impact on its financial statements.

In June 2013, the FASB issued ASU No. 2013-08, Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The ASU modifies the criteria used in defining an investment company under U.S. Generally Accepted Accounting Principles and also sets forth certain measurement and disclosure requirements. Under the ASU, an entity that is registered under the 1940 Act automatically qualifies as an investment company. The ASU is effective for interim and annual reporting periods beginning after December 15, 2013. The Fund is currently reviewing the requirements and believes the adoption of this ASU will not have a material impact on its financial statements.

^bFor detailed categories, see the accompanying Statement of Investments.

Notes to Financial Statements (continued)

14. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

ABBREVIATIONS

Selected Portfolio

ADR - American Depositary Receipt IDR - International Depositary Receipt

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Templeton Funds and Shareholders of Templeton Foreign Fund

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Templeton Foreign Fund (the "Fund") at August 31, 2013, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at August 31, 2013 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California October 18, 2013

Tax Information (unaudited)

Under Section 854(b)(1)(A) of the Internal Revenue Code (Code), the Fund hereby reports 5.89% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended August 31, 2013.

Under Section 854(b)(1)(B) of the Code, the Fund hereby reports the maximum amount allowable but no less than \$155,493,885 as qualified dividends for purposes of the maximum rate under Section 1(h)(11) of the Code for the fiscal year ended August 31, 2013.

Distributions, including qualified dividend income, paid during calendar year 2013 will be reported to shareholders on Form 1099-DIV by mid-February 2014. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

At August 31, 2012, more than 50% of the Fund's total assets were invested in securities of foreign issuers. In most instances, foreign taxes were withheld from income paid to the Fund on these investments. As shown in the table below, the Fund hereby reports to shareholders the foreign source income and foreign taxes paid, pursuant to Section 853 of the Code. This written statement will allow shareholders of record on December 19, 2012, to treat their proportionate share of foreign taxes paid by the Fund as having been paid directly by them. The shareholder shall consider these amounts as foreign taxes paid in the tax year in which they receive the Fund distribution.

The following table provides a detailed analysis of foreign tax paid, foreign source income, and foreign qualified dividends as reported by the Fund, to Class A, Class B, Class C, Class R, and Advisor Class shareholders of record.

Class	Foreign Tax Paid Per Share	Foreign Source Income Per Share	Foreign Qualified Dividends Per Share
Class A	\$0.0224	\$0.1682	\$0.1332
Class B	\$0.0224	\$ —	\$ —
Class C	\$0.0224	\$0.1192	\$0.0943
Class R	\$0.0224	\$0.1554	\$0.1232
Advisor Class	\$0.0224	\$0.1837	\$0.1454

Foreign Tax Paid Per Share (Column 1) is the amount per share available to you, as a tax credit (assuming you held your shares in the Fund for a minimum of 16 days during the 31-day period beginning 15 days before the ex-dividend date of the Fund's distribution to which the foreign taxes relate), or, as a tax deduction.

Foreign Source Income Per Share (Column 2) is the amount per share of income dividends attributable to foreign securities held by the Fund, plus any foreign taxes withheld on these dividends. The amounts reported include foreign source qualified dividends that have not been adjusted for the rate differential applicable to such dividend income.¹

Tax Information (unaudited) (continued)

Foreign Qualified Dividends Per Share (Column 3) is the amount per share of foreign source qualified dividends, plus any foreign taxes withheld on these dividends. These amounts represent the portion of the Foreign Source Income reported to you in column 2 that were derived from qualified foreign securities held by the Fund.¹

By mid-February 2013, shareholders received Form 1099-DIV which included their share of taxes paid and foreign source income distributed during the calendar year 2012. The Foreign Source Income reported on Form 1099-DIV has not been adjusted for the rate differential on foreign source qualified dividend income. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their 2012 individual income tax returns.

¹Qualified dividends are taxed at reduced long term capital gains tax rates. In determining the amount of foreign tax credit that may be applied against the U.S. tax liability of individuals receiving foreign source qualified dividends, adjustments may be required to the foreign tax credit limitation calculation to reflect the rate differential applicable to such dividend income. The rules however permit certain individuals to elect not to apply the rate differential adjustments for capital gains and/or dividends for any taxable year. Please consult your tax advisor and the instructions to Form 1116 for more information.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

•						
Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years		
Harris J. Ashton (1932) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-192	Trustee	Since 1992	141	Bar-S Foods (meat packing company) (1981-2010).		
Principal Occupation During at Least the Past 5 Years: Director of various companies; and formerly, Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).						
Ann Torre Bates (1958) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-192	Trustee	Since 2008	38	SLM Corporation (Sallie Mae), Ares Capital Corporation (specialty finance company) and Allied Capital Corporation (financial services) (2003-2010).		
Principal Occupation During at Least the Past 5 Years: Independent strategic and financial consultant; and formerly, Executive Vice President and Chief Financial Officer, NHP Incorporated (manager of multifamily housing) (1995-1997); and Vice President and Treasurer, US Airways, Inc. (until 1995).						
Frank J. Crothers (1944)	Trustee	Since 2003	27	Talon Metals Corp. (mining explo-		

Frank J. Crothers (1944)	Trustee	Since 2003	27	Talon Metals Corp. (mining explo-
300 S.E. 2nd Street				ration), Fortis, Inc. (utility holding
Fort Lauderdale, FL 33301-1923				company) and AML Foods Limited
				(retail distributors).

Principal Occupation During at Least the Past 5 Years:

Director and Vice Chairman, Caribbean Utilities Company, Ltd.; director of various other private business and nonprofit organizations; and formerly, Chairman, Atlantic Equipment and Power Ltd. (1977-2003).

Edith E. Holiday (1952) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Lead Independent Trustee	Trustee since 2003 and Lead Independent Trustee since 2007	141	Hess Corporation (exploration and refining of oil and gas), H.J. Heinz Company (processed foods and allied products) (1994-2013), RTI International Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd.
				(holding company).

Principal Occupation During at Least the Past 5 Years:

Director or Trustee of various companies and trusts; and formerly, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison - United States Treasury Department (1988-1989).

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
J. Michael Luttig (1954)	Trustee	Since 2009	141	Boeing Capital Corporation (aircraft
300 S.E. 2nd Street				financing) (2006-2013).
Fort Lauderdale, FL 33301-1923				

Principal Occupation During at Least the Past 5 Years:

Executive Vice President, General Counsel and member of Executive Council, The Boeing Company (aerospace company); and formerly, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

David W. Niemiec (1949)	Trustee	Since 2005	34	Emeritus Corporation (assisted living)
300 S.E. 2nd Street				(1999-2010) and OSI Pharmaceuticals,
Fort Lauderdale, FL 33301-1923				Inc. (pharmaceutical products)
				(2006-2010).

Principal Occupation During at Least the Past 5 Years:

Advisor, Saratoga Partners (private equity fund); and formerly, Managing Director, Saratoga Partners (1998-2001) and SBC Warburg Dillon Read (investment banking) (1997-1998); Vice Chairman, Dillon, Read & Co. Inc. (investment banking) (1991-1997); and Chief Financial Officer, Dillon, Read & Co. Inc. (1982-1997).

Frank A. Olson (1932)	Trustee	Since 2003	141	Hess Corporation (exploration and
300 S.E. 2nd Street				refining of oil and gas) (1998-2013).
Fort Lauderdale, FL 33301-192	23			

Principal Occupation During at Least the Past 5 Years:

Chairman Emeritus, The Hertz Corporation (car rental) (since 2000) (Chairman of the Board (1980-2000) and Chief Executive Officer (1977-1999)); and formerly, Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (until 1987).

Larry D. Thompson (1945)	Trustee	Since 2005	141	Cbeyond, Inc. (business communica-
300 S.E. 2nd Street				tions provider) (2010-2012), The
Fort Lauderdale, FL 33301-1923				Southern Company (energy company)
				(2010-2012) and The Washington
				Post Company (education and media
				organization)

Principal Occupation During at Least the Past 5 Years:

Executive Vice President - Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (July 2012); and formerly, John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President -Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

Constantine D. Tseretopoulos	Trustee	Since 2003	27	None
(1954)				
300 S.E. 2nd Street				

Fort Lauderdale, FL 33301-1923

Principal Occupation During at Least the Past 5 Years:

Attorney at law engaged in private practice (1972-2008) and member of various boards.

Physician, Chief of Staff, owner and operator of the Lyford Cay Hospital (1987-present); director of various nonprofit organizations; and formerly, Cardiology Fellow, University of Maryland (1985-1987); and Internal Medicine Resident, Greater Baltimore Medical Center (1982-1985).

Robert E. Wade (1946)	Trustee	Since 2006	45	El Oro Ltd (investments).	
300 S.E. 2nd Street					
Fort Lauderdale, FL 33301-1923					
Principal Occupation During at Least the Past 5 Years:					

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway	Trustee	Since 2007	152	None
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member - Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Chairman, Investment Company Institute.

**Rupert H. Johnson, Jr. (1940)	Chairman of	Chairman of the	141	None
One Franklin Parkway	the Board and	Board since June		
San Mateo, CA 94403-1906	Trustee and	2013, Trustee		
	Vice President	since 1992 and		
		Vice President		
		since 1996		

Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 41 of the investment companies in Franklin Templeton Investments.

Alison E. Baur (1964)	Vice President	Since 2012	Not Applicable	Not Applicable
One Franklin Parkway				
San Mateo, CA 94403-1906				

Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Norman J. Boersma (1957) Lyford Cay Nassau, Bahamas	President and Chief Executive Officer – Investment	Since 2012	Not Applicable	Not Applicable
	Management			

Principal Occupation During at Least the Past 5 Years:

Director, President and Chief Executive Officer, Templeton Global Advisors Ltd.; Executive Vice President, Franklin Templeton Investment Corp.; Chief Investment Officer of Templeton Global Equity Group; and officer of six of the investment companies in Franklin Templeton Investments.

Laura F. Fergerson (1962) One Franklin Parkway	Chief Executive Since 2009 Officer –	Not Applicable	Not Applicable
San Mateo, CA 94403-1906	Finance and Administration		

Principal Occupation During at Least the Past 5 Years:

Senior Vice President, Franklin Templeton Services, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Name, Year of Birth and Address	Position	Length of	·	Other Directorships Held During at Least the Past 5 Years
------------------------------------	----------	-----------	---	--

Aliya S. Gordon (1973) Vice President Since 2009 Not Applicable Not Applicable

One Franklin Parkway San Mateo, CA 94403-1906

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

Steven J. Gray (1955) Vice President Since 2009 Not Applicable Not Applicable One Franklin Parkway San Mateo, CA 94403-1906

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Vice President Since 2012 Not Applicable Not Applicable Selena L. Holmes (1965)

100 Fountain Parkway - AML St. Petersburg, FL 33716-1205 Compliance

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance Monitoring; and officer of 46 of the investment companies in Franklin Templeton Investments.

Kimberly H. Novotny (1972) Vice President Since March 2013 Not Applicable Not Applicable

300 S.E. 2nd Street

Fort Lauderdale, FL 33301-1923

Principal Occupation During at Least the Past 5 Years:

Senior Corporate Counsel, Franklin Templeton Investments; Vice President, Secretary and Trust Officer, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

Since 2009 Mark H. Otani (1968) Not Applicable Not Applicable Treasurer, One Franklin Parkway Chief Financial

San Mateo, CA 94403-1906

Officer and Chief Accounting Officer

Principal Occupation During at Least the Past 5 Years:

Director, Global Fund Accounting Operations, Franklin Templeton Investments; and officer of 14 of the investment companies in Franklin Templeton Investments.

Robert C. Rosselot (1960) Chief Since March 2013 Not Applicable Not Applicable

300 S.E. 2nd Street Compliance Fort Lauderdale, FL 33301-1923 Officer

Principal Occupation During at Least the Past 5 Years:

Director, Global Compliance, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and formerly, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Name, Year of Birth and Address	Position	Length of	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
---------------------------------	----------	-----------	--	--

Karen L. Skidmore (1952) One Franklin Parkway San Mateo, CA 94403-1906

Vice President Since 2009

Not Applicable

Not Applicable

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

Craig S. Tyle (1960) Vice President Since 2005 Not Applicable Not Applicable

One Franklin Parkway San Mateo. CA 94403-1906

Principal Occupation During at Least the Past 5 Years:

General Counsel and Executive Vice President, Franklin Resources, Inc.; officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments; and formerly, Partner, Shearman & Sterling, LLP (2004-2005); and General Counsel, Investment Company Institute (ICI) (1997-2004).

Lori A. Weber (1964)	Secretary and	Secretary since	Not Applicable	Not Applicable	
300 S.E. 2nd Street	Vice President	March 2013 and			
Fort Lauderdale, FL 33301-1923		Vice President			
		since 2011			

Principal Occupation During at Least the Past 5 Years:

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

Note 3: Effective June 13, 2013. Charles B. Johnson ceased to be a trustee of the Fund.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the U.S. Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated each of Ann Torre Bates and David W. Niemiec as an audit committee financial expert. The Board believes that Ms. Bates and Mr. Niemiec qualify as such an expert in view of their extensive business background and experience. Ms. Bates has served as a member of the Fund Audit Committee since 2008. She currently serves as a director of SLM Corporation and Ares Capital Corporation and was formerly a director of Allied Capital Corporation from 2003 to 2010, Executive Vice President and Chief Financial Officer of NHP Incorporated and Vice President and Treasurer of US Airways, Inc. Mr. Niemiec has served as a member of the Fund Audit Committee since 2005, currently serves as an Advisor to Saratoga Partners and was formerly its Managing Director from 1998 to 2001. Mr. Niemiec was formerly a director of Emeritus Corporation from 1999 to 2010 and OSI Pharmaceuticals, Inc. from 2006 to 2010. Managing Director of SBC Warburg Dillon Read from 1997 to 1998, and was Vice Chairman from 1991 to 1997 and Chief Financial Officer from 1982 to 1997 of Dillon, Read & Co. Inc. As a result of such background and experience, the Board believes that Ms. Bates and Mr. Niemiec have each acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Ms. Bates and Mr. Niemiec are independent Board members as that term is defined under the applicable U.S. Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

^{*}We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

^{**} Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources.

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held May 21, 2013, the Board of Trustees (Board), including a majority of noninterested or independent Trustees, approved renewal of the investment management agreement for the Fund. In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for the Fund, along with periodic reports on expenses, shareholder services, legal and compliance matters, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates as well as a third-party survey of transfer agent fees charged funds within the Franklin Templeton Investments complex in comparison with those charged other fund complexes deemed comparable. Information furnished specifically in connection with the renewal process included a report for the Fund prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper report compared the Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis report included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Fund by the Franklin Templeton Investments organization, as well as a memorandum relating to economies of scale and an analysis concerning transfer agent fees charged by an affiliate of the Manager.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. In approving continuance of the investment management agreement for the Fund, the Board, including a majority of independent Trustees, determined that the existing management fee structure was fair and reasonable and that continuance of the investment management agreement was in the best interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICES. The Board was satisfied with the nature and quality of the overall services provided by the Manager and its affiliates to the Fund and its shareholders. In addition to investment performance and expenses discussed later, the Board's opinion was based, in part, upon periodic reports furnished it showing that the investment policies and restrictions for the Fund were consistently complied with as well as other reports periodically furnished the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

of net asset value calculations. The Board also noted the extent of benefits provided Fund shareholders from being part of the Franklin Templeton family of funds, including the right to exchange investments between the same class of funds without a sales charge, the ability to reinvest Fund dividends into other funds and the right to combine holdings in other funds to obtain a reduced sales charge. Favorable consideration was given to management's continuous efforts and expenditures in establishing back-up systems and recovery procedures to function in the event of a natural disaster, it being noted that such systems and procedures had functioned well during the Florida hurricanes and blackouts experienced in previous years, and that those operations in the New York/New Iersey area ran smoothly during the more recent Hurricane Sandy. Among other factors taken into account by the Board were the Manager's best execution trading policies, including a favorable report by an independent portfolio trading analytical firm, which also covered FOREX transactions. Consideration was also given to the experience of the Fund's portfolio management team, the number of accounts managed and general method of compensation. In this latter respect, the Board noted that a primary factor in management's determination of a portfolio manager's bonus compensation was the relative investment performance of the funds he or she managed and that a portion of such bonus was required to be invested in a predesignated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. The Board also took into account the quality of transfer agent and shareholder services provided Fund shareholders by an affiliate of the Manager and the continuous enhancements to the Franklin Templeton website. Particular attention was given to management's conservative approach and diligent risk management procedures, including continuous monitoring of counterparty credit risk and attention given to derivatives and other complex instruments including expanded collateralization requirements. The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Fund and other accounts managed by Franklin Templeton Investments to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the Manager's parent company and its commitment to the mutual fund business as evidenced by its subsidization of money market funds.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of the Fund in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio managers at Board meetings during the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewal. The Lipper reports prepared for the Fund showed the investment performance of its Class A shares for the one-year period ended February 28, 2013, and the previous 10 years ended such date in comparison with a performance universe selected by Lipper. The Lipper performance universe for the Fund consisted of the Fund and all retail and institutional international large-cap value funds as selected by Lipper. On a comparative basis, the Lipper report for the Fund showed its total return to be in the second-highest performing quintile of such universe for the one-year period, and on an annualized basis to be in the highest or best performing quintile of such universe for each of the previous three- and five-year periods, and in the middle quintile, but upper half, of such universe for the previous 10-year period. The Board was satisfied with the Fund's overall comparative performance as set forth in the Lipper report.

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

COMPARATIVE EXPENSES. Consideration was given to a comparative analysis of the management fees and total expense ratio of the Fund compared with those of a group of other funds selected by Lipper as constituting its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on each Fund's contractual investment management fee in comparison with the contractual investment management fee that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expenses of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis included administrative charges as being part of the management fee, and actual total expenses, for comparative consistency, are shown by Lipper for Fund Class A shares. The results of such expense comparisons showed the contractual investment management fee rate and actual total expense ratio of the Fund to be below the median of its Lipper expense group. The Board was satisfied with the comparative expenses of the Fund as set forth in the Lipper report.

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of the Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2012, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, attention was given to the methodology followed in allocating costs to the Fund, it being recognized that allocation methodologies are inherently subjective and various allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that, while being continuously refined and reflecting changes in the Manager's own cost accounting, the allocation methodology was consistent with that followed in profitability report presentations for the Fund made in prior years and that the Fund's independent registered public accounting firm had been engaged by the Manager to periodically review the reasonableness of the allocation methodologies solely for use by the Fund's Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to the Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving shareholder services provided the Fund, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting

Shareholder Information (continued)

Board Review of Investment Management Agreement (continued)

from statutes such as the Sarbanes-Oxley and Dodd-Frank Acts and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services and potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to the Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Fund grows larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board also noted that economies of scale are shared with the Fund and its shareholders through management fee breakpoints so that as the Fund grows in size, its effective management fee rate declines. The Fund's investment management agreement provides a fee at the rate of 0.63% on the first \$1 billion of Fund net assets; 0.615% on the next \$4 billion of Fund net assets; 0.60% on the next \$5 billion of Fund net assets; 0.58% on the next \$5 billion of Fund net assets; 0.56% on the next \$5 billion of Fund net assets; and 0.54% on net assets in excess of \$20 billion, with additional breakpoints continuing thereafter up to the \$35 billion asset level. The Fund is also charged a separate fee for administrative services that starts at 0.15% on the first \$200 million of Fund net assets, and declines through breakpoints to a fixed rate of 0.075% after net assets reach the \$1.2 billion level. At the end of 2012, the net assets of the Fund were approximately \$5.85 billion. The Board believed that to the extent economies of scale may be realized by the Manager and its affiliates, the schedule of fees under the investment management agreement for the Fund provides a sharing of benefits with the Fund and its shareholders.

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Fund's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Shareholder Information (continued)

Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

Householding of Reports and Prospectuses

You will receive the Fund's financial reports every six months as well as an annual updated summary prospectus (prospectus available upon request). To reduce Fund expenses, we try to identify related shareholders in a household and send only one copy of the financial reports and summary 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/summary prospectuses and financial reports on our website. If you choose, you may receive these documents through electronic delivery.

This page intentionally left blank.

This page intentionally left blank.

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. To ensure the highest quality of service, we may monitor, record and access telephone calls to or from our service departments. These calls can be identified by the presence of a regular beeping tone.

VALUE

Franklin All Cap Value Fund
Franklin Balance Sheet Investment Fund
Franklin Large Cap Value Fund
Franklin MicroCap Value Fund
Franklin MidCap Value Fund
Franklin Small Cap Value Fund
Mutual Beacon Fund
Mutual Quest Fund
Mutual Recovery Fund²
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 Listed Infrastructure 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
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

HYBRID

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

Templeton Frontier Markets Fund⁴

ASSET ALLOCATION

Franklin LifeSmart™ Retirement Target Funds (2015-2050)⁵

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 Templeton Global Allocation Fund
Franklin Templeton Multi-Asset Real Return Fund

FIXED INCOME

Franklin Adjustable U.S. Government Securities Fund⁶
Franklin Floating Rate Daily Access Fund
Franklin Global Government Bond Fund
Franklin High Income Fund
Franklin Limited Maturity U.S. Government
Securities Fund⁶

Franklin Low Duration Total Return Fund Franklin Real Return Fund

Franklin Short Duration U.S. Government ETF

Franklin Strategic Income Fund Franklin Strategic Mortgage Portfolio

Franklin Templeton Hard Currency Fund

Franklin Total Return Fund

Franklin U.S. Government Securities Fund⁶ Templeton Constrained Bond Fund

Templeton Emerging Markets Bond Fund

Templeton Global Bond Fund Templeton Global Total Return Fund

Templeton International Bond Fund

TAX-FREE INCOME⁷

National

Double Tax-Free Income Fund⁸ Federal Tax-Free Income Fund High Yield Tax-Free Income Fund Insured Tax-Free Income Fund^{9,10}

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	Kentucky	New York
Arizona	Louisiana	(2 funds)
California	Maryland	North Carolina
(4 funds)10	Massachusetts	Ohio
Colorado	Michigan	Oregon
Connecticut	Minnesota	Pennsylvania
Florida	Missouri	Tennessee
Georgia	New Jersey	Virginia

INSURANCE FUNDS

Franklin Templeton Variable Insurance Products Trust¹¹

- 1. The fund is closed to new investors. Existing shareholders and select retirement plans may add 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 6/3/13, the fund closed to new investors, with limited exceptions.
- 4. Effective 6/28/13, the fund closed to new investors. Existing shareholders and select retirement plans may add to their accounts.
- 5. Effective 5/1/13, 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' target dates are in five-year increments.
- 6. An investment in the fund is neither insured nor guaranteed by the U.S. government or by any other entity or institution.
- 7. For investors subject to the alternative minimum tax, a small portion of fund dividends may be taxable. Distributions of capital gains are generally taxable.
- 8. The fund is closed to all new investments (other than reinvestment of dividends and capital gains distributions).
- 9. The fund invests primarily in insured municipal securities.
- 10. Effective at the close of market 3/1/13, 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).
- 11. The funds of the Franklin Templeton Variable Insurance Products Trust are generally available only through insurance company variable contracts.

VALUE | BLEND | GROWTH | SECTOR | GLOBAL | INTERNATIONAL | HYBRID | ASSET ALLOCATION | FIXED INCOME | TAX-FREE INCOME



< GAIN FROM OUR PERSPECTIVE® >

Annual Report and Shareholder Letter TEMPLETON FOREIGN FUND

Investment Manager

Templeton Global Advisors Limited

Distributor

Franklin Templeton Distributors, Inc. (800) DIAL BEN®/342-5236 franklintempleton.com

Shareholder Services (800) 632-2301

Authorized for distribution only when accompanied or preceded by a summary prospectus and/or prospectus. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. A prospectus contains this and other information; please read it carefully before investing.

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.